

CITY OF SALEM

MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the Fiscal Year Ended June 30, 2015

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

Prepared by the City of Salem Finance Department

On the Cover – House of Seven Gables

When you arrive at The House of the Seven Gables – which constitutes its own national historic district on The National Register of Historic places – professional guides will warmly greet you for an unforgettable historical experience. Outside, spectacular seaside gardens await. Inside of The House of the Seven Gables, also known as the Turner-Ingersoll Mansion, you will discover a mysterious secret staircase where you least expect it! Built in 1668, this is the oldest surviving 17th century wooden mansion in New England. The House of the Seven Gables inspired author Nathaniel Hawthorne to write his legendary novel of the same name. The very home where Hawthorne was born was moved to The House of the Seven Gables site and now lies just feet away from the mysterious mansion made famous in fiction. When you step into the Nathaniel Hawthorne Birthplace (c.1750), you will learn about the life of the famous author. The museum grounds also include Kid's Cove at the 1830s Counting House, the Museum Store inside the 1655 Retire Beckett House, an 18th century granite sea wall, and seaside Colonial Revival Gardens.

The Friendship Sailing Ship at Pickering Wharf



The **Friendship** is a reconstruction of a 171-foot three-masted Salem East Indiaman built in 1797. She is the largest wooden, Coast Guard certified, sailing vessel to be built in New England in more than a century. The replica is based on a model of the original Friendship at the Peabody Essex Museum, as well as several paintings of the ship and numerous documents, including logs of the ship's voyages. The new Friendship is part of the National Park Service's larger exhibit area at Salem Maritime National Historic Site. She is a fully operational sailing vessel but stays close to home so that everyone can come aboard. On special occasions she sails as Essex County's flagship, visiting ports along our coast to join in maritime festivals and events.

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JUNE 30, 2015

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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.



Annual Read Picnic and Science Fair-Salem Willows for All Salem School children



Introductory Section

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City of Salem, Massachusetts

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Letter of Transmittal

Sarah A. Stanton, Finance Director

October 30, 2015

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, 2015 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, 2015, 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, 2015, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2015 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

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

Profile of the City

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

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

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

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

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

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

Within 170 days after the annual organization of the City government (which is ordinarily in early January), the Mayor is required to submit a budget of proposed expenditures for the fiscal year beginning on the next July 1. The City Council may make appropriations for the recommended purposes and may reduce or reject any item. Without recommendation of the Mayor, the City Council may not increase any item or make an appropriation for a purpose not included in the proposed budget (except by a two-thirds vote in case of the failure of the Mayor to recommend an appropriation for such a purpose within 7 days after a request from the City Council, pursuant to state statute). If the Council fails to act on any item of the proposed budget within 45 days, that item takes effect. The amount raised on the tax recapitulation sheet approved by the Department of Revenue for fiscal year 2015 totaled approximately \$143 million, which includes Real & Personal Property tax revenue, State Revenues, MSBA Revenue, local revenues, transfers in of approximately \$1,100,000 from Receipts Reserved Harbormaster, Witch House and Golf Course (to reduce tax rate), other receipts reserved transfers, and approximately \$1.4 million of indirect costs from the Water & Sewer Enterprise funds. These revenues cover general fund budgeted expenses and deficits raised including snow and ice, school lunch, health insurance trust, and to fund the Retirement Anticipation Fund and Capital Improvement Projects Fund. These also include enterprise fund expenses.

The City includes the Salem Contributory Retirement System (the System) in its financial reporting since the City represents approximately 85% of the members of the System. The System was established to provide retirement benefits to its members, including employees and beneficiaries of the City of Salem, the Salem-Beverly Water Supply Board, the Salem Housing Authority, the South Essex Sewerage District, and the North Shore Regional Vocational School System. Per the Pension Reserves Investment Management Board July 2014 report, the market value of the System's assets totaled \$136 million with 96% of the funds invested in the State's Pension Reserve Investment Trust's (PRIT) Core Fund.

Factors Affecting Economic Condition

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

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

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

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

Private and Public Development-FY15/FY16

Salem experienced new growth of approximately \$350 million in new development since 2003. This includes:

MBTA Station and Garage Improvements – The \$37 million MBTA commuter rail station and parking garage is substantially complete, providing an enhanced station and approximately 700 parking spaces for commuters, residents, and visitors. The new facility is a significant asset to the City in terms of economic development.

Remond Park (formerly known as Causeway Park) – Improvements to the old bridge abutment on Bridge Street Neck have been funded by the State. Construction is anticipated in early 2016.

Peabody Essex Museum – A \$125 million expansion of the Museum was completed in 2003. A new, 175,000-square-foot expansion is scheduled for completion in 2019, and will add new gallery, public program and education spaces to the museum. Once complete, the PEM expects 400,000 visitors annually, and it will rank among the nation's largest art museums.

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. Phase II is set to begin in 2016.

District Court Building – The City worked with the Salem Redevelopment Authority (SRA) to ensure that legislation conveying the District Court property to the SRA was passed and signed by the Governor. At present, the Superior Court complex will remain under state control. The SRA has issued a RFP for redevelopment of the District Court building/site and a designer has been selected. The project is set to begin in spring 2016.

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 is in the process of reviewing proposals for commercial redevelopment to put the site back on the tax rolls now that the MBTA garage is complete.

Downtown development

A number of vacant and underutilized properties have been redeveloped over the past 10 years into mixed-use residential/commercial buildings. The downtown alone has seen over \$40 million in private investment from projects described below.

Old Town Hall – In August 2014, the City formally ended its lease agreement for the management of Old Town Hall. The City will be managing the building and recently received a \$20,000 Cultural Facilities grant from the state for window restoration and repair, which is being matched with local CPA funds.

Significant additional mixed-use development is currently proposed as described below.

Washington and Dodge Street Redevelopment – approximately \$50 million, 190,000 square foot mixed-use development consisting of 111 hotel rooms, 84 residential units (including live-work units), approximately 20,000 square feet of commercial space, and at least 245 parking spaces. This development will effectively extend the

footprint of the downtown. The City was recently awarded a state grant in the amount of \$2.5 million for infrastructure improvements to support this proposed project.

North River Canal Corridor Redevelopment

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

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

Riverview Place – A new development planned for 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. Approved locally, the project is currently seeking its C. 91 environmental permit.

Gateway Center – High Rock Bridge Street, LLC, received Planning Board approval 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 20,000 square foot Senior/Community Life Center and approximately 120,000 square feet of commercial and office space. The project is being revised to include a free-standing Community Life Center and a mixed-use building with commercial and residential units.

Grove Street Apartments (formerly known as Legacy Apartments) – This project was originally approved by the Planning Board in 2012, consisting of three multi-family residential buildings with 141 units and re-use of an existing 17,000 square foot commercial office building. A project amendment was approved by the Planning Board in 2014 to respond to environmental concerns raised by MEPA, resulting in a reduction of the number of residential units to 129. MEPA review is pending.

Flynn Tan Site (70-92 ½ Boston Street) – The Planning Board approved a new medical office building with 40,000 square feet in 2014. 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. This project is being revised and it is anticipated that a proposed mixed use/residential project will be submitted for approval in the near future.

Waterfront Development

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

Salem Harbor Power Station/Footprint Power – Footprint is constructing a state-of-the-art 630 megawatt gas-fired plant on a portion of the site. The plans were approved by the Planning Board and Board of Appeals, as well as the Energy Facilities Siting Board. The remaining two-thirds of the 63-acre waterfront property will be available for future redevelopment. Phase one of the site demolition is complete. Phase two including the main building and the last two stacks is in progress. The new plant will be on-line June 1, 2017.

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

South River Dredge – The City obtained \$155,000 from the Governor's Seaport Advisory Council for sediment testing, bathymetric survey work, cost analysis for dredge disposal options, and preliminary design and engineering of the dredge footprint for the South River Channel and the South River Basin (area west of the Congress Street Bridge). The City has received an additional \$275,000 from the Seaport Council to finish the design, engineering and permitting stage of the dredge project. Presently, the Environmental Impact Report (EIR) is being finalized and will be submitted to the Massachusetts Environmental Policy Act (MEPA) Office in late 2015. The remaining regulatory permit applications will be prepared and filed after the EIR Certificate is issued. Once completed, the dredging will provide direct access to downtown Salem for deeper drafting vessels, transient boats, and dingy boats.

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

Salem Ferry Pier – In spring of 2006, the City completed construction of a \$600,000 ferry pier consisting of a wooden pier, ADA accessible gangways, steel float, and aluminum dock at the end of 10 Blaney Street for the Salem Ferry. The City has since made numerous improvements to the Salem Ferry Pier including the installation of shore power, dry fire line, potable water lines, and a fuel line utilizing and additional grant from the Seaport Council. This temporary facility will be integrated into the permanent Salem Wharf structure.

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

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

Public Infrastructure Projects

Grove Street Improvements – The City received a \$1,250,000 grant for improvement to Grove Street to support the proposed housing and mixed use developments in the North River Canal Corridor. The project is currently under construction with completion anticipated in 2016.

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 190,000 square foot mixed-use development on Washington and Dodge Streets.

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.

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

Osborne Hills Subdivision – Currently under construction, the Osborne Hills 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.

Thorndike Street Subdivision – This 5-lot subdivision was approved by the Planning Board in December 2012 and is currently under construction.

Circle Hill Subdivision – This 3-lot subdivision was approved by the Planning Board in 2011 and is currently under construction.

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 Court Complex. 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 recently invested \$12 million for their cardiac surgical suite and also built an Emergency Department, which is one of the most sophisticated and modern emergency facilities in the state.

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. The City is home to Shetland Park, a 900,000 square foot business park abutting downtown, which houses more than 70 businesses.

Jacqueline's Wholesale Bakery – 96 Swampscott Road - City Council approved a tax increment financing agreement for Jacqueline's Wholesale Bakery, which provides over \$75,000 in tax relief to the company over five years. This agreement paved the way for Jacqueline's to receive over \$475,000 in state tax credits through the Commonwealth's Economic Development Incentive Program. The company will be adding 50 new jobs and investing about \$4.7 million in the expansion of their business over the next few years.

AL Prime Gas Station – 175 and 183 Lafayette Street – This redevelopment included the demolition of two existing buildings and existing gasoline pumps, and construction of a new convenience store and three new double-sided gasoline pumps, which are now open for business, representing additional investment in The Point neighborhood.

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

Other City Initiatives

Working Cities Challenge – In 2014 the City was awarded a total of \$105,000 through the Federal Reserve Bank of Boston's "Working Cities Challenge," which is being used to realize action items in the Point Vision and Action Plan. Examples of programs being funded include a healthcare career training program, leadership and civic engagement activities, and the development of a retail market analysis of the neighborhood. Salem was one of only six Gateway Cities to receive funding through this competitive program.

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, a weekly farmers market through November and December, and a New Year's Eve launch.

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

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, which is currently underway.

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 and improvements for this phase are underway.

EPA Brownfields Revolving Loan Fund – The City obtained a \$950,000 grant from the US EPA to establish a Brownfields Cleanup Revolving Loan Fund jointly with the City of Peabody. The program is focused on the remediation of industrial contamination to spur redevelopment of underutilized properties within the North River Corridor.

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 is currently underway.

Public Art – Over the past three years, the City has been working to increase the amount and quality of public art 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. The development of a master plan for public art, funded by the National Endowment for the Arts (NEA), was completed in 2013 in partnership with the Salem Partnership and the Peabody Essex Museum. As recommended in this Plan, Council approved an ordinance to create a Public Art Commission and hired its first Public Art Planner in 2014. Initiatives include a public art installation, a revised Artists' Row program, and the continuation of ArtBox, a program to transform utility boxes into works of art. In addition to these activities, the City supports the annual arts festival which draws thousands of participants into downtown in early June.

Planning

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.

Point Neighborhood Commercial Corridor Plan – In 2014 the City was awarded \$25,000 in District Local Technical Assistant (DLTA) funding from the Metropolitan Area Planning Council (MAPC), which was used to develop a Commercial Corridor Plan for the Point neighborhood.

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 in 2013 for public art in partnership with the Peabody Essex Museum and the Salem Partnership, funded through the National Endowment for the Arts.

Preservation Master Plan – The City was awarded a \$16,000 Massachusetts Historical Commission Survey and Planning Grant to update the City's Preservation Master Plan, which is now underway.

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 was approved by the EOEEA in 2008. The City will update the Harbor Plan again in 2015 to respond to changing conditions on the harbor with the development of a natural gas facility and future availability of 45 acres for waterfront development. The purpose of the Harbor Plan is to provide a strategy for port development to guide the future use and character of the Port of Salem.

Parks and Recreation

Winter Island – The City received a grant on \$192,404 to construct a multi-purpose trail along the ocean at Winter Island and expects to construct the trail in the spring of 2016. The City is also utilizing Community Preservation funds to begin restoration of Fort Pickering at Winter Island. These projects were recommendations of the Master Plan for the renovation and redevelopment of Winter Island Park.

Splash Pad – The City began construction of a splash pad at Mary Jane Lee Park, funded in part by an Our Common Backyards grant from Executive Office of Energy and Environmental Affairs. The grant additionally supported the development of a master plan for the park to identify future improvements beyond the splash pad.

Open Space and Recreation Plan – The City hired Gale Associates to update its Open Space & Recreation Plan and to conduct a Recreation Facilities Needs Assessment & Master Plan.

Salem Bike Path – The 1.5 mile long extension of the Salem Bike Path from its current end at Canal Street near Gardner Mattress to Downtown Salem via a City owned right-of-way and portions of MBTA active and unused railroad rights-of-way is being done in conjunction with the Canal Street Improvement Project.

Splaine Park – The City completed the renovation of Splaine Park. The project was supported by a \$420,946 Parkland Acquisitions and Renovations for Communities (PARC) grant from the Division of Conservation Services and a \$42,500 Brownfields Assessment grant from MassDevelopment. 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, community gardens, and the rebuilding of the bleachers and dugouts.

Causeway Park – Improvements to the old bridge abutment on Bridge Street Neck have been funded by the State and a contractor has been selected by MassDOT.

Bertram Field – A complete renovation of Bertram Field football stadium and track is complete, 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.

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.

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. Projects awarded CPA funds as recommended by the Community Preservation Committee and approved by Council, as follows:

- \$ 93,505 North Shore CDC Housing Acquisition (52-60 Dow Street/105-111 Congress Street)
- \$135,500 Salem Public Library Roof Replacement
- \$100,000 Salem Common Fence Restoration
- \$ 90,000 Fort Pickering Phase Rehabilitation
- \$ 46,000 Old Town Hall Window Restoration
- \$ 40,000 Choate Statue Restoration
- \$ 51,000 Winter Island Scenic Trail
- \$ 40,000 15 Ward Street Pocket Park

- \$ 23,049 Salem Community Gardens Improvements
- \$ 22,500 Driver and Patten Parks Improvements

The City also has a partnership with Destination Salem, who markets the City as one of Massachusetts' best destinations for families, couples, domestic, and international travelers. Visitation to Salem increased an estimated 5% in 2011 over 2010, and generated nearly \$104 million in tourism spending in 2011. This infusion of dollars and visitors not only helps keep the current businesses thriving, but also encourages new businesses to open in Salem.

According to the Massachusetts Executive Office of Labor and Workforce Development, the City had a labor force of 23,956, of whom 22,739 were employed and 1,217, or 5.1% were unemployed. The Commonwealth, for the same period, had an unemployment rate of 4.7%."

Financial Planning and Forecasting

In fiscal year 2009, the City modified its budget format to improve upon its content and layout. The goal was to have a comprehensive budget that would allow an average person to read and comprehend the budget and budget process of the City. It also was modeled after several budgets that were submitted and approved for the Government Financial Officer's Association (GFOA) "Distinguished Budget Presentation Award". The new model included more narrative, including goals and objectives of each department, financial forecasts, policies and glossary of financial terms. It required a significant amount of work for all department heads and especially the finance division, who had to ensure all the materials were pulled together timely for submission to both the City Council and the GFOA. As a result of our efforts, the City has been awarded the GFOA's "Distinguished Budget Presentation Award" for fiscal years 2009 through 2015.

Included in the budget was the City's Five Year Financial Forecast. This is the seventh 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 2016 CIP, the City has authorized over \$25.2 million in general and enterprise fund capital projects. Funding sources ranging from bonding, grants, to CPA will begin several major projects including the second phase of Canal Street redevelopment, a new pumper truck for the Fire Department, and a heavy investment in public safety and public works vehicles.

Health Insurance

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

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

As part of the Act, the City was allowed to enter into the State's Group Insurance Commission (GIC), which resulted in significant short term savings (\$1.5 million in FY13), and long term savings for the City. In fact, the City was able to reduce its long term liability, also known as "other postemployment benefits" (OPEB) by \$26 million dollars, from \$171 million in 2010 to \$143 million in 2015, per the City's OPEB liability report performed by the Segal Company, the City's contracted actuary.

While there were significant savings for the City, the employees and retirees of the City will also receive financial savings of approximately \$1 million for FY2014, as well as the long term stability of being a member of the State's GIC plan. 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

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

The City includes the Salem Contributory Retirement System (the System) in its financial reporting since the City represents approximately 85% of the members of the System. The System was established to provide retirement benefits to its members, including employees and beneficiaries of the City of Salem, the Salem-Beverly Water Supply Board, the Salem Housing Authority, the South Essex Sewerage District, and the Essex Technical High School. Per the Pension Reserves Investment Management Board July 2014 report, the market value of the System's assets totaled \$136 million with 96% 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, 2014. The next actuarial valuation will take place in January 2016. The study was performed by the Segal Company and was delivered to the Retirement Board in April of 2014. The study reported the actuarial assets of the system as of January 1, 2014 of \$120.4 million and an unfunded liability of \$117.1 million. The unfunded liability increased from January 1, 2012 by \$9.6 million, partially due to the modest actuarial growth in 2012, in which the actuarial rate of return was 0.89%, while the assumed actuarial rate of return was 8.00%. It should be noted that the actuarial value of assets gradually recognizes market value fluctuations, resulting in an actuarial rate of return (0.89%) that is significantly lower than the market value rate of return (12.03%) for calendar year 2012.

As a result of the increased unfunded liability, and the lower than expected return on investment, the Board adopted a funding schedule which will fully amortize the existing unfunded liability plus the expected increases in unfunded liability due to the deferred investment losses by June 30, 2032 with amortization payments that increase 4.5% per year. The total fiscal 2016 City share of 85% amounted to \$10,071,175.

Other Significant Financial Matters

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

As of June 2014, Footprint Power has begun demolition of all existing structures and undertake any necessary environmental remediation. Footprint plans to construct a state-of-the-art 630 megawatt gas-fired plant on a portion of the site and will open the remaining two-thirds of the 63 acre waterfront property to private and public development opportunities.

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

In FY2011, Dominion announced major operational changes shutting down two of their power generating units due to market conditions and regulatory challenges at the state level. Due to the implementation of state regulations impacting its operations, during the FY2012 budget process, the Massachusetts Legislature adopted a proposal to ensure that Salem taxpayers will not be overly burdened by lost revenues from the power plant through 2016. Chapter 68 of the Acts of 2011, Section 33 states that "...the municipality shall be entitled to reimbursement for the difference between the amount called for....prior to the full or partial decommissioning or 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.

For FY2014, the City entered into a one year agreement with Dominion that called for a \$1.49 million payment of tax dollars and a \$260,000 "host fee", which triggered a \$3 million dollar payment from the Commonwealth, bringing total revenues for FY14 to \$4.75 million. As of December 2014, the City has negotiated, and the City Council approved, a 18 year PILOT agreement with Footprint Power LLC. This agreement will utilize the "hold harmless agreement" of \$4.75 million from the State during construction through 2019, with payments increasing steadily as the plant becomes up and running. A graduated escalation factor will result in the City receiving over \$99,242,000 for the duration of the contract, or \$5.5 million a year; a 16% increase over the current tax level collected. In addition to the negotiated PILOT agreement, the City was able to draft and finalize a community benefits agreement which will provide the City and School District with over \$4.4 million in additional funding.

Financial Policy

The City has set a goal to fund the Stabilization fund in the amount of 5% of the City's current operating budget, or roughly \$7.2 million. As of June 30, 2015, the balance in the City's Stabilization fund is \$5.4 million. The target date to have the Stabilization Fund fully funded is projected to occur by fiscal year 2018. The Stabilization fund shall be funded by appropriations from free cash (available funds), operating budget appropriations when available, and other one-time non-recurring revenues that become available for appropriation per Massachusetts General Law.

In fiscal 2008, the City established a second Stabilization fund (Retirement Stabilization Fund) for the funding of retirement buyouts for both City and School employees. As of June 30, 2015, the balance of this account was \$463,000. During the fiscal 2016 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 2015. As such, the City appropriated \$600,000 to that fund. The goal of the Retirement Stabilization Fund is to pay for any unanticipated retirements from this Fund instead of using general fund appropriations. This will allow the departments to backfill vacancies in a timely manner without having to request a supplemental appropriation by the Council.

In fiscal 2011, the City adopted Massachusetts General Law Chapter 32B, Section 20, establishing the "Other Postemployment Benefits (OPEB) Liability Trust Fund" as a local option. This fund gives communities a mechanism to reduce the unfunded actuarial liability of health care and other post-employment benefits. The City currently has \$1.5 million in the account, and has designated approximately \$550,000 to this fund as of June 30, 2015. 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 as of June 30, 2015 was approved at \$4.9 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, 2014. 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, 2014. The GFOA established the Distinguished Budget Award in 1984 to encourage and assist state and local governments to prepare budget documents of the very highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's recommended practices on budgeting and then to recognize individual governments that succeed in achieving that goal.

