

SALEM

RETIREMENT SYSTEM

AUDIT REPORT

JAN. 1, 2017 - DEC. 31, 2021



PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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September 23, 2025

The Public Employee Retirement Administration Commission (PERAC) has completed a review of the audits of the Salem Retirement System conducted by the firm of Powers & Sullivan, LLC CPA's and Advisors (P&S). P&S conducted these audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audits covered the period from January 1, 2017, to December 31, 2021. P&S was subsequently acquired by the firm Marcum LLP, which was then acquired by the firm of CBIZ, Inc.

We conducted an inspection of the work papers prepared by P&S. We determined that the audits were conducted in a competent professional manner and the work papers demonstrated that audit tests and procedures were performed in sufficient detail to allow us to accept the final audit reports as issued.

We identified specific differences between these financial audits designed to provide an opinion on financial statements and our compliance audits performed in accordance with the accounting and management standards established by PERAC in regulation 840 CMR 25.00 and in compliance with the provisions specified in PERAC Memo #18/2019.

Accordingly, we supplemented the field work conducted in the audits by P&S with certain limited procedures designed to provide additional assurance that the accounting and management standards established by PERAC were adhered to and complied with. The specific objectives of our review were to determine: 1) that the Board is exercising appropriate fiduciary oversight, 2) that cash balances are accurately stated, 3) that retirement contributions are accurately deducted, 4) that retirement allowances were correctly calculated, 5) that required member documentation is maintained.

To achieve these objectives, we inspected certain records of the Salem Retirement Board in the above areas. Specifically, we reviewed the minutes of the Board meetings for compliance with fiduciary oversight and verified cash balances. We tested the payroll records of a sample of active members to confirm that the correct percentage of regular compensation is being deducted, including the additional two percent over \$30,000. We tested a sample of members who retired during our audit period to verify that their retirement allowance was calculated in accordance with the statute. We also reviewed a sample of member files for accuracy and completeness.

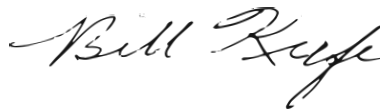
In our opinion, the financial records are being maintained, and the management functions are being performed in conformity with the standards established by PERAC with the exception related to our supplemental work which is detailed in the finding presented in this report.

It should be noted that the financial statements included in this audit report were based on the work performed by P&S and the tests conducted for the periods referenced in their opinion. These audits were not performed by employees or representatives of PERAC. It should also be noted that the opinions expressed in these audit reports were based on the laws and regulations in effect at the time.

The financial statements and footnotes presented in this report were limited to the express results as of and for the years ended December 31, 2021, December 31, 2020, December 31, 2019, December 31, 2018, and December 31, 2017.

In closing, I wish to acknowledge the work of P&S who conducted these examinations, and the PERAC examiners who conducted limited procedures to supplement the field work and express my appreciation to the Salem Retirement Board and staff for their courtesy and cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Keefe", with a stylized flourish at the end.

William T. Keefe
Executive Director

EXPLANATION OF FINDING AND RECOMMENDATION

Regular Compensation:

Payroll registers from each unit of the System were reviewed. The following errors were found:

- The Housing Authority is not withholding contributions from on-call pay. Since this is a mandatory service being paid a pre-determined amount, it qualifies as regular compensation pursuant to 840 CMR 15.03 3(b).
- The Water Supply Board was withholding contributions from overtime pay related to working on a holiday. Overtime is not regular compensation pursuant to 840 CMR 15.03 3(f).
- The Essex Regional School had a bus driver whose pay for late bus runs had deductions withheld when the “regular” pay did not.
- The city was withholding contributions from two codes related to Salem police officers working in the town of Beverly, one for overtime and one for details. The city was also withholding contributions from a “veteran” stipend that is paid to police officers who do not have a college degree but are veterans. This payment is not regular compensation because it is not a payment related to education or a specific service.
- The school withheld contributions from a travel stipend. Payments for travel are not regular compensation pursuant to 840 CMR 15.03(f). No contributions were withheld from a bilingual stipend, which is a pre-determined amount for a service, so it should be considered regular compensation.

Recommendation: Board staff should work with the payroll departments in each unit to correct these errors.

Board Response:

The Salem Contributory Retirement Board agrees with the recommendation made by PERAC and has begun scheduling training sessions with the payroll departments of each employer unit. These sessions will cover the definition of regular compensation pursuant to M.G.L. c. 32 and 840 CMR 15, as well as the proper assessment of retirement contributions. In addition, the Board plans to hold regular follow-up sessions to support continued compliance, share best practices, and provide updates on any relevant changes.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2021		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$4,266,124	1.5%
PRIT Core Fund	<u>272,832,723</u>	<u>98.5%</u>
Grand Total	<u>\$277,098,847</u>	<u>100.0%</u>

For the year ending December 31, 2021, the rate of return for the investments of the Salem Retirement System was 20.13%. For the ten-year period ending December 31, 2021, the rate of return for the investments of the Salem Retirement System averaged 10.68%. For the 37-year period ending December 31, 2021, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Salem Retirement System was 8.64%.

The composite rate of return for all retirement systems for the year ending December 31, 2021 was 19.51%. For the ten-year period ending December 31, 2021, the composite rate of return for the investments of all retirement systems averaged 10.86%. For the 37-year period ending December 31, 2021, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.58%.

SUPPLEMENTARY INFORMATION (Continued)

ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Director Of Finance who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: James Leblanc

Appointed Member: Lisa J.B. Peterson, Chairperson Term Expires: 06/11/2026

Elected Member: Robert W. Callahan Term Expires: 12/01/2027

Elected Member: Sarah M. Hayes Term Expires: 12/01/2027

Appointed Member: Matthew Veno Term Expires: 03/24/2028

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

BOARD REGULATIONS

The Salem Retirement Board has adopted Regulations which are available on the PERAC website at <https://mass.gov/salem-retirement-board-regulations>.

SUPPLEMENTARY INFORMATION (Continued)

MEMBERSHIP EXHIBIT

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Retirement in Past Years										
Superannuation	19	14	21	24	38	20	43	29	39	48
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	2	0	1	1	2	1	0	4	0	1
Total Retirements	21	14	22	25	40	21	43	33	39	49
 Total Retirees, Beneficiaries and Survivors	561	566	563	535	577	568	592	617	621	652
 Total Active Members	868	902	992	1,010	1,036	1,072	1,096	1,160	1,066	1,093
Pension Payments										
Superannuation	\$7,518,162	\$7,765,156	\$7,910,299	\$8,190,165	\$8,757,448	\$9,263,789	\$9,750,803	\$10,549,698	\$11,152,203	\$12,325,687
Survivor/Beneficiary Payments	623,406	519,133	537,956	519,552	513,039	544,721	565,790	610,352	610,301	644,877
Ordinary Disability	59,174	39,676	61,313	62,010	62,641	63,976	55,535	56,674	57,826	58,991
Accidental Disability	2,057,865	2,037,493	2,086,460	2,110,407	2,131,615	2,116,229	1,969,175	2,024,464	2,173,109	2,277,881
Other	<u>959,945</u>	<u>1,081,763</u>	<u>1,040,622</u>	<u>1,011,646</u>	<u>988,229</u>	<u>1,197,978</u>	<u>1,453,578</u>	<u>1,251,760</u>	<u>1,302,357</u>	<u>1,107,937</u>
Total Payments for Year	<u>\$11,218,552</u>	<u>\$11,443,221</u>	<u>\$11,636,650</u>	<u>\$11,893,780</u>	<u>\$12,452,972</u>	<u>\$13,186,694</u>	<u>\$13,794,881</u>	<u>\$14,492,949</u>	<u>\$15,295,797</u>	<u>\$16,415,373</u>



**Powers &
Sullivan, LLC**
CPAs AND ADVISORS

SALEM CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

SALEM CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

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Financial Section

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Independent Auditor's Report

To the Honorable Salem Contributory Retirement Board
Salem Contributory Retirement System
Salem, Massachusetts

Opinion

We have audited the accompanying financial statements of the Salem Contributory Retirement System (the System) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the System's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Salem Contributory Retirement System as of December 31, 2021, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform auditing procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

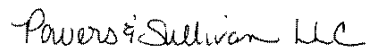
Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis; the Schedule of Changes in the Net Pension Liability and Related Ratios; the Schedule of Contributions; and the Schedule of Investment Returns be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2022, on our consideration of the Salem Contributory Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of System's 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 Salem Contributory Retirement System's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of Salem Contributory Retirement System, the Public Employee Retirement Administration Commission and all member units and is not intended to be and should not be used by anyone other than these specified parties.



October 21, 2022

Management's Discussion and Analysis

As management of the Salem Contributory Retirement System (System), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2021. The System complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB).

The 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 rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users can assess the financial condition of a public retirement system compared to others.

Financial Highlights

- The System's assets exceeded its liabilities at the close of the most recent year by \$277.2 million (net position, restricted for pensions).
- The System's net position increased by \$45.8 million for the year ended December 31, 2021.
- Total investment income was \$46.0 million; investment expenses were \$1.2 million; and net investment income totaled \$44.8 million.
- Total contributions were \$22.7 million including \$16.3 million from employers and \$5.3 million from members.
- Retirement benefits, refunds and transfers amounted to \$21.3 million.
- Administrative expenses were \$334,000 or 2% of total deductions.
- The total pension liability was \$365.3 million as of December 31, 2021, while the net pension liability was \$88.1 million.
- The Plan fiduciary net position as a percentage of the total pension liability was 75.88%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's fiduciary financial statements. These fiduciary financial statements comprise of four components: 1) management's discussion and analysis, 2) fiduciary financial statements, 3) notes to the financial statements and 4) required supplementary information.

Fiduciary Financial Statements

The *statement of fiduciary net position* presents information on all assets and deferred outflows less deferred inflows and liabilities with the difference 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 changes in fiduciary net position* presents information showing how the System'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, additions and deductions are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the fiduciary financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis; Schedule of Changes in the Net Pension Liability and Related Ratios; the Schedule of Contributions; and the Schedule of Investment Returns be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the System's financial position. The System's assets exceeded liabilities (net position) by \$277.2 million at the close of 2021.

The assets accumulated are held to provide pension benefits for qualified retirees along with active and inactive employees of the member units. At year end, the System's net position include investments of \$276.9 million, cash and cash equivalents of \$228,000, receivables of \$3,000 and capital assets, net of accumulated depreciation of \$73,000.

In 2021, the System's contributions totaled \$22.7 million and net investment income totaled \$44.8 million, while retirement benefit payments, refunds, transfers, depreciation and administration expenses totaled \$21.7 million which resulted in an increase of \$45.8 million. In 2020, the System's contributions totaled \$21.2 million and net investment income totaled \$24.6 million, while retirement benefit payments, refunds, transfers, depreciation, and administration expenses were \$19.5 million which resulted in a prior year increase of \$26.3 million.

Net investment income was \$44.8 million and \$24.6 million in 2021, and 2020, respectively. The annual money weighted rate of return was 19.86% and 12.25% in 2021, and 2020, respectively. The System's investment policy is designed to achieve a long-term rate of return of 6.90% and fluctuation in annual investment returns is expected.

The key reason for the \$45.8 million increase in the fiduciary net position from 2020, to 2021, was the \$44.8 million net investment income.

The following tables present summarized financial information for the past two years:

	2021	2020
Assets:		
Cash and cash equivalents.....	\$ 228,241	\$ 444,309
Investments.....	276,870,607	230,808,612
Receivables.....	2,925	6,018
Capital assets, net of accumulated depreciation....	72,656	75,781
Total assets.....	277,174,429	231,334,720
Liabilities:		
Warrants payable.....	6,959	9,472
Net Position Restricted for Pension.....	\$ 277,167,470	\$ 231,325,248

	2021	2020
Additions:		
Contributions:		
Employer contributions.....	\$ 16,287,922	\$ 15,431,474
Member contributions.....	5,325,905	5,168,562
Other contributions.....	1,077,894	606,496
Total contributions.....	22,691,721	21,206,532
Net investment income.....	44,812,905	24,592,019
Total additions.....	67,504,626	45,798,551
Deductions:		
Administration.....	333,877	300,235
Retirement benefits, refunds and transfers.....	21,325,402	19,188,083
Depreciation.....	3,125	3,125
Total deductions.....	21,662,404	19,491,443
Net increase (decrease) in fiduciary net position.....	45,842,222	26,307,108
Fiduciary net position at beginning of year.....	231,325,248	205,018,140
Fiduciary net position at end of year.....	\$ 277,167,470	\$ 231,325,248

Requests for Information

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the System's Executive Director, 20 Central Street, Suite 110, Salem, Massachusetts, 01970.

Financial Statements

Salem Contributory Retirement System

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Financial Statements

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2021

Assets

Cash and cash equivalents.....	\$	228,241
Investments:		
Investments in Pension Reserve Investment Trust.....		272,832,723
Repurchase agreements.....		<u>4,037,884</u>
Total investments.....		<u>276,870,607</u>
Receivables:		
Other accounts receivable.....		<u>2,925</u>
Capital assets, net of accumulated depreciation.....		<u>72,656</u>
Total Assets.....		<u>277,174,429</u>

Liabilities

Warrants payable.....		<u>6,959</u>
Net Position Restricted for Pensions.....	\$	<u>277,167,470</u>

See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED DECEMBER 31, 2021

Additions:

Contributions:

Employer pension appropriation.....	\$ 16,287,922
Member contributions.....	5,325,905
Transfers from other systems.....	664,399
3(8)(c) contributions from other systems.....	216,744
Workers' compensation settlements.....	65,897
State COLA reimbursements.....	74,786
Members' makeup payments and redeposits.....	28,953
Reimbursement of 91A overearnings.....	27,115

Total contributions..... 22,691,721

Net investment income:

Investment income.....	46,046,555
Less: investment expense.....	(1,233,650)

Net investment income..... 44,812,905

Total additions..... 67,504,626

Deductions:

Administration.....	333,877
Retirement benefits and refunds.....	19,936,667
Transfers to other systems.....	794,201
3(8)(c) transfer to other systems.....	594,534
Depreciation.....	3,125

Total deductions..... 21,662,404

Net increase in fiduciary net position..... 45,842,222

Fiduciary net position at beginning of year..... 231,325,248

Fiduciary net position at end of year..... \$ 277,167,470

See notes to financial statements.

NOTE 1 – PLAN DESCRIPTION

The Salem Contributory Retirement System (the System) is a multiple-employer, cost-sharing, contributory defined benefit pension plan covering all employees of the governmental member units deemed eligible by the Salem Contributory Retirement Board (Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. Membership in the System is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 25 hours per week. As of December 31, 2021, the System had 5 participating employers.

The System is a Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. The Public Employee Retirement Administration Commission (PERAC) is the state agency responsible for oversight of the Commonwealth's public retirement systems.

Massachusetts contributory retirement system benefits are, with certain exceptions, uniform from system to system. The System 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 those hired prior to April 2, 2012 and the highest five-year average for members hired after that date. 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. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension.

Active members contribute between 5 and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by PERAC's actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' 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 System and all costs are borne by the System.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status and group classification.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the System 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.

Due to the significance of its operational and functional relationship with the City of Salem, the System is included as a component unit in the City of Salem's basic financial statements.