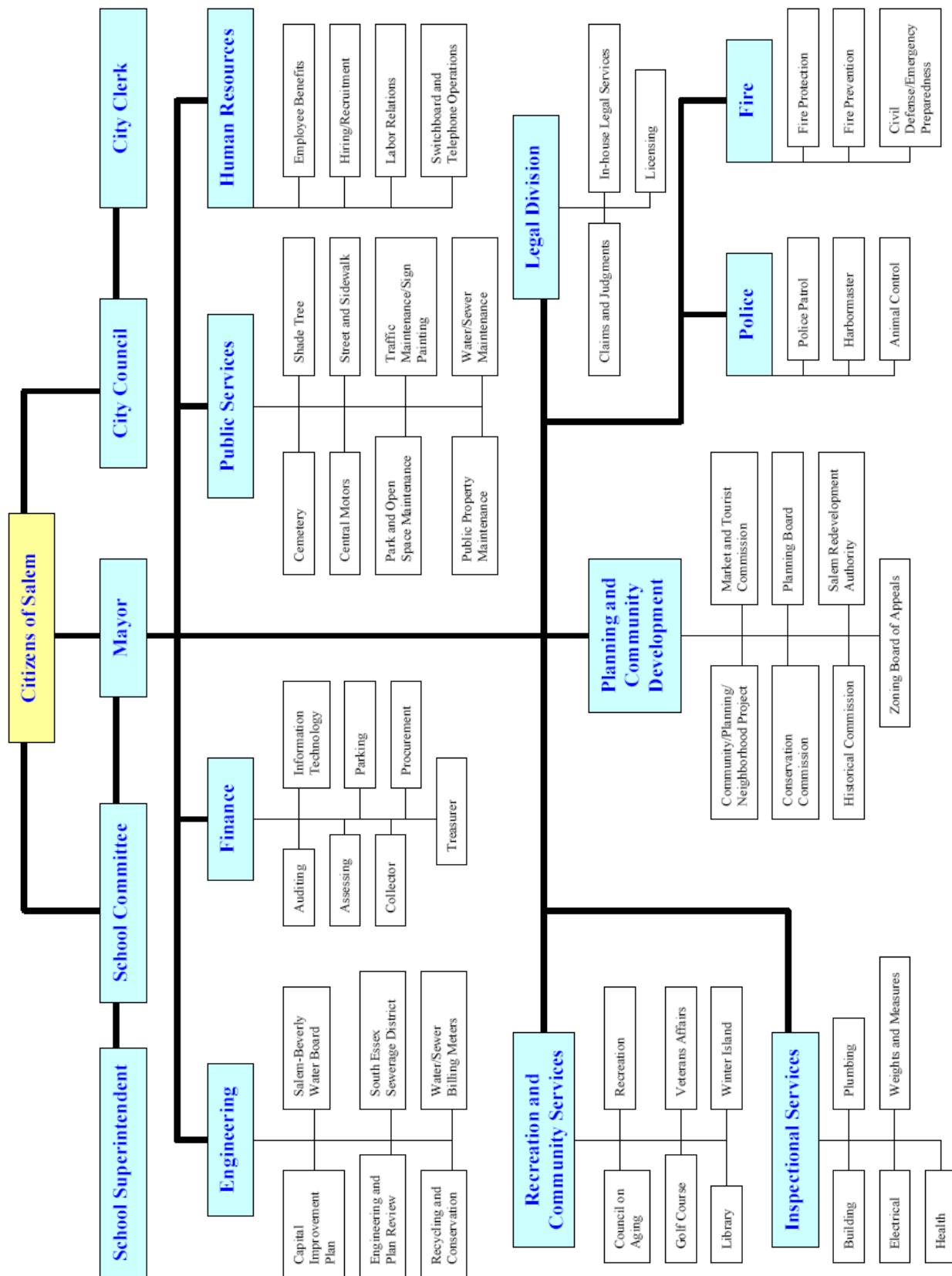
Documents submitted to the Budget Awards Program are reviewed by selected members of the GFOA professional staff and by outside reviewers with experience in public-sector budgeting.

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

Respectfully submitted,



Sarah A. Stanton
Finance Director



Principal Executive Officers

TITLE	NAME	FIRST TOOK OFFICE	TERM EXPIRES
Mayor	Kimberley L. Driscoll	1/2/2006	12/31/2017
President, City Council	Arthur C. Sargent III	1/1/2015	12/31/2015
Finance Director	Sarah Stanton	3/14/2013	1/31/2016
Treasurer	Kathleen McMahon	12/27/2010	1/31/2016
Collector	Bonnie Celi	3/11/2004	1/31/2016
City Clerk	Cheryl LaPointe	7/15/2004	11/9/2015
City Solicitor	Elizabeth Rennard	1/10/2006	Indefinite
Assistant Finance Director	Nina Bridgman	1/22/2004	1/31/2016



Government Finance Officers Association

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in Financial
Reporting**

Presented to

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Massachusetts**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO



GOVERNMENT FINANCE OFFICERS ASSOCIATION

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Massachusetts**

For the Fiscal Year Beginning

July 1, 2014

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, 2014. 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.

Financial Section



Downtown Salem

Salem has a wide variety of restaurants including outdoor cafes, ethnic eateries and fine dining establishments. For shoppers there are malls and department stores, an open market, a waterfront village, as well as a downtown retail district. Salem also boasts of a wealth of museums, historic sites and attractions.

Financial Section

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Massachusetts, as of and for the year ended June 30, 2015 (except for the Salem Contributory Retirement System which is as of and for the year ended December 31, 2014), 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, 2015 (except for the Salem Contributory Retirement System which is as of December 31, 2014), 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 October 30, 2015 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

October 30, 2015

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Salem, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2015. We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

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

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The fiduciary fund financial statements provide separate information for the pension trust funds of the City. The other postemployment benefits trust fund is used to account for assets accumulated to provide funding for future other postemployment benefits (OPEB) liabilities. Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary funds financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

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

Government-wide Financial Analysis

Governmental Activities

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City of Salem's governmental assets exceeded liabilities by \$58.3 million at the close of 2015. This represents a decrease of \$9.7 million from the prior year.

Net position of \$172.1 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, \$12 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 \$125.8 million. The primary reason for this deficit balance is the recognition of other postemployment benefit liabilities totaling \$44.5 million and a net pension liability of \$94.4 million, in accordance with recent requirements of Governmental Auditing Standards Board (GASB). To calculate the estimated other postemployment benefit (OPEB) liabilities, the City is required to obtain a biannual actuarial valuation of the City's liability to pay other postemployment benefits to current employees and retirees. The City is allowed to amortize the liability, which is currently estimated to be approximately \$109.6 million, over 30 years. Since there is no legal obligation to fund the liability at this time, the City has opted to continue to fund the majority of its other postemployment benefits on a pay-as-you go basis. As a result, the City is required to record the difference between the current year pay-as-you go cost and the current year actuarial determined cost plus interest on any prior unfunded liability as an expense in the full accrual financial statements. This difference totaled \$6.1 million for governmental activities for 2015. The City has begun the process of pre-funding a portion of the liability by establishing an irrevocable trust which, as of June 30, 2015, has a balance of \$1.5 million and is reported within the fiduciary funds in the City's financial statements. The net pension liability is recorded for the first time in 2015 in accordance with GASB Statements #67, #68 and #71. This requires the Salem Contributory Retirement System (System) to obtain a biannual actuarial valuation of the System's liability to pay pension benefits to retirees and beneficiaries. The City funds a portion of the net pension liability annually as part of the required appropriation to the System.

	2015	(As Revised) 2014
Assets:		
Current assets.....	\$ 50,149,219	\$ 50,727,724
Noncurrent assets (excluding capital).....	2,826,215	3,338,371
Capital assets.....	219,428,010	215,185,958
Total assets.....	272,403,444	269,252,053
Deferred Outflows of Resources.....	574,798	115,896
Liabilities:		
Current liabilities (excluding debt).....	14,542,376	10,479,920
Noncurrent liabilities (excluding debt).....	147,130,967	142,086,126
Current debt.....	12,888,570	12,006,205
Noncurrent debt.....	40,129,301	36,800,512
Total liabilities.....	214,691,214	201,372,763
Net Position:		
Net investment in capital assets.....	172,084,606	173,485,600
Restricted.....	12,047,560	14,383,949
Unrestricted.....	(125,845,138)	(119,874,363)
Total net position.....	\$ 58,287,028	\$ 67,995,186

The beginning net position of governmental activities has been revised to reflect the implementation of GASB Statements #67, #68, and #71 as well as to reclassify the City's Parking Garage activities from Business-type activities to Governmental Activities. To reflect these changes, the June 30, 2014 balance of the governmental activities has been revised by (\$94,721,438) for the net pension liability and by \$2,889,102 for the Parking Garage net position. Previously reported net position of \$159,827,522 has been revised to \$67,995,186.

Overall governmental net position decreased during 2015 by \$9.7 million. Of this decrease \$6.1 million is directly related to the additional amortization of the OPEB liability. Capital grants have decreased by \$3.4 million since the state reimbursements on the Collins and Saltonstall school projects have been substantially completed. Operating grants have decreased due to a change in on-behalf payments associated with the Massachusetts Teachers' Retirement System which have been recorded in accordance with the new GASB pension standards. The governmental expenses totaled \$168.4 million of which \$60.4 million (36%) was directly supported by program revenues consisting of charges for services, operating and capital grants, and contributions. General government expenses increased during 2015 partially due to contract settlement payments and sick leave buy-back payments which are budgeted and paid through this function. Public works expenses were up due to an additional \$740,000 liability recorded for the City's liabilities related to the landfill. During 2015, the City determined that it would close and cap the landfill and build a transfer station on the site.

	2015	(As Revised) 2014
Program revenues:		
Charges for services.....	\$ 8,512,218	\$ 8,368,476
Operating grants and contributions.....	46,826,741	50,489,073
Capital grants and contributions.....	5,050,922	8,496,589
General Revenues:		
Real estate and personal property taxes.....	82,444,144	79,012,963
Community preservation taxes.....	535,637	486,797
Motor vehicle and other excise taxes.....	3,929,230	3,890,099
Nonrestricted grants.....	7,182,509	6,775,827
Unrestricted investment income.....	554,360	1,377,835
Other revenues.....	3,681,525	4,006,327
Total revenues.....	158,717,286	162,903,986
Expenses:		
General government.....	12,503,170	10,080,121
Public safety.....	29,652,698	29,879,444
Education.....	100,997,380	100,837,487
Public works.....	11,878,911	10,037,377
Community development.....	1,569,281	1,304,481
Health and human services.....	6,850,201	5,788,579
Community preservation.....	356,518	5,350
Culture and recreation.....	3,277,578	3,589,253
Interest.....	1,349,443	1,352,665
Total expenses.....	168,435,180	162,874,757
Excess (Deficiency) before transfers.....	(9,717,894)	29,229
Transfers.....	9,736	(122,902)
Change in net position.....	(9,708,158)	(93,673)
Net position, beginning of year (as revised).....	67,995,186	68,088,859
Net position, end of year.....	\$ 58,287,028	\$ 67,995,186

Business-type Activities

For the City's business-type activities, assets exceeded liabilities by \$11.8 million at the close of 2015.

	2015	(As Revised) 2014
Assets:		
Current assets.....	\$ 14,078,860	\$ 14,114,976
Capital assets.....	29,763,387	26,491,620
Total assets.....	43,842,247	40,606,596
Deferred Outflows of Resources.....	12,335	-
Liabilities:		
Current liabilities (excluding debt).....	1,910,417	832,385
Noncurrent liabilities (excluding debt).....	3,748,497	3,577,954
Current debt.....	7,624,030	6,295,350
Noncurrent debt.....	18,818,024	17,635,000
Total liabilities.....	32,100,968	28,340,689
Net Position:		
Net investment in capital assets.....	8,744,920	8,511,138
Unrestricted.....	3,008,694	3,754,769
Total net position.....	\$ 11,753,614	\$ 12,265,907

Business-type net position of \$8.7 million (74%) represents net investment in capital assets. The remaining \$3 million (26%) is available to be used for the ongoing operation of the City's water, sewer, trash and municipal golf course activities. There was an overall decrease of \$512,000 in net position reported in connection with the enterprise funds.

The water and sewer enterprise fund's net position of \$8.2 million (77%) represents the net investment in capital assets, while \$2.5 million (23%) is unrestricted. The water and sewer enterprise experienced a net decrease of \$497,000 in net position from the prior year. The fund pays annual assessments to the Salem Beverly Water Supply Board and to the South Essex Sewerage District, which totaled \$2.5 million and \$5.4 million, respectively. Combined, these assessments represent 68% the fund's operating expenses for 2015.

The unrestricted balance includes the City's \$1.2 million equity interest in the South Essex Sewerage District which increased by approximately \$325,000 during 2015.

The beginning net position of the water and sewer enterprise fund has been revised to reflect the implementation of GASB Statements #67, #68, and #71. To reflect this change, the City has recorded a net pension liability and a deferred outflow of resources, which has resulted in the revision of the June 30, 2014 balance of the business-type activities by \$2,429,817. Additionally, the City has reclassified the Parking Garage activities from a business-type operation to a governmental operation, which has resulted in the revision of the June 30, 2014 balance of the business-type activities by \$2,889,102. As a result of these revisions, previously reported net position of \$17,584,826 has been revised to \$12,265,907.

The golf course enterprise fund's net position of \$588,000 represents the net investment in capital assets, while \$215,000 is unrestricted. The golf course's net position remained substantially unchanged from 2014.

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 \$1.6 million transfer was made from the general fund to subsidize for the budgeted deficit. As of June 30, 2015 the trash fund had unrestricted net position totaling \$312,000.

	2015	(As Revised) 2014
Program revenues:		
Charges for services.....	\$ 14,702,590	\$ 14,470,587
Capital grants and contributions.....	102,518	2,887,131
Total revenues.....	14,805,108	17,357,718
Expenses:		
Cost of service and administration.....	5,798,649	4,943,943
District assessment.....	7,939,255	7,804,436
Depreciation.....	883,012	677,337
Interest.....	686,749	656,385
Total expenses.....	15,307,665	14,082,101
Excess (Deficiency) before transfers.....	(502,557)	3,275,617
Transfers.....	(9,736)	122,902
Change in net position.....	(512,293)	3,398,519
Net position, beginning of year (as revised).....	12,265,907	8,867,388
Net position, end of year.....	\$ 11,753,614	\$ 12,265,907

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 \$25.7 million of which \$12.1 million is reported in the general fund, \$804,000 in the community preservation fund, \$67,000 is reported in the city wharf project fund, a deficit of \$555,000 is reported in the school capital projects fund, a deficit of \$448,000 is reported in the capital improvement fund and \$13.7 million is reported in the nonmajor governmental funds. Cumulatively there was a decrease of \$2.8 million in fund balances from the prior year.

The general fund is the City's chief operating fund. At the end of the current year, unassigned fund balance of the general fund totaled \$11.2 million, while total fund balance was \$12.1 million. The general fund balance decreased by \$871,000 in 2015. The decrease is the net result of the budgeted use of fund balance of approximately \$4.1 million netted against overall positive budgetary results.

The Community Preservation fund had an ending restricted fund balance at June 30, 2015 of \$804,000. 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. This is the second year that the City has operated the Community Preservation fund and the first year that the City received a contribution from the state toward the operation of this fund.

The City wharf project fund includes improvements to the City's harborwalk, docks, walkways, and pier construction. The City has \$3 million in state grant anticipation notes outstanding related to this project at year end which is expected to be repaid during 2016. Project expenditures totaled \$2.1 million, while state capital grant reimbursements totaled \$2.2 million during 2015.

The school capital projects fund is used to account for the City's ongoing major school construction projects on the Collins and Saltonstall schools. The fund decreased by \$1.2 million in 2015 as the City expended \$3.2 million on the project, which was partially reimbursed by the state. The major fund ended the year with a deficit of \$555,000. Expenditures incurred to date have been partially funded with reimbursements received from the Massachusetts School Building Authority (MSBA) for the state's share of eligible costs. Since the projects are in their final phases, the MSBA holds back on final reimbursements until the projects are closed out and the final costs can be approved.

The capital improvement funds are used to account for the projects in the City's capital improvement plan that specifically relate to City improvements for roads and fields. The fund had a year-end deficit fund balance of \$447,000 due to expenditures incurred that have primarily been financed with \$2.7 million in bond anticipation notes (BANs) whose proceeds are not recognized until they are permanently financed.

Cumulatively, nonmajor governmental funds had a net decrease of \$2.8 million. This represents the activity of other nonmajor capital projects, grants, and permanent trust funds. The 2015 decrease was almost entirely the result of the timing of funding and recognizing expenditures on capital projects offset by decreases in balances for city and state grants.

General Fund Budgetary Highlights

The City's final general fund operating budget included \$132.4 million in total appropriations to be funded with \$128 million in estimated receipts and transfers in and approximately \$4.1 million in available funds.

The \$4.2 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 \$3.3 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 \$2.4 million higher than budgeted. The City does not budget revenue for tax liens which totaled \$638,000. Additionally, motor vehicle and other excise taxes and hotel/motel tax and meals taxes reported budgetary surpluses of \$717,000 and \$147,000, respectively.

The City's general fund reported expenditures more than appropriations by a net of approximately \$187,000. The budget was overspent by \$2.3 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 \$939,000.

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, 2015, amounts to \$249.2 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 \$13.4 million for governmental activities and \$4.2 million for business-type activities.

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

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

Debt Administration. Outstanding long-term debt of the governmental activities, as of June 30, 2015, totaled \$43.5 million.

The Commonwealth of Massachusetts is obligated to provide school construction assistance for approved school projects through a grant program administered by the MSBA. The assistance is paid to offset a portion of principal and interest on debt issued to finance approved school construction costs. At June 30, 2015 the City has recorded a receivable from the MSBA totaling \$3.2 million, which represents anticipated future reimbursements of approved construction costs on projects completed under this MSBA program.

The City issued \$6 million in general obligation bonds to finance various governmental capital projects including \$1.1 million for parking garage improvements, \$2 million for road improvements, \$1.5 million for the Bertram Field project, and \$1.4 million for other various other projects. The City also issued bond and state grant anticipation notes totaling \$8.8 million which included \$3 million for the Blaney street wharf project, \$3.2 million for the Collins Middle and Saltonstall schools, \$850,000 for roadway and seawall improvements, and \$1.8 million for various other capital projects.

Outstanding debt of the water and sewer, and golf enterprise funds totaled \$19.9 million and \$49,000 respectively, and funded various repairs, maintenance and infrastructure projects. This includes new debt issued in 2015 for sewer improvements of \$2.3 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, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 29,489,373	\$ 9,660,817	\$ 39,150,190
Investments.....	12,248,091	-	12,248,091
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,083,040	-	1,083,040
Tax liens.....	1,878,765	-	1,878,765
Motor vehicle and other excise taxes.....	481,176	-	481,176
User fees.....	-	3,185,996	3,185,996
Trash fees.....	-	79,107	79,107
Departmental and other.....	90,609	-	90,609
Intergovernmental.....	4,754,962	-	4,754,962
Loans.....	123,203	-	123,203
Investment in joint venture.....	-	1,152,940	1,152,940
Total current assets.....	50,149,219	14,078,860	64,228,079
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	2,614,449	-	2,614,449
Loans.....	211,766	-	211,766
Capital assets, non depreciable.....	9,156,290	1,368,065	10,524,355
Capital assets, net of accumulated depreciation.....	210,271,720	28,395,322	238,667,042
Total noncurrent assets.....	222,254,225	29,763,387	252,017,612
TOTAL ASSETS.....	272,403,444	43,842,247	316,245,691
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding.....	94,386	-	94,386
Deferred outflows of resources related to pensions.....	480,412	12,335	492,747
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	574,798	12,335	587,133
LIABILITIES			
CURRENT:			
Warrants payable.....	2,560,755	1,041,331	3,602,086
Accrued liabilities.....	1,418,275	644,623	2,062,898
Accrued payroll.....	6,559,796	25,034	6,584,830
Tax refunds payable.....	548,452	-	548,452
Accrued interest.....	363,594	176,873	540,467
Capital lease obligations.....	252,167	61,498	313,665
Landfill closure.....	1,090,000	-	1,090,000
Compensated absences.....	1,893,650	22,556	1,916,206
Workers' compensation.....	107,854	-	107,854
Notes payable.....	8,845,452	6,250,000	15,095,452
Bonds payable.....	3,790,951	1,312,532	5,103,483
Total current liabilities.....	27,430,946	9,534,447	36,965,393
NONCURRENT:			
Capital lease obligations.....	446,428	195,556	641,984
Landfill closure.....	250,000	-	250,000
Compensated absences.....	7,188,529	36,256	7,224,785
Other postemployment benefits.....	44,519,015	1,287,685	45,806,700
Net pension liability.....	94,427,247	2,424,556	96,851,803
Workers' compensation.....	746,176	-	746,176
Bonds payable.....	39,682,873	18,622,468	58,305,341
Total noncurrent liabilities.....	187,260,268	22,566,521	209,826,789
TOTAL LIABILITIES.....	214,691,214	32,100,968	246,792,182
NET POSITION			
Net investment in capital assets.....	172,084,606	8,744,920	180,829,526
Restricted for:			
Loans.....	334,969	-	334,969
Permanent funds:			
Expendable.....	4,383,024	-	4,383,024
Nonexpendable.....	2,151,087	-	2,151,087
Grants and gifts.....	5,178,480	-	5,178,480
Unrestricted.....	(125,845,138)	3,008,694	(122,836,444)
TOTAL NET POSITION.....	\$ 58,287,028	\$ 11,753,614	\$ 70,040,642

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	Program Revenues					
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue	
Primary Government:						
Governmental Activities:						
General government.....	\$ 12,503,170	\$ 3,173,286	\$ 587,074	\$ 9,465	\$ (8,733,345)	
Public safety.....	29,652,698	2,712,983	735,695	-	(26,204,020)	
Education.....	100,997,380	1,036,778	38,032,468	1,811,133	(60,117,001)	
Public works.....	11,878,911	163,453	866,663	2,936,779	(7,912,016)	
Community development.....	1,569,281	121,899	1,348,278	125,312	26,208	
Health and human services.....	6,850,201	128,936	4,904,328	-	(1,816,937)	
Community preservation.....	356,518	-	-	168,233	(188,285)	
Culture and recreation.....	3,277,578	1,174,883	142,967	-	(1,959,728)	
Interest.....	1,349,443	-	209,268	-	(1,140,175)	
Total Governmental Activities...	168,435,180	8,512,218	46,826,741	5,050,922	(108,045,299)	
Business-Type Activities:						
Water and Sewer.....	12,386,557	13,288,556	-	102,518	1,004,517	
Golf Course.....	472,708	724,052	-	-	251,344	
Trash.....	2,448,400	689,982	-	-	(1,758,418)	
Total Business-Type Activities..	15,307,665	14,702,590	-	102,518	(502,557)	
Total Primary Government.....	\$ 183,742,845	\$ 23,214,808	\$ 46,826,741	\$ 5,153,440	\$ (108,547,856)	

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ <u>(108,045,299)</u>	\$ <u>(502,557)</u>	\$ <u>(108,547,856)</u>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	82,444,144	-	82,444,144
Community preservation taxes.....	535,637	-	535,637
Tax liens.....	708,963	-	708,963
Motor vehicle and other excise taxes.....	3,929,230	-	3,929,230
Hotel/motel and meals taxes.....	1,362,357	-	1,362,357
Penalties and interest on taxes.....	443,444	-	443,444
Payments in lieu of taxes.....	1,043,782	-	1,043,782
Grants and contributions not restricted to specific programs.....	7,182,509	-	7,182,509
Unrestricted investment income.....	554,360	-	554,360
Miscellaneous.....	122,979	-	122,979
<i>Transfers, net</i>	<u>9,736</u>	<u>(9,736)</u>	<u>-</u>
Total general revenues and transfers.....	<u>98,337,141</u>	<u>(9,736)</u>	<u>98,327,405</u>
Change in net position.....	(9,708,158)	(512,293)	(10,220,451)
NET POSITION:			
Beginning of year (as revised).....	<u>67,995,186</u>	<u>12,265,907</u>	<u>80,261,093</u>
End of year.....	\$ <u><u>58,287,028</u></u>	\$ <u><u>11,753,614</u></u>	\$ <u><u>70,040,642</u></u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2015

	General	Community Preservation Funds	City Wharf Project Fund	School Capital Projects	Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents.....	\$ 14,114,082	\$ 865,433	\$ 3,066,624	\$ 1,375,862	\$ 2,411,235	\$ 7,529,944	\$ 29,363,180
Investments.....	5,695,623	-	-	-	-	6,552,468	12,248,091
Receivables, net of uncollectibles:							
Real estate and personal property taxes.....	1,070,589	12,451	-	-	-	-	1,083,040
Tax liens.....	1,878,765	-	-	-	-	-	1,878,765
Motor vehicle and other excise taxes.....	481,176	-	-	-	-	-	481,176
Departmental and other.....	-	-	-	-	-	90,609	90,609
Intergovernmental.....	3,265,677	123,920	-	2,334,793	-	1,645,021	7,369,411
Loans.....	-	-	-	-	-	334,969	334,969
Due from other funds.....	-	-	-	-	-	200,714	200,714
TOTAL ASSETS.....	\$ 26,505,912	\$ 1,001,804	\$ 3,066,624	\$ 3,710,655	\$ 2,411,235	\$ 16,353,725	\$ 53,049,955
LIABILITIES							
Warrants payable.....	\$ -	\$ 61,375	\$ -	\$ 1,076,964	\$ 201,841	\$ 1,220,575	\$ 2,560,755
Accrued liabilities.....	1,418,275	-	-	-	-	-	1,418,275
Accrued payroll.....	6,343,788	-	-	-	-	216,008	6,559,796
Tax refunds payable.....	548,452	-	-	-	-	-	548,452
Due to other funds.....	-	-	-	-	-	200,714	200,714
Notes payable.....	-	-	3,000,000	3,188,299	2,657,153	-	8,845,452
TOTAL LIABILITIES.....	8,310,515	61,375	3,000,000	4,265,263	2,858,994	1,637,297	20,133,444
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue.....	6,065,257	136,370	-	-	-	995,934	7,197,561
FUND BALANCES							
Nonspendable.....	-	-	-	-	-	2,151,087	2,151,087
Restricted.....	-	804,059	66,624	-	-	11,569,407	12,440,090
Committed.....	412,192	-	-	-	-	-	412,192
Assigned.....	558,880	-	-	-	-	-	558,880
Unassigned.....	11,159,068	-	-	(554,608)	(447,759)	-	10,156,701
TOTAL FUND BALANCES.....	12,130,140	804,059	66,624	(554,608)	(447,759)	13,720,494	25,718,950
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 26,505,912	\$ 1,001,804	\$ 3,066,624	\$ 3,710,655	\$ 2,411,235	\$ 16,353,725	\$ 53,049,955

See notes to basic financial statements.

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

JUNE 30, 2015

Total governmental fund balances.....	\$ 25,718,950
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	219,428,010
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	7,197,561
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.....	480,412
Internal service funds are used by management to account for health insurance activities.	
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....	126,193
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(363,594)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds payable.....	(43,473,824)
Deferred charge on refunding.....	94,386
Landfill closure.....	(1,340,000)
Workers' compensation.....	(854,030)
Capital leases.....	(698,595)
Compensated absences.....	(9,082,179)
Other postemployment benefits.....	(44,519,015)
Net pension liability.....	<u>(94,427,247)</u>
Net effect of reporting long-term liabilities.....	<u>(194,300,504)</u>
Net position of governmental activities.....	<u>\$ 58,287,028</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2015

	General	Community Preservation Funds	City Grant Wharf Fund	School Capital Projects	Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:							
Real estate and personal property taxes, net of tax refunds.....	\$ 82,382,558	\$ 523,187	\$ -	\$ -	\$ -	\$ -	\$ 82,905,745
Tax liens.....	638,365	-	-	-	-	-	638,365
Motor vehicle and other excise taxes.....	3,945,343	-	-	-	-	-	3,945,343
Hotel/motel and meals taxes.....	1,362,357	-	-	-	-	-	1,362,357
Charges for services.....	1,997,227	-	-	-	-	14,629	2,011,856
Penalties and interest on taxes.....	437,538	1,173	-	-	-	4,733	443,444
Payments in lieu of taxes.....	1,043,782	-	-	-	-	-	1,043,782
Licenses and permits.....	504,857	-	-	-	-	-	504,857
Fines and forfeitures.....	1,167,426	-	-	-	-	-	1,167,426
Intergovernmental.....	37,231,526	169,707	2,207,009	2,032,967	200,000	17,894,699	59,735,908
Departmental and other.....	2,622,117	-	-	-	-	2,924,536	5,546,653
Contributions.....	-	-	-	-	-	317,814	317,814
Investment income.....	263,815	228	-	-	-	290,317	554,360
TOTAL REVENUES.....	133,596,911	694,295	2,207,009	2,032,967	200,000	21,446,728	160,177,910
EXPENDITURES:							
Current:							
General government.....	6,823,887	53,505	-	-	1,408,307	1,129,717	9,415,416
Public safety.....	18,659,469	-	-	-	360,609	1,097,496	20,117,574
Education.....	59,430,902	-	-	3,191,930	291,031	10,709,642	73,623,505
Public works.....	6,093,656	-	2,140,385	-	2,557,562	3,896,975	14,688,578
Community development.....	-	-	-	-	-	1,800,308	1,800,308
Health and human services.....	1,242,013	-	-	-	66,498	5,171,131	6,479,642
Community preservation.....	-	356,518	-	-	-	-	356,518
Culture and recreation.....	2,028,893	-	-	-	60,543	556,456	2,645,892
Pension benefits.....	16,923,249	-	-	-	-	-	16,923,249
Employee benefits.....	13,490,299	-	-	-	-	-	13,490,299
State and county charges.....	6,015,427	-	-	-	-	-	6,015,427
Debt service:							
Principal.....	2,900,000	-	-	-	-	35,000	2,935,000
Interest.....	1,523,616	-	-	-	34,225	907	1,558,748
TOTAL EXPENDITURES.....	135,131,411	410,023	2,140,385	3,191,930	4,778,775	24,397,632	170,050,156
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,534,500)	284,272	66,624	(1,158,963)	(4,578,775)	(2,950,904)	(9,872,246)
OTHER FINANCING SOURCES (USES):							
Issuance of bonds.....	-	-	-	-	5,980,000	-	5,980,000
Premium from issuance of bonds.....	700,157	-	-	-	-	-	700,157
Capital lease financing.....	-	-	-	-	351,762	-	351,762
Transfers in.....	2,750,624	-	-	-	-	948,759	3,699,383
Transfers out.....	(2,787,078)	-	-	-	(111,098)	(791,471)	(3,689,647)
TOTAL OTHER FINANCING SOURCES (USES).....	663,703	-	-	-	6,220,664	157,288	7,041,655
NET CHANGE IN FUND BALANCES.....	(870,797)	284,272	66,624	(1,158,963)	1,641,889	(2,793,616)	(2,830,591)
FUND BALANCES AT BEGINNING OF YEAR.....	13,000,937	519,787	-	604,355	(2,089,648)	16,514,110	28,549,541
FUND BALANCES AT END OF YEAR.....	\$ 12,130,140	\$ 804,059	\$ 66,624	\$ (554,608)	\$ (447,759)	\$ 13,720,494	\$ 25,718,950

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, 2015

Net change in fund balances - total governmental funds.....	\$	(2,830,591)
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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.

Capital outlay.....	13,273,983	
Depreciation expense.....	<u>(9,031,931)</u>	
Net effect of reporting capital assets.....		4,242,052

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....

(1,460,624)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Capital lease principal payments.....	279,226	
Capital lease issuance.....	(351,762)	
Premium from issuance of bonds payable.....	(700,157)	
Amortization of deferred charge on refunding.....	(21,510)	
Issuance of bonds.....	(5,980,000)	
Amortization of premium on debt.....	215,050	
Debt service principal payments.....	<u>2,935,000</u>	
Net effect of reporting long-term debt.....		(3,624,153)

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.

Net change in compensated absences accrual.....	16,903	
Net change in landfill liability accrual.....	(740,000)	
Net change in workers' compensation.....	21,559	
Net change in accrued interest on long-term debt.....	15,765	
Net change in other postemployment benefits.....	(6,102,423)	
Net change in deferred outflow/(inflow) of resources related to pensions.....	480,412	
Net change in net pension liability.....	<u>294,191</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(6,013,593)

Internal service funds are used by management to account for health insurance activities.

The net activity of internal service funds is reported with Governmental Activities.....		<u>(21,249)</u>
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Change in net position of governmental activities.....	\$	<u><u>(9,708,158)</u></u>
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See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2015

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water and Sewer	Golf Course	Trash	Total	
ASSETS					
CURRENT:					
Cash and cash equivalents.....	\$ 8,419,358	\$ 449,253	\$ 792,206	\$ 9,660,817	\$ 126,193
Receivables, net of allowance for uncollectibles:					
User fees.....	3,185,996	-	-	3,185,996	-
Trash fees.....	-	-	79,107	79,107	-
Investment in joint venture.....	1,152,940	-	-	1,152,940	-
Total current assets.....	12,758,294	449,253	871,313	14,078,860	126,193
NONCURRENT:					
Capital assets, non depreciable.....	1,249,998	118,067	-	1,368,065	-
Capital assets, net of accumulated depreciation.....	27,876,008	519,314	-	28,395,322	-
Total noncurrent assets.....	29,126,006	637,381	-	29,763,387	-
TOTAL ASSETS.....	41,884,300	1,086,634	871,313	43,842,247	126,193
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources related to pensions.....	12,335	-	-	12,335	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	12,335	-	-	12,335	-
LIABILITIES					
CURRENT:					
Warrants payable.....	1,041,331	-	-	1,041,331	-
Accrued liabilities.....	182,312	-	462,311	644,623	-
Accrued payroll.....	22,826	-	2,208	25,034	-
Accrued interest.....	176,383	490	-	176,873	-
Capital lease obligations.....	61,498	-	-	61,498	-
Compensated absences.....	15,794	6,762	-	22,556	-
Notes payable.....	6,250,000	-	-	6,250,000	-
Bonds payable.....	1,282,532	30,000	-	1,312,532	-
Total current liabilities.....	9,032,676	37,252	464,519	9,534,447	-
NONCURRENT:					
Capital lease obligations.....	195,556	-	-	195,556	-
Compensated absences.....	36,256	-	-	36,256	-
Other postemployment benefits obligation.....	966,225	227,035	94,425	1,287,685	-
Net pension liability.....	2,424,556	-	-	2,424,556	-
Bonds payable.....	18,603,468	19,000	-	18,622,468	-
Total noncurrent liabilities.....	22,226,061	246,035	94,425	22,566,521	-
TOTAL LIABILITIES.....	31,258,737	283,287	558,944	32,100,968	-
NET POSITION					
Net investment in capital assets.....	8,156,539	588,381	-	8,744,920	-
Unrestricted.....	2,481,359	214,966	312,369	3,008,694	126,193
TOTAL NET POSITION.....	\$ 10,637,898	\$ 803,347	\$ 312,369	\$ 11,753,614	\$ 126,193

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2015

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water and Sewer	Golf Course	Trash	Total	
OPERATING REVENUES:					
Charges for services	\$ 13,288,556	\$ 724,052	\$ 689,982	\$ 14,702,590	\$ -
TOTAL OPERATING REVENUES	13,288,556	724,052	689,982	14,702,590	-
OPERATING EXPENSES:					
Cost of services and administration	2,936,802	413,447	2,448,400	5,798,649	-
District Assessment.....	7,939,255	-	-	7,939,255	-
Depreciation.....	829,502	53,510	-	883,012	-
Employee benefits	-	-	-	-	21,249
TOTAL OPERATING EXPENSES	11,705,559	466,957	2,448,400	14,620,916	21,249
OPERATING INCOME (LOSS).....	1,582,997	257,095	(1,758,418)	81,674	(21,249)
NONOPERATING REVENUES (EXPENSES):					
Interest expense.....	(680,998)	(5,751)	-	(686,749)	-
Intergovernmental.....	102,518	-	-	102,518	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(578,480)	(5,751)	-	(584,231)	-
INCOME (LOSS) BEFORE TRANSFERS...	1,004,517	251,344	(1,758,418)	(502,557)	(21,249)
TRANSFERS:					
Transfers in.....	-	635,026	1,583,215	2,218,241	-
Transfers out.....	(1,501,655)	(726,322)	-	(2,227,977)	-
TOTAL TRANSFERS.....	(1,501,655)	(91,296)	1,583,215	(9,736)	-
CHANGE IN NET POSITION.....	(497,138)	160,048	(175,203)	(512,293)	(21,249)
NET POSITION AT BEGINNING OF YEAR (as revised).....	11,135,036	643,299	487,572	12,265,907	147,442
NET POSITION AT END OF YEAR.....	\$ 10,637,898	\$ 803,347	\$ 312,369	\$ 11,753,614	\$ 126,193

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water and Sewer	Golf Course	Trash	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users.....	\$ 13,625,600	\$ 724,052	\$ 699,081	\$ 15,048,733	\$ -
Receipts from other governments.....	-	-	-	-	-
Payments to vendors.....	(10,330,673)	(166,735)	(2,236,429)	(12,733,837)	-
Payments to employees.....	(843,607)	(216,094)	(56,989)	(1,116,690)	-
Payments for interfund services used.....	-	-	-	-	(21,249)
NET CASH FROM OPERATING ACTIVITIES.....	2,451,320	341,223	(1,594,337)	1,198,206	(21,249)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in.....	-	635,026	1,583,215	2,218,241	-
Transfers out.....	(1,501,655)	(726,322)	-	(2,227,977)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(1,399,137)	(91,296)	1,583,215	92,782	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from the issuance of bonds and notes.....	8,550,000	-	-	8,550,000	-
Acquisition and construction of capital assets.....	(2,719,716)	(111,098)	-	(2,830,814)	-
Principal payments on bonds and notes.....	(6,160,303)	(30,000)	-	(6,190,303)	-
Principal payments on capital lease obligations.....	(69,056)	(105,047)	-	(174,103)	-
Interest expense.....	(654,299)	(6,051)	-	(660,350)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(1,053,374)	(252,196)	-	(1,305,570)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(1,191)	(2,269)	(11,122)	(14,582)	(21,249)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	8,420,549	451,522	803,328	9,675,399	147,442
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 8,419,358	\$ 449,253	\$ 792,206	\$ 9,660,817	\$ 126,193
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:					
Operating income (loss).....	\$ 1,582,997	\$ 257,095	\$ (1,758,418)	\$ 81,674	\$ (21,249)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation.....	829,502	53,510	-	883,012	-
Deferred (outflows)/inflows of resources related to pensions.....	(12,335)	-	-	(12,335)	-
Changes in assets and liabilities:					
User fees.....	337,044	-	-	337,044	-
Trash fees.....	-	-	9,099	9,099	-
Investment in joint venture.....	(324,609)	-	-	(324,609)	-
Warrants payable.....	(244,408)	-	-	(244,408)	-
Accrued liabilities.....	157,055	-	140,715	297,770	-
Accrued payroll.....	4,486	-	593	5,079	-
Other postemployment benefits.....	135,753	30,945	13,674	180,372	-
Accrued compensated absences.....	(8,904)	(327)	-	(9,231)	-
Net Pension Liability.....	(5,261)	-	-	(5,261)	-
Total adjustments.....	868,323	84,128	164,081	1,116,532	-
NET CASH FROM OPERATING ACTIVITIES.....	\$ 2,451,320	\$ 341,223	\$ (1,594,337)	\$ 1,198,206	\$ (21,249)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:					
Borrowing under capital leases.....	\$ 326,110	\$ -	\$ -	\$ 326,110	\$ -
Purchase of equipment by capital leases.....	(326,110)	-	-	(326,110)	-

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2015

	Pension Trust Fund (1)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Fund
ASSETS				
Cash and cash equivalents.....	\$ 2,616,262	\$ 7,592	\$ 207,904	\$ 1,077,503
Investments:				
Corporate bonds.....	-	1,526,851	1,210,513	-
Real estate and alternative investment mutual funds.....	229,440	-	-	-
PRIT.....	131,910,203	-	-	-
Receivables, net of allowance for uncollectibles:				
Other.....	805,490	-	-	-
NONCURRENT:				
Capital assets, net of accumulated depreciation.....	94,531	-	-	-
TOTAL ASSETS.....	135,655,926	1,534,443	1,418,417	1,077,503
LIABILITIES				
Warrants payable.....	5,024	-	-	-
Liabilities due depositors.....	-	-	-	1,077,503
TOTAL LIABILITIES.....	5,024	-	-	1,077,503
NET POSITION				
Restricted for pensions.....	135,650,902	-	-	-
Held in trust for OPEB benefits.....	-	1,534,443	-	-
Held for other purposes.....	-	-	1,418,417	-
Total Net Position.....	\$ 135,650,902	\$ 1,534,443	\$ 1,418,417	\$ -

(1) The Pension Trust Fund is as of December 31, 2014.

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2015

	Pension Trust Fund (1)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Employer contributions.....	\$ 11,942,341	\$ 167,484	\$ -
Plan member contributions.....	3,939,454	-	-
Retirement benefits - reimbursement of 91A overearnings.....	22,313	-	-
Retirement benefits - 3(8)c contributions from other systems.....	264,347	-	-
Retirement benefits - transfers from other systems.....	1,383,938	-	-
Private donations.....	-	-	20,231
	<hr/>	<hr/>	<hr/>
Total contributions.....	17,552,393	167,484	20,231
	<hr/>	<hr/>	<hr/>
Net investment income:			
Net change in fair value of investments.....	6,165,492	(71,065)	31,965
Interest.....	3,529,772	84,502	489
	<hr/>	<hr/>	<hr/>
Total investment income.....	9,695,264	13,437	32,454
	<hr/>	<hr/>	<hr/>
Less: investment expense.....	(672,617)	-	-
	<hr/>	<hr/>	<hr/>
Net investment income.....	9,022,647	13,437	32,454
	<hr/>	<hr/>	<hr/>
Retirement benefits - state COLA reimbursements.....	106,053	-	-
	<hr/>	<hr/>	<hr/>
TOTAL ADDITIONS.....	26,681,093	180,921	52,685
	<hr/>	<hr/>	<hr/>
DEDUCTIONS:			
Administration.....	239,169	-	-
Retirement benefits - transfers to other systems.....	583,640	-	-
Retirement benefits and refunds.....	14,083,660	-	-
Educational scholarships.....	-	-	30,173
Housing subsidies.....	-	-	41,141
Depreciation.....	3,125	-	-
	<hr/>	<hr/>	<hr/>
TOTAL DEDUCTIONS.....	14,909,594	-	71,314
	<hr/>	<hr/>	<hr/>
CHANGE IN NET POSITION.....	11,771,499	180,921	(18,629)
	<hr/>	<hr/>	<hr/>
NET POSITION AT BEGINNING OF YEAR.....	123,879,403	1,353,522	1,437,046
	<hr/>	<hr/>	<hr/>
NET POSITION AT END OF YEAR.....	\$ 135,650,902	\$ 1,534,443	\$ 1,418,417
	<hr/>	<hr/>	<hr/>

(1) The Pension Trust Fund is for the year ended December 31, 2014.

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 20 Central Street, Suite 110, Salem, Massachusetts 01970.

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

The City is a member of the South Essex Sewerage District (the District), a joint venture with the Cities of Salem and Beverly and the Towns of Danvers and Marblehead, for the operation of a septage disposal facility. The members share in overseeing the operations of the District. Each member is responsible for its proportionate share of the operational costs of the District, which are paid in the form of assessments. As of June 30, 2015, the City's equity interest in the operations of the District totaled \$1,152,940, 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, 2015 totaled approximately \$2,527,000. Complete financial information for the Water Board can be obtained by contacting them at 50 Arlington Avenue, Beverly, MA 01915.