The System is a special-purpose government engaged only in fiduciary activities. Accordingly, the financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, additions are recorded when earned and deductions are recorded when the liabilities are incurred.

Cash and Investments

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. The fair value of private equities are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values. Real estate assets are reported at fair value utilizing an income approach to valuation along with independent appraisals and estimates by management.

Fair Value Measurement

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

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

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

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

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

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

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the System's financial instruments, see Note 4 – Cash and Investments.

Accounts Receivable

Accounts receivable consist of member deductions, amounts due from other systems, and other miscellaneous reimbursements. These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of fiduciary 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 fiduciary net position that applies to a future period(s) and so will not be recognized as an outflow of resources (deduction) until then. The System did not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of fiduciary 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 (addition) until that time. The System did not have any items that qualify for reporting in this category.

NOTE 3 – PLAN ADMINISTRATION

The System is administered by a five-person Board of Retirement consisting of two representatives of the City of Salem government, two who are elected from and by the active and retired members of the System, and a fifth member, selected by the four who shall not be a member of the System.

Ex-Officio Member.....	Anna E. Freedman	Term Expires:	N/A
Elected Member.....	Robert W. Callahan	Term Expires:	12/1/2024
Elected Member.....	Sarah M. Hayes	Term Expires:	12/1/2024
Mayor's Appointment (Chair).....	Dominick Pangallo	Term Expires:	4/1/2025
Fifth Member.....	Matthew Veno	Term Expires:	3/25/2025

Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the System. The Board must annually file a financial statement of condition for the System with the Executive Director of PERAC.

The investment of the System's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the System has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by three persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer-Custodian:	MACRS Blanket Policy
Ex-Officio Member:	\$50,000,000 Fiduciary Liability
Elected Members:	\$1,000,000 Fidelity (ERISA) Bond
Appointed Members:	St. Paul Travelers Insurance Company
Staff Employees:	National Union Fire Arch Insurance Company

NOTE 4 – CASH AND INVESTMENTS

Custodial Credit Risk - Deposits

At December 31, 2021, the carrying amount of the System's deposits totaled \$228,241, and the bank balance totaled \$477,108, which was covered by Federal Depository Insurance.

Investments

The System's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Under 1 Year</u>
Repurchase agreements.....	\$ 4,037,884	\$ <u>4,037,884</u>
Pension Reserve Investment Trust (PRIT).....	<u>272,832,723</u>	
Total investments.....	\$ <u>276,870,607</u>	

Approximately 99% of the System's investments are in the Pension Reserve Investment Trust (PRIT). This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board. The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The Administration does not have the ability to control any of the investment decisions relative to its funds in PRIT. The effective weighted duration rate for PRIT investments ranged from 1.33 to 15.12 years.

Less than 1% of the System's funds are invested in an overnight Repurchase Agreement (REPO). Under the terms of the REPO, the bank agrees to sell and buy back a portion of the Bank's securities portfolio at the purchase price plus interest. The REPO is held by the bank, acting as the System's agent. In the event of default, the System has the right to direct the bank to sell the securities and apply the proceeds in satisfaction of the Repurchase Agreement. The REPO is fully collateralized with Collateralized Debt Securities issued by the U.S. Government and U.S. Government Sponsored Enterprises. The collateral has a Standard & Poor's rating of AA+.

The System's annual money-weighted rate of return on pension plan investments was 19.86%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested, measured monthly.

The System holds investments that are measured at fair value on a recurring basis. Because investing is a key part of the System's activities, the System shows greater disaggregation in its disclosures. The System chooses a tabular format for disclosing the levels within the fair value hierarchy. The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The System had the following recurring fair value measurements as of December 31, 2021:

Investment Type	December 31, 2021	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
Repurchase agreements.....	\$ 4,037,884	\$ 4,037,884	\$ -	\$ -
Investments measured at net asset value:				
Pension Reserve Investment Trust (PRIT).....	272,832,723			
Total investments.....	\$ 276,870,607			

The Repurchase agreement is classified in Level 1 of the fair value hierarchy and is valued using prices quoted in active markets for those securities.

PRIT investments are valued using the net asset value (NAV) method.

NOTE 5 – MEMBERSHIP

The following table represents the System's membership as of the valuation date, January 1, 2022:

Active members.....	919
Inactive members.....	346
Retirees and beneficiaries currently receiving benefits.....	636
Total.....	1,901

NOTE 6 – ACTUARIAL VALUATION

Components of the net pension liability as of December 31, 2021, were as follows:

Total pension liability.....	\$	365,257,292
Total pension plan's fiduciary net position.....		<u>(277,167,470)</u>
Total net pension liability.....	\$	<u>88,089,822</u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....		75.88%

The total pension liability was determined by an actuarial valuation as of January 1, 2022, using the following actuarial assumptions, applied to all periods included in the measurement that was rolled back to December 31, 2021:

Valuation date.....	January 1, 2022
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	Appropriation increasing 5.55% per year through 2032.
Remaining amortization period.....	As of July 1, 2022, 10 years.
Asset valuation method.....	The difference between the expected return and the actual investment return on a fair value basis is recognized over a five-year period. Asset value is adjusted as necessary to be within 20% of the market value.
Investment rate of return / Discount rate.....	6.90%, net of plan investment expenses, including inflation.
Wage inflation rate.....	3.00%.
Projected salary increases.....	Varies by length of service with ultimate rates of 3.75% for Group 1, 4.00% for Group 2, and 4.25% for Group 4.
Cost of living adjustments.....	3.00% of first \$15,000 of the annual retirement allowance.

Mortality Rates:	
Pre-Retirement.....	RP-2014 Blue Collar Employee Mortality Table set forward one year for females and projected generationally using Scale MP-2021.
Healthy Retiree.....	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year for females and projected generationally using Scale MP-2021.
Disabled Retiree.....	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally using Scale MP-2021.

Investment Policy: The System's policy in regard to the allocation of invested assets is established by PRIT. System 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 expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption as of December 31, 2021, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity.....	22.00%	6.11%
International developed markets equity.....	11.50%	6.49%
International emerging markets equity.....	4.50%	8.12%
Core fixed income.....	15.00%	0.38%
High-yield fixed income.....	8.00%	2.48%
Real estate.....	10.00%	3.72%
Timber.....	4.00%	3.44%
Hedge fund, GTAA, risk parity.....	10.00%	2.63%
Private equity.....	15.00%	9.93%
Total.....	100.00%	

Discount Rate: The discount rate used to measure the total pension liability was 6.90% at December 31, 2021, and 7.15% as of December 31, 2020. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability, calculated using the discount rate of 6.90%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.90%) or 1-percentage-point higher (7.90%) than the current rate:

	1% Decrease (5.90%)	Current Discount (6.90%)	1% Increase (7.90%)
The System's total net pension liability.....	\$ 128,827,536	\$ 88,089,822	\$ 53,700,750

Contributions: Governmental employers are required to pay an annual appropriation as established by PERAC. The total 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 pension fund appropriations are allocated amongst employers based on the actuarial valuation.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The System has no significant commitments or contingencies at year end.

NOTE 8 – IMPLEMENTATION OF GASB PRONOUNCEMENTS

There were no GASB pronouncements required to be implemented in 2021, that impacted the System's financial statements.

None of the issued GASB statements that are required to be implemented in future years are anticipated to impact the Association's financial statements.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 21, 2022, which is the date the financial statements were available to be issued.

The System carries its investments at fair (market) value in accordance with Generally Accepted Accounting Principles (GAAP). Market value adjustments are recorded monthly. Subsequent to year end, the System's investments in PRIT of \$272.8 million have declined in value by approximately \$28.1 million. The market value decline is consistent with recent trends in the overall financial securities market.

In accordance with GAAP, the System has not recorded the losses in its financial statements as the impairments were not known as of December 31, 2021. The System has recorded the losses associated with the investments during 2022.

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Required Supplementary Information

Salem Contributory Retirement System

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Required Supplementary Information

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS**

	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Total pension liability:				
Service cost.....	\$ 5,854,030	\$ 6,097,323	\$ 6,350,728	\$ 6,879,418
Interest.....	18,557,934	19,386,667	20,274,844	21,023,505
Changes in benefit terms.....	-	-	-	-
Differences between expected and actual experience....	-	-	(5,574,549)	(1,058,253)
Changes in assumptions.....	-	-	12,360,928	5,467,970
Benefit payments.....	(14,146,676)	(13,777,134)	(14,776,958)	(15,699,301)
Net change in total pension liability.....	10,265,288	11,706,856	18,634,993	16,613,339
Total pension liability - beginning.....	240,676,498	250,941,786	262,648,642	281,283,635
Total pension liability - ending (a).....	<u>\$ 250,941,786</u>	<u>\$ 262,648,642</u>	<u>\$ 281,283,635</u>	<u>\$ 297,896,974</u>
Plan fiduciary net position:				
Employer pension appropriation.....	\$ 11,942,341	\$ 12,181,169	\$ 12,527,730	\$ 13,172,909
Member contributions.....	3,939,454	4,121,728	4,311,175	4,488,581
Net investment income (loss).....	9,022,647	659,962	10,046,275	25,387,723
Retirement benefits and refunds.....	(14,146,676)	(13,777,134)	(14,776,958)	(15,699,301)
Administrative expenses.....	(239,169)	(235,249)	(263,091)	(270,574)
Depreciation.....	(3,125)	(3,125)	(3,125)	(3,125)
Net increase (decrease) in fiduciary net position.....	10,515,472	2,947,351	11,842,006	27,076,213
Fiduciary net position - beginning of year.....	123,879,403	135,650,902	138,598,253	150,440,259
Adjustment to include members transferred from Essex Agricultural and Technical School (c).....	1,256,027	-	-	-
Fiduciary net position - end of year (b).....	<u>\$ 135,650,902</u>	<u>\$ 138,598,253</u>	<u>\$ 150,440,259</u>	<u>\$ 177,516,472</u>
Net pension liability - ending (a)-(b).....	<u>\$ 115,290,884</u>	<u>\$ 124,050,389</u>	<u>\$ 130,843,376</u>	<u>\$ 120,380,502</u>
Plan fiduciary net position as a percentage of the total pension liability.....	54.06%	52.77%	53.48%	59.59%
Covered payroll.....	\$ 40,399,678	\$ 42,015,665	\$ 45,841,256	\$ 46,608,505
Net pension liability as a percentage of covered payroll.....	285.38%	295.25%	285.43%	258.28%

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

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

See notes to required supplementary information.

	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
\$	7,179,699	\$ 7,450,413	\$ 7,639,598	\$ 7,887,870
	21,882,675	22,806,632	23,849,121	24,727,136
	-	-	-	5,031,297
	-	1,818,559	-	(6,522,814)
	-	9,780,518	-	6,325,829
	<u>(16,724,907)</u>	<u>(16,876,507)</u>	<u>(18,591,225)</u>	<u>(20,303,576)</u>
	12,337,467	24,979,615	12,897,494	17,145,742
	<u>297,896,974</u>	<u>310,234,441</u>	<u>335,214,056</u>	<u>348,111,550</u>
\$	<u>310,234,441</u>	<u>335,214,056</u>	<u>348,111,550</u>	<u>365,257,292</u>
\$	13,851,313	\$ 14,620,061	\$ 15,431,474	\$ 16,287,922
	4,640,867	4,980,577	5,178,200	5,381,973
	(4,217,149)	27,850,445	24,592,019	44,812,905
	<u>(16,724,907)</u>	<u>(16,876,507)</u>	<u>(18,591,225)</u>	<u>(20,303,576)</u>
	(318,142)	(298,640)	(300,235)	(333,877)
	<u>(3,125)</u>	<u>(3,125)</u>	<u>(3,125)</u>	<u>(3,125)</u>
	(2,771,143)	30,272,811	26,307,108	45,842,222
	<u>177,516,472</u>	<u>174,745,329</u>	<u>205,018,140</u>	<u>231,325,248</u>
	-	-	-	-
\$	<u>174,745,329</u>	<u>205,018,140</u>	<u>231,325,248</u>	<u>277,167,470</u>
\$	<u>135,489,112</u>	<u>130,195,916</u>	<u>116,786,302</u>	<u>88,089,822</u>
	56.33%	61.16%	66.45%	75.88%
\$	48,663,234	\$ 50,117,547	\$ 52,188,241	\$ 53,564,840
	278.42%	259.78%	223.78%	164.45%

SCHEDULE OF CONTRIBUTIONS

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
December 31, 2021.....	\$ 16,287,922	\$ (16,287,922)	\$ -	\$ 53,564,840	30.41%
December 31, 2020.....	15,431,474	(15,431,474)	-	52,188,241	29.57%
December 31, 2019.....	14,620,061	(14,620,061)	-	50,117,547	29.17%
December 31, 2018.....	13,851,313	(13,851,313)	-	48,663,234	28.46%
December 31, 2017.....	13,172,909	(13,172,909)	-	46,608,505	28.26%
December 31, 2016.....	12,527,730	(12,527,730)	-	45,841,256	27.33%
December 31, 2015.....	12,013,685	(12,181,169)	(167,484)	42,015,665	28.99%
December 31, 2014.....	11,942,341	(11,942,341)	-	40,399,678	29.56%

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

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expense
December 31, 2021.....	19.86%
December 31, 2020.....	12.25%
December 31, 2019.....	16.21%
December 31, 2018.....	-2.46%
December 31, 2017.....	17.23%
December 31, 2016.....	7.41%
December 31, 2015.....	0.51%
December 31, 2014.....	7.58%

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

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

See notes to required supplementary information.

NOTE A – 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 System's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

NOTE B – CONTRIBUTIONS

Governmental employers are required to pay an annual appropriation as established by PERAC. The total 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 total appropriation for the City of Salem, Salem and Beverly Water Supply Board, South Essex Sewerage District, Essex Technical High School and Salem Housing Authority is payable on July 1, August 1, August 1, June 30, and August 1, respectively. The pension fund appropriations are allocated amongst employers based on the actuarial valuation. In addition, an employer may contribute more than the amount required.

NOTE C – MONEY-WEIGHTED RATE OF 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.

Audit of Specific Elements, Accounts and Items of Financial Statements

Salem Contributory Retirement System

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***Audit of Specific Elements, Accounts and
Items of Financial Statements***

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Independent Auditor's Report

To the Honorable Salem Contributory Retirement Board
Salem Contributory Retirement System
Salem, Massachusetts

Report on the Audit of the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer

Opinions

We have audited the accompanying schedule of employer allocations of the Salem Contributory Retirement System (the System) as of and for the year ended December 31, 2021, and the related notes. We have also audited the total for all entities of the rows titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, total contributions and total pension expense included in the accompanying schedule pension amounts by employer of the System as of and for the year ended December 31, 2021, and the related notes.

In our opinion, the accompanying schedule of employer allocations and schedule of pension amounts by employer present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, total contributions and total pension expense for the total of all participating entities for the System as of and for the year ended December 31, 2021, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Schedules section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Schedules

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

Auditor's Responsibilities for the Audit of the Schedules

Our objectives are to obtain reasonable assurance about whether the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the schedules.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the schedules.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedules.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter

We have audited, in accordance with GAAS, the financial statements of the Salem Contributory Retirement System as of and for the year ended December 31, 2021, and our report thereon, dated October 21, 2022, expressed an unmodified opinion on those financial statements.