The Salem Public School System was granted a charter by the Secretary of Education of the Commonwealth of Massachusetts, pursuant to Chapter 71, Section 89 of the Massachusetts General Laws to operate a Horace Mann Charter School to address the needs of the City's high school dropouts and at-risk youth. The Salem Community Charter School opened during 2013 and is part of the Salem Public School System. Beginning in 2015, the name was changed to the New Liberty Charter School. The Charter School is managed by an appointed Board of Trustees and not by the School Committee and Superintendent. Ongoing funding for the school's operations is provided by the City based upon a negotiated amount between the School Committee and Board of Trustees within the guidelines established by the authorizing legislation of the Commonwealth of Massachusetts. The activity is included within the City's basic financial statements and is audited independently. Complete financial statements can be obtained by contacting the Salem Public Schools located at 29 Highland Ave., Salem MA 01970.

The City is a member of the Essex Technical High School that serves the members' students seeking an education in academic, technical and agriculture studies. The members' share in the operations of the Essex Technical High School and each member is responsible for its proportionate share of the operational and capital cost of the Essex Technical High School, which are paid in the form of assessments. The City does not have an equity interest in the Essex Technical High School and the 2015 assessment was \$2,486,713.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units.

Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

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

Major Fund Criteria

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

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

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

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

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

The *community preservation fund* is a special revenue fund used to account for the accumulation of resources for the acquisition, creation, preservation and support of open space, historic resources, and community housing. The City is allowed to impose a surcharge on property taxes and to receive matching state funds for these specified uses.

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

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

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

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

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

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

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

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

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

The following major proprietary funds are reported:

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

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

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

Additionally, the following proprietary fund type is reported:

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

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

The following fiduciary fund types are reported:

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

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

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

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

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

E. 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 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 lien 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.

F. 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.

G. Capital Assets***Government-Wide and Proprietary Fund Financial Statements***

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

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

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

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

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

Governmental Fund Financial Statements

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

H. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

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

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

Governmental Fund Financial Statements

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

I. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

J. Interfund Transfers

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

Government-Wide Financial Statements

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

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

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

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

Net position has been "restricted for" the following:

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

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

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

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

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

Fund Financial Statements (Fund Balances)

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

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

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

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

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

M. 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.

N. Investment Income

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

O. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

P. Fund Deficits and Appropriation Deficits

Individual fund deficits existed at June 30, 2015 within the nonmajor governmental funds. These deficits will be funded through long-term borrowing, capital grants and grant proceeds in 2016.

Actual expenditures exceeded appropriations for snow and ice by \$2,323,000. \$1.0 million of this over-expenditure will be funded with available funds during 2016 and the remainder will be amortized over the following two years. In the snow and ice removal appropriation line, the general law allows deficits to occur and to be raised in the subsequent year. Due to the unusual magnitude of snow and ice removal costs in 2015, the state has allowed communities to raise the 2015 deficits over 3 years.

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

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

R. Total Column*Government-Wide Financial Statements*

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

Fund Financial Statements

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

NOTE 2 – CASH AND INVESTMENTS

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

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer and Trust Fund Commission may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth; provided, that not more than 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, 2015, \$1,534,443 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 \$39,818,556 and the bank balance totaled \$39,787,539. Of the bank balance, \$2,839,610 was covered by Federal Depository Insurance, \$15,114,424 was covered by the Share Insurance Fund, \$6,090,434 was covered by the Depositors Insurance Fund, \$12,254,394 was collateralized and \$3,488,677 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 \$360,357 and the bank balance totaled \$369,406. The entire bank balance was covered by Federal Depository Insurance.

Investments

As of June 30, 2015, the City had the following investments:

Investment Type	Fair Value	Maturity		
		Under 1 Year	1-5 Years	6-10 Years
<u>Debt Securities:</u>				
Corporate Bonds.....	\$ 2,654,599	\$ 516,284	\$ 1,638,504	\$ 499,811
U.S. Treasury Notes.....	671,742	-	671,742	-
Government Sponsored Enterprises.....	2,766,138	-	2,766,138	-
Total Debt Securities.....	6,092,479	\$ 516,284	\$ 5,076,384	\$ 499,811
<u>Other Investments:</u>				
Equity Securities.....	5,368,750			
Equity Mutual Funds.....	2,946,992			
Bond Mutual Funds.....	577,234			
Money Market Mutual Funds.....	551,066			
MMDT.....	73,567			
Total Investments.....	\$ 15,610,088			

As of December 31, 2014, the System had the following investments:

Investment Type	Fair Value	Maturity
		Under 1 Year
Repurchase Agreements.....	\$ 2,176,735	\$ 2,176,735
<u>Other Investments:</u>		
Government Short-term Investment Funds.....	79,170	
Venture Capital and Limited Partnerships.....	192,680	
Real Estate Investment Trust.....	36,760	
Pension Reserve Investment Trust (PRIT).....	131,910,203	
Total Investments.....	\$ 134,395,548	

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 1.33 to 21.81 years.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the City's investments, \$2,654,599 of corporate bonds, \$671,742 of U.S. Treasury Notes, \$2,766,138 of Government Sponsored Enterprises and \$5,368,750 of equity securities are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty.

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 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:

	Corporate Bonds	Government Sponsored Enterprises
AA+.....	\$ 325,400	\$ 2,766,138
AA.....	102,596	-
A+.....	278,685	-
A.....	583,172	-
A-.....	321,384	-
BBB+.....	938,484	-
BBB.....	99,440	-
Unrated.....	5,438	-
	<u>\$ 2,654,599</u>	<u>\$ 2,766,138</u>

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

Concentration of Credit Risk

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

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

NOTE 3 – RECEIVABLES

At June 30, 2015, receivables for the individual major governmental funds, non-major governmental funds and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,083,040	\$ -	\$ 1,083,040
Tax liens.....	1,878,765	-	1,878,765
Motor vehicle and other excise taxes.....	644,457	(163,281)	481,176
Departmental and other.....	90,609	-	90,609
Intergovernmental.....	7,369,411	-	7,369,411
Loans.....	334,969	-	334,969
Total.....	<u>\$ 11,401,251</u>	<u>\$ (163,281)</u>	<u>\$ 11,237,970</u>

At June 30, 2015, 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.....	\$ 3,185,996	\$ -	\$ 3,185,996
Trash fees.....	79,107	-	79,107
Total.....	<u>\$ 3,265,103</u>	<u>\$ -</u>	<u>\$ 3,265,103</u>

In addition, as of December 31, 2014, the retirement system had outstanding receivables of \$805,490.

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of *deferred inflows of resources* for unavailable revenue reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
Receivable type:			
Real estate and personal property taxes.....	\$ 533,742	\$ 12,450	\$ 546,192
Tax liens.....	1,878,765	-	1,878,765
Motor vehicle and other excise taxes.....	481,176	-	481,176
Departmental and other.....	-	90,609	90,609
Intergovernmental.....	3,171,574	694,276	3,865,850
Loans.....	-	334,969	334,969
Total.....	<u>\$ 6,065,257</u>	<u>\$ 1,132,304</u>	<u>\$ 7,197,561</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 6,483,782	\$ -	\$ (153,025)	\$ 6,330,757
Construction in progress.....	1,202,040	2,078,417	(454,924)	2,825,533
Total capital assets not being depreciated.....	<u>7,685,822</u>	<u>2,078,417</u>	<u>(607,949)</u>	<u>9,156,290</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	12,369,806	236,446	(196,350)	12,409,902
Buildings and improvements.....	228,081,658	3,735,427	(6,905)	231,810,180
Equipment.....	12,541,176	868,125	(446,217)	12,963,084
Infrastructure.....	65,879,541	6,736,797	-	72,616,338
Vehicles.....	4,591,097	226,720	-	4,817,817
Total capital assets being depreciated.....	<u>323,463,278</u>	<u>11,803,515</u>	<u>(649,472)</u>	<u>334,617,321</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(3,314,541)	(470,406)	196,350	(3,588,597)
Buildings and improvements.....	(67,932,319)	(5,481,715)	6,905	(73,407,129)
Equipment.....	(6,701,907)	(794,532)	446,217	(7,050,222)
Infrastructure.....	(34,436,079)	(1,964,037)	-	(36,400,116)
Vehicles.....	(3,578,296)	(321,241)	-	(3,899,537)
Total accumulated depreciation.....	<u>(115,963,142)</u>	<u>(9,031,931)</u>	<u>649,472</u>	<u>(124,345,601)</u>
Total capital assets being depreciated, net.....	<u>207,500,136</u>	<u>2,771,584</u>	<u>-</u>	<u>210,271,720</u>
Total governmental activities capital assets.....	<u>\$ 215,185,958</u>	<u>\$ 4,850,001</u>	<u>\$ (607,949)</u>	<u>\$ 219,428,010</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Water and Sewer Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 110,141	\$ -	\$ -	\$ 110,141
Construction in progress.....	1,714,789	1,139,857	(1,714,789)	1,139,857
Total capital assets not being depreciated.....	1,824,930	1,139,857	(1,714,789)	1,249,998
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	119,975	-	-	119,975
Equipment.....	296,290	-	-	296,290
Vehicles.....	97,590	326,111	-	423,701
Infrastructure.....	33,236,390	4,292,502	-	37,528,892
Total capital assets being depreciated.....	33,750,245	4,618,613	-	38,368,858
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(77,022)	(5,728)	-	(82,750)
Equipment.....	(201,718)	(29,629)	-	(231,347)
Vehicles.....	(97,590)	(32,611)	-	(130,201)
Infrastructure.....	(9,287,018)	(761,534)	-	(10,048,552)
Total accumulated depreciation.....	(9,663,348)	(829,502)	-	(10,492,850)
Total capital assets being depreciated, net.....	24,086,897	3,789,111	-	27,876,008
Total water and sewer activities capital assets.....	\$ 25,911,827	\$ 4,928,968	\$ (1,714,789)	\$ 29,126,006
Golf Course Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 118,067	\$ -	\$ -	\$ 118,067
<u>Capital assets being depreciated:</u>				
Land improvements.....	312,852	-	-	312,852
Buildings and improvements.....	453,988	-	-	453,988
Equipment.....	497,829	111,098	(38,851)	570,076
Total capital assets being depreciated.....	1,264,669	111,098	(38,851)	1,336,916
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(308,649)	(1,201)	-	(309,850)
Buildings and improvements.....	(173,488)	(11,000)	-	(184,488)
Equipment.....	(320,806)	(41,309)	38,851	(323,264)
Total accumulated depreciation.....	(802,943)	(53,510)	38,851	(817,602)
Total capital assets being depreciated, net.....	461,726	57,588	-	519,314
Total golf course activities capital assets.....	\$ 579,793	\$ 57,588	\$ -	\$ 637,381

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, 2014 totals \$30,469, for a net book value of \$94,531.

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

Governmental Activities:

General government.....	\$	592,813
Public safety.....		621,902
Education.....		5,229,935
Public works.....		2,337,477
Health and human services.....		9,060
Culture and recreation.....		215,972
Community Development.....		24,772
Total depreciation expense - governmental activities.....	\$	<u>9,031,931</u>

Business-Type Activities:

Water and Sewer.....		829,502
Golf Course.....		53,510
Total depreciation expense - business-type activities.....	\$	<u>883,012</u>

Fiduciary Activities:

Pension Trust.....	\$	<u>3,125</u>
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NOTE 5 – INTERFUND TRANSFERS AND BALANCES

Interfund transfers for the year ended June 30, 2015, are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	Trash Enterprise Fund	Golf Course Enterprise Fund	Water and Sewer Enterprise Fund	Nonmajor Governmental Funds	
General Fund.....	\$ -	\$ 1,583,215	\$ 523,928	\$ -	\$ 679,935	\$ 2,787,078 (1)
Capital Improvement Fund.....	-	-	111,098	-	-	111,098 (2)
Nonmajor Governmental Funds.....	522,647	-	-	-	268,824	791,471 (3)
Golf Course Enterprise Fund.....	726,322	-	-	-	-	726,322 (4)
Water and Sewer Enterprise Fund.....	1,501,655	-	-	-	-	1,501,655 (5)
Total.....	<u>\$ 2,750,624</u>	<u>\$ 1,583,215</u>	<u>\$ 635,026</u>	<u>\$ -</u>	<u>\$ 948,759</u>	<u>\$ 5,917,624</u>

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

(2) Transfer from capital improvement fund to the golf course for the paydown of the golf course capital lease.

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

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

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

The City's interfund balances at June 30, 2015, consisted of \$200,714 in balances within the nonmajor governmental funds representing interfund borrowings for cash flow purposes.

NOTE 6 – CAPITAL AND OPERATING LEASES

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of various vehicles and equipment for governmental activities. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The City has also entered into a new capital lease agreements for golf and turf equipment recorded in business-type activities.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
<u>Asset:</u>		
Machinery and equipment.....	\$ 602,873	\$ 486,705
Vehicles.....	959,159	-
Less: accumulated depreciation.....	<u>(852,100)</u>	<u>(56,700)</u>
Total.....	<u>\$ 709,932</u>	<u>\$ 430,005</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015, were as follows:

<u>Years Ending June 30</u>	Governmental Activities	Business-type Activities
2016.....	\$ 259,940	\$ 69,055
2017.....	125,050	69,055
2018.....	122,437	69,055
2019.....	<u>216,048</u>	<u>69,055</u>
Total minimum lease payments.....	723,475	276,220
Less: amounts representing interest.....	<u>(24,880)</u>	<u>(19,166)</u>
Present value of minimum lease payments.....	<u>\$ 698,595</u>	<u>\$ 257,054</u>

Operating Leases

The City leases office space for the City Hall Annex under an operating lease that began in March 2013 and expires on April 30, 2016. The City made twelve lease payments for the year ended June 30, 2015 totaling \$380,327 which is reported as general government expenditures in the general fund.

The future minimum lease payments for the City's operating lease total \$383,000, payable in 2016.

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, 2015, are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2014	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2015
Governmental Activities							
SAAN	Municipal Purpose.....	0.75%	12/03/14	\$ 4,000,000	\$ -	\$ (4,000,000)	\$ -
BAN	Municipal Purpose.....	0.50%	12/03/14	4,863,000	-	(4,863,000)	-
SAAN	Municipal Purpose.....	1.00%	12/03/15	-	3,000,000	-	3,000,000
BAN	Municipal Purpose.....	1.25%	12/03/15	-	4,440,153	-	4,440,153
BAN	Municipal Purpose.....	0.40%	12/03/15	-	1,405,299	-	1,405,299
	Sub-total governmental notes.....			<u>8,863,000</u>	<u>8,845,452</u>	<u>(8,863,000)</u>	<u>8,845,452</u>
Business-type Activities							
BAN	Sewer Improvements...	0.50%	12/03/14	2,000,000	-	(2,000,000)	-
SAAN	Sewer Improvements...	0.25%	12/03/14	3,000,000	-	(3,000,000)	-
BAN	Municipal Purpose.....	1.00%	12/03/15	-	6,250,000	-	6,250,000
	Sub-total business-type notes.....			<u>5,000,000</u>	<u>6,250,000</u>	<u>(5,000,000)</u>	<u>6,250,000</u>
	Total notes payable.....			<u>\$ 13,863,000</u>	<u>\$ 15,095,452</u>	<u>\$ (13,863,000)</u>	<u>\$ 15,095,452</u>

NOTE 8 – LONG-TERM DEBT

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

Details related to the outstanding general obligation indebtedness at June 30, 2015, 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, 2014	Issued	Redeemed	Outstanding at June 30, 2015
HUD Section 108.....	2014	\$ 6,000,000	9.00%	\$ 35,000	\$ -	\$ (35,000)	\$ -
Municipal Purpose Bonds of 2005.....	2025	2,465,000	3.00-5.00%	200,000	-	(200,000)	-
Municipal Purpose Bonds of 2007.....	2028	8,319,497	3.75-5.00%	5,390,000	-	(485,000)	4,905,000
Municipal Purpose Refunding Bonds of 2010.....	2020	8,113,000	2.00-5.00%	4,881,000	-	(810,000)	4,071,000
Municipal Purpose Bonds of 2010.....	2026	5,219,000	3.00-5.00%	3,625,000	-	(505,000)	3,120,000
Municipal Purpose Bonds of 2013.....	2043	15,143,598	2.63-4.00%	14,890,000	-	(475,000)	14,415,000
Municipal Purpose Bonds of 2014.....	2034	6,680,000	3.00-4.00%	6,680,000	-	(285,000)	6,395,000
Municipal Purpose Refunding Bonds of 2014.....	2025	2,509,500	3.00-4.00%	2,855,000	-	(140,000)	2,715,000
Municipal Purpose Bonds of 2015.....	2035	4,860,000	2.50-4.00%	-	5,980,000	-	5,980,000
Total Governmental bonds payable.....				38,556,000	5,980,000	(2,935,000)	41,601,000
Unamortized premiums on bonds.....				1,387,717	700,157	(215,050)	1,872,824
Total outstanding bonds payable reported in governmental activities.....				<u>\$ 39,943,717</u>	<u>\$ 6,680,157</u>	<u>\$ (3,150,050)</u>	43,473,824
Less unamortized premiums on bonds.....							(1,872,824)
Total future payments of bonds reported in governmental activities.....							<u>\$ 41,601,000</u>

Debt service requirements for governmental bonds are as follows:

Year	Principal	Interest	Total
2016.....	\$ 3,500,000	\$ 1,448,459	\$ 4,948,459
2017.....	3,281,000	1,329,384	4,610,384
2018.....	3,305,000	1,213,806	4,518,806
2019.....	3,200,000	1,094,599	4,294,599
2020.....	3,195,000	965,652	4,160,652
2021.....	2,135,000	855,127	2,990,127
2022.....	1,990,000	770,028	2,760,028
2023.....	2,015,000	687,176	2,702,176
2024.....	1,845,000	607,433	2,452,433
2025.....	1,865,000	535,865	2,400,865
2026.....	1,450,000	478,025	1,928,025
2027.....	1,410,000	433,871	1,843,871
2028.....	1,440,000	388,489	1,828,489
2029.....	940,000	350,463	1,290,463
2030.....	855,000	322,238	1,177,238
2031.....	890,000	294,622	1,184,622
2032.....	915,000	265,925	1,180,925
2033.....	940,000	236,338	1,176,338
2034.....	940,000	205,985	1,145,985
2035.....	630,000	181,622	811,622
2036.....	560,000	163,516	723,516
2037.....	575,000	144,348	719,348
2038.....	600,000	123,784	723,784
2039.....	620,000	102,044	722,044
2040.....	645,000	79,117	724,117
2041.....	660,000	55,473	715,473
2042.....	695,000	30,914	725,914
2043.....	505,000	9,153	514,153
Total.....	\$ 41,601,000	\$ 13,373,456	\$ 54,974,456

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 2015, \$733,000 of such assistance was received. Approximately \$3,664,000 will be received in future years of which \$492,000 represents reimbursement of long-term interest costs, and \$3,172,000 represents reimbursement of approved construction costs. Accordingly, a \$3,172,000 intergovernmental receivable and corresponding deferred inflow of resources have been reported in the governmental fund financial statements. The deferred inflow of resources has been eliminated in the conversion to the government-wide financial statements and reported as net position.

The MSBA has modified the method of funding for new projects in the school building assistance program. Under the new program, the assistance is paid to support the State's share of eligible construction costs as they are incurred, therefore eliminating the need for the City to fund the State's share through long-term debt. The Saltonstall and Collins School projects are being partially funded through this program. As of June 30, 2015, the City has recorded an intergovernmental receivable totaling \$2.3 million, which represents the State's 78.26% share of eligible construction costs incurred to date that have not yet been reimbursed.

Bonds Payable Schedule – Water and Sewer Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2014	Issued	Redeemed	Outstanding at June 30, 2015
Water Project - MCWT.....	2027	\$ 2,330,656	2.00%	\$ 1,621,303	\$ -	\$ (110,303)	\$ 1,511,000
Water Project.....	2028	3,250,503	3.75-5.00%	2,255,000	-	(165,000)	2,090,000
Sewer Improvements.....	2030	1,690,000	3.00-5.00%	1,390,000	-	(95,000)	1,295,000
Water System Tanks and Improvements.....	2031	8,464,000	3.00-5.00%	6,840,000	-	(540,000)	6,300,000
Water System Improvements.....	2033	1,412,402	2.63-4.00%	1,360,000	-	(55,000)	1,305,000
Sewer Improvements.....	2033	1,435,000	2.63-4.00%	1,380,000	-	(60,000)	1,320,000
Sewer Improvements.....	2034	3,900,000	3.00-4.00%	3,900,000	-	(135,000)	3,765,000
Sewer Improvements.....	2035	2,300,000	2.50-4.00%	-	2,300,000	-	2,300,000
Total Water and Sewer Enterprise Fund.....				\$ 18,746,303	\$ 2,300,000	\$ (1,160,303)	\$ 19,886,000

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

Year	Principal	Interest	Total
2016.....	\$ 1,282,532	\$ 696,597	\$ 1,979,129
2017.....	1,289,805	652,680	1,942,485
2018.....	1,297,124	605,910	1,903,034
2019.....	1,309,490	558,118	1,867,608
2020.....	1,316,904	509,254	1,826,158
2021.....	1,324,367	459,517	1,783,884
2022.....	1,236,880	410,804	1,647,684
2023.....	1,249,443	363,642	1,613,085
2024.....	1,262,058	316,027	1,578,085
2025.....	1,279,726	269,776	1,549,502
2026.....	1,282,447	225,843	1,508,290
2027.....	1,100,224	185,885	1,286,109
2028.....	965,000	150,103	1,115,103
2029.....	820,000	117,682	937,682
2030.....	665,000	90,806	755,806
2031.....	630,000	67,735	697,735
2032.....	550,000	46,894	596,894
2033.....	520,000	28,007	548,007
2034.....	390,000	11,322	401,322
2035.....	115,000	1,941	116,941
Total.....	\$ 19,886,000	\$ 5,768,543	\$ 25,654,543

Bonds Payable Schedule – Golf Course Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2014	Issued	Redeemed	Outstanding at June 30, 2015
Golf Course Clubhouse Refunding of 2010.....	2017	\$ 172,000	2.00-5.00%	\$ 79,000	\$ -	\$ (30,000)	\$ 49,000

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

Year	Principal	Interest	Total
2016.....	\$ 30,000	\$ 1,020	\$ 31,020
2017.....	19,000	285	19,285
Total.....	\$ 49,000	\$ 1,305	\$ 50,305

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, 2015, the City had the following authorized and unissued debt:

Purpose	Amount
School Construction and Equipment.....	\$ 9,828,488
Water Systems Improvements.....	6,915,264
Water Meter Replacement Project.....	200,000
Capital Projects.....	2,077,153
Senior Center Construction.....	4,994,136
Sewer Improvements.....	900,000
Canal Street Improvements.....	3,300,000
Parking Improvements.....	200,000
Total.....	\$ 28,415,041

Changes in Long-term Liabilities

During the year ended June 30, 2015, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Long-term bonds.....	\$ 38,556,000	\$ 5,980,000	\$ (2,935,000)	\$ 41,601,000	\$ 3,500,000
Add: unamortized premium.....	1,387,717	700,157	(215,050)	1,872,824	290,951
Total bonds payable.....	39,943,717	6,680,157	(3,150,050)	43,473,824	3,790,951
Capital leases.....	626,059	351,762	(279,226)	698,595	252,167
Compensated absences.....	9,076,277	1,837,367	(1,831,465)	9,082,179	1,893,650
Landfill closure.....	600,000	740,000	-	1,340,000	1,090,000
Workers' compensation.....	875,589	101,438	(122,997)	854,030	107,854
Other postemployment benefits.....	37,945,390	11,205,838	(4,632,213)	44,519,015	-
Net pension liability.....	94,721,438	-	(294,191)	94,427,247	-
Total governmental activity long-term liabilities.....	\$ 183,788,470	\$ 20,916,562	\$ (10,310,142)	\$ 194,394,890	\$ 7,134,622
Business-Type Activities:					
Capital leases.....	\$ 105,047	\$ 326,110	\$ (174,103)	\$ 257,054	\$ 61,498
Long-term bonds.....	18,825,303	2,300,000	(1,190,303)	19,935,000	1,312,532
Compensated absences.....	90,848	(78,727)	46,691	58,812	22,556
Other postemployment benefits.....	1,578,515	473,353	(764,183)	1,287,685	-
Net pension liability.....	2,429,817	-	(5,261)	2,424,556	-
Total business-type activity long-term liabilities.....	\$ 23,029,530	\$ 3,020,736	\$ (2,087,159)	\$ 23,963,107	\$ 1,396,586

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

NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

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

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

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

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

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

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. At year end the balances of the General Stabilization Fund and the Retirement Stabilization Fund totaled \$5.4 million and \$463,000, respectively and are reported as unassigned fund balance within the general fund.

As of June 30, 2015, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS						
	General	Community Preservation Fund	City Wharf Project Fund	School Capital Projects	Capital Improvement Funds	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES							
Nonspendable:							
Permanent fund principal.....\$	- \$	- \$	- \$	- \$	- \$	2,151,087 \$	2,151,087
Restricted for:							
Community preservation fund.....	-	804,059	-	-	-	-	804,059
City Wharf Project.....	-	-	66,624	-	-	-	66,624
City revolving funds.....	-	-	-	-	-	676,579	676,579
City grant funds.....	-	-	-	-	-	2,312,839	2,312,839
School lunch.....	-	-	-	-	-	214,011	214,011
School revolving funds.....	-	-	-	-	-	238,052	238,052
School grant funds.....	-	-	-	-	-	1,626,386	1,626,386
Donations and gifts.....	-	-	-	-	-	1,195,379	1,195,379
Receipts reserved.....	-	-	-	-	-	777,329	777,329
Community development grants...	-	-	-	-	-	43,876	43,876
Other capital projects.....	-	-	-	-	-	101,932	101,932
Cemetery fund.....	-	-	-	-	-	2,473,205	2,473,205
Human services fund.....	-	-	-	-	-	1,397,429	1,397,429
Other permanent funds.....	-	-	-	-	-	512,390	512,390
Committed to:							
New Liberty Charter School.....	412,192	-	-	-	-	-	412,192
Assigned to:							
General government.....	58,678	-	-	-	-	-	58,678
Public safety.....	4,467	-	-	-	-	-	4,467
Education.....	463,805	-	-	-	-	-	463,805
Public works.....	13,367	-	-	-	-	-	13,367
Human services.....	162	-	-	-	-	-	162
Culture and recreation.....	18,401	-	-	-	-	-	18,401
Unassigned.....	11,159,068	-	-	(554,608)	(447,759)	-	10,156,701
TOTAL FUND BALANCES.....\$	12,130,140 \$	804,059 \$	66,624 \$	(554,608) \$	(447,759) \$	13,720,494 \$	25,718,950 \$

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.

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

Workers' Compensation

Workers' compensation claims incurred prior to July 1, 2008 are administered by the City and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type. At June 30, 2015, the amount of the liability for workers' compensation claims totaled \$854,030.

Changes in the reported liability since July 1, 2013, are as follows:

	Balance at Beginning of the Year	Current Year Claims and Changes in Estimate	Claim Payments	Balance at Year-End	Current Portion
Year 2014.....	\$ 949,099	\$ 89,997	\$ (163,507)	\$ 875,589	\$ 122,471
Year 2015.....	875,589	101,438	(122,997)	854,030	107,854

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, 2014. The City's portion of the collective pension expense, contributed by the Commonwealth, of \$6,752,780 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 \$97,197,542 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, 2014.

At December 31, 2014, the System's membership consists of the following:

Active members.....	827
Inactive members.....	233
Retirees and beneficiaries currently receiving benefits.....	<u>571</u>
Total.....	<u><u>1,631</u></u>

Contributions

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute to the System at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the System a legislatively mandated actuarial determined contribution. The total member units' contribution for the year ended December 31, 2014 was \$11,942,341, 28.44% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City's proportionate share of the required contribution equaled its actual contribution for the year ended December 31, 2014 and totaled \$10,121,621.

Pension Liabilities

The components of the net pension liability of the participating member units at June 30, 2015 were as follows:

Total pension liability.....	\$	250,941,786
The pension plan's fiduciary net position.....		<u>(135,650,902)</u>
The net pension liability.....	\$	<u><u>115,290,884</u></u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....		54.06%

At June 30, 2015, the City reported a liability of \$96,851,803 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate

the net pension liability was determined by an actuarial valuation as of January 1, 2014. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2014, the City's proportion was 84.01%, which did not change from its proportion measured at December 31, 2013.

Pension Expense

For the year ended June 30, 2015, the City recognized a pension expense of \$9,329,422. At June 30, 2015, the City reported deferred outflows of resources related to pensions of \$492,747, from the net difference between projected and actual investment earnings on pension plan investments. Since the system performs an actuarial valuation bi-annually, there are no reported differences between expected and actual experience or a change of assumptions as of December 31, 2014.

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

Year ended June 30:

2016.....	\$ 123,186
2017.....	123,187
2018.....	123,187
2019.....	<u>123,187</u>
Total.....	\$ <u><u>492,747</u></u>

Actuarial Assumptions

The total pension liability in the January 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2014:

Valuation date.....	January 1, 2014
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	Increasing at 4.5% per year for 2002 and 2003 ERI and remaining unfunded liability and level dollar amortization for 2010 ERI.
Remaining amortization period.....	As of July 1, 2014, 8 years remaining on 2010 ERI, 17 years remaining on the 2002 and 2003 ERI and the remaining unfunded liability
Asset valuation method.....	The difference between the expected return on an actuarial basis and actual investment return on a market value basis is recognized over a five-year period.
Inflation rate.....	4.00%
Projected salary increases.....	Varies by length of service with ultimate rates of 4.25% for Group 1, 4.50% for Group 2 and 4.75% for Group 4

Cost of living adjustments.....	3.00% for first \$12,000 of retirement income
Rates of retirement.....	Varies based upon age for public employees, police and fire employees, hazardous occupation employees, and officers and inspectors of the State Police.
Rates of disability.....	For general employees, it was assumed that 45% of all disabilities are ordinary (55% are service connected). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are service connected).
Mortality Rates:	
Pre-Retirement.....	RP-2000 Employee Mortality Table projected generationally with Scale AA from 2010.
Healthy Retiree.....	RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale AA from 2010.
Disabled Retiree.....	RP-2000 Mortality Table set forward three years for males only projected generationally with Scale AA from 2010.
Investment rate of return/Discount rate.....	7.75%, net of pension plan investment expense, including inflation

Investment policy

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of January 1, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity.....	19.60%	6.60%
International developed markets equity.....	15.60%	7.10%
International emerging markets equity.....	6.50%	9.40%
Core fixed income.....	15.30%	2.20%
High-yield fixed income.....	8.30%	4.70%
Real estate.....	9.90%	4.40%
Commodities.....	3.90%	4.40%
Hedge fund, GTAA, Risk parity.....	9.80%	3.90%
Private equity.....	11.10%	11.70%

Rate of return:

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.58%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate:

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

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

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

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
The City's proportionate share of the net pension liability....	\$ <u>119,442,267</u>	\$ <u>96,851,802</u>	\$ <u>77,565,699</u>
The Retirement System's total net pension liability.....	\$ <u>142,182,222</u>	\$ <u>115,290,884</u>	\$ <u>92,333,005</u>

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

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

Funding Policy

Contribution requirements are also negotiated between the City and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The City contributes 70% of the cost of current-year premiums for retirees in active plans, 65% for those in senior plans and 90% for retired teachers. The City contributes 50% for surviving spouses. Plan members receiving benefits contribute the remainder of their premium costs. For 2015, the City contributed \$5.4 million to the plan. Administrative costs of the Plan are assumed to be included in the fully insured premium rates.

The Commonwealth of Massachusetts passed special legislation that has allowed the City to establish the Other Postemployment Benefits Trust fund which allows the City to set aside amounts to begin pre-funding its OPEB liabilities. During 2015, the City pre-funded future OPEB liabilities in the amount of \$167,484.

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

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

Annual required contribution.....	\$ 11,311,746
Interest on net OPEB obligation.....	1,778,576
Adjustments to annual required contribution.....	(1,411,131)
Annual OPEB cost (expense).....	<u>11,679,191</u>
Contributions made (including retired teachers).....	<u>(5,396,396)</u>
Increase in net OPEB obligation.....	6,282,795
Net OPEB obligation-beginning of year.....	<u>39,523,905</u>
Net OPEB obligation-end of year.....	<u>\$ 45,806,700</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for years 2013, 2014 and 2015 are as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 11,679,191	46%	\$ 45,806,700
6/30/2014	11,113,472	48%	39,523,905
6/30/2013	10,265,605	46%	33,753,017

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

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

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

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

NOTE 13 – MAJOR TAXPAYER

The City receives a significant portion of its real estate and personal property tax revenue from one taxpayer, Dominion, who is the operator of a coal-fired electric generating power plant on the waterfront in Salem. In 2009, the City and the taxpayer entered into a three-year agreement, which would provide total payments of \$4.75 million in years 2009, 2010, and 2011, in the form of annual tax payments of \$3 million, and annual additional contributions of \$1.75 million, to be used exclusively for public purposes. In 2012, Dominion filed paperwork to decommission all four of its generating units in Salem, which would have a negative impact on the City's revenue stream. To provide relief to municipalities from the decommissioning of electric generating stations, if the change in operating status also reduces the Commonwealth's greenhouse gas emissions, the Commonwealth has enacted Section 33 of Chapter 68 of the Acts of 2013 (the Act). The Act will defray the burden of the closure on the taxpayers by supplementing the difference between the payments in taxes from the plant and what the City would have otherwise collected. During 2013, Dominion was sold to Footprint Power in which, subject to negotiation, Footprint will assume the tax liability from Dominion. Footprint has since shut down the plant, and is in the process of demolishing the old plant, cleaning up the site and building a new natural gas fired plant. This new plant will take up a portion of the property, leaving a significant portion of unused land in which the City and Footprint have been looking into other commercial uses of the land.

The City has entered into a payment in lieu of taxes (PILOT) and contribution agreement with Footprint Power for the Salem Harbor Power Station which sets the PILOT payments from 2015 through 2028. For 2015, this payment was \$375,000. These payments are scheduled to increase incrementally as the state payments decrease.

NOTE 14 – LANDFILL CLOSURE

State and federal laws and regulations require the City to construct a final capping system on its inactive landfill site, the Salem Transfer Station, when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The City has stopped accepting waste at the site and the site is closed. The City is the owner and permittee of the Salem Transfer Station site. During 2015, the City discontinued its relationship with the long-time operator of the site and has approved a final plan for the City to cap the site and to construct a new transfer station on the site. As a result, the City has recorded a liability of \$1.3 million in the entity-wide financial statements for the total estimated postclosure costs. Actual costs may be higher due to inflation, changes in technology, or changes in applicable laws, regulations or agreements.

NOTE 15 – COMMITMENTS

The City entered into contracts totaling approximately \$9 million. This amount includes the first year cost of \$1.85 million for a newly executed \$21.5 million ten-year trash collection and transportation contract, a \$2.4 million contract for the rehabilitation of the Gallows Hill Reservoir, a \$1.5 million contract for Grove Street roadway improvements, and a \$1.2 million three-year school bus transportation contract.

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. wishes to locate a registered marijuana dispensary in the City and intends to provide benefits to the City, in the event it is licensed to operate and receives required local approvals.

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

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.

NOTE 16 – CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2015, 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, 2015, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2015.

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 30, 2015, which is the date the financial statements were available to be issued.

NOTE 18 – REVISION OF STATEMENT OF NET POSITION

In accordance with GASB 68, the City has recorded its net pension liability for the first time in 2015. Additionally, the City has reclassified its parking garage enterprise fund from a business-type to a governmental activity. As a result, the City has revised the beginning net position of both the governmental and business-type activities as follows:

Description	6/30/2014 Previously Reported Balances	Implementation of GASB 68	Reclassification of Parking Enterprise Fund	6/30/2014 Restated Balances
Governmental Activities.....	\$ 159,827,522	\$ (94,721,438)	\$ 2,889,102	\$ 67,995,186
Business-Type Activities.....	17,584,826	(2,429,817)	(2,889,102)	12,265,907
Total.....	\$ 177,412,348	\$ (97,151,255)	\$ -	\$ 80,261,093

The previously reported net position of the parking enterprise fund has been revised from \$2,889,102 to \$0. This revision did not impact the governmental fund balances since the fund only maintained long-term assets and liabilities.

NOTE 19 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2015, the following GASB pronouncements were implemented:

- GASB Statement #67, *Financial Reporting for Pension Plans*; GASB Statement #68, *Accounting and Financial Reporting for Pensions*; and GASB Statement #71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Financial statement changes include the recognition of a net pension liability, pension expense and deferred outflows/inflows of resources depending on the nature of the change each year. The financial statements also recognized a restatement of the beginning net position to reflect the net pension liability at the beginning of the year. The notes to the basic financial statements and the required supplementary information were expanded to include additional required schedules and disclosures.
- GASB Statement #69, *Governmental Combinations and Disposals of Government Operations*. This pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #72, *Fair Value Measurement and Application*, which is required to be implemented in 2016.

- The GASB issued Statement #73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of this Statement are effective for 2016—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which is required to be implemented in 2017.
- The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is required to be implemented in 2016.
- The GASB issued Statement #77, *Tax Abatement Disclosures*, which is required to be implemented in 2017.

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 all of the City's financial resources, except those required to be accounted for in another fund.

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

YEAR ENDED JUNE 30, 2015

	Budgeted Amounts							
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget	
REVENUES:								
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 82,669,747	\$ 82,669,747	\$ 82,669,747	\$ 81,930,309	\$ -	\$ (739,438)	
Tax liens.....	-	-	-	-	638,365	-	638,365	
Motor vehicle and other excise taxes.....	-	3,228,000	3,228,000	3,228,000	3,945,343	-	717,343	
Hotel/motel tax and meals taxes.....	-	1,215,000	1,215,000	1,215,000	1,362,357	-	147,357	
Charges for services.....	-	1,200,000	1,200,000	1,200,000	1,997,227	-	797,227	
Penalties and interest on taxes.....	-	380,000	380,000	380,000	437,538	-	57,538	
Payments in lieu of taxes.....	-	1,100,000	1,100,000	1,100,000	1,043,782	-	(56,218)	
Licenses and permits.....	-	450,000	450,000	450,000	504,857	-	54,857	
Fines and forfeitures.....	-	1,000,000	1,000,000	1,000,000	1,167,426	-	167,426	
Intergovernmental.....	-	30,200,316	30,200,316	30,200,316	30,478,746	-	278,430	
Departmental and other.....	-	2,400,000	2,400,000	2,400,000	2,622,117	-	222,117	
Investment income.....	-	100,000	100,000	100,000	202,893	-	102,893	
TOTAL REVENUES.....	-	123,943,063	123,943,063	123,943,063	126,330,960	-	2,387,897	
EXPENDITURES:								
Current:								
General government								
City Council								
Personnel.....	-	119,700	119,700	119,700	119,696	-	4	
Non - Personnel.....	-	53,127	53,127	53,127	34,391	-	18,736	
Total.....	-	172,827	172,827	172,827	154,087	-	18,740	
Mayor								
Personnel.....	-	331,119	331,119	322,419	318,796	-	3,623	
Non - Personnel.....	98,000	190,000	288,000	296,700	219,286	10,800	66,614	
Total.....	98,000	521,119	619,119	619,119	538,082	10,800	70,237	
Finance/Auditing								
Personnel.....	-	284,114	284,114	284,114	275,189	-	8,925	
Non - Personnel.....	37,400	40,700	78,100	78,100	68,289	8,900	911	
Total.....	37,400	324,814	362,214	362,214	343,478	8,900	9,836	
Purchasing								
Personnel.....	-	109,406	109,406	108,206	104,554	-	3,652	
Non - Personnel.....	212	18,550	18,762	19,935	19,552	-	383	
Fixed Costs.....	-	57,396	57,396	57,423	57,423	-	-	
Total.....	212	185,352	185,564	185,564	181,529	-	4,035	
Assessors								
Personnel.....	-	284,247	284,247	284,247	283,214	-	1,033	
Non - Personnel.....	6,312	32,900	39,212	39,212	34,021	6	5,185	
Total.....	6,312	317,147	323,459	323,459	317,235	6	6,218	
Treasurer								
Personnel.....	-	227,653	227,653	227,653	224,120	-	3,533	
Non - Personnel.....	-	101,855	101,855	101,855	98,577	-	3,278	
Total.....	-	329,508	329,508	329,508	322,697	-	6,811	
Collector								
Personnel.....	-	214,295	214,295	214,295	210,579	-	3,716	
Non - Personnel.....	-	8,500	8,500	8,500	7,610	-	890	
Total.....	-	222,795	222,795	222,795	218,189	-	4,606	
Solicitor								
Personnel.....	-	244,358	244,358	244,358	243,964	-	394	
Non - Personnel.....	-	64,400	64,400	64,400	62,561	-	1,839	
Total.....	-	308,758	308,758	308,758	306,525	-	2,233	

(continued)

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

YEAR ENDED JUNE 30, 2015

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Human Resources							
Personnel.....	-	488,701	488,701	738,701	735,154	-	3,547
Non - Personnel.....	-	30,950	30,950	30,950	6,932	-	24,018
Total.....	-	519,651	519,651	769,651	742,086	-	27,565
Data Processing							
Personnel.....	-	211,401	211,401	211,401	158,307	-	53,094
Non - Personnel.....	7,736	21,449	29,185	29,185	6,101	6,850	16,234
Fixed Costs.....	26,964	383,190	410,154	410,154	393,799	-	16,355
Total.....	34,700	616,040	650,740	650,740	558,207	6,850	85,683
City Clerk Record Maintenance							
Personnel.....	-	266,644	266,644	266,840	266,840	-	-
Non - Personnel.....	-	8,900	8,900	8,704	6,702	-	2,002
Total.....	-	275,544	275,544	275,544	273,542	-	2,002
Elections & Registrations							
Personnel.....	-	101,482	101,482	101,482	100,044	-	1,438
Non - Personnel.....	-	54,100	54,100	54,100	45,051	5,556	3,493
Total.....	-	155,582	155,582	155,582	145,095	5,556	4,931
Conservation Commission							
Personnel.....	-	28,610	28,610	28,610	27,977	-	633
Non - Personnel.....	-	622	622	622	38	-	584
Total.....	-	29,232	29,232	29,232	28,015	-	1,217
Subdivision, Planning, and Zoning Board							
Personnel.....	-	25,414	25,414	16,914	16,260	-	654
Non - Personnel.....	-	3,000	3,000	3,000	1,996	-	1,004
Total.....	-	28,414	28,414	19,914	18,256	-	1,658
Board of Appeals							
Non - Personnel.....	-	550	550	550	549	-	1
Planning Department							
Personnel.....	-	342,793	342,793	352,658	352,164	-	494
Non - Personnel.....	4,153	78,375	82,528	91,528	60,310	26,566	4,652
Total.....	4,153	421,168	425,321	444,186	412,474	26,566	5,146
Public Property/Building Maintenance							
Fixed Costs.....	-	686,831	686,831	686,831	678,630	-	8,201
Market and Tourism.....	-	239,525	239,525	239,525	239,031	-	494
Total General Government.....	180,777	5,354,857	5,535,634	5,795,999	5,477,707	58,678	259,614

(continued)