Restriction on Use

This report is intended solely for the information and use of the Salem Contributory Retirement System management, the Salem Contributory Retirement System employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan LLC

October 21, 2022

SCHEDULE OF EMPLOYER ALLOCATIONS

FOR THE YEAR ENDED DECEMBER 31, 2021

Employer	2022 Pension Fund Appropriation	(A) Share of Net Pension Liability	Percent of Total Net Pension Liability
City of Salem.....	\$ 13,676,803	\$ 73,968,131	83.96899%
Salem and Beverly Water Supply Board.....	359,422	1,943,859	2.20668%
South Essex Sewerage District.....	997,333	5,393,867	6.12314%
Essex Technical High School.....	814,104	4,402,912	4.99821%
Salem Housing Authority.....	440,260	2,381,053	2.70298%
Total.....	<u>\$ 16,287,922</u>	<u>\$ 88,089,822</u>	<u>100.00000%</u>

(A) South Essex Sewerage District has made additional contributions to the System which are allocated directly to offset their net pension liability.

See notes to schedule of employer allocations and schedule of pension amounts by employer.

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

FOR THE YEAR ENDED DECEMBER 31, 2021

	City of Salem	Salem and Beverly Water Supply Board	South Essex Sewerage District	Essex Technical High School	Salem Housing Authority	Totals
Net Pension Liability						
Beginning net pension liability.....	\$ 98,141,413	\$ 2,675,710	\$ 7,174,505	\$ 5,771,386	\$ 3,023,288	\$ 116,786,302
Ending net pension liability.....	\$ 73,968,131	\$ 1,943,859	\$ 5,393,867	\$ 4,402,912	\$ 2,381,053	\$ 88,089,822
Deferred Outflows of Resources						
Differences between expected and actual experience.....	\$ 610,811	\$ 16,052	\$ 44,541	\$ 36,358	\$ 19,662	\$ 727,424
Changes of assumptions.....	7,534,430	198,002	549,422	448,483	242,535	8,972,872
Changes in proportion and differences between employer contributions and proportionate share of contributions.....	-	17,604	31,782	140,395	114,411	304,192
Total Deferred Outflows of Resources.....	\$ 8,145,241	\$ 231,658	\$ 625,745	\$ 625,236	\$ 376,608	\$ 10,004,488
Deferred Inflows of Resources						
Differences between expected and actual experience.....	\$ 4,381,713	\$ 115,150	\$ 319,521	\$ 260,820	\$ 141,048	\$ 5,218,252
Net difference between projected and actual investment earnings on pension plan investments.....	26,021,335	683,832	1,897,515	1,548,906	837,633	30,989,221
Changes in proportion and differences between employer contributions and proportionate share of contributions.....	131,459	82,160	19,588	7,426	63,559	304,192
Total Deferred Inflows of Resources.....	\$ 30,534,507	\$ 881,142	\$ 2,236,624	\$ 1,817,152	\$ 1,042,240	\$ 36,511,665
Pension Expense						
Proportionate share of plan pension expense.....	\$ 7,771,282	\$ 204,227	\$ 566,695	\$ 462,582	\$ 250,159	\$ 9,254,945
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions.....	(182,056)	(8,925)	51,189	128,019	11,773	-
Total Employer Pension Expense.....	\$ 7,589,226	\$ 195,302	\$ 617,884	\$ 590,601	\$ 261,932	\$ 9,254,945
Contributions						
Statutory required contribution.....	\$ 13,676,803	\$ 359,422	\$ 997,333	\$ 814,104	\$ 440,260	\$ 16,287,922
Contribution in relation to statutory required contribution.....	(13,676,803)	(359,422)	(997,333)	(814,104)	(440,260)	(16,287,922)
Contribution deficiency/(excess).....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll.....	33.66%	26.85%	19.20%	17.60%	24.77%	30.41%
Deferred (Inflows)/Outflows Recognized in Future Pension Expense						
June 30, 2023.....	\$ (4,116,245)	\$ (118,921)	\$ (285,735)	\$ (189,338)	\$ (133,261)	\$ (4,843,500)
June 30, 2024.....	(7,029,525)	(197,008)	(500,451)	(361,010)	(227,968)	(8,315,962)
June 30, 2025.....	(6,452,391)	(187,529)	(471,593)	(371,048)	(178,487)	(7,661,048)
June 30, 2026.....	(4,791,105)	(146,026)	(353,100)	(270,520)	(125,916)	(5,686,667)
Total Deferred (Inflows)/Outflows Recognized in Future Pension Expense.....	\$ (22,389,266)	\$ (649,484)	\$ (1,610,879)	\$ (1,191,916)	\$ (665,632)	\$ (26,507,177)
Discount Rate Sensitivity						
1% decrease (5.90%).....	\$ 108,175,177	\$ 2,842,809	\$ 7,888,296	\$ 6,439,067	\$ 3,482,187	\$ 128,827,536
Current discount rate (6.90%).....	\$ 73,968,131	\$ 1,943,859	\$ 5,393,867	\$ 4,402,912	\$ 2,381,053	\$ 88,089,822
1% increase (7.90%).....	\$ 45,091,976	\$ 1,185,003	\$ 3,288,174	\$ 2,684,075	\$ 1,451,522	\$ 53,700,750
Covered Payroll.....	\$ 40,628,492	\$ 1,338,447	\$ 5,193,673	\$ 4,626,693	\$ 1,777,535	\$ 53,564,840

See notes to schedule of employer allocations and schedule of pension amounts by employer.

NOTE I – Plan Description

The Salem Contributory Retirement System (the System) is a multiple-employer, cost-sharing, contributory defined benefit pension plan covering all employees of the governmental member units deemed eligible by the Salem Contributory Retirement Board (Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. Membership in the System is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 25 hours per week. As of December 31, 2021, the System had 5 participating employers.

The System is governed by a five-member board of retirement comprised of the City Finance Director (ex-officio), two elected members, a member appointed by the Mayor and a member appointed by the other four members.

The System is a component unit of the City of Salem, is presented using the accrual basis of accounting and is reported within the pension and other postemployment benefit trust fund in the fiduciary fund financial statements of the City. That report may be obtained by contacting the City Finance Director located at City Hall, 93 Washington Street, Salem, MA 01970.

The System also issues a publicly available unaudited financial report in accordance with the guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 20 Central Street #110, Salem, MA 01970.

NOTE II – Schedule of Employer Allocations

Governmental Accounting Standards Board (GASB) Statement #68 requires employers participating in a cost-sharing pension plan to recognize pension liabilities as employees provide services to the government and earn their pension benefits. Employers participating in cost-sharing plans are required to recognize their proportionate share of the System's collective pension amounts for all benefits provided through the plan including the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and contributions.

GASB Statement #68 requires the allocation of the collective pension amounts be consistent with the manner in which contributions to the plan are determined. As permissible under GASB Statement #68, The Schedule of Employer Allocations is used to demonstrate the allocation of Salem Contributory Retirement System's collective pension amounts.

Massachusetts General Law (MGL) Chapter 32 Section 22 Paragraph 7c dictates that Massachusetts cost sharing defined benefit pension plans allocate the annual required pension fund appropriation to employer units based on their proportionate share of the aggregate of the annual rates of regular compensation of all members in service of the System who are employees of any government unit at the close of business on the September 30th immediately preceding the fiscal year. The Public Employee Retirement Administration Commission (PERAC) approves each system's proportionate share of the annual required contribution. PERAC can accept alternative allocation methodologies and as such the System has elected to use an actuarial based allocation methodology. Accordingly, each member unit's proportionate share of the total pension liability has been calculated based on each member unit's actual current employees, retirees and inactive participants. Administrative expenses are allocated in proportion to each member's normal cost. Each member's share on the System's net position at year end is allocated in proportion to the actuarial accrued liability less the present value of future E.R.I. payments and adjusted for additional contributions to the System made by the South Essex Sewerage District and the City of Salem.

Salem Contributory Retirement System

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**Audit of Specific Accounts and Items
of Financial Statements**

When a member unit accepts an Early Retirement Incentive Program (ERIP), PERAC completes an analysis of the costs and liabilities attributable to the additional benefits payable in accordance with the ERIP. The accrued liability for the members who accept the ERIP as retirees, including the ERIP, less the accrued liability for the members as active employees, excluding the ERIP, represents the increase in accrued liability due to the ERIP. The net increase is amortized for each member unit accepting the ERIP and is separately identified in the System's funding schedule.

The allocation percentage of the total net pension liability is a blended rate of the following two items. (1) The proportionate share of active employer's fiscal year 2022 pension fund appropriation as calculated by the actuary, and as adjusted for the additional voluntary employer contributions in excess of the statutory required contribution to reduce their net pension liability. (2) ERIP is a direct charge calculated by PERAC for only the employers that accepted the ERIP.

NOTE III – Schedule of Pension Amounts by Employer

The Schedule of Pension Amounts by Employer presents the net pension liability, the various categories of deferred outflows of resources and deferred inflows of resources, pension expense, covered payroll and contributions for all participating employers including differences between expected and actual economic experience; differences between projected and actual investment earnings, net; and changes of assumptions.

Changes in Assumptions – The discount rate was lowered from 7.15% to 6.90%. The mortality improvement project scale was updated from MP-2017 to MP-2021. The administrative expense assumption was increased to \$400,000 for calendar year 2022 (previously, \$350,000) increasing 3.00% per a year.

Changes in Plan Provisions – The COLA base was increased from \$12,000 to \$15,000.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditor's Report

To the Honorable Salem Contributory Retirement Board
Salem Contributory Retirement System
Salem, Massachusetts

We have audited, in accordance with the 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, the financial statements of the Salem Contributory Retirement System, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Salem Contributory Retirement System's financial statements, and have issued our report thereon dated October 21, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Salem Contributory Retirement System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Salem Contributory Retirement System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Salem Contributory Retirement System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

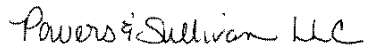
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Salem Contributory Retirement System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



October 21, 2022

SALEM CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

SALEM CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

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Financial Section

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Independent Auditor's Report

To the Honorable Salem Contributory Retirement Board
Salem Contributory Retirement System
Salem, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Salem Contributory Retirement System (the System) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the System's 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 an opinion 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 System'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 System'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of December 31, 2020, and the results of its operations and changes in its financial position 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; Schedule of Changes in the Net Pension Liability and Related Ratios; the Schedule of Contributions; and the Schedule of Investment Returns be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2021 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 System's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of the System, the Public Employee Retirement Commission and all member units and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan LLC

September 29, 2021

Management's Discussion and Analysis

As management of the Salem Contributory Retirement System (System), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2020. The System complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB).

The 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 rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users can assess the financial condition of a public retirement system compared to others.

Financial Highlights

- The System's assets exceeded its liabilities at the close of the most recent year by \$231.3 million (net position, restricted for pensions).
- The System's net position increased by \$26.3 million for the year ended December 31, 2020.
- Total investment income was \$25.6 million; investment expenses were \$983,000; and net investment income totaled \$24.6 million.
- Total contributions were \$21.2 million including \$15.4 million from employers and \$5.2 million from members.
- Retirement benefits, refunds and transfers amounted to \$19.2 million.
- Administrative expenses were \$300,000 or 2% of total deductions.
- The total pension liability was \$348.1 million as of December 31, 2020, while the net pension liability was \$116.8 million.
- The Plan fiduciary net position as a percentage of the total pension liability was 66.45%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's fiduciary financial statements. These fiduciary financial statements comprise of four components: 1) management's discussion and analysis, 2) fiduciary financial statements, 3) notes to the financial statements and 4) required supplementary information.

Fiduciary Financial Statements

The *statement of fiduciary net position* presents information on all assets and deferred outflows less deferred inflows and liabilities with the difference 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 changes in fiduciary net position* presents information showing how the System'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, additions and deductions are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the fiduciary financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis; Schedule of Changes in the Net Pension Liability and Related Ratios; the Schedule of Contributions; and the Schedule of Investment Returns be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the System's financial position. The System's assets exceeded liabilities (net position) by \$231.3 million at the close of 2020.

The assets accumulated are held to provide pension benefits for qualified retirees along with active and inactive employees of the member units. At year end the System's net position include investments of \$230.8 million, cash and cash equivalents of \$444,000, receivables of \$6,000 and capital assets, net of accumulated depreciation of \$76,000.

In 2020, the System's contributions totaled \$21.2 million and net investment income totaled \$24.6 million, while retirement benefit payments, refunds, transfers, depreciation and administration expenses totaled \$19.5 million which resulted in an increase of \$26.3 million. In 2019, the System's contributions totaled \$21 million and net investment income totaled \$27.9 million, while retirement benefit payments, refunds, transfers, depreciation, and administration expenses were \$18.5 million which resulted in a prior year increase of \$30.3 million.

Net investment income was \$24.6 million and \$27.9 million in 2020, and 2019, respectively. The annual money weighted rate of return was 12.25% and 16.21% in 2020, and 2019, respectively. The System's investment policy is designed to achieve a long-term rate of return of 7.15% and fluctuation in annual investment returns is expected.

The key reason for the \$26.3 million increase in the fiduciary net position from 2019, to 2020, was the \$24.6 million net investment income.

The following tables present summarized financial information for the past two years:

	2020	2019
Assets:		
Cash and cash equivalents.....	\$ 444,309	\$ 368,426
Investments.....	230,808,612	204,567,494
Receivables.....	6,018	10,570
Capital assets, net of accumulated depreciation....	75,781	78,906
Total assets.....	231,334,720	205,025,396
Liabilities:		
Warrants payable.....	9,472	7,256
Net Position Restricted for Pension.....	\$ 231,325,248	\$ 205,018,140

	2020	2019
Additions:		
Contributions:		
Employer contributions.....	\$ 15,431,474	\$ 14,620,061
Member contributions.....	5,168,562	4,947,814
Other contributions.....	606,496	1,391,885
Total contributions.....	21,206,532	20,959,760
Net investment income.....	24,592,019	27,850,445
Total additions.....	45,798,551	48,810,205
Deductions:		
Administration.....	300,235	298,640
Retirement benefits, refunds and transfers.....	19,188,083	18,235,629
Depreciation.....	3,125	3,125
Total deductions.....	19,491,443	18,537,394
Net increase (decrease) in fiduciary net position.....	26,307,108	30,272,811
Fiduciary net position at beginning of year.....	205,018,140	174,745,329
Fiduciary net position at end of year.....	\$ 231,325,248	\$ 205,018,140

Requests for Information

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the System's Executive Director, 20 Central Street, Suite 110, Salem, Massachusetts, 01970.

Financial Statements

Salem Contributory Retirement System

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Financial Statements

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2020

Assets

Cash and cash equivalents.....	\$	444,309
Investments:		
Investments in Pension Reserve Investment Trust.....		227,432,162
Repurchase agreements.....		3,360,493
Alternative investments.....		<u>15,957</u>
Total investments.....		<u>230,808,612</u>
Receivables:		
Other accounts receivable.....		<u>6,018</u>
Capital assets, net of accumulated depreciation.....		<u>75,781</u>
Total Assets.....		<u>231,334,720</u>

Liabilities

Warrants payable.....		<u>9,472</u>
Net Position Restricted for Pensions.....	\$	<u>231,325,248</u>

See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED DECEMBER 31, 2020

Additions:

Contributions:

Employer pension appropriation.....	\$ 15,431,474
Member contributions.....	5,168,562
Transfers from other systems.....	322,584
3(8)(c) contributions from other systems.....	167,688
Workers' compensation settlements.....	18,000
State COLA reimbursements.....	88,586
Members' makeup payments and redeposits.....	1,839
Reimbursement of 91A overearnings.....	7,799

Total contributions..... 21,206,532

Net investment income:

Investment income.....	25,575,093
Less: investment expense.....	(983,074)

Net investment income..... 24,592,019

Total additions..... 45,798,551

Deductions:

Administration.....	300,235
Retirement benefits and refunds.....	18,089,089
Transfers to other systems.....	306,989
3(8)(c) transfer to other systems.....	792,005
Depreciation.....	3,125

Total deductions..... 19,491,443

Net increase in fiduciary net position..... 26,307,108

Fiduciary net position at beginning of year..... 205,018,140

Fiduciary net position at end of year..... \$ 231,325,248

See notes to financial statements.

NOTE 1 – PLAN DESCRIPTION

The Salem Contributory Retirement System (the System) is a multiple-employer, cost-sharing, contributory defined benefit pension plan covering all employees of the governmental member units deemed eligible by the Salem Contributory Retirement Board (Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. Membership in the System is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 25 hours per week. As of December 31, 2020, the System had 5 participating employers.

The System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. The Public Employee Retirement Administration Commission (PERAC) is the state agency responsible for oversight of the commonwealth public retirement system.

Massachusetts contributory retirement system benefits are, with certain exceptions, uniform from system to system. The System 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 those hired prior to April 2, 2012 and the highest five-year average for members hired after that date. 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. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension.

Active members contribute between 5 and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by PERAC's actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' 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 System and all costs are borne by the System.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status and group classification.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the System 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.

Due to the significance of its operational and functional relationship with the City of Salem, the System is included as a component unit in the City of Salem's basic financial statements.

The System is a special-purpose government engaged only in fiduciary activities. Accordingly, the financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, additions are recorded when earned and deductions are recorded when the liabilities are incurred.

Cash and Investments

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. The fair value of private equities are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values. Real estate assets are reported at fair value utilizing an income approach to valuation along with independent appraisals and estimates by management.

Fair Value Measurement

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

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

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

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

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

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

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the System's financial instruments, see Note 4 – Cash and Investments.

Accounts Receivable

Accounts receivable consist of member deductions, amounts due from other systems, and other miscellaneous reimbursements. These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of fiduciary 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 fiduciary net position that applies to a future period(s) and so will not be recognized as an outflow of resources (deduction) until then. The System did not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of fiduciary 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 (addition) until that time. The System did not have any items that qualify for reporting in this category.

NOTE 3 – PLAN ADMINISTRATION

The System is administered by a five-person Board of Retirement consisting of two representatives of the City of Salem government, two who are elected from and by the active and retired members of the System, and a fifth member, selected by the four who shall not be a member of the System.

Ex-Officio Member.....	Anna Freedman	Term Expires:	N/A
Elected Member.....	Marcia A. Pelletier	Term Expires:	12/3/2023
Elected Member.....	Sarah M. Hayes	Term Expires:	12/1/2021
Mayor's Appointment (Chair).....	Dominick Pangallo	Term Expires:	4/1/2022
Fifth Member.....	Vacant	Term Expires:	N/A

Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the System. The Board must annually file a financial statement of condition for the System with the Executive Director of PERAC.

The investment of the System's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the System has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by three persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer-Custodian:	MACRS Blanket Policy
Ex-Officio Member:	\$50,000,000 Fiduciary Liability
Elected Members:	\$1,000,000 Fidelity (ERISA) Bond
Appointed Members:	St. Paul Travelers Insurance Company
Staff Employees:	National Union Fire Arch Insurance Company

NOTE 4 – CASH AND INVESTMENTS

Custodial Credit Risk - Deposits

At December 31, 2020, the carrying amount of the System's deposits totaled \$444,309, and the bank balance totaled \$461,431, which was covered by Federal Depository Insurance.

Investments

The System's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Under 1 Year</u>
Repurchase agreements.....	\$ 3,360,493	\$ 3,360,493
Pooled alternative investments.....	15,957	
Pension Reserve Investment Trust (PRIT).....	<u>227,432,162</u>	
Total investments.....	\$ <u>230,808,612</u>	

Approximately 99% of the System's investments are in the Pension Reserve Investment Trust (PRIT). This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board. The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The Administration does not have the ability to control any of the investment decisions relative to its funds in PRIT. The effective weighted duration rate for PRIT investments ranged from 0.019 to 16.28 years.

Less than 1% of the System's funds are invested in pooled alternative investments. The market values of assets in those funds are based on the quoted values obtained from each pool.

The System's annual money-weighted rate of return on pension plan investments was 12.25%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for

the changing amounts actually invested, measured monthly.

The System holds investments that are measured at fair value on a recurring basis. Because investing is a key part of the System's activities, the System shows greater disaggregation in its disclosures. The System chooses a tabular format for disclosing the levels within the fair value hierarchy. The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The System had the following recurring fair value measurements as of December 31, 2020:

Investment Type	December 31, 2020	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
Repurchase agreements.....	\$ 3,360,493	\$ -	\$ -	\$ 3,360,493
Pooled alternative investments.....	15,957	-	-	15,957
Total investments measured at fair value.....	3,376,450	\$ -	\$ -	\$ 3,376,450
Investments measured at net asset value:				
Pension Reserve Investment Trust (PRIT).....	227,432,162			
Total investments.....	\$ 230,808,612			

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

PRIT investments are valued using the net asset value (NAV) method.

NOTE 5 – MEMBERSHIP

The following table represents the System's membership as of the valuation date, January 1, 2020:

Active members.....	922
Inactive members.....	290
Retirees and beneficiaries currently receiving benefits.....	610
Total.....	<u>1,822</u>

NOTE 6 – ACTUARIAL VALUATION

Components of the net pension liability as of December 31, 2020, were as follows:

Total pension liability.....	\$ 348,111,550
Total pension plan's fiduciary net position.....	<u>(231,325,248)</u>
Total net pension liability.....	<u>\$ 579,436,798</u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....	-66.45%

The total pension liability was determined by an actuarial valuation as of January 1, 2020, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2020:

Valuation date.....	January 1, 2020
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	Appropriation increasing 5.55% per year through 2032.
Remaining amortization period.....	As of July 1, 2021, 11 years.
Asset valuation method.....	The difference between the expected return and the actual investment return on a fair value basis is recognized over a five-year period. Asset value is adjusted as necessary to be within 20% of the market value.
Investment rate of return / Discount rate.....	7.15%, net of plan investment expenses, including inflation.
Wage inflation rate.....	3.00%.
Projected salary increases.....	Varies by length of service with ultimate rates of 3.75% for Group 1, 4.00% for Group 2, and 4.25% for Group 4.
Cost of living adjustments.....	3.00% of first \$12,000 of the annual retirement allowance.

Mortality Rates:

Pre-Retirement.....	RP-2014 Blue Collar Employee Mortality Table set forward one year for female participants projected generationally using Scale MP-2017.
Healthy Retiree.....	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year for female participants projected generationally using Scale MP-2017.
Disabled Retiree.....	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year projected generationally using Scale MP-2017.

Investment policy: The System's policy in regard to the allocation of invested assets is established by PRIT. System 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 expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption as of December 31, 2020, are summarized in the following table:

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity.....	22.0%	6.28%
International developed markets equity.....	12.0%	7.00%
International emerging markets equity.....	5.0%	8.88%
Core fixed income.....	15.0%	0.38%
High-yield fixed income.....	8.0%	2.97%
Real estate.....	10.0%	3.50%
Timber.....	4.0%	3.45%
Hedge fund, GTAA, risk parity.....	10.0%	2.35%
Private equity.....	14.0%	10.11%
Total.....	100.00%	

Discount rate: The discount rate used to measure the total pension liability was 7.15% at December 31, 2020, and December 31, 2019. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

	1% Decrease (6.15%)	Current Discount (7.15%)	1% Increase (8.15%)
The System's total net pension liability..... \$	<u>155,161,349</u>	<u>\$ 116,786,302</u>	<u>\$ 84,405,504</u>

Contributions: Governmental employers are required to pay an annual appropriation as established by PERAC. The total 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 pension fund appropriations are allocated amongst employers based on the actuarial valuation.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The System has no significant commitments or contingencies at year end.

NOTE 8 – IMPLEMENTATION OF GASB PRONOUNCEMENTS

In May of 2020, the GASB issued Statement #95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. This Statement postponed the required implementation of many of the upcoming Statements for one year or longer.

There were no GASB pronouncements required to be implemented in 2020, that impacted the System's financial statements.

None of the issued GASB statements that are required to be implemented in future years are anticipated to impact the Association's financial statements.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 29, 2021, which is the date the financial statements were available to be issued.

Required Supplementary Information

Salem Contributory Retirement System

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Required Supplementary Information

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS**

	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Total pension liability:				
Service cost.....	\$ 5,854,030	\$ 6,097,323	\$ 6,350,728	\$ 6,879,418
Interest.....	18,557,934	19,386,667	20,274,844	21,023,505
Changes in benefit terms.....	-	-	-	-
Differences between expected and actual experience....	-	-	(5,574,549)	(1,058,253)
Changes in assumptions.....	-	-	12,360,928	5,467,970
Benefit payments.....	(14,146,676)	(13,777,134)	(14,776,958)	(15,699,301)
Net change in total pension liability.....	10,265,288	11,706,856	18,634,993	16,613,339
Total pension liability - beginning.....	240,676,498	250,941,786	262,648,642	281,283,635
Total pension liability - ending (a).....	<u>\$ 250,941,786</u>	<u>\$ 262,648,642</u>	<u>\$ 281,283,635</u>	<u>\$ 297,896,974</u>
Plan fiduciary net position:				
Employer pension appropriation.....	\$ 11,942,341	\$ 12,181,169	\$ 12,527,730	\$ 13,172,909
Member contributions.....	3,939,454	4,121,728	4,311,175	4,488,581
Net investment income (loss).....	9,022,647	659,962	10,046,275	25,387,723
Retirement benefits and refunds.....	(14,146,676)	(13,777,134)	(14,776,958)	(15,699,301)
Administrative expenses.....	(239,169)	(235,249)	(263,091)	(270,574)
Depreciation.....	(3,125)	(3,125)	(3,125)	(3,125)
Net increase (decrease) in fiduciary net position.....	10,515,472	2,947,351	11,842,006	27,076,213
Fiduciary net position - beginning of year.....	123,879,403	135,650,902	138,598,253	150,440,259
Adjustment to include members transferred from Essex Agricultural and Technical School (c).....	1,256,027	-	-	-
Fiduciary net position - end of year (b).....	<u>\$ 135,650,902</u>	<u>\$ 138,598,253</u>	<u>\$ 150,440,259</u>	<u>\$ 177,516,472</u>
Net pension liability - ending (a)-(b).....	<u>\$ 115,290,884</u>	<u>\$ 124,050,389</u>	<u>\$ 130,843,376</u>	<u>\$ 120,380,502</u>
Plan fiduciary net position as a percentage of the total pension liability.....	54.06%	52.77%	53.48%	59.59%
Covered payroll.....	\$ 40,399,678	\$ 42,015,665	\$ 45,841,256	\$ 46,608,505
Net pension liability as a percentage of covered payroll.....	285.38%	295.25%	285.43%	258.28%

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

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

See notes to required supplementary information.

	December 31, 2018	December 31, 2019	December 31, 2020
\$	7,179,699	\$ 7,450,413	\$ 7,639,598
	21,882,675	22,806,632	23,849,121
	-	-	-
	-	1,818,559	-
	-	9,780,518	-
	<u>(16,724,907)</u>	<u>(16,876,507)</u>	<u>(18,591,225)</u>
	12,337,467	24,979,615	12,897,494
	<u>297,896,974</u>	<u>310,234,441</u>	<u>335,214,056</u>
\$	<u>310,234,441</u>	\$ <u>335,214,056</u>	\$ <u>348,111,550</u>
\$	13,851,313	\$ 14,620,061	\$ 15,431,474
	4,640,867	4,980,577	5,178,200
	(4,217,149)	27,850,445	24,592,019
	(16,724,907)	(16,876,507)	(18,591,225)
	(318,142)	(298,640)	(300,235)
	<u>(3,125)</u>	<u>(3,125)</u>	<u>(3,125)</u>
	(2,771,143)	30,272,811	26,307,108
	<u>177,516,472</u>	<u>174,745,329</u>	<u>205,018,140</u>
	-	-	-
\$	<u>174,745,329</u>	\$ <u>205,018,140</u>	\$ <u>231,325,248</u>
\$	<u>135,489,112</u>	\$ <u>130,195,916</u>	\$ <u>116,786,302</u>
	56.33%	61.16%	66.45%
\$	48,663,234	\$ 50,117,547	\$ 52,188,241
	278.42%	259.78%	223.78%

SCHEDULE OF CONTRIBUTIONS

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
December 31, 2020.....	\$ 15,431,474	\$ (15,431,474)	\$ -	\$ 52,188,241	29.57%
December 31, 2019.....	14,620,061	(14,620,061)	-	50,117,547	29.17%
December 31, 2018.....	13,851,313	(13,851,313)	-	48,663,234	28.46%
December 31, 2017.....	13,172,909	(13,172,909)	-	46,608,505	28.26%
December 31, 2016.....	12,527,730	(12,527,730)	-	45,841,256	27.33%
December 31, 2015.....	12,013,685	(12,181,169)	(167,484)	42,015,665	28.99%
December 31, 2014.....	11,942,341	(11,942,341)	-	40,399,678	29.56%

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

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expense
December 31, 2020.....	12.25%
December 31, 2019.....	16.21%
December 31, 2018.....	-2.46%
December 31, 2017.....	17.23%
December 31, 2016.....	7.41%
December 31, 2015.....	0.51%
December 31, 2014.....	7.58%

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

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

See notes to required supplementary information.

NOTE A – 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 System's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

NOTE B – CONTRIBUTIONS

Governmental employers are required to pay an annual appropriation as established by PERAC. The total 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 total appropriation for the City of Salem, Salem and Beverly Water Supply Board, South Essex Sewerage District, Essex Technical High School and Salem Housing Authority is payable on July 1, August 1, August 1, June 30, and August 1, respectively. The pension fund appropriations are allocated amongst employers based on the actuarial valuation. In addition, an employer may contribute more than the amount required.

NOTE C – MONEY-WEIGHTED RATE OF 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.