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

YEAR ENDED JUNE 30, 2015

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Public safety							
Police							
Personnel.....	-	8,851,236	8,851,236	8,851,236	8,667,909	-	183,327
Non - Personnel.....	25,222	583,330	608,552	668,552	594,361	-	74,191
Total.....	25,222	9,434,566	9,459,788	9,519,788	9,262,270	-	257,518
Fire							
Personnel.....	-	7,788,653	7,788,653	7,778,653	7,704,837	-	73,816
Non - Personnel.....	-	342,250	342,250	352,250	299,454	-	52,796
Total.....	-	8,130,903	8,130,903	8,130,903	8,004,291	-	126,612
Building, Plumbing, Gas Inspections							
Personnel.....	-	374,931	374,931	382,681	380,249	-	2,432
Non - Personnel.....	-	23,450	23,450	46,170	43,735	-	2,435
Total.....	-	398,381	398,381	428,851	423,984	-	4,867
Electrical Inspection and Maintenance							
Personnel.....	-	333,127	333,127	333,127	332,413	-	714
Non - Personnel.....	-	615,408	615,408	615,408	378,598	-	236,810
Total.....	-	948,535	948,535	948,535	711,011	-	237,524
Harbormaster							
Personnel.....	-	199,103	199,103	208,103	202,983	-	5,120
Non - Personnel.....	7,435	59,212	66,647	66,647	50,865	4,467	11,315
Total.....	7,435	258,315	265,750	274,750	253,848	4,467	16,435
Total Public Safety.....	32,657	19,170,700	19,203,357	19,302,827	18,655,404	4,467	642,956
Education							
School.....	565,785	54,461,543	55,027,328	55,691,182	55,137,593	463,805	89,784
NSRS/Charter/Choice.....	-	2,376,792	2,376,792	2,486,713	2,486,713	-	-
Total Education.....	565,785	56,838,335	57,404,120	58,177,895	57,624,306	463,805	89,784
Public Works							
Public Services							
Personnel.....	-	1,693,214	1,693,214	1,626,464	1,626,463	-	1
Non - Personnel.....	-	669,347	669,347	907,890	842,752	8,737	56,401
Total.....	-	2,362,561	2,362,561	2,534,354	2,469,215	8,737	56,402
Engineering							
Personnel.....	-	80,191	80,191	80,191	79,015	-	1,176
Non - Personnel.....	-	7,200	7,200	7,200	6,426	-	774
Total.....	-	87,391	87,391	87,391	85,441	-	1,950
Snow and Ice							
Personnel.....	-	50,000	50,000	50,000	154,660	-	(104,660)
Non - Personnel.....	-	382,335	382,335	382,335	2,600,201	-	(2,217,866)
Total.....	-	432,335	432,335	432,335	2,754,861	-	(2,322,526)
Parking Garage							
Personnel.....	-	659,227	659,227	659,227	580,663	-	78,564
Non - Personnel.....	-	223,572	223,572	217,572	190,845	4,630	22,097
Total.....	-	882,799	882,799	876,799	771,508	4,630	100,661
Total Public Works.....	-	3,765,086	3,765,086	3,930,879	6,081,025	13,367	(2,163,513)

(continued)

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

YEAR ENDED JUNE 30, 2015

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Health and Human Services							
Board of Health							
Personnel.....	-	363,726	363,726	363,726	345,586	-	18,140
Non - Personnel.....	-	17,050	17,050	19,050	11,455	-	7,595
Total.....	-	380,776	380,776	382,776	357,041	-	25,735
Council on Aging							
Personnel.....	-	318,719	318,719	318,719	311,778	-	6,941
Non - Personnel.....	-	38,300	38,300	38,300	37,395	-	905
Total.....	-	357,019	357,019	357,019	349,173	-	7,846
Veterans Services							
Personnel.....	-	80,730	80,730	80,730	80,135	-	595
Non - Personnel.....	79,754	459,300	539,054	540,554	531,548	162	8,844
Total.....	79,754	540,030	619,784	621,284	611,683	162	9,439
Total Health and Human Services.....	79,754	1,277,825	1,357,579	1,361,079	1,317,897	162	43,020
Culture and Recreation							
Library							
Personnel.....	-	926,549	926,549	926,549	909,619	-	16,930
Non - Personnel.....	-	306,461	306,461	306,461	299,371	-	7,090
Total.....	-	1,233,010	1,233,010	1,233,010	1,208,990	-	24,020
Parks and Recreation							
Personnel.....	-	290,173	290,173	290,173	245,798	-	44,375
Non - Personnel.....	11,343	217,710	229,053	235,253	228,199	3,228	3,826
Total.....	11,343	507,883	519,226	525,426	473,997	3,228	48,201
Golf Course							
Personnel.....	-	254,576	254,576	254,576	246,712	-	7,864
Non - Personnel.....	34,259	153,400	187,659	284,187	277,195	-	6,992
Total.....	34,259	407,976	442,235	538,763	523,907	-	14,856
Witch House							
Personnel.....	-	88,562	88,562	49,234	47,165	-	2,069
Non - Personnel.....	33,647	66,780	100,427	100,427	82,062	6,963	11,402
Total.....	33,647	155,342	188,989	149,661	129,227	6,963	13,471
Historical Commission							
Personnel.....	-	8,477	8,477	8,477	7,847	-	630
Non - Personnel.....	-	1,000	1,000	1,000	513	-	487
Total.....	-	9,477	9,477	9,477	8,360	-	1,117
Winter Island							
Personnel.....	-	135,521	135,521	135,521	133,938	-	1,583
Non - Personnel.....	1,140	52,000	53,140	53,140	44,401	3,504	5,235
Total.....	1,140	187,521	188,661	188,661	178,339	3,504	6,818
Pioneer Village							
Non - Personnel.....	-	18,900	18,900	18,900	12,631	4,706	1,563
Total Culture and Recreation.....	80,389	2,520,109	2,600,498	2,663,898	2,535,451	18,401	110,046

(continued)

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

YEAR ENDED JUNE 30, 2015

	Budgeted Amounts						
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
Debt service:							
Principal.....	-	2,930,000	2,930,000	2,930,000	2,930,000	-	-
Interest.....	-	1,317,491	1,317,491	1,317,491	1,291,760	-	25,731
Short Term Interest.....	63,573	231,548	295,121	295,714	289,132	-	6,582
Capital Lease Payment.....	-	157,500	157,500	156,907	149,004	-	7,903
Total.....	63,573	4,636,539	4,700,112	4,700,112	4,659,896	-	40,216
State and county charges.....	-	6,365,908	6,365,908	6,365,908	6,015,427	-	350,481
Pension benefits							
Contributory Retirement.....	-	10,011,291	10,011,291	10,114,612	10,112,586	-	2,026
Non-Contributory Retirement.....	-	76,196	76,196	57,883	57,883	-	-
Total.....	-	10,087,487	10,087,487	10,172,495	10,170,469	-	2,026
Workmen's Compensation.....	-	452,345	452,345	452,345	401,076	-	51,269
Unemployment Compensation.....	-	300,000	300,000	380,000	379,985	-	15
Group Insurance.....	-	11,982,350	11,982,350	12,013,408	11,660,754	-	352,654
Medicare.....	-	950,000	950,000	1,048,858	1,048,484	-	374
Municipal Insurance.....	-	284,018	284,018	267,636	233,312	-	34,324
TOTAL EXPENDITURES.....	1,002,935	123,985,559	124,988,494	126,633,339	126,261,193	558,880	(186,734)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,002,935)	(42,496)	(1,045,431)	(2,690,276)	69,767	(558,880)	2,201,163
OTHER FINANCING SOURCES (USES):							
Premium from issuance of bonds and notes.....	-	-	-	-	700,157	-	700,157
Transfers in.....	-	3,192,106	3,192,106	4,042,648	4,014,478	-	(28,170)
Transfers out.....	-	(3,183,472)	(3,183,472)	(5,723,344)	(5,723,344)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	8,634	8,634	(1,680,696)	(1,008,709)	-	671,987
NET CHANGE IN FUND BALANCE.....	(1,002,935)	(33,862)	(1,036,797)	(4,370,972)	(938,942)	(558,880)	2,873,150
BUDGETARY FUND BALANCE, Beginning of year.....	-	7,721,212	7,721,212	7,721,212	7,721,212	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ (1,002,935)	\$ 7,687,350	\$ 6,684,415	\$ 3,350,240	\$ 6,782,270	\$ (558,880)	\$ 2,873,150

(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
Total pension liability:	
Service cost.....	\$ 5,854,030
Interest.....	18,557,934
Differences between expected and actual experience.....	-
Changes in assumptions.....	-
Changes in benefit terms.....	-
Benefit payments, including refunds of employee contributions.....	(14,146,676)
Net change in total pension liability.....	10,265,288
Total pension liability, beginning.....	240,676,498
Total pension liability, ending (a).....	\$ 250,941,786
Plan fiduciary net position:	
Member contributions.....	\$ 3,939,454
Employer contributions.....	11,942,341
Net investment income (loss).....	9,022,647
Retirement benefits and refunds.....	(14,146,676)
Administrative expenses and depreciation.....	(242,294)
Net increase (decrease) in fiduciary net position.....	10,515,472
Fiduciary net position at beginning of year.....	123,879,403
Adjustment to include members transferred from Essex Agricultural and Technical School (c).....	1,256,027
Fiduciary net position at end of year (b).....	\$ 135,650,902
Net pension liability - ending (a) - (b).....	\$ 115,290,884
Plan fiduciary net position as a percentage of the total pension liability.....	54.06%
Covered-employee payroll (*).....	\$ 41,988,253
Net pension liability as a percentage of covered-employee payroll.....	274.58%

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.

*Covered employee payroll as reported in the January 1, 2014 funding
valuation report.

- (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 total pension liability and fiduciary net position have been amended to include
the liabilities and assets of these members that were transferred subsequent to year end.

See notes to required supplementary information.

SCHEDULE OF CONTRIBUTIONS
SALEM CONTRIBUTORY RETIREMENT SYSTEM

	December 31, 2014
Actuarially determined contribution (a).....	\$ 11,942,341
Contributions in relation to the actuarially determined contribution.....	<u>(11,942,341)</u>
Contribution deficiency (excess).....	<u>\$ -</u>
Covered-employee payroll (*).....	\$ 41,988,253
Contributions as a percentage of covered- employee payroll.....	28.44%

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.

(a) Based on the results of the January 1, 2012 actuarial
valuation (including assumptions and methods) which
determined budgeted appropriations for fiscal 2015.

*Covered employee payroll as reported in the January 1, 2014
funding valuation report.

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS
SALEM CONTRIBUTORY RETIREMENT SYSTEM

December 31,
2014

Annual money-weighted rate of return, net of investment expense.....	7.58%
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Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

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

See notes to required supplementary information.

Pension Plan Schedules – City

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

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

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

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

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

	December 31, 2014
City's proportion of the net pension liability (asset).....	84.01%
City's proportionate share of the net pension liability (asset)..... \$	96,851,803
City's covered employee payroll (*)..... \$	32,603,305
Net pension liability as a percentage of covered-employee payroll.....	297.06%
Plan fiduciary net position as a percentage of the total pension liability.....	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.

*Covered employee payroll as reported in the January 1, 2014, funding
valuation report.

See notes to required supplementary information.

SCHEDULE OF CITY CONTRIBUTIONS
SALEM CONTRIBUTORY RETIREMENT SYSTEM

	December 31, 2014
Actuarially determined contribution (a).....	\$ 10,121,621
Contributions in relation to the actuarially determined contribution.....	<u>(10,121,621)</u>
Contribution deficiency (excess).....	<u>\$ -</u>
Covered-employee payroll (*).....	\$ 32,603,305
Contributions as a percentage of covered- employee payroll.....	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.

(a) Based on the results of the January 1, 2012 actuarial
valuation (including assumptions and methods) which
determined budgeted appropriations for fiscal 2015.

*Covered employee payroll as reported in the January 1, 2014
funding valuation report.

See notes to required supplementary information.

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

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

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

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

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

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

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

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
12/31/2013	\$ 803,651	\$ 109,605,701	\$ 108,802,050	1%	\$ 65,077,393	167.2%
12/31/2011	-	145,033,856	145,033,856	0%	57,371,799	252.8%
12/31/2009	-	171,447,034	171,447,034	0%	52,107,612	329.0%
12/31/2007	-	156,258,800	156,258,800	0%	50,103,473	311.9%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution (ARC)	Actual Contributions Made	Percentage of the ARC Contributed
2015	\$ 11,311,746	\$ 5,396,396	48%
2014	10,799,677	5,342,584	49%
2013	10,003,723	4,681,685	47%
2012	9,555,726	4,419,491	46%
2011	11,374,693	5,916,957	52%
2010	10,869,698	5,287,195	49%
2009	11,068,269	6,799,394	61%
2008	10,554,680	3,443,274	33%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

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

Actuarial Assumptions:

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

Plan Membership:

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

See notes to required supplementary information.

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

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

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

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

Under recent legislation, the City Council on the recommendation of the Mayor may transfer during May and June, and the first fifteen days of July, any amount appropriated for the use of any department to the appropriation for any other department, provided that no such transfer may be made from any appropriation for a school department, regional school district, or municipal light department.

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2015 approved budget authorized approximately \$128.2 million in appropriations and other amounts to be raised. During the year, increases to the original budget were approved totaling approximately \$4.2 million. The most notable components of this increase include an additional \$3.3 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, 2015, is presented below:

Net change in fund balance - budgetary basis.....	\$ (938,942)
<u>Perspective differences:</u>	
Reclassification of enterprise fund expenditures budgeted in the general fund.....	463,927
Reclassification of enterprise fund transfers budgeted in the general fund.....	(463,927)
Activity of the Salem Community Charter School.....	(97,088)
Activity of the stabilization funds recorded in the general fund for GAAP.....	432,235
<u>Basis of accounting differences:</u>	
Net change in revenues in recording 60 day receipts.....	536,844
Net change in revenues in recording tax refunds payable.....	(84,595)
Net change in short-term debt service interest accrual.....	
Recognition of revenue for on-behalf payments.....	6,752,780
Recognition of expenditures for on-behalf payments.....	(6,752,780)
Net difference in recognition of expenditures.....	<u>(719,251)</u>
Net change in fund balances - GAAP basis.....	\$ <u><u>(870,797)</u></u>

3. Appropriation Deficits

During 2015, expenditures exceeded budgeted appropriations for snow and ice removal. This over expenditure is allowable under Massachusetts General Law. The City will fund this deficit over the next three fiscal years.

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

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

Since the System performs an actuarial valuation bi-annually, there are no reported amounts for the changes in benefit terms, differences between expected and actual experience and changes in assumptions as of December 31, 2014.

B. Schedule of Contributions

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

C. Schedule of Investment Return

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

Pension Plan Schedules - City**A. Schedule of the City's Proportionate Share of the Net Pension Liability**

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

B. Schedule of City's Contributions

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

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

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

D. Changes in Assumptions

None

E. Changes in Plan Provisions

None

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

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

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

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Combining and Individual Fund Statements

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

City Grants Fund – This fund is used to account for non-school related activity specifically financed by federal, state, and other grants which are designated for specific programs.

School Grants Fund – This fund is used to account for the educational programs specifically financed by federal, state, and other grants which are designated for specific programs.

Community Development Grants Fund – This fund is used to account for community development activity specifically financed by federal, state, and other grants which are designated for specific programs.

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

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

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

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

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

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

Capital Project Funds

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, 2015

	Special Revenue Funds				
	City Grants	School Grants	Community Development Grants	School Lunch	Highway Grants
ASSETS					
Cash and cash equivalents.....	\$ 2,426,096	\$ 1,730,567	\$ 57,983	\$ 242,630	\$ -
Investments.....	-	-	-	-	-
Receivables, net of uncollectibles:					
Departmental and other.....	-	-	-	-	-
Intergovernmental.....	607,225	266,726	-	-	771,070
Loans.....	-	-	200,777	-	-
Due from other funds.....	200,714	-	-	-	-
TOTAL ASSETS.....	\$ 3,234,035	\$ 1,997,293	\$ 258,760	\$ 242,630	\$ 771,070
LIABILITIES					
Warrants payable.....	\$ 873,865	\$ 272,853	\$ 6,802	\$ -	\$ -
Accrued payroll.....	47,331	98,054	7,305	28,619	-
Due to other funds.....	-	-	-	-	200,714
TOTAL LIABILITIES.....	921,196	370,907	14,107	28,619	200,714
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue.....	-	-	200,777	-	570,356
FUND BALANCES					
Nonspendable.....	-	-	-	-	-
Restricted.....	2,312,839	1,626,386	43,876	214,011	-
TOTAL FUND BALANCES.....	2,312,839	1,626,386	43,876	214,011	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....	\$ 3,234,035	\$ 1,997,293	\$ 258,760	\$ 242,630	\$ 771,070

(Continued)

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2015

	Special Revenue Funds				
	Donations and Gifts	Receipts Reserved	City Revolving Accounts	School Revolving Accounts	Subtotal
ASSETS					
Cash and cash equivalents.....	\$ 541,374	\$ 796,735	\$ 688,515	\$ 269,187	\$ 6,753,087
Investments.....	683,671	-	-	-	683,671
Receivables, net of uncollectibles:					
Departmental and other.....	-	90,609	-	-	90,609
Intergovernmental.....	-	-	-	-	1,645,021
Loans.....	-	-	134,192	-	334,969
Due from other funds.....	-	-	-	-	200,714
TOTAL ASSETS.....	\$ 1,225,045	\$ 887,344	\$ 822,707	\$ 269,187	\$ 9,708,071
LIABILITIES					
Warrants payable.....	\$ 26,102	\$ 19,406	\$ 11,936	\$ -	\$ 1,210,964
Accrued payroll.....	3,564	-	-	31,135	216,008
Due to other funds.....	-	-	-	-	200,714
TOTAL LIABILITIES.....	29,666	19,406	11,936	31,135	1,627,686
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue.....	-	90,609	134,192	-	995,934
FUND BALANCES					
Nonspendable.....	-	-	-	-	-
Restricted.....	1,195,379	777,329	676,579	238,052	7,084,451
TOTAL FUND BALANCES.....	1,195,379	777,329	676,579	238,052	7,084,451
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....	\$ 1,225,045	\$ 887,344	\$ 822,707	\$ 269,187	\$ 9,708,071

(Continued)

Capital Project Funds	Permanent Funds				Total Nonmajor Governmental Funds
	Other	Cemetery	Human Service	Other	
\$ 111,543	\$ 379,259	\$ 116,895	\$ 169,160	\$ 665,314	\$ 7,529,944
-	3,181,939	1,501,707	1,185,151	5,868,797	6,552,468
-	-	-	-	-	90,609
-	-	-	-	-	1,645,021
-	-	-	-	-	334,969
-	-	-	-	-	200,714
<u>\$ 111,543</u>	<u>\$ 3,561,198</u>	<u>\$ 1,618,602</u>	<u>\$ 1,354,311</u>	<u>\$ 6,534,111</u>	<u>\$ 16,353,725</u>
\$ 9,611	\$ -	\$ -	\$ -	\$ -	\$ 1,220,575
-	-	-	-	-	216,008
-	-	-	-	-	200,714
<u>9,611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,637,297</u>
-	-	-	-	-	995,934
-	1,087,993	221,173	841,921	2,151,087	2,151,087
101,932	2,473,205	1,397,429	512,390	4,383,024	11,569,407
<u>101,932</u>	<u>3,561,198</u>	<u>1,618,602</u>	<u>1,354,311</u>	<u>6,534,111</u>	<u>13,720,494</u>
<u>\$ 111,543</u>	<u>\$ 3,561,198</u>	<u>\$ 1,618,602</u>	<u>\$ 1,354,311</u>	<u>\$ 6,534,111</u>	<u>\$ 16,353,725</u>

(Concluded)

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

YEAR ENDED JUNE 30, 2015

	Special Revenue Funds					
	City Grants	School Grants	Community Development Grants	School Lunch	Highway Grants	Donations and Gifts
REVENUES:						
Charges for services.....	\$ 4,799	\$ 9,830	\$ -	\$ -	\$ -	\$ -
Penalties and interest on taxes.....	-	-	-	-	-	-
Intergovernmental.....	6,404,009	6,412,539	1,297,234	1,922,672	1,655,466	-
Departmental and other.....	236,519	280,543	115,261	-	-	780
Contributions.....	59,780	39,961	-	9,100	-	86,589
Investment income.....	12	-	262	-	-	24,784
TOTAL REVENUES.....	6,705,119	6,742,873	1,412,757	1,931,772	1,655,466	112,153
EXPENDITURES:						
Current:						
General government.....	786,441	-	-	-	-	93,174
Public safety.....	1,004,399	-	-	-	-	9,980
Education.....	17,263	7,379,435	-	1,851,789	-	505,891
Public works.....	1,709,924	-	-	-	1,655,466	-
Community development.....	5,736	-	1,344,956	-	-	-
Health and human services.....	5,076,289	-	-	-	-	23,762
Culture and recreation.....	103,358	-	-	-	-	15,311
Debt service:						
Principal.....	-	-	35,000	-	-	-
Interest.....	-	-	907	-	-	-
TOTAL EXPENDITURES.....	8,703,410	7,379,435	1,380,863	1,851,789	1,655,466	648,118
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,998,291)	(636,562)	31,894	79,983	-	(535,965)
OTHER FINANCING SOURCES (USES):						
Transfers in.....	749,935	188,276	439	-	-	10,109
Transfers out.....	(54,337)	(135,027)	-	(119)	-	(548)
TOTAL OTHER FINANCING SOURCES (USES)....	695,598	53,249	439	(119)	-	9,561
NET CHANGE IN FUND BALANCES.....	(1,302,693)	(583,313)	32,333	79,864	-	(526,404)
FUND BALANCES AT BEGINNING OF YEAR.....	3,615,532	2,209,699	11,543	134,147	-	1,721,783
FUND BALANCES AT END OF YEAR.....	\$ 2,312,839	\$ 1,626,386	\$ 43,876	\$ 214,011	\$ -	\$ 1,195,379

(Continued)

Special Revenue Funds				Capital Project Funds
Receipts Reserved	City Revolving Accounts	School Revolving Accounts	Subtotal	Other
\$ -	\$ -	\$ -	\$ 14,629	\$ -
4,733	-	-	4,733	-
30,000	46,508	-	17,768,428	126,271
679,691	632,848	978,894	2,924,536	-
-	6,134	-	201,564	-
-	438	175	25,671	-
714,424	685,928	979,069	20,939,561	126,271
89,135	160,473	494	1,129,717	-
-	1,500	-	1,015,879	-
-	-	955,264	10,709,642	-
26,092	48,026	-	3,439,508	224,030
-	193,817	-	1,544,509	255,799
-	18,119	-	5,118,170	-
2,800	434,987	-	556,456	-
-	-	-	35,000	-
-	-	-	907	-
118,027	856,922	955,758	23,549,788	479,829
596,397	(170,994)	23,311	(2,610,227)	(353,558)
-	-	-	948,759	-
(517,289)	-	(53,131)	(760,451)	(31,020)
(517,289)	-	(53,131)	188,308	(31,020)
79,108	(170,994)	(29,820)	(2,421,919)	(384,578)
698,221	847,573	267,872	9,506,370	486,510
\$ 777,329	\$ 676,579	\$ 238,052	\$ 7,084,451	\$ 101,932

(Continued)

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

YEAR ENDED JUNE 30, 2015

	Permanent Funds				Total Nonmajor Governmental Funds
	Cemetery	Human Service	Other	Subtotal	
REVENUES:					
Charges for services.....	\$ -	\$ -	\$ -	\$ -	14,629
Penalties and interest on taxes.....	-	-	-	-	4,733
Intergovernmental.....	-	-	-	-	17,894,699
Departmental and other.....	-	-	-	-	2,924,536
Contributions.....	15,100	-	101,150	116,250	317,814
Investment income.....	212,830	40,895	10,921	264,646	290,317
TOTAL REVENUES.....	227,930	40,895	112,071	380,896	21,446,728
EXPENDITURES:					
Current:					
General government.....	-	-	-	-	1,129,717
Public safety.....	-	-	81,617	81,617	1,097,496
Education.....	-	-	-	-	10,709,642
Public works.....	197,905	-	35,532	233,437	3,896,975
Community development.....	-	-	-	-	1,800,308
Health and human services.....	-	52,961	-	52,961	5,171,131
Culture and recreation.....	-	-	-	-	556,456
Debt service:					
Principal.....	-	-	-	-	35,000
Interest.....	-	-	-	-	907
TOTAL EXPENDITURES.....	197,905	52,961	117,149	368,015	24,397,632
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	30,025	(12,066)	(5,078)	12,881	(2,950,904)
OTHER FINANCING SOURCES (USES):					
Transfers in.....	-	-	-	-	948,759
Transfers out.....	-	-	-	-	(791,471)
TOTAL OTHER FINANCING SOURCES (USES).....	-	-	-	-	157,288
NET CHANGE IN FUND BALANCES.....	30,025	(12,066)	(5,078)	12,881	(2,793,616)
FUND BALANCES AT BEGINNING OF YEAR.....	3,531,173	1,630,668	1,359,389	6,521,230	16,514,110
FUND BALANCES AT END OF YEAR.....	\$ 3,561,198	\$ 1,618,602	\$ 1,354,311	\$ 6,534,111	\$ 13,720,494

(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, 2015

		Private Purpose Trust Funds		
		Trust Fund Commissioners	Scholarship Funds	Total
ASSETS				
Cash and cash equivalents.....	\$	96,704	\$ 111,200	\$ 207,904
Corporate bonds.....		1,210,513	-	1,210,513
TOTAL ASSETS.....		1,307,217	111,200	1,418,417
NET POSITION				
Held in trust for other purposes.....	\$	1,307,217	\$ 111,200	\$ 1,418,417

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2015

	Private Purpose Trust Funds		
	Trust Fund Commissioners	Scholarship Funds	Total
ADDITIONS:			
Contributions:			
Private donations.....	\$ 2,061	\$ 18,170	\$ 20,231
Net investment income:			
Net change in fair value of investments.....	31,965	-	31,965
Interest.....	43	446	489
Total Net Investment Income.....	32,008	446	32,454
TOTAL ADDITIONS.....	34,069	18,616	52,685
DEDUCTIONS:			
Educational scholarships.....	6,773	23,400	30,173
Housing subsidies.....	41,141	-	41,141
TOTAL DEDUCTIONS.....	47,914	23,400	71,314
CHANGE IN NET POSITION.....	(13,845)	(4,784)	(18,629)
NET POSITION AT BEGINNING OF YEAR.....	1,321,062	115,984	1,437,046
NET POSITION AT END OF YEAR.....	\$ 1,307,217	\$ 111,200	\$ 1,418,417

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, 2015

	Beginning of Year	Additions	Deletions	End of Year
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 978,169	\$ 60,558,434	\$ (60,459,100)	\$ 1,077,503
LIABILITIES				
Liabilities due depositors.....	\$ 978,169	\$ 60,558,434	\$ (60,459,100)	\$ 1,077,503

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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.



**Winter Island Light
House**

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

	2006	2007	2008	2009	2010	2011	2012	2013	As Revised 2014	2015
Governmental activities										
Net investment in capital assets.....	\$ 109,183,737	\$ 132,787,853	\$ 139,683,360	\$ 147,373,757	\$ 147,313,749	\$ 144,887,020	\$ 147,692,495	\$ 169,750,602	\$ 170,092,864	\$ 172,084,606
Restricted.....	8,649,700	8,868,048	6,948,839	6,968,580	6,892,267	10,562,103	11,197,635	12,499,976	14,383,949	12,047,560
Unrestricted.....	(371,947)	(2,189,821)	(6,668,493)	(13,473,169)	(17,907,226)	(17,992,385)	(21,617,069)	(22,562,824)	(116,481,627)	(125,845,138)
Total governmental activities net position.....	\$ 117,461,490	\$ 139,466,080	\$ 139,963,706	\$ 140,869,168	\$ 136,298,790	\$ 137,456,738	\$ 137,273,061	\$ 159,687,754	\$ 67,995,186	\$ 58,287,028
Business-type activities										
Net investment in capital assets.....	9,018,231	9,138,929	8,836,475	6,939,001	8,245,799	8,248,186	8,605,165	9,562,558	8,511,138	8,744,920
Unrestricted.....	4,722,252	5,609,406	5,647,967	6,371,380	3,920,927	4,366,232	4,085,318	4,857,190	6,184,586	3,008,694
Total business-type activities net position.....	\$ 13,740,483	\$ 14,748,335	\$ 14,484,442	\$ 13,310,381	\$ 12,166,726	\$ 12,614,418	\$ 12,690,483	\$ 14,419,748	\$ 14,695,724	\$ 11,753,614
Primary government										
Net investment in capital assets.....	118,201,968	141,926,782	148,519,835	154,312,758	155,559,548	153,135,206	156,297,660	179,313,160	178,604,002	180,829,526
Restricted.....	8,649,700	8,868,048	6,948,839	6,968,580	6,892,267	10,562,103	11,197,635	12,499,976	14,383,949	12,047,560
Unrestricted.....	4,350,305	3,419,585	(1,020,526)	(7,101,789)	(13,986,299)	(13,626,153)	(17,531,751)	(17,705,634)	(110,297,041)	(122,836,444)
Total primary government net position.....	\$ 131,201,973	\$ 154,214,415	\$ 154,448,148	\$ 154,179,549	\$ 148,465,516	\$ 150,071,156	\$ 149,963,544	\$ 174,107,502	\$ 82,690,910	\$ 70,040,642

Changes in Net Position

Last Ten Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Expenses										
Governmental activities:										
General government.....	\$ 9,867,573	\$ 9,641,318	\$ 10,598,174	\$ 10,914,012	\$ 10,865,152	\$ 11,702,186	\$ 11,904,711	\$ 10,574,021	\$ 10,080,121	\$ 12,503,170
Public safety.....	23,481,525	24,433,343	28,262,847	27,421,538	26,755,783	27,989,181	26,551,919	27,832,445	29,879,444	29,652,698
Education.....	67,258,196	75,513,149	75,874,227	79,410,738	83,743,843	86,938,434	91,261,655	95,924,303	100,837,487	100,997,380
Public works.....	7,991,774	9,229,479	6,846,006	6,705,986	6,820,639	8,894,659	5,952,380	8,848,271	9,092,995	11,878,911
Community development.....	1,891,386	1,804,554	1,567,381	2,093,618	3,226,360	1,845,141	1,530,786	1,347,731	1,304,481	1,569,281
Health and human services.....	5,016,513	4,675,688	5,904,063	6,226,498	6,622,114	5,930,089	6,001,130	6,140,975	5,788,579	6,850,201
Community preservation.....	(B)	(B)	(B)	(B)	(B)	(B)	(B)	(B)	5,350	356,518
Culture and recreation.....	3,718,183	2,448,265	3,293,415	3,228,906	3,169,224	2,997,090	3,219,315	3,429,452	3,589,253	3,277,578
Interest.....	2,889,116	2,604,390	2,503,461	2,396,187	1,888,315	1,582,033	1,544,887	1,277,709	1,328,888	1,349,443
Total government activities expenses.....	122,114,266	130,350,186	134,849,574	138,397,483	143,091,430	147,878,813	147,966,783	155,374,907	161,906,598	168,435,180
Business-type activities:										
Water and sewer services.....	8,884,459	9,174,602	9,790,421	11,488,868	11,796,038	10,752,161	10,921,100	11,169,816	11,241,391	12,386,557
Golf course.....	279,981	363,651	386,099	278,007	399,023	363,625	438,613	465,210	466,834	472,708
Parking.....	800,506	792,903	936,826	905,834	844,615	991,722	1,042,610	1,052,780	968,159	(C)
Trash.....	(A)	(A)	3,230,500	2,558,263	2,573,421	2,617,948	2,744,963	2,648,564	2,373,876	2,448,400
Total business type activities expenses.....	9,964,946	10,331,156	14,343,846	15,230,972	15,613,097	14,725,456	15,147,286	15,336,370	15,050,260	15,307,665
Total primary government expenses.....	\$ 132,079,212	\$ 140,681,342	\$ 149,193,420	\$ 153,628,455	\$ 158,704,527	\$ 162,604,269	\$ 163,114,069	\$ 170,711,277	\$ 176,956,858	\$ 183,742,845
Program Revenues										
Governmental activities:										
Education charges for services.....	\$ 831,579	\$ 1,659,544	\$ 1,586,525	\$ 1,473,880	\$ 1,370,250	\$ 1,277,950	\$ 1,271,626	\$ 1,171,221	\$ 1,275,125	\$ 1,036,778
Public Safety charges for services.....	2,003,791	2,217,287	2,378,961	2,456,341	2,074,324	2,115,452	2,212,295	2,780,253	2,237,189	2,712,983
Other charges for services.....	1,825,898	2,561,814	1,602,847	1,693,333	1,824,040	1,744,351	1,872,305	2,264,412	2,345,324	4,762,457
Operating grants and contributions.....	37,934,300	37,957,703	41,168,760	43,744,124	46,352,034	51,358,511	47,872,700	49,028,512	50,489,073	46,826,741
Capital grant and contributions.....	3,312,346	30,118,572	9,615,336	8,762,642	4,135,374	5,197,515	5,699,571	30,643,446	8,496,589	5,050,922
Total government activities program revenues.....	45,907,914	74,514,920	56,352,429	58,130,320	55,756,022	61,693,779	58,928,497	85,887,844	64,843,300	60,389,881
Business-type activities:										
Charges for services - Water and Sewer.....	10,553,443	11,516,213	10,874,482	11,753,147	12,122,111	12,810,031	12,609,726	13,692,023	13,086,639	13,288,556
Charges for services - Golf.....	525,404	546,841	570,142	547,301	589,345	548,805	648,916	697,232	705,341	724,052
Charges for services - Parking.....	1,549,833	1,713,649	1,651,032	1,694,708	2,038,235	2,333,478	2,274,470	2,580,262	2,510,838	(C)
Charges for services - Trash.....	(A)	(A)	908,577	720,193	740,511	692,089	675,916	684,262	678,607	689,982
Capital grants and contributions.....	-	-	49,707	43,796	41,820	39,804	-	-	2,887,131	102,518
Total business-type activities program revenues.....	12,628,680	13,776,703	14,053,940	14,759,145	15,532,022	16,424,207	16,209,028	17,653,779	19,868,556	14,805,108
Total primary government program revenues.....	\$ 58,536,594	\$ 88,291,623	\$ 70,406,369	\$ 72,889,465	\$ 71,288,044	\$ 78,117,986	\$ 75,137,525	\$ 103,541,623	\$ 84,711,856	\$ 75,194,989
Net (Expense)/Revenue										
Governmental activities.....	\$ (76,206,352)	\$ (55,835,266)	\$ (78,497,145)	\$ (80,267,163)	\$ (87,335,408)	\$ (86,185,034)	\$ (89,038,286)	\$ (69,487,063)	\$ (97,063,298)	\$ (108,045,299)
Business-type activities.....	2,663,734	3,445,547	(289,906)	(471,827)	(81,075)	1,698,751	1,061,742	2,317,409	4,818,296	(502,557)
Total primary government net expense.....	\$ (73,542,618)	\$ (52,389,719)	\$ (78,787,051)	\$ (80,738,990)	\$ (87,416,483)	\$ (84,486,283)	\$ (87,976,544)	\$ (67,169,654)	\$ (92,245,002)	\$ (108,547,856)
General Revenues and other Changes in Net Position										
Governmental activities:										
Real estate and personal property taxes, net of tax refunds payable.....	\$ 58,379,505	\$ 60,991,003	\$ 63,230,976	\$ 66,672,653	\$ 69,067,349	\$ 71,828,412	\$ 72,073,381	\$ 76,770,134	\$ 79,012,963	\$ 82,444,144
Community Preservation Taxes.....	(B)	(B)	(B)	(B)	(B)	(B)	(B)	(B)	486,797	535,637
Tax liens.....	635,624	182,650	752,178	527,492	234,353	510,973	795,443	589,138	563,353	708,963
Motor vehicle and other excise taxes.....	3,452,569	3,357,765	3,286,119	2,978,961	3,092,527	3,181,247	3,131,334	3,052,229	3,890,099	3,929,230
Hotel/motel tax.....	263,962	282,324	373,655	324,622	294,214	955,092	1,161,007	1,224,849	1,319,418	1,362,357
Penalties and interest on taxes.....	350,651	266,246	353,952	412,572	437,361	438,487	490,242	399,311	457,958	443,444
Payments in lieu of taxes.....	1,088,754	1,235,083	1,229,435	1,320,945	1,307,078	1,319,079	1,440,186	1,462,692	1,321,060	1,043,782
Grants and contributions not restricted to specific programs.....	7,661,752	8,971,625	9,163,777	8,064,486	6,583,118	6,404,395	8,220,908	6,610,413	6,775,827	7,182,509
Unrestricted investment income.....	183,980	965,694	462,275	(35,188)	435,769	1,095,518	103,015	828,974	1,377,835	554,360
Miscellaneous.....	214,067	248,905	168,417	203,848	250,681	358,720	453,416	375,872	344,538	122,979
Transfers.....	2,628,834	2,437,695	(26,013)	702,234	1,062,580	1,251,059	985,677	588,144	1,653,218	9,736
Total governmental activities	74,859,698	78,938,990	78,994,771	81,172,625	82,765,030	87,342,982	88,854,609	91,901,756	97,203,066	98,337,141
Business-type activities:										
Transfers.....	(2,628,834)	(2,437,695)	26,013	(702,234)	(1,062,580)	(1,251,059)	(985,677)	(588,144)	(1,653,218)	(9,736)
Total primary government.....	\$ 72,230,864	\$ 76,501,295	\$ 79,020,784	\$ 80,470,391	\$ 81,702,450	\$ 86,091,923	\$ 87,868,932	\$ 91,313,612	\$ 95,549,848	\$ 98,327,405
Changes in Net Position										
Governmental activities.....	\$ (1,346,654)	\$ 23,103,724	\$ 497,626	\$ 905,462	\$ (4,570,378)	\$ 1,157,948	\$ (183,677)	\$ 22,414,693	\$ 139,768	\$ (9,708,158)
Business-type activities.....	34,900	1,007,852	(263,893)	(1,174,061)	(1,143,655)	447,692	76,065	1,729,265	3,165,078	(512,293)
Total primary government.....	\$ (1,311,754)	\$ 24,111,576	\$ 233,733	\$ (268,599)	\$ (5,714,033)	\$ 1,605,640	\$ (107,612)	\$ 24,143,958	\$ 3,304,846	\$ (10,220,451)

(A) In years 2005-2007 the City reported Trash in the governmental funds.
 (B) In 2014 the City approved and established the Community Preservation Fund.
 (C) In 2015 the City reclassified the parking fund to a governmental activity.

Fund Balances, Governmental Funds

Last Ten Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Fund										
Reserved.....	\$ 197,581	\$ 69,631	\$ 220,608	\$ 372,027	\$ 421,825	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved.....	1,162,714	(1,151,199)	1,321,397	749,849	1,211,094	-	-	-	-	-
Restricted.....	-	-	-	-	-	-	-	-	-	-
Assigned.....	-	-	-	-	-	589,894	985,737	1,059,667	1,002,935	558,880
Unassigned.....	-	-	-	-	-	8,405,585	9,550,262	11,663,494	11,998,002	11,159,068
Total general fund.....	<u>\$ 1,360,295</u>	<u>\$ (1,081,568)</u>	<u>\$ 1,542,005</u>	<u>\$ 1,121,876</u>	<u>\$ 1,632,919</u>	<u>\$ 8,995,479</u>	<u>\$ 10,535,999</u>	<u>\$ 12,723,161</u>	<u>\$ 13,000,937</u>	<u>\$ 11,717,948</u>
All Other Governmental Funds										
Reserved.....	\$ 1,606,904	\$ 1,629,202	\$ 1,650,597	\$ 1,688,851	\$ 1,689,176	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds.....	5,474,128	5,477,136	3,768,323	5,602,931	5,819,702	-	-	-	-	-
Capital projects funds.....	(1,859,435)	(197,270)	2,806,105	(537,848)	3,969,207	-	-	-	-	-
Permanent funds.....	3,018,952	3,556,455	3,291,512	2,678,043	2,783,655	-	-	-	-	-
Nonspendable.....	-	-	-	-	-	1,707,276	2,074,097	2,074,989	2,074,987	2,151,087
Restricted.....	-	-	-	-	-	11,329,632	14,344,418	12,942,168	15,563,265	12,440,090
Unassigned.....	-	-	-	-	-	(665,295)	(4,101,228)	(623,622)	(2,089,648)	(1,002,367)
Total all other governmental funds....	<u>\$ 8,240,549</u>	<u>\$ 10,465,523</u>	<u>\$ 11,516,537</u>	<u>\$ 9,431,977</u>	<u>\$ 14,261,740</u>	<u>\$ 12,371,613</u>	<u>\$ 12,317,287</u>	<u>\$ 14,393,535</u>	<u>\$ 15,548,604</u>	<u>\$ 13,588,810</u>