Audit of Specific Elements, Accounts and Items of Financial Statements

Salem Contributory Retirement System

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***Audit of Specific Elements, Accounts and
Items of Financial Statements***

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Independent Auditor's Report

To the Honorable Salem Contributory Retirement Board
Salem Contributory Retirement System
Salem, Massachusetts

We have audited the accompanying schedule of employer allocations of the Salem Contributory Retirement System (the System) as of and for the year ended December 31, 2020, and the related notes. We have also audited the total for all entities of the rows titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, covered payroll, total pension expense and contributions included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended December 31, 2020, and the related notes.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules 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 the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified row totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer 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 System'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 schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer.

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

Opinions

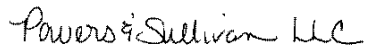
In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, covered payroll, total pension expense and contributions for the total of all participating entities for the System as of and for the year ended December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the System as of and for the year ended December 31, 2020, and our report thereon, dated September 29, 2021, expressed an unmodified opinion on those financial statements.

Restriction on Use

This report is intended solely for the information and use of the System management, the System employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Powers & Sullivan LLC".

September 29, 2021

SCHEDULE OF EMPLOYER ALLOCATIONS

FOR THE YEAR ENDED DECEMBER 31, 2020

Employer	2021 Pension Fund Appropriation	(A) Share of Net Pension Liability	Percent of Total Net Pension Liability
City of Salem.....	\$ 12,967,845	\$ 98,141,413	84.03504%
Salem and Beverly Water Supply Board.....	353,553	2,675,710	2.29112%
South Essex Sewerage District.....	947,998	7,174,505	6.14328%
Essex Technical High School.....	762,598	5,771,386	4.94183%
Salem Housing Authority.....	399,480	3,023,288	2.58874%
Total.....	<u>\$ 15,431,474</u>	<u>\$ 116,786,302</u>	<u>100.00000%</u>

(A) South Essex Sewerage District has made additional contributions to the System which are allocated directly to offset their net pension liability.

See notes to schedule of employer allocations and schedule of pension amounts by employer.

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

FOR THE YEAR ENDED DECEMBER 31, 2020

	City of Salem	Salem and Beverly Water Supply Board	South Essex Sewerage District	Essex Technical High School	Salem Housing Authority	Totals
Net Pension Liability						
Beginning net pension liability.....	\$ 109,428,044	\$ 2,972,159	\$ 7,985,758	\$ 6,443,701	\$ 3,366,254	\$ 130,195,916
Ending net pension liability.....	\$ 98,141,413	\$ 2,675,710	\$ 7,174,505	\$ 5,771,386	\$ 3,023,288	\$ 116,786,302
Deferred Outflows of Resources						
Differences between expected and actual experience.....	\$ 916,937	\$ 24,999	\$ 67,031	\$ 53,922	\$ 28,247	\$ 1,091,136
Changes of assumptions.....	5,850,440	159,505	427,689	344,046	180,226	6,961,906
Changes in proportion and differences between employer contributions and proportionate share of contributions.....	-	29,221	87,870	203,584	19,003	339,678
Total Deferred Outflows of Resources.....	\$ 6,767,377	\$ 213,725	\$ 582,590	\$ 601,552	\$ 227,476	\$ 8,392,720
Deferred Inflows of Resources						
Differences between expected and actual experience.....	\$ 177,860	\$ 4,849	\$ 13,002	\$ 10,459	\$ 5,479	\$ 211,649
Net difference between projected and actual investment earnings on pension plan investments.....	10,659,901	290,629	779,278	626,876	328,383	12,685,067
Changes in proportion and differences between employer contributions and proportionate share of contributions.....	233,177	-	-	11,162	95,339	339,678
Total Deferred Inflows of Resources.....	\$ 11,070,938	\$ 295,478	\$ 792,280	\$ 648,497	\$ 429,201	\$ 13,236,394
Pension Expense						
Proportionate share of plan pension expense.....	\$ 10,353,796	\$ 282,284	\$ 756,901	\$ 608,874	\$ 318,953	\$ 12,320,808
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions.....	(172,908)	11,473	63,563	114,024	(16,152)	-
Total Employer Pension Expense.....	\$ 10,180,888	\$ 293,757	\$ 820,464	\$ 722,898	\$ 302,801	\$ 12,320,808
Contributions						
Statutory required contribution.....	\$ 12,967,845	\$ 353,553	\$ 947,998	\$ 762,598	\$ 399,480	\$ 15,431,474
Contribution in relation to statutory required contribution.....	(12,967,845)	(353,553)	(947,998)	(762,598)	(399,480)	(15,431,474)
Contribution deficiency/(excess).....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll.....	31.60%	29.69%	22.31%	17.90%	27.60%	29.57%
Deferred (Inflows)/Outflows Recognized in Future Pension Expense						
June 30, 2022.....	\$ (1,076,228)	\$ (13,200)	\$ (10,454)	\$ 60,777	\$ (44,060)	\$ (1,083,165)
June 30, 2023.....	675,418	27,817	67,534	80,705	(8,307)	843,167
June 30, 2024.....	(2,240,157)	(53,201)	(147,881)	(89,009)	(99,047)	(2,629,295)
June 30, 2025.....	(1,662,594)	(43,169)	(118,889)	(99,418)	(50,311)	(1,974,381)
Total Deferred (Inflows)/Outflows Recognized in Future Pension Expense.....	\$ (4,303,561)	\$ (81,753)	\$ (209,690)	\$ (46,945)	\$ (201,725)	\$ (4,843,674)
Discount Rate Sensitivity						
1% decrease (6.15%).....	\$ 130,389,898	\$ 3,554,927	\$ 9,531,990	\$ 7,667,817	\$ 4,016,717	\$ 155,161,349
Current discount rate (7.15%).....	\$ 98,141,413	\$ 2,675,710	\$ 7,174,505	\$ 5,771,386	\$ 3,023,288	\$ 116,786,302
1% increase (8.15%).....	\$ 70,932,718	\$ 1,933,897	\$ 5,185,447	\$ 4,171,329	\$ 2,185,113	\$ 84,408,504
Covered Payroll.....	\$ 41,040,710	\$ 1,190,635	\$ 4,248,372	\$ 4,261,286	\$ 1,447,238	\$ 52,188,241

See notes to schedule of employer allocations and schedule of pension amounts by employer.

NOTE I – Plan Description

The Salem Contributory Retirement System (the System) is a multiple-employer, cost-sharing, contributory defined benefit pension plan covering all employees of the governmental member units deemed eligible by the Salem Contributory Retirement Board (Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. Membership in the System is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 25 hours per week. As of December 31, 2020, the System had 5 participating employers.

The System is governed by a five-member board of retirement comprised of the City Finance Director (ex-officio), two elected members, a member appointed by the Mayor and a member appointed by the other four members.

The System is a component unit of the City of Salem, is presented using the accrual basis of accounting and is reported within the pension and other postemployment benefit trust fund in the fiduciary fund financial statements of the City. That report may be obtained by contacting the City Finance Director located at City Hall, 93 Washington Street, Salem, MA 01970.

The System also issues a publicly available unaudited financial report in accordance with the guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 20 Central Street #110, Salem, MA 01970.

NOTE II – Schedule of Employer Allocations

Governmental Accounting Standards Board (GASB) Statement #68 requires employers participating in a cost-sharing pension plan to recognize pension liabilities as employees provide services to the government and earn their pension benefits. Employers participating in cost-sharing plans are required to recognize their proportionate share of the System's collective pension amounts for all benefits provided through the plan including the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and contributions.

GASB Statement #68 requires the allocation of the collective pension amounts be consistent with the manner in which contributions to the plan are determined. As permissible under GASB Statement #68, The Schedule of Employer Allocations is used to demonstrate the allocation of Salem Contributory Retirement System's collective pension amounts.

Massachusetts General Law (MGL) Chapter 32 Section 22 Paragraph 7c dictates that Massachusetts cost sharing defined benefit pension plans allocate the annual required pension fund appropriation to employer units based on their proportionate share of the aggregate of the annual rates of regular compensation of all members in service of the System who are employees of any government unit at the close of business on the September 30th immediately preceding the fiscal year. The Public Employee Retirement Administration Commission (PERAC) approves each system's proportionate share of the annual required contribution. PERAC can accept alternative allocation methodologies and as such the System has elected to use an actuarial based allocation methodology. Accordingly, each member unit's proportionate share of the total pension liability has been calculated based on each member unit's actual current employees, retirees and inactive participants. Administrative expenses are allocated in proportion to each member's normal cost. Each member's share on the System's net position at year end is allocated in proportion to the actuarial accrued liability less the present value of future E.R.I. payments and adjusted for additional contributions to the System made by the South Essex Sewerage District and the City of Salem.

Salem Contributory Retirement System

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**Audit of Specific Elements Accounts and Items
of Financial Statements**

When a member unit accepts an Early Retirement Incentive Program (E.R.I. or ERIP), PERAC completes an analysis of the costs and liabilities attributable to the additional benefits payable in accordance with the ERIP. The accrued liability for the members who accept the ERIP as retirees including the ERIP less the accrued liability for the members as active employees excluding the ERIP represents the increase in accrued liability due to the ERIP. The net increase is amortized for each member unit accepting the ERIP and is separately identified in the System's funding schedule. There are currently no ERIP's being amortized.

The allocation percentage of the total net pension liability is a blended rate of the following two items. (1) The proportionate share of active employer's fiscal year 2021 pension fund appropriation as calculated by the actuary, and as adjusted for the additional voluntary employer contributions in excess of the statutory required contribution to reduce their net pension liability. (2) ERIP is a direct charge calculated by PERAC for only the employers that accepted the ERIP.

NOTE III – Schedule of Pension Amounts by Employer

The Schedule of Pension Amounts by Employer presents the net pension liability, the various categories of deferred outflows of resources and deferred inflows of resources, pension expense, covered payroll and contributions for all participating employers including differences between expected and actual economic experience; differences between projected and actual investment earnings, net; and changes of assumptions.

Changes in Assumptions – None.

Changes in Plan Provisions – None.

SALEM CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

SALEM CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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Financial Section



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Independent Auditor's Report

To the Honorable Salem Contributory Retirement Board
Salem Contributory Retirement System
Salem, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Salem Contributory Retirement System (the System) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Salem Contributory Retirement System's 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 an opinion 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 System'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 System'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Salem Contributory Retirement System as of December 31, 2019, and the results of its operations and changes in its financial position 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; Schedule of Changes in the Net Pension Liability and Related Ratios; the Schedule of Contributions; and the Schedule of Investment Returns be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020 on our consideration of the Salem Contributory Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Salem Contributory Retirement System's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of the Salem Contributory Retirement System, the Public Employee Retirement Commission and all member units and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan LLC

October 30, 2020

Management's Discussion and Analysis

As management of the Salem Contributory Retirement System, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2019. The System complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB).

The 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 rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users can assess the financial condition of a public retirement system compared to others.

Financial Highlights

- The System's assets exceeded its liabilities at the close of the most recent year by \$205 million (net position, restricted for pensions).
- The System's net position increased by \$30.3 million for the year ended December 31, 2019.
- Total investment income was \$28.8 million; investment expenses were \$967,000; and net investment income totaled \$27.9 million.
- Total contributions were \$21 million including \$14.6 million from employers and \$4.9 million from members.
- Retirement benefits, refunds and transfers amounted to \$18.2 million.
- Administrative expenses were \$299,000 or 2% of total deductions.
- The total pension liability is \$335.2 million as of December 31, 2019, while the net pension liability is \$130.2 million.
- The Plan fiduciary net position as a percentage of the total pension liability is 61.16%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's fiduciary financial statements. These fiduciary financial statements comprise of four components: 1) management's discussion and analysis, 2) fiduciary financial statements, 3) notes to the financial statements and 4) required supplementary information.

Fiduciary Financial Statements

The *statement of fiduciary net position* presents information on all assets and deferred outflows less deferred inflows and liabilities with the difference 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 changes in fiduciary net position* presents information showing how the System'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, additions and deductions are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the fiduciary financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis; Schedule of Changes in the Net Pension Liability and Related Ratios; the Schedule of Contributions; and the Schedule of Investment Returns be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the System's financial position. The System's assets exceeded liabilities (net position) by \$205 million at the close of 2019.

The assets accumulated are held to provide pension benefits for qualified retirees along with active and inactive employees of the member units. At year end the System's net position include investments of \$204.6 million, cash and cash equivalents of \$368,000, receivables of \$11,000 and capital assets, net of accumulated depreciation of \$79,000.

In 2019, the System's contributions totaled \$21 million and net investment income totaled \$27.9 million, while retirement benefit payments, refunds, transfers, depreciation and administration expenses totaled \$18.5 million which resulted in an increase of \$30.3 million. In 2018, the System's contributions totaled \$19.3 million and net investment loss totaled \$4.2 million, while retirement benefit payments, refunds, transfers, depreciation, and administration expenses were \$17.9 million which resulted in a prior year decrease of \$2.8 million.

Net investment income/(loss) was \$27.9 million and \$(4.2) million in 2019 and 2018, respectively. The annual money weighted rate of return was 16.21% and (2.46)% in 2019 and 2018, respectively. The System's investment policy is designed to achieve a long-term rate of return of 7.15% and fluctuation in annual investment returns is expected.

The key reason for the \$30.3 million increase in the net income from 2018 to 2019 was the \$27.9 million net investment income.

The following tables present summarized financial information for the past two years:

	2019	2018
Assets:		
Cash and cash equivalents.....	\$ 368,426	\$ 256,328
Investments.....	204,567,494	174,367,182
Receivables.....	10,570	56,390
Capital assets, net of accumulated depreciation....	78,906	82,031
Total assets.....	205,025,396	174,761,931
Liabilities:		
Warrants payable.....	7,256	16,602
Net Position Restricted for Pension Benefits.....	\$ 205,018,140	\$ 174,745,329

	2019	2018
Additions:		
Contributions:		
Employer contributions.....	\$ 14,620,061	\$ 13,851,313
Member contributions.....	4,947,814	4,640,867
Other contributions.....	1,391,885	852,496
Total contributions.....	20,959,760	19,344,676
Net investment income (loss).....	27,850,445	(4,217,149)
Total additions.....	48,810,205	15,127,527
Deductions:		
Administration.....	298,640	318,142
Retirement benefits, refunds and transfers.....	18,235,629	17,577,403
Depreciation.....	3,125	3,125
Total deductions.....	18,537,394	17,898,670
Net increase (decrease) in fiduciary net position.....	30,272,811	(2,771,143)
Fiduciary net position at beginning of year.....	174,745,329	177,516,472
Fiduciary net position at end of year.....	\$ 205,018,140	\$ 174,745,329

Requests for Information

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the System's Executive Director, 20 Central Street, Suite 110, Salem, Massachusetts, 01970.