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues:										
Real estate and personal property taxes,										
net of tax refunds.....	\$ 58,601,934	\$ 60,638,180	\$ 63,376,714	\$ 66,717,968	\$ 68,747,759	\$ 71,754,816	\$ 72,202,064	\$ 77,018,965	\$ 79,449,354	\$ 82,905,745
Motor vehicle and other excise taxes.....	3,577,544	3,215,438	3,427,889	3,154,642	3,007,759	3,180,552	3,203,122	3,113,058	3,799,179	3,945,343
Intergovernmental.....	40,386,321	38,496,892	39,569,976	42,962,129	44,150,857	51,562,915	50,048,535	84,640,597	49,698,445	49,811,556
Departmental and other.....	8,496,446	9,017,710	10,086,572	9,382,460	8,511,803	9,656,996	10,366,488	12,049,109	11,097,377	13,036,554
Investment income.....	927,302	925,771	462,585	(32,923)	436,686	1,096,747	129,773	828,974	1,377,835	554,360
Commonwealth school construction grants.....	16,559,515	35,025,316	17,324,905	13,130,784	7,095,272	4,310,837	4,310,837	4,310,837	3,695,128	3,171,572
On-behalf pension payments by the Commonwealth (A)...	6,376,140	7,044,987	7,511,889	8,277,958	8,602,216	9,290,000	9,695,000	10,522,000	10,808,000	6,752,780
Total Revenue.....	134,925,202	154,364,294	141,760,530	143,593,018	140,552,352	150,852,863	149,955,819	192,483,540	159,925,318	160,177,910
Expenditures:										
General government.....	5,112,025	4,733,168	4,512,126	5,284,403	5,062,768	5,678,376	6,039,335	6,351,699	6,218,639	8,285,799
Public safety.....	14,547,596	14,969,952	15,945,719	16,452,689	16,147,666	17,129,546	17,807,607	18,207,275	19,627,830	19,936,450
Education.....	47,647,867	47,719,326	47,293,548	48,101,995	49,491,944	51,429,439	50,076,848	53,168,217	54,548,503	63,150,832
Public works.....	5,427,108	6,137,334	3,338,981	3,718,860	3,255,769	3,573,118	2,831,181	5,338,674	5,230,942	7,137,934
Community development.....	1,891,386	1,804,554	1,567,381	2,402,149	3,413,203	1,933,227	1,757,053	1,322,586	1,629,209	1,544,509
Health and human services.....	4,475,413	4,730,161	5,306,444	5,339,094	6,158,089	5,927,137	5,538,621	5,580,162	5,446,188	6,424,227
Community Preservation.....	-	-	-	-	-	-	-	(B)	5,350 (B)	356,518
Culture and recreation.....	2,339,600	1,865,609	2,135,563	2,395,536	2,320,698	2,152,872	3,367,206	2,468,723	2,368,401	2,264,401
Pension benefits.....	13,388,893	14,375,924	15,180,985	16,206,240	16,770,835	17,707,823	18,538,274	19,771,148	20,402,625	16,923,249
Massachusetts teachers' retirement (A).....	6,376,140	7,044,987	7,511,889	8,277,958	8,602,216	9,290,000	9,695,000	10,522,000	10,808,000	6,752,780
Employee benefits.....	9,964,302	10,889,249	11,570,087	11,805,651	11,077,682	11,751,691	13,122,992	13,326,634	14,255,543	13,490,299
State and county charges.....	5,047,971	5,589,986	5,933,670	6,302,025	6,655,890	6,445,380	6,390,908	5,141,397	5,776,828	6,015,427
Capital outlay.....	7,581,652	38,018,740	12,930,767	13,552,655	4,654,814	6,194,898	11,752,488	38,287,997	16,665,809	13,273,983
Debt service										
Principal.....	4,385,000	4,310,000	6,620,000	4,559,497	5,385,000	7,550,000	4,717,000 (C)	19,454,000	3,073,598	2,935,000
Interest.....	2,958,101	2,513,575	2,622,389	2,568,643	2,087,028	1,851,117	1,761,551	1,816,117	1,536,769	1,558,748
Total Expenditures.....	131,143,054	164,702,565	142,469,549	146,967,395	141,083,602	148,614,624	153,396,064	200,756,629	167,594,234	170,050,156
Excess of revenues over (under) expenditures.....	3,782,148	(10,338,271)	(709,019)	(3,374,377)	(531,250)	2,238,239	(3,440,245)	(8,273,089)	(7,668,916)	(9,872,246)
Other Financing Sources (Uses)										
Issuance of debt.....	-	8,319,497	3,930,000	-	4,589,000	630,000	3,900,938	11,242,660	6,680,000	5,980,000
Premium from issuance of bonds.....	-	85,169	84,840	-	575,986	1,167,420	1,059	191,693	421,355	700,157
Issuance of refunding bonds.....	-	-	-	3,785,000	11,043,000	4,589,000	-	-	2,509,500	-
Premium from issuance of refunding bonds.....	-	-	-	-	-	-	-	-	262,818	-
Payments to refunded bond escrow agent.....	-	-	-	-	(8,512,000)	-	-	-	(2,709,130)	-
Refunding bonds redeemed.....	-	-	-	(3,785,000)	(2,930,000)	(4,589,000)	-	-	-	-
Capital lease financing.....	1,046,619	378,169	394,779	167,454	43,500	185,715	38,765	514,002	284,000	351,762
Transfers in.....	5,320,517	3,558,845	4,508,229	5,228,530	6,160,597	5,137,447	5,184,894	5,343,327	6,718,284	3,699,383
Transfers out.....	(2,691,683)	(1,121,150)	(4,534,242)	(4,526,296)	(5,098,017)	(3,886,388)	(4,199,217)	(4,755,183)	(5,065,066)	(3,689,647)
Total other financing sources (uses).....	3,675,453	11,220,530	4,383,606	869,688	5,872,066	3,234,194	4,926,439	12,536,499	9,101,761	7,041,655
Net change in fund balance.....	\$ 7,457,601	\$ 882,259	\$ 3,674,587	\$ (2,504,689)	\$ 5,340,816	\$ 5,472,433	\$ 1,486,194	\$ 4,263,410	\$ 1,432,845	\$ (2,830,591)
Debt service as a percentage of noncapital expenditures.....	5.94%	5.39%	7.13%	5.34%	5.48%	6.60%	4.57%	13.09%	3.05%	2.87%
								(C)		

(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.

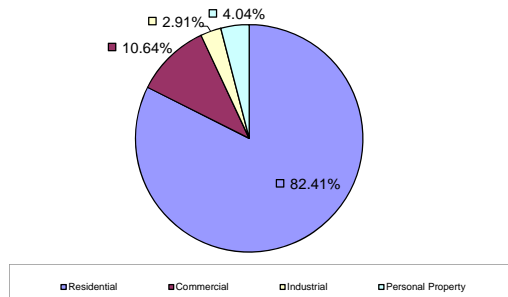
(C) The City received a \$15.8 million grant from the Commonwealth to pay down \$15.6 million in school debt issued in 2003.

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

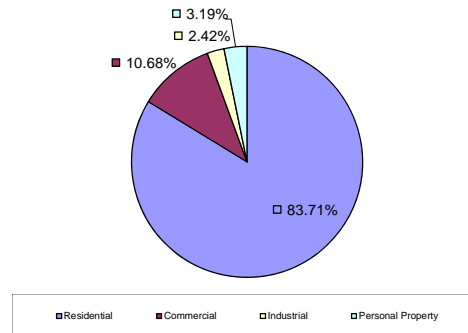
Last Ten Years

Year	Assessed and Actual Values and Tax Rates									
		Residential Value	Residential Tax Rate	Commercial Value	Industrial Value	Personal Property	Total Commercial Value	Commercial Tax Rate	Total Direct Rate	Total City Value
2006		\$ 3,807,396,999	11.21	\$ 393,448,700	\$ 143,388,000	\$ 241,940,480	\$ 778,777,180	21.33	12.93	\$ 4,586,174,179
2007	(1)	4,137,021,751	10.77	435,740,235	150,255,420	255,302,680	841,298,335	20.48	12.41	4,978,320,086
2008		4,008,575,509	11.67	449,128,612	134,872,400	212,904,820	796,905,832	22.11	13.40	4,805,481,341
2009		3,753,889,412	12.92	446,457,904	133,318,180	177,993,390	757,769,474	24.54	14.87	4,511,658,886
2010	(1)	3,527,110,563	14.01	432,747,534	127,061,700	207,643,630	767,452,864	26.93	16.32	4,294,563,427
2011		3,361,382,273	15.05	417,668,102	123,342,500	213,577,900	754,588,502	29.08	17.62	4,115,970,775
2012		3,291,268,444	15.63	410,704,364	118,044,040	153,768,900	682,517,304	29.81	18.07	3,973,785,748
2013	(1)	3,227,554,748	16.38	420,436,783	116,029,720	163,211,490	699,677,993	31.46	19.07	3,927,232,741
2014		3,265,724,508	16.73	421,704,398	115,505,220	160,002,170	697,211,788	32.05	19.43	3,962,936,296
2015		3,523,220,734	16.41	449,496,402	101,675,040	134,283,680	685,455,122	30.99	18.78	4,208,675,856

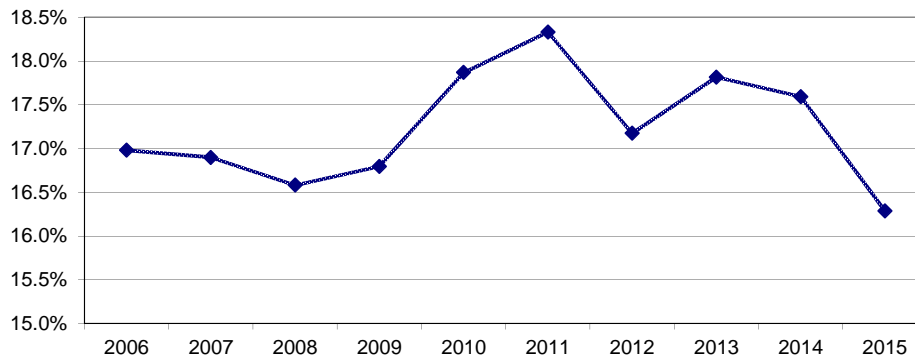
Total Assessed Value by Classification Year Ended June 30, 2014



Total Assessed Value by Classification Year Ended June 30, 2015



Commercial Value as % of Total Value



(1) Revaluation year.

Source: Assessor's Department, City of Salem

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

Note: Chapter 59, Section 21C of the Massachusetts General Laws, known as "Proposition 2 1/2", imposes 2 separate limits on the annual tax levy of the City. The primary limitation is that the tax levy cannot exceed 2 1/2 percent of the full and fair cash value. The secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding year as determined by the State Commissioner of Revenue by more than 2 1/2 percent, subject to an exception for property added to the tax rolls and for certain substantial valuation increases other than as part of a general revaluation. The secondary limit may be exceeded in any year by a majority vote of the voters, however it cannot exceed the primary limitation.

Principal Taxpayers
Current Year and Nine Years Ago

Name	Nature of Business	2015			2006		
		Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
Salem Station LLC	Apartments	\$35,140,300	1	0.9%	\$40,550,000	2	0.9%
Massachusetts Electric	Personal Property	\$33,999,480	2	0.9%	\$21,489,250	7	0.5%
New England Power Co.	Personal & Industrial	\$31,688,840	3	0.8%	\$23,966,550	6	0.6%
Princeton Crossing Apartments	Apartments	\$27,826,400	4	0.7%	\$36,354,900	3	0.8%
National Grid	Personal & Industrial	\$27,508,820	5	0.7%	-	-	-
Shetland Properties	Industrial & Commercial	\$27,043,800	6	0.7%	\$26,346,200	5	0.6%
Hawthorne Commons	Apartments	\$24,897,000	7	0.6%	28,599,100	4	-
Highlander Plaza	Commercial Property	\$23,627,100	8	0.6%	20,628,500	8	0.9%
Algonquin Gas Transmission	Personal Property	\$20,117,800	9	0.5%			0.0%
Second Pickwick Trust	Commercial Property	\$14,749,900	10	0.4%	\$11,871,200	9	0.3%
Dominion	Personal & Industrial Property	-		-	\$210,964,700	1	4.9%
Archstone	Apartments	-		-	\$10,788,700	10	0.2%
Totals		<u>\$266,599,440</u>		<u>6.7%</u>	<u>\$431,559,100</u>		<u>9.8%</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
2006	\$ 59,292,238	\$ 443,519	\$ 58,848,719	\$ 58,010,805	98.6%	\$ 835,900	\$ 58,846,705	100.0%
2007	(1) 61,785,514	593,521	61,191,993	60,318,905	98.6%	870,423	61,189,328	100.0%
2008	64,399,664	565,307	63,834,357	63,225,112	99.0%	609,245	63,834,357	100.0%
2009	67,095,914	514,742	66,581,172	66,300,317	99.6%	280,855	66,581,172	100.0%
2010	(1) 70,082,325	612,829	69,469,496	68,292,880	98.3%	1,176,616	69,469,496	100.0%
2011	72,532,237	402,324	72,129,913	70,936,056	98.3%	1,193,857	72,129,913	100.0%
2012	71,788,367	360,622	71,427,745	70,558,172	98.8%	869,573	71,427,745	100.0%
2013	(1) 74,879,216	420,829	74,458,387	73,069,108	98.1%	1,389,279	74,458,387	100.0%
2014	76,981,209	337,606	76,643,603	75,905,195	99.0%	738,408	76,643,603	100.0%
2015	79,058,306	354,811	78,703,495	78,006,777	99.1%	-	78,006,777	99.1%
(1)	Revaluation Year							

Ratios of Outstanding Debt and General Bonded Debt

Last Ten Years

Year	Governmental Activities Debt								
	U. S. Census Population	Personal Income	Assessed Value	General Obligation Bonds	Capital Leases	Per Capita	Percentage of Personal Income	Bonded Debt as a Percentage of Assessed Value	
2006	40,407	\$ 1,085,609,084	\$ 4,586,174,179	\$ 54,385,000	\$ 1,172,651	\$ 1,375	5.12%	1.19%	
2007	40,407	1,107,321,266	4,978,320,086	50,040,000	779,906	1,258	4.59%	1.01%	
2008	40,407	1,129,467,691	4,805,481,341	55,704,497	675,954	1,395	4.99%	1.16%	
2009	41,421	1,180,967,527	4,511,658,886	51,145,000	530,771	1,248	4.38%	1.13%	
2010	41,361	1,202,841,984	4,294,563,427	50,387,000	317,032	1,226	4.22%	1.17%	
2011	41,361	1,226,898,824	4,115,970,775	44,581,526	384,965	1,087	3.67%	1.08%	
2012	41,340	1,250,801,415	3,973,785,748	43,629,929	245,703	1,061	3.51%	1.10%	
2013	41,654	1,285,525,748	3,927,232,741	35,291,962	619,317	862	2.79%	0.90%	
2014	41,340	1,301,351,782	3,962,936,296	39,943,717	626,059	981	3.12%	1.01%	
2015	42,544	1,282,020,896	4,208,675,856	43,473,824	-	1,022	3.39%	1.03%	

Year	Business-type Activities		Total Primary Government			
	General Obligation Bonds	Capital Leases	Total Bonded Debt Outstanding	Per Capita	Percentage of Personal Income	Bonded Debt as a Percentage of Assessed Value
2006	\$ 1,345,000	\$ -	\$ 55,730,000	\$ 1,379	5.13%	1.22%
2007	3,570,656	-	53,610,656	1,327	4.84%	1.08%
2008	7,624,241	-	63,328,738	1,567	5.61%	1.32%
2009	7,250,908	-	58,395,908	1,410	4.94%	1.29%
2010	12,949,102	-	63,336,102	1,531	5.27%	1.47%
2011	15,665,280	-	60,246,806	1,457	4.91%	1.46%
2012	16,762,802	-	60,392,731	1,461	4.83%	1.52%
2013	16,670,824	-	51,962,786	1,247	4.04%	1.32%
2014	18,825,303	105,047	58,769,020	1,422	4.52%	1.48%
2015	19,935,000	0	63,408,824	1,490	4.95%	1.51%

Source: Audited Financial Statements, U. S. Census

Direct and Overlapping Governmental Activities Debt

As of June 30, 2015

	<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..... \$	31,090,000	28.45%	\$ <u>8,845,105</u>
Direct debt:			
Capital Lease Obligations.....			-
General Governmental Debt			<u>43,473,824</u>
City total direct debt.....			<u>43,473,824</u>
Total direct and overlapping debt.....			\$ <u><u>52,318,929</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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Equalized Valuation.....	\$ 4,923,330,400	\$ 4,923,330,400	\$ 5,168,060,200	\$ 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
Debt Limit -5% of Equalized Valuation.....	\$ 246,166,520	\$ 246,166,520	\$ 258,403,010	\$ 258,403,010	\$ 228,418,735	\$ 228,418,735	\$ 212,840,445	\$ 212,840,445	\$ 209,578,300	\$ 209,578,300
Less:										
Outstanding debt applicable to limit.....	6,064,000	5,435,000	12,004,000	12,004,000	10,884,900	16,669,700	14,905,000	19,976,500	23,966,500	30,306,500
Authorized and unissued debt.....	48,682,895	54,169,239	28,769,240	28,769,240	11,128,240	13,725,802	72,303,161	46,646,035	36,905,041	28,415,041
Legal debt margin.....	\$ 191,419,625	\$ 186,562,281	\$ 217,629,770	\$ 217,629,770	\$ 206,405,595	\$ 198,023,233	\$ 125,632,284	\$ 146,217,910	\$ 148,706,759	\$ 150,856,759
Total debt applicable to the limit as a percentage of debt limit.....	22.24%	24.21%	15.78%	15.78%	9.64%	13.31%	40.97%	31.30%	29.04%	28.02%

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
2006	40,407	\$ 1,085,609,084	\$ 26,867	36.4	4,714	4.1%
2007	40,407	1,107,321,266	27,404	36.4	4,573	4.5%
2008	40,407	1,129,467,691	27,952	36.4	4,404	4.9%
2009	41,421	1,180,967,527	28,511	36.4	4,474	9.7%
2010	41,361	1,202,841,984	29,082	36.7	4,647	9.6%
2011	41,361	1,226,898,824	29,663	36.5	4,647	9.2%
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%

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

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

Principal Employers

Current Year and Nine Years Ago

Employer	Nature of Business	2015			2006		
		Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
North Shore Medical Center	Healthcare	3,100	1	13.5%	5,910	1	25.3%
City of Salem	Municipal Government	1,780	2	7.7%	-		-
Salem State University	Higher Education	1,443	3	6.3%	1,400	2	6.0%
Spaulding Rehab Hospital	Health Care	576	4	2.5%	-		-
Market Basket	Food Market	475	5	2.1%	310	4	1.3%
Commonwealth of Massachusetts	State Government	420	6	1.8%	545	3	2.3%
Salem Five Savings	Banking	320	7	1.4%	200	6	0.9%
Peabody Essex Museum	Cultural Tourism	255	8	1.1%	265	5	1.1%
Grosvenor Park Nursing Center	Health Care	241	9	1.0%	-		0.0%
Home Depot	Retail	185	10	0.8%	200	7	0.9%
Excelitas	Manufacturer	-		-	-		-
Walmart	Retail	-		-	180	8	0.8%
Hawthorne Hotel	Lodging	-		-	175	9	0.7%
Salem Harbor Station	Utility	-		-	170	10	0.7%
		<u>8,795</u>		<u>38.3%</u>	<u>9,355</u>		<u>40.1%</u>

Source: The City Planning Department

City of Salem, Massachusetts

Full-time Equivalent City Employees by Function

Last Ten Years

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Function										
General government.....	40	34	36	35	35	35	35	35	37	38
Public safety.....	181	190	185	187	191	190	194	203	210	211
Education.....	752	752	753	752	752	752	776	890	841	841
Public works.....	35	38	40	37	38	39	40	39	41	41
Engineering.....	-	1	3	1	1	1	1	1	1	1
Health and human services.....	21	20	17	14	17	15	14	15	14	13
Culture and recreation.....	34	23	21	22	22	23	23	23	24	24
Total	<u>1,063</u>	<u>1,058</u>	<u>1,054</u>	<u>1,048</u>	<u>1,056</u>	<u>1,054</u>	<u>1,083</u>	<u>1,206</u>	<u>1,167</u>	<u>1,169</u>

Source: Various City Departments

Operating Indicators by Function/Program

Last Ten Years

Function/Program	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General government										
Marriage recordings.....	375	322	306	276	243	381	321	324	365	338
Birth recordings.....	2,044	2,043	1,712	1,614	1,774	1,599	1,433	1,452	1,566	1,659
Death recordings.....	737	755	520	535	557	492	436	484	560	605
Police										
Physical arrests.....	2,792	2,793	2,502	2,502	2,072	2,629	1,627	1,307	1,597	2,509
Motor vehicle violations.....	6,477	8,672	6,604	191	6,631	10,309	8,497	6,161	7,936	8,660
Police personnel and officers.....	81	84	85	85	87	89	93	99	100	103
Fire										
Inspections.....	1,187	1,562	886	886	935	1,077	973	1,307	1,192	1,545
Emergency responses.....	6,235	6,719	6,330	17	6,409	6,079	5,952	6,161	6,292	6,752
Fire personnel and officers.....	75	76	81	81	79	83	90	86	88	88
Education										
Number of students.....	4,744	4,573	4,404	4,474	4,647	4,585	4,541	4,501	4,478	4,222
Number of graduates.....	255	269	254	273	283	246	240	275	275	271
Number of teachers.....	477	484	479	479	488	507	517	540	542	571
Water										
Service connections.....	11,000	11,811	11,701	11,737	11,719	11,719	11,719	11,729	11,827	9,833
Consumption in gallons.....	2,000	2,056	2,123	1,994	2,103	2,025	1,921	1,934	1,898	1,898
Daily consumption (MG).....	6.84	6.74	5.80	5.44	6.00	6.00	5.26	5.30	5.00	4.00
Sewer										
Service connections.....	11,000	11,811	11,701	11,727	11,709	11,706	11,719	11,719	11,807	9,813
Health and human services										
Number of persons using COA transportation....	37,497	39,052	18,678	15,526	16,076	16,908	19,630	16,170	12,698	14,704
Libraries										
Volumes in circulation.....	141,595	143,052	148,752	145,634	143,512	148,634	158,011	162,486	168,263	172,628
Total volumes borrowed.....	508,728	500,907	514,708	538,184	508,507	508,293	493,315	471,416	430,391	397,810

Source: Various City Departments; Massachusetts Department of Education

Capital Asset Statistics by Function/Program

Last Ten Years

<u>Function/Program</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
General government										
Number of buildings.....	2	2	2	2	2	2	2	2	2	2
Police										
Number of stations.....	1	1	1	1	1	1	1	1	1	1
Fire										
Number of stations.....	4	4	4	4	4	4	4	4	4	4
Education										
Number of elementary schools.....	7	7	7	38	7	7	7	7	7	7
Number of middle schools.....	1	1	1	1	1	1	1	1	1	1
Number of high schools.....	1	1	1	17	1	1	1	1	1	1
Public Works										
Water mains (miles).....	108	108	108	102	102	102	102	102	102	102
Health and human services										
Number of personnel.....	17	17	17	17	17	15	14.7	14.7	13.8	13.8
Culture and recreation										
Parks and playgrounds.....	35	35	35	35	35	35	35	35	35	35
Park and playground (acreage).....	230	230	230	230	230	230	230	230	230	230
Conservation land (acreage).....	128	128	128	128	128	128	128	128	128	128
Railroad right of way (acreage).....	89	89	89	89	89	89	89	89	89	89
Public beaches.....	7	7	7	7	7	7	7	7	7	7
Ball fields.....	13	13	13	13	13	13	13	13	13	13
Tennis courts.....	10	10	10	10	10	10	10	10	10	10

Source: Various City Departments, Manual of the City Government

Free Cash and Stabilization Fund Balances

Last Ten Years

<u>Year</u>	<u>Free Cash</u>	<u>Stabilization Fund</u>
FY2015.....	\$ 4,949,767	\$ 5,440,226
FY2014.....	\$ 3,349,683	\$ 5,173,812
FY2013.....	\$ 5,498,710	\$ 3,438,799
FY2012.....	\$ 2,525,829	\$ 3,453,722
FY2011.....	\$ 3,249,238	\$ 2,736,777
FY2010.....	\$ 750,607	\$ 1,913,913
FY2009.....	\$ 1,261,200	\$ 1,489,907
FY2008.....	\$ 1,114,950	\$ 648,947
FY2007.....	\$ 691,149	\$ 487,980
FY2006.....	\$ 538,372	\$ 277,759

Source: City Records