Financial Statements

Salem Contributory Retirement System

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Financial Statements

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2019

Assets

Cash and cash equivalents.....	\$	368,426
Investments:		
Investments in Pension Reserve Investment Trust.....		201,946,301
Repurchase agreements.....		2,551,401
Alternative investments.....		<u>69,792</u>
Total investments.....		<u>204,567,494</u>
Receivables:		
Reimbursements from other systems.....		<u>10,570</u>
Capital assets, net of accumulated depreciation.....		<u>78,906</u>
Total Assets.....		<u>205,025,396</u>

Liabilities

Warrants payable.....		<u>7,256</u>
Net Position Restricted for Pensions.....	\$	<u>205,018,140</u>

See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED DECEMBER 31, 2019

Additions:

Contributions:

Employer pension appropriation.....	\$ 14,620,061
Member contributions.....	4,947,814
Transfers from other systems.....	1,064,570
3(8)(c) contributions from other systems.....	180,055
Workers' compensation settlements.....	8,300
State COLA reimbursements.....	106,197
Members' makeup payments and redeposits.....	24,485
Reimbursement of 91A overearnings.....	8,278

Total contributions..... 20,959,760

Net investment income:

Investment income.....	28,816,976
Less: investment expense.....	(966,531)

Net investment income..... 27,850,445

Total additions..... 48,810,205

Deductions:

Administration.....	298,640
Retirement benefits and refunds.....	17,217,491
Transfers to other systems.....	329,234
3(8)(c) transfer to other systems.....	688,904
Depreciation.....	3,125

Total deductions..... 18,537,394

Net increase in fiduciary net position..... 30,272,811

Fiduciary net position at beginning of year..... 174,745,329

Fiduciary net position at end of year..... \$ 205,018,140

See notes to financial statements.

NOTE 1 – PLAN DESCRIPTION

The Salem Contributory Retirement System (the System) is a multiple-employer, cost-sharing, contributory defined benefit pension plan covering all employees of the governmental member units deemed eligible by the Salem Contributory Retirement Board (Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. Membership in the System is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 25 hours per week. As of December 31, 2019, the System had 5 participating employers.

The System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. The Public Employee Retirement Administration Commission (PERAC) is the state agency responsible for oversight of the commonwealth public retirement system.

Massachusetts contributory retirement system benefits are, with certain exceptions, uniform from system to system. The System 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 those hired prior to April 2, 2012 and the highest five-year average for members hired after that date. 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. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension.

Active members contribute between 5 and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by PERAC's actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' 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 System and all costs are borne by the System.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status and group classification.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the System 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.

Due to the significance of its operational and functional relationship with the City of Salem, the System is included as a component unit in the City of Salem's basic financial statements.

The System is a special-purpose government engaged only in fiduciary activities. Accordingly, the financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, additions are recorded when earned and deductions are recorded when the liabilities are incurred.

Cash and Investments

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. The fair value of private equities are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values. Real estate assets are reported at fair value utilizing an income approach to valuation along with independent appraisals and estimates by management.

Fair Value Measurement

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

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

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

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

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

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

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the System's financial instruments, see Note 4 – Cash and Investments.

Accounts Receivable

Accounts receivable consist of member deductions, amounts due from other systems, and other miscellaneous reimbursements. These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of fiduciary 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 fiduciary net position that applies to a future period(s) and so will not be recognized as an outflow of resources (deduction) until then. The System did not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of fiduciary 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 (addition) until that time. The System did not have any items that qualify for reporting in this category.

NOTE 3 – PLAN ADMINISTRATION

The System is administered by a five-person Board of Retirement consisting of two representatives of the City of Salem government, two who are elected from and by the active and retired members of the System, and a fifth member, selected by the four who shall not be a member of the System.

Ex-Officio Member.....	Laurie Giardella	Term Expires:	N/A
Elected Member.....	Marcia A. Pelletier	Term Expires:	12/3/2020
Elected Member.....	Sarah M. Hayes	Term Expires:	12/1/2021
Mayor's Appointment (Chair).....	Dominick Pangallo	Term Expires:	4/1/2022
Fifth Member.....	Robert T. Lutts	Term Expires:	9/15/2020

Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the System. The Board must annually file a financial statement of condition for the System with the Executive Director of PERAC.

The investment of the System's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the System has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by three persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer-Custodian:	MACRS Blanket Policy
Ex-Officio Member:	\$50,000,000 Fiduciary Liability
Elected Members:	\$1,000,000 Fidelity (ERISA) Bond
Appointed Members:	St. Paul Travelers Insurance Company
Staff Employees:	National Union Fire Arch Insurance Company

NOTE 4 – CASH AND INVESTMENTS

Custodial Credit Risk - Deposits

At December 31, 2019, the carrying amount of the System's deposits totaled \$368,426, and the bank balance totaled \$431,021, which was covered by Federal Depository Insurance.

Investments

The System's investments are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Under 1 Year</u>
Repurchase agreements.....	\$ 2,551,401	\$ 2,551,401
<u>Other investments:</u>		
Pooled alternative investments.....	69,792	
Pension Reserve Investment Trust (PRIT).....	201,946,301	
Total investments.....	\$ 204,567,494	

Approximately 99% of the System's investments are in the Pension Reserve Investment Trust (PRIT). This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board. The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The Administration does not have the ability to control any of the investment decisions relative to its funds in PRIT. The effective weighted duration rate for PRIT investments ranged from 0.14 to 16.03 years.

Approximately 0.03% of the System's funds are invested in pooled alternative investments. The market values of assets in those funds are based on the quoted values obtained from each pool.

The System's annual money-weighted rate of return on pension plan investments was 16.21%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested, measured monthly.

The System holds significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the System's activities, the System shows greater disaggregation in its disclosures. The System chooses a tabular format for disclosing the levels within the fair value hierarchy. The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The System has the following recurring fair value measurements as of December 31, 2019:

Investment Type	December 31, 2019	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
<u>Other investments:</u>				
Repurchase agreements.....	\$ 2,551,401	\$ -	\$ -	\$ 2,551,401
Pooled alternative investments.....	69,792	-	-	69,792
Total investments measured at fair value.....	2,621,193	\$ -	\$ -	\$ 2,621,193
Investments measured at net asset value:				
Pension Reserve Investment Trust (PRIT).....	201,946,301			
Total investments.....	\$ 204,567,494			

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

PRIT Investments are valued using the net asset value (NAV) method.

NOTE 5 – MEMBERSHIP

The following table represents the System's membership at December 31, 2019:

Active members.....	922
Inactive members.....	290
Retirees and beneficiaries currently receiving benefits.....	610
Total.....	<u>1,822</u>

NOTE 6 – ACTUARIAL VALUATION

Components of the net pension liability as of December 31, 2019, were as follows:

Total pension liability.....	\$ 335,214,056
Total pension plan's fiduciary net position.....	<u>205,018,140</u>
Total net pension liability.....	\$ <u>130,195,916</u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....	61.16%

The total pension liability was determined by an actuarial valuation as of January 1, 2020, using the following actuarial assumptions, applied to all periods included in the measurement that was rolled back to December 31, 2019:

Valuation date.....	January 1, 2020
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	Appropriation increasing 4.50% per year through 2032.
Remaining amortization period.....	As of July 1, 2020, 12 years.
Asset valuation method.....	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period. Asset value is adjusted as necessary to be within 20% of the market value.
Investment rate of return / Discount rate.....	7.15%, net of plan investment expenses, including inflation. Previously 7.375%.
Wage inflation rate.....	3.00%. Previously 3.50%.

Projected salary increases.....	Varies by length of service with ultimate rates of 3.75% for Group 1, 4.00% for Group 2, and 4.25% for Group 4.
Cost of living adjustments.....	3.00% of first \$12,000.
Mortality Rates:	
Pre-Retirement.....	RP-2014 Blue Collar Employee Mortality Table set forward one year for female participants projected generationally using Scale MP-2017.
Healthy Retiree.....	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year for female participants projected generationally using Scale MP-2017.
Disabled Retiree.....	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year projected generationally using Scale MP-2017.

Investment policy: The System's policy in regard to the allocation of invested assets is established by PRIT. System 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 expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption as of December 31, 2019, are summarized in the following table:

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity.....	21.0%	6.15%
International developed markets equity.....	13.0%	6.78%
International emerging markets equity.....	5.0%	8.65%
Core fixed income.....	15.0%	1.11%
High-yield fixed income.....	8.0%	3.51%
Real estate.....	10.0%	4.33%
Commodities.....	4.0%	4.13%
Hedge fund, GTAA, risk parity.....	11.0%	3.19%
Private equity.....	13.0%	9.99%
Total.....	100.00%	

Discount rate: The discount rate used to measure the total pension liability was 7.15% at December 31, 2019 and 7.375% at December 31, 2018. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

	1% Decrease (6.15%)	Current Discount (7.15%)	1% Increase (8.15%)
The System's total net pension liability..... \$	<u>167,690,813</u>	<u>\$ 130,195,916</u>	<u>\$ 98,552,061</u>

Contributions: Governmental employers are required to pay an annual appropriation as established by PERAC. The total 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 pension fund appropriations are allocated amongst employers based on the actuarial valuation.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The System has no significant commitments or contingencies at year end.

NOTE 8 – IMPLEMENTATION OF GASB PRONOUNCEMENTS

In May of 2020, the GASB issued Statement #95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. This Statement postponed the required implementation of many of the upcoming Statements for one year or longer.

There were no GASB pronouncements required to be implemented in 2019 that impacted the System's financial statements.

None of the issued GASB statements that are required to be implemented in future years are anticipated to impact the Association's financial statements.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 30, 2020, which is the date the financial statements were available to be issued.

Required Supplementary Information

Salem Contributory Retirement System

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Required Supplementary Information

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS**

	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018	December 31, 2019
Total pension liability:						
Service cost.....	\$ 5,854,030	\$ 6,097,323	\$ 6,350,728	\$ 6,879,418	\$ 7,179,699	\$ 7,450,413
Interest.....	18,557,934	19,386,667	20,274,844	21,023,505	21,882,675	22,806,632
Changes in benefit terms.....	-	-	-	-	-	-
Differences between expected and actual experience...	-	-	(5,574,549)	(1,058,253)	-	1,818,559
Changes in assumptions.....	-	-	12,360,928	5,467,970	-	9,780,518
Benefit payments.....	(14,146,676)	(13,777,134)	(14,776,958)	(15,699,301)	(16,724,907)	(16,876,507)
Net change in total pension liability.....	10,265,288	11,706,856	18,634,993	16,613,339	12,337,467	24,979,615
Total pension liability - beginning.....	240,676,498	250,941,786	262,648,642	281,283,635	297,896,974	310,234,441
Total pension liability - ending (a).....	\$ 250,941,786	\$ 262,648,642	\$ 281,283,635	\$ 297,896,974	\$ 310,234,441	\$ 335,214,056
Plan fiduciary net position:						
Employer pension appropriation.....	\$ 11,942,341	\$ 12,181,169	\$ 12,527,730	\$ 13,172,909	\$ 13,851,313	\$ 14,620,061
Member contributions.....	3,939,454	4,121,728	4,311,175	4,488,581	4,640,867	4,980,577
Net investment income (loss).....	9,022,647	659,962	10,046,275	25,387,723	(4,217,149)	27,850,445
Retirement benefits and refunds.....	(14,146,676)	(13,777,134)	(14,776,958)	(15,699,301)	(16,724,907)	(16,876,507)
Administrative expenses.....	(239,169)	(235,249)	(263,091)	(270,574)	(318,142)	(298,640)
Depreciation.....	(3,125)	(3,125)	(3,125)	(3,125)	(3,125)	(3,125)
Net increase (decrease) in fiduciary net position.....	10,515,472	2,947,351	11,842,006	27,076,213	(2,771,143)	30,272,811
Fiduciary net position - beginning of year.....	123,879,403	135,650,902	138,598,253	150,440,259	177,516,472	174,745,329
Adjustment to include members transferred from Essex Agricultural and Technical School (c).....	1,256,027	-	-	-	-	-
Fiduciary net position - end of year (b).....	\$ 135,650,902	\$ 138,598,253	\$ 150,440,259	\$ 177,516,472	\$ 174,745,329	\$ 205,018,140
Net pension liability - ending (a)-(b).....	\$ 115,290,884	\$ 124,050,389	\$ 130,843,376	\$ 120,380,502	\$ 135,489,112	\$ 130,195,916
Plan fiduciary net position as a percentage of the total pension liability.....	54.06%	52.77%	53.48%	59.59%	56.33%	61.16%
Covered payroll.....	\$ 40,399,678	\$ 42,015,665	\$ 45,841,256	\$ 46,608,505	\$ 48,663,234	\$ 50,117,547
Net pension liability as a percentage of covered payroll.....	285.38%	295.25%	285.43%	258.28%	278.42%	259.78%

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

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

See notes to required supplementary information.

SCHEDULE OF CONTRIBUTIONS

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
December 31, 2019.....	\$ 14,620,061	\$ (14,620,061)	\$ -	\$ 50,117,547	29.17%
December 31, 2018.....	13,851,313	(13,851,313)	-	48,663,234	28.46%
December 31, 2017.....	13,172,909	(13,172,909)	-	46,608,505	28.26%
December 31, 2016.....	12,527,730	(12,527,730)	-	45,841,256	27.33%
December 31, 2015.....	12,013,685	(12,181,169)	(167,484)	42,015,665	28.99%
December 31, 2014.....	11,942,341	(11,942,341)	-	40,399,678	29.56%

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

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expense
December 31, 2019.....	16.21%
December 31, 2018.....	-2.46%
December 31, 2017.....	17.23%
December 31, 2016.....	7.41%
December 31, 2015.....	0.51%
December 31, 2014.....	7.58%

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

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

See notes to required supplementary information.

NOTE A – 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 System's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

NOTE B – CONTRIBUTIONS

Governmental employers are required to pay an annual appropriation as established by PERAC. The total 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 total appropriation for the City of Salem, Salem and Beverly Water Supply Board, South Essex Sewerage District, Essex Technical High School and Salem Housing Authority is payable on July 1, August 1, August 1, June 30, and August 1, respectively. The pension fund appropriations are allocated amongst employers based on the actuarial valuation. In addition, an employer may contribute more than the amount required.

NOTE C – MONEY-WEIGHTED RATE OF 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.

Audit of Specific Elements, Accounts and Items of Financial Statements

Salem Contributory Retirement System

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***Audit of Specific Elements, Accounts and
Items of Financial Statements***



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Independent Auditor's Report

To the Honorable Salem Contributory Retirement Board
Salem Contributory Retirement System
Salem, Massachusetts

We have audited the accompanying schedule of employer allocations of the Salem Contributory Retirement System (the System) as of and for the year ended December 31, 2019, and the related notes. We have also audited the total for all entities of the rows titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense and contributions included in the accompanying schedule of pension amounts by employer of the System Pension Plan as of and for the year ended December 31, 2019, and the related notes.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules 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 the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified row totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer 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 System'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 schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer.

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

Opinions

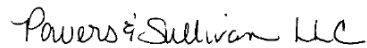
In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense and contributions for the total of all participating entities for the Salem Contributory Retirement System as of and for the year ended December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Salem Contributory Retirement System as of and for the year ended December 31, 2019, and our report thereon, dated October 30, 2020, expressed an unmodified opinion on those financial statements.

Restriction on Use

This report is intended solely for the information and use of the Salem Contributory Retirement System management, the Salem Contributory Retirement System employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.



October 30, 2020

SCHEDULE OF EMPLOYER ALLOCATIONS

FOR THE YEAR ENDED DECEMBER 31, 2019

Employer	2020 Pension Fund Appropriation	(A) Share of Net Pension Liability	Percent of Total Net Pension Liability
City of Salem.....	\$ 12,287,979	\$ 109,428,044	84.04875%
Salem and Beverly Water Supply Board.....	333,752	2,972,159	2.28284%
South Essex Sewerage District.....	896,743	7,985,758	6.13365%
Essex Technical High School.....	723,581	6,443,701	4.94923%
Salem Housing Authority.....	378,006	3,366,254	2.58553%
Total.....	<u>\$ 14,620,061</u>	<u>\$ 130,195,916</u>	<u>100.00000%</u>

(A) South Essex Sewerage District has made additional contributions to the System which are allocated directly to offset their net pension liability.

See notes to schedule of employer allocations and schedule of pension amounts by employer.

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

FOR THE YEAR ENDED DECEMBER 31, 2019

	City of Salem	Salem and Beverly Water Supply Board	South Essex Sewerage District	Essex Technical High School	Salem Housing Authority	Totals
Net Pension Liability						
Beginning net pension liability.....	\$ 114,027,529	\$ 3,065,461	\$ 8,248,187	\$ 6,468,889	\$ 3,679,046	\$ 135,489,112
Ending net pension liability.....	\$ 109,428,044	\$ 2,972,159	\$ 7,985,758	\$ 6,443,701	\$ 3,366,254	\$ 130,195,916
Deferred Outflows of Resources						
Differences between expected and actual experience.....	\$ 1,222,782	\$ 33,211	\$ 89,235	\$ 72,004	\$ 37,616	\$ 1,454,848
Changes of assumptions.....	10,492,468	284,984	765,711	617,853	322,772	12,483,788
Changes in proportion and differences between employer contributions and proportionate share of contributions.....	-	30,507	139,422	321,624	30,768	522,321
Total Deferred Outflows of Resources.....	\$ 11,715,250	\$ 348,702	\$ 994,368	\$ 1,011,481	\$ 391,156	\$ 14,460,957
Deferred Inflows of Resources						
Differences between expected and actual experience.....	\$ 1,292,844	\$ 35,115	\$ 94,348	\$ 76,130	\$ 39,772	\$ 1,538,209
Net difference between projected and actual investment earnings on pension plan investments.....	5,837,315	158,546	425,991	343,732	179,569	6,945,153
Changes in proportion and differences between employer contributions and proportionate share of contributions.....	388,978	141	-	5,949	127,253	522,321
Total Deferred Inflows of Resources.....	\$ 7,519,137	\$ 193,802	\$ 520,339	\$ 425,811	\$ 346,594	\$ 9,005,683
Pension Expense						
Proportionate share of plan pension expense.....	\$ 14,280,877	\$ 387,881	\$ 1,042,179	\$ 840,934	\$ 439,312	\$ 16,991,183
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions.....	(169,484)	9,411	61,159	115,869	(16,955)	-
Total Employer Pension Expense.....	\$ 14,111,393	\$ 397,292	\$ 1,103,338	\$ 956,803	\$ 422,357	\$ 16,991,183
Contributions						
Statutory required contribution.....	\$ 12,287,979	\$ 333,752	\$ 896,743	\$ 723,581	\$ 378,006	\$ 14,620,061
Contribution in relation to statutory required contribution.....	(12,287,979)	(333,752)	(896,743)	(723,581)	(378,006)	(14,620,061)
Contribution deficiency(excess).....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll.....	31.19%	29.04%	21.91%	17.71%	27.21%	29.17%
Deferred (Inflows)/Outflows Recognized in Future Pension Expense						
June 30, 2021.....	\$ 1,848,881	\$ 64,230	\$ 208,455	\$ 234,721	\$ 45,137	\$ 2,401,424
June 30, 2022.....	586,487	29,896	108,350	160,259	6,224	891,216
June 30, 2023.....	2,338,397	70,753	186,152	180,330	41,916	2,817,548
June 30, 2024.....	(577,652)	(9,979)	(28,928)	10,360	(48,715)	(654,914)
Total Deferred Inflows/(Outflows) Recognized in Future Pension Expense.....	\$ 4,196,113	\$ 154,900	\$ 474,029	\$ 585,670	\$ 44,562	\$ 5,455,274
Discount Rate Sensitivity						
1% decrease (6.15%).....	\$ 140,942,037	\$ 3,828,106	\$ 10,285,563	\$ 8,299,411	\$ 4,335,696	\$ 167,690,813
Current discount rate (7.15%).....	\$ 109,428,044	\$ 2,972,159	\$ 7,985,758	\$ 6,443,701	\$ 3,366,254	\$ 130,195,916
1% increase (8.15%).....	\$ 82,831,778	\$ 2,249,782	\$ 6,044,836	\$ 4,877,572	\$ 2,548,093	\$ 98,552,061
Covered Payroll.....	\$ 39,401,443	\$ 1,149,202	\$ 4,092,638	\$ 4,084,905	\$ 1,389,359	\$ 50,117,547

See notes to schedule of employer allocations and schedule of pension amounts by employer.

NOTE I – Schedule of Employer Allocations

Governmental Accounting Standards Board (GASB) Statement #68 requires employers participating in a cost-sharing pension plan to recognize pension liabilities as employees provide services to the government and earn their pension benefits. Employers participating in cost-sharing plans are required to recognize their proportionate share of the System's collective pension amounts for all benefits provided through the plan including the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and contributions.

GASB Statement #68 requires the allocation of the collective pension amounts be consistent with the manner in which contributions to the plan are determined. As permissible under GASB Statement #68, The Schedule of Employer Allocations is used to demonstrate the allocation of Salem Contributory Retirement System's collective pension amounts.

Massachusetts General Law (MGL) Chapter 32 Section 22 Paragraph 7c dictates that Massachusetts cost sharing defined benefit pension plans allocate the annual required pension fund appropriation to employer units based on their proportionate share of the aggregate of the annual rates of regular compensation of all members in service of the System who are employees of any government unit at the close of business on the September 30th immediately preceding the fiscal year. The Public Employee Retirement Administration Commission (PERAC) approves each system's proportionate share of the annual required contribution. PERAC can accept alternative allocation methodologies and as such the System has elected to use an actuarial based allocation methodology. Accordingly, each member unit's proportionate share of the total pension liability has been calculated based on each member unit's actual current employees, retirees and inactive participants. Administrative expenses are allocated in proportion to each member's normal cost. Each member's share on the System's net position at year end is allocated in proportion to the actuarial accrued liability less the present value of future E.R.I. payments and adjusted for additional contributions to the System made by the South Essex Sewerage District and the City of Salem.

When a member unit accepts an Early Retirement Incentive Program (E.R.I. or ERIP), PERAC completes an analysis of the costs and liabilities attributable to the additional benefits payable in accordance with the ERIP. The accrued liability for the members who accept the ERIP as retirees including the ERIP less the accrued liability for the members as active employees excluding the ERIP represents the increase in accrued liability due to the ERIP. The net increase is amortized for each member unit accepting the ERIP and is separately identified in the System's funding schedule. The 2003 ERIP amortization is straight line and ended in fiscal 2020.

The allocation percentage of the total net pension liability is a blended rate of the following two items. (1) The proportionate share of active employer's fiscal year 2020 pension fund appropriation as calculated by the actuary, and as adjusted for the additional voluntary employer contributions in excess of the statutory required contribution to reduce their net pension liability. (2) ERIP is a direct charge calculated by PERAC for only the employers that accepted the ERIP.

NOTE II – Schedule of Pension Amounts by Employer

The Schedule of Pension Amounts by Employer presents the net pension liability, the various categories of deferred outflows of resources and deferred inflows of resources, pension expense, covered payroll and contributions for all participating employers including differences between expected and actual economic experience; differences between projected and actual investment earnings, net; and changes of assumptions.

Changes in Assumptions

The following assumption changes were reflected in the January 1, 2020 actuarial valuation:

- The investment return assumption was lowered from 7.375% to 7.15%.
- The salary increase assumption was revised from a scale that 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, to a scale that varies by length of service with ultimate rates of 3.75% for Group 1, 4.00% for Group 2, and 4.25% for Group 4.
- The wage inflation rate was lowered from 3.50% to 3.00%.
- A liability of approximately \$5.0 million was added to the estimated the value of benefits paid to or received from other municipal retirement systems (net 3(8)(c) benefits), previously no liability was included for future net 3(8)(c) payments.
- Administrative expense assumption was reset to \$350,000 for calendar year 2020 increasing 3.0% per year, based on information on expenses provided by the System.

Changes in Plan Provisions

There were no changes in plan provisions.

SALEM CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

SALEM CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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Financial Section



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Independent Auditor's Report

To the Honorable Salem Contributory Retirement Board
Salem Contributory Retirement System
Salem, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Salem Contributory Retirement System (the System) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Salem Contributory Retirement System's 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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Salem Contributory Retirement System as of December 31, 2018, and the results of its operations and changes in its financial position 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; Schedule of Changes in the Net Pension Liability and Related Ratios; the Schedule of Contributions; and the Schedule of Investment Return be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2019 on our consideration of the Salem Contributory Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Salem Contributory Retirement System's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of the Salem Contributory Retirement System, the Public Employee Retirement Commission and all member units and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan LLC

September 16, 2019

Management's Discussion and Analysis

As management of the Salem Contributory Retirement System, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2018. The System complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB).

The 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 rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users can assess the financial condition of a public retirement system compared to others.

Financial Highlights

- The System's assets exceeded its liabilities at the close of the most recent year by \$174.7 million (net position, restricted for pensions).
- The System's net position decreased by \$2.8 million for the year ended December 31, 2018.
- Total investment loss was \$3.3 million; investment expenses were \$933,000; and net investment loss totaled \$4.2 million.
- Total contributions were \$19.3 million including \$13.9 million from employers and \$4.6 million from members.
- Retirement benefits, refunds and transfers amounted to \$17.6 million.
- Administrative expenses were \$318,000 or 2% of total deductions.
- The total pension liability is \$310.2 million as of December 31, 2018, while the net pension liability is \$135.5 million.
- The Plan fiduciary net position as a percentage of the total pension liability is 56.33%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's fiduciary financial statements. These fiduciary financial statements comprise of four components: 1) management's discussion and analysis, 2) fiduciary financial statements, 3) notes to the financial statements and 4) required supplementary information.

Fiduciary Financial Statements

The *statement of fiduciary net position* presents information on all assets and deferred outflows less deferred inflows and liabilities with the difference 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 changes in fiduciary net position* presents information showing how the System'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, additions and deductions are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the fiduciary financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis; Schedule of Changes in the Net Pension Liability and Related Ratios; the Schedule of Contributions; and the Schedule of Investment Return be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the System's financial position. The System's assets exceeded liabilities (net position) by \$174.7 million at the close of 2018.

The assets accumulated are held to provide pension benefits for qualified retirees along with active and inactive employees of the member units. At year end the system's net position include investments of \$174.4 million, cash and cash equivalents of \$256,000, receivables of \$56,000 and capital assets, net of accumulated depreciation of \$82,000.

In 2018 the System's contributions totaled \$19.3 million and net investment loss totaled \$4.2 million, while retirement benefit payments, refunds, transfers, depreciation and administration expenses totaled \$17.9 million which resulted in a decrease of \$2.8 million. In 2017 the System's contributions totaled \$18.5 million and net investment income totaled \$25.4 million, while retirement benefit payments, refunds, transfers, depreciation, and administration expenses were \$16.9 million which resulted in a prior year increase of \$27.1 million.

Net investment income/(loss) was \$(4.2) million and \$25.4 million in 2018 and 2017, respectively. The annual money weighted rate of return was (2.46)% and 17.23% in 2018 and 2017, respectively. The system's investment policy is designed to achieve a long-term rate of return of 7.375% and fluctuation in annual investment returns is expected.

The key reason for the \$2.8 million decrease in the net income from 2017 to 2018 was the \$4.2 million net investment loss.

The following tables present summarized financial information for the past two years:

	2018	2017
Assets:		
Cash and cash equivalents.....	\$ 256,328	\$ 213,636
Investments.....	174,367,182	177,036,635
Receivables.....	56,390	189,693
Capital assets, net of accumulated depreciation....	82,031	85,156
Total assets.....	174,761,931	177,525,120
Liabilities:		
Accounts payable and refunds due to members....	16,602	8,648
Net Position Restricted for Pension Benefits.....	\$ 174,745,329	\$ 177,516,472

	2018	2017
Additions:		
Contributions:		
Employer contributions.....	\$ 13,851,313	\$ 13,172,909
Member contributions.....	4,640,867	4,454,440
Other contributions.....	852,496	918,644
Total contributions.....	19,344,676	18,545,993
Net investment income (loss).....	(4,217,149)	25,387,723
Total additions.....	15,127,527	43,933,716
Deductions:		
Administration.....	318,142	270,574
Retirement benefits, refunds and transfers.....	17,577,403	16,583,804
Depreciation.....	3,125	3,125
Total deductions.....	17,898,670	16,857,503
Net increase (decrease) in fiduciary net position.....	(2,771,143)	27,076,213
Fiduciary net position at beginning of year.....	177,516,472	150,440,259
Fiduciary net position at end of year.....	\$ 174,745,329	\$ 177,516,472

Requests for Information

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the System's Executive Director, 20 Central Street, Suite 110, Salem, Massachusetts, 01970.

Financial Statements

Salem Contributory Retirement System

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Financial Statements

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2018

Assets

Cash and cash equivalents.....	\$	256,328
Investments:		
Investments in Pension Reserve Investment Trust.....		172,093,928
Repurchase agreements.....		2,177,739
Alternative investments.....		<u>95,515</u>
Total investments.....		<u>174,367,182</u>
Receivables:		
Reimbursements from other systems.....		55,721
Other accounts receivable.....		<u>669</u>
Total receivables.....		<u>56,390</u>
Capital assets, net of accumulated depreciation.....		<u>82,031</u>
Total Assets.....		<u>174,761,931</u>
Liabilities		
Warrants payable.....		<u>16,602</u>
Net Position Restricted for Pensions.....	\$	<u><u>174,745,329</u></u>

See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED DECEMBER 31, 2018

Additions:

Contributions:

Employer pension appropriation.....	\$ 13,851,313
Member contributions.....	4,640,867
Transfers from other systems.....	549,208
3(8)(c) contributions from other systems.....	118,478
State COLA reimbursements.....	184,810

Total contributions..... 19,344,676

Net investment income:

Investment loss.....	(3,283,735)
Less: investment expense.....	<u>(933,414)</u>

Net investment loss..... (4,217,149)

Total additions..... 15,127,527

Deductions:

Administration.....	318,142
Retirement benefits and refunds.....	16,144,855
Transfers to other systems.....	572,506
3(8)(c) transfer to other systems.....	860,042
Depreciation.....	<u>3,125</u>

Total deductions..... 17,898,670

Net decrease in fiduciary net position..... (2,771,143)

Fiduciary net position at beginning of year..... 177,516,472

Fiduciary net position at end of year..... \$ 174,745,329

See notes to financial statements.

NOTE 1 – PLAN DESCRIPTION

The Salem Contributory Retirement System (the System) is a multiple-employer, cost-sharing, contributory defined benefit pension plan covering all employees of the governmental member units deemed eligible by the Salem Contributory Retirement Board (Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. Membership in the System is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 25 hours per week. As of December 31, 2018, the System had 5 participating employers.

The System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. The Public Employee Retirement Administration Commission (PERAC) is the state agency responsible for oversight of the commonwealth public retirement system.

Massachusetts contributory retirement system benefits are, with certain exceptions, uniform from system to system. The System 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 those hired prior to April 2, 2012 and the highest five-year average for members hired after that date. 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. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension.

Active members contribute between 5 and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by PERAC's actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' 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 System and all costs are borne by the System.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status and group classification.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the System 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.

Due to the significance of its operational and functional relationship with the City of Salem, the System is included as a component unit in the City of Salem's basic financial statements.

The System is a special-purpose government engaged only in fiduciary activities. Accordingly, the financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, additions are recorded when earned and deductions are recorded when the liabilities are incurred.

Cash and Investments

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. The fair value of private equities are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values. Real estate assets are reported at fair value utilizing an income approach to valuation along with independent appraisals and estimates by management.

Fair Value Measurement

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

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

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

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

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

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

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the System's financial instruments, see Note 4 – Cash and Investments.

Accounts Receivable

Accounts receivable consist of member deductions, amounts due from other systems, and other miscellaneous reimbursements. These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of fiduciary 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 fiduciary net position that applies to a future period(s) and so will not be recognized as an outflow of resources (deduction) until then. The System did not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of fiduciary 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 (addition) until that time. The System did not have any items that qualify for reporting in this category.

NOTE 3 – PLAN ADMINISTRATION

The System is administered by a five-person Board of Retirement consisting of two representatives of the City of Salem government, two who are elected from and by the active and retired members of the system, and a fifth member, selected by the four who shall not be a member of the system.

Ex-Officio Member.....	Laurie Giardella	Term Expires:	N/A
Elected Member.....	Marcia A. Pelletier	Term Expires:	12/3/2020
Elected Member.....	Sarah M. Hayes	Term Expires:	6/3/2019
Mayor's Appointment (Chair).....	Dominick Pangallo	Term Expires:	4/1/2019
Fifth Member.....	Robert T. Lutts	Term Expires:	3/24/2019

Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the System. The Board must annually file a financial statement of condition for the System with the Executive Director of PERAC.

The investment of the System's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the System has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by three persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer-Custodian:	MACRS Blanket Policy
Ex-Officio Member:	\$50,000,000 Fiduciary Liability
Elected Members:	\$1,000,000 Fidelity (ERISA) Bond
Appointed Members:	St. Paul Travelers Insurance Company
Staff Employees:	National Union Fire Arch Insurance Company

NOTE 4 – CASH AND INVESTMENTS

Custodial Credit Risk - Deposits

At December 31, 2018, the carrying amount of the System's deposits totaled \$256,328, and the bank balance totaled \$425,443, which was covered by Federal Depository Insurance and Depositors Insurance Fund.

Investments

The System's investments are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Under 1 Year</u>
Repurchase agreements.....	\$ 2,177,740	\$ <u>2,177,740</u>
<u>Other investments:</u>		
Pooled alternative investments.....	95,515	
Pension Reserve Investment Trust (PRIT).....	<u>172,093,927</u>	
Total investments.....	\$ <u>174,367,182</u>	

Approximately 99% of the Retirement System's investments are in the Pension Reserve Investment Trust (PRIT). This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board. The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The Administration does not have the ability to control any of the investment decisions relative to its funds in PRIT. The effective weighted duration rate for PRIT investments ranged from 0.18 to 15.31 years.

Approximately 0.1% of the System's funds are invested in pooled alternative investments. The market values of assets in those funds are based on the quoted values obtained from each pool.

The Administration's annual money-weighted rate of return on pension plan investments was (2.46)%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested, measured monthly.

The plan holds significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the plan's activities, the plan shows greater disaggregation in its disclosures. The plan chooses a tabular format for disclosing the levels within the fair value hierarchy. The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The System has the following recurring fair value measurements as of December 31, 2018:

Investment Type	December 31, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
<u>Other investments:</u>				
Repurchase agreements.....	\$ 2,177,740	\$ -	\$ -	\$ 2,177,740
Pooled alternative investments.....	95,515	-	-	95,515
Total investments measured at fair value.....	2,273,255	\$ -	\$ -	\$ 2,273,255
Investments measured at net asset value:				
Pension Reserve Investment Trust (PRIT).....	172,093,927			
Total investments.....	\$ 174,367,182			

Alternative Investments and Repurchase Agreements classified in level 3 are valued using either a discounted cash flow or market comparable companies technique.

PRIT Investments are valued using the net asset value (NAV) method.

NOTE 5 – MEMBERSHIP

The following table represents the System's membership at December 31, 2018:

Active members.....	1,096
Inactive members.....	98
Disabled members.....	53
Retirees and beneficiaries currently receiving benefits.....	539
Total.....	<u>1,786</u>

NOTE 6 – ACTUARIAL VALUATION

Components of the net pension liability as of December 31, 2018, were as follows:

Total pension liability.....	\$ 310,234,441
Total pension plan's fiduciary net position.....	<u>174,745,329</u>
Total net pension liability.....	<u>\$ 135,489,112</u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....	56.33%

The total pension liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2018:

Valuation date.....	January 1, 2018
Actuarial cost method.....	Entry Age Normal Cost Method
Amortization method.....	Increasing at 4.5% per year for 2002 and 2003 ERI and level dollar amortization for 2010 ERI, with total contribution increasing 5.15% per year
Remaining amortization period.....	As of July 1, 2016, 15 years remaining for 2002 and 2003 ERI liability, 6 years remaining for 2010 ERI liability and 15 years for remaining unfunded liability
Asset valuation method.....	The difference between the expected return on an actuarial basis and the actual investment return on a market value basis is recognized over a five-year period. Asset value is adjusted as necessary to be within 20% of the market value
Investment rate of return / Discount rate.....	7.375%
Inflation rate.....	3.50%

Projected salary increases.....	Varies by length of service with ultimate rates of 4.25% for Group 1, 4.50% for Group 2, and 4.75% for Group 4
Cost of living adjustments.....	3.00% of first \$12,000
Mortality Rates:	
Pre-Retirement.....	RP-2014 Blue Collar Employee Mortality Table set forward one year for female participants projected generationally using Scale MP-2017 (Previously, RP-2000 Employee Mortality Table projected generationally from 2009 using Scale BB2D)
Healthy Retiree.....	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year for female participants projected generationally using Scale MP-2017 (Previously, RP-2000 Healthy Annuitant Mortality Table projected generationally from 2009 using Scale BB2D)
Disabled Retiree.....	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year projected generationally using Scale MP-2017 (Previously, RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 using Scale BB2D)

Investment policy: The System'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 expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption as of December 31, 2018, are summarized in the following table:

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity.....	21.0%	6.16%
International developed markets equity.....	13.0%	6.69%
International emerging markets equity.....	5.0%	9.47%
Core fixed income.....	15.0%	1.89%
High-yield fixed income.....	8.0%	4.00%
Real estate.....	10.0%	4.58%
Commodities.....	4.0%	4.77%
Hedge fund, GTAA, risk parity.....	11.0%	3.68%
Private equity.....	13.0%	10.00%
Total.....	100.00%	

Discount rate: The discount rate used to measure the total pension liability was 7.375%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.375%)	Current Discount (7.375%)	1% Increase (8.375%)
The System's total net pension liability..... \$	\$ 169,579,755	\$ 135,489,112	\$ 106,610,875

Contributions: Governmental employers are required to pay an annual appropriation as established by PERAC. The total 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 pension fund appropriations are allocated amongst employers based on the actuarial valuation.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The System has no significant commitments or contingencies at year end.

NOTE 8 – IMPLEMENTATION OF GASB PRONOUNCEMENTS

During 2018, the following GASB pronouncements were implemented:

- GASB Statement #85, *Omnibus 2017*. This pronouncement did not impact the financial statements.

The following GASB pronouncement will be implemented in the future:

- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2021.

Management is currently assessing the impact the implementation of this pronouncement will have on the financial statements.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 16, 2019, which is the date the financial statements were available to be issued.

Required Supplementary Information

Salem Contributory Retirement System

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Required Supplementary Information

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS**

	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018
Total pension liability:					
Service cost.....	\$ 5,854,030	\$ 6,097,323	\$ 6,350,728	\$ 6,879,418	\$ 7,179,699
Interest.....	18,557,934	19,386,667	20,274,844	21,023,505	21,882,675
Changes in benefit terms.....	-	-	-	-	-
Differences between expected and actual experience.....	-	-	(5,574,549)	(1,058,253)	-
Changes in assumptions.....	-	-	12,360,928	5,467,970	-
Benefit payments.....	(14,146,676)	(13,777,134)	(14,776,958)	(15,699,301)	(16,724,907)
Net change in total pension liability.....	10,265,288	11,706,856	18,634,993	16,613,339	12,337,467
Total pension liability - beginning.....	240,676,498	250,941,786	262,648,642	281,283,635	297,896,974
Total pension liability - ending (a).....	\$ 250,941,786	\$ 262,648,642	\$ 281,283,635	\$ 297,896,974	\$ 310,234,441
Plan fiduciary net position:					
Employer pension appropriation.....	\$ 11,942,341	\$ 12,181,169	\$ 12,527,730	\$ 13,172,909	\$ 13,851,313
Member contributions.....	3,939,454	4,121,728	4,311,175	4,488,581	4,640,867
Net investment income (loss).....	9,022,647	659,962	10,046,275	25,387,723	(4,217,149)
Administrative expenses.....	(239,169)	(235,249)	(263,091)	(270,574)	(318,142)
Retirement benefits and refunds.....	(14,146,676)	(13,777,134)	(14,776,958)	(15,699,301)	(16,724,907)
Depreciation.....	(3,125)	(3,125)	(3,125)	(3,125)	(3,125)
Net increase (decrease) in fiduciary net position.....	10,515,472	2,947,351	11,842,006	27,076,213	(2,771,143)
Fiduciary net position - beginning of year.....	123,879,403	135,650,902	138,598,253	150,440,259	177,516,472
Adjustment to include members transferred from Essex Agricultural and Technical School (c).....	1,256,027	-	-	-	-
Fiduciary net position - end of year (b).....	\$ 135,650,902	\$ 138,598,253	\$ 150,440,259	\$ 177,516,472	\$ 174,745,329
Net pension liability - ending (a)-(b).....	\$ 115,290,884	\$ 124,050,389	\$ 130,843,376	\$ 120,380,502	\$ 135,489,112
Plan fiduciary net position as a percentage of the total pension liability.....	54.06%	52.77%	53.48%	59.59%	56.33%
Covered payroll.....	\$ 40,399,678	\$ 42,015,665	\$ 45,841,256	\$ 46,608,505	\$ 48,663,234
Net pension liability as a percentage of covered payroll.....	285.38%	295.25%	285.43%	258.28%	278.42%

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

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

See notes to required supplementary information.

SCHEDULE OF CONTRIBUTIONS

<u>Year</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
December 31, 2018.....	\$ 13,851,313	\$ (13,851,313)	\$ -	\$ 48,663,234	28.46%
December 31, 2017.....	13,172,909	(13,172,909)	-	46,608,505	28.26%
December 31, 2016.....	12,527,730	(12,527,730)	-	45,841,256	27.33%
December 31, 2015.....	12,013,685	(12,181,169)	(167,484)	42,015,665	28.99%
December 31, 2014.....	11,942,341	(11,942,341)	-	40,399,678	29.56%

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

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expense
December 31, 2018.....	-2.46%
December 31, 2017.....	17.23%
December 31, 2016.....	7.41%
December 31, 2015.....	0.51%
December 31, 2014.....	7.58%

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

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

See notes to required supplementary information.

NOTE A – 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.

NOTE B – CONTRIBUTIONS

Governmental employers are required to pay an annual appropriation as established by PERAC. The total 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 total appropriation for the City of Salem, Salem and Beverly Water Supply Board, South Essex Sewerage District, North Shore Technical High School and Salem Housing Authority is payable on July 1, August 1, August 1, June 30, and August 1, respectively. The pension fund appropriations are allocated amongst employers based on the actuarial valuation. In addition, an employer may contribute more than the amount required.

NOTE C – MONEY-WEIGHTED RATE OF 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.

Audit of Specific Elements, Accounts and Items of Financial Statements

Salem Contributory Retirement System

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***Audit of Specific Elements, Accounts and
Items of Financial Statements***



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Independent Auditor's Report

To the Honorable Salem Contributory Retirement Board
Salem Contributory Retirement System
Salem, Massachusetts

We have audited the accompanying schedule of employer allocations of the Salem Contributory Retirement System (the System) as of and for the year ended December 31, 2018, and the related notes. We have also audited the total for all entities of the rows titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense and contributions included in the accompanying schedule of pension amounts by employer of the System Pension Plan as of and for the year ended December 31, 2018, and the related notes.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules 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 the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified row totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer, 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 schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer 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 schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer.

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 schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense and contributions for the total of all participating entities for the Salem Contributory Retirement System as of and for the year ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Salem Contributory Retirement System as of and for the year ended December 31, 2018, and our report thereon, dated September 16, 2019, expressed an unmodified opinion on those financial statements.

Restriction on Use

This report is intended solely for the information and use of the Salem Contributory Retirement System management, the Salem Contributory Retirement System employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan LLC

September 16, 2019

SCHEDULE OF EMPLOYER ALLOCATIONS

FOR THE YEAR ENDED DECEMBER 31, 2018

Employer	2019 Pension Fund Appropriation	(A) Share of Net Pension Liability	Percent of Total Net Pension Liability
City of Salem.....	\$ 11,657,254	\$ 114,027,529	84.15992%
Salem and Beverly Water Supply Board.....	313,388	3,065,461	2.26251%
South Essex Sewerage District.....	843,228	8,248,187	6.08771%
Essex Technical High School.....	661,327	6,468,889	4.77447%
Salem Housing Authority.....	376,116	3,679,046	2.71538%
Total.....	<u>\$ 13,851,313</u>	<u>\$ 135,489,112</u>	<u>100.00000%</u>

(A) South Essex Sewerage District has made additional contributions to the System which are allocated directly to offset their net pension liability.

See notes to schedule of employer allocations and schedule of pension amounts by employer.

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

FOR THE YEAR ENDED DECEMBER 31, 2018

	City of Salem	Salem and Beverly Water Supply Board	South Essex Sewerage District	Essex Technical High School	Salem Housing Authority	Totals
Net Pension Liability						
Beginning net pension liability.....	\$ 101,324,784	\$ 2,716,261	\$ 7,317,866	\$ 5,757,057	\$ 3,264,534	\$ 120,380,502
Ending net pension liability.....	\$ 114,027,529	\$ 3,065,461	\$ 8,248,187	\$ 6,468,889	\$ 3,679,046	\$ 135,489,112
Deferred Outflows of Resources						
Net difference between projected and actual investment earnings on pension plan investments.....	\$ 6,530,146	\$ 175,553	\$ 472,357	\$ 370,462	\$ 210,692	\$ 7,759,210
Changes of assumptions.....	6,922,281	186,095	500,724	392,708	223,344	8,225,152
Changes in proportion and differences between employer contributions and proportionate share of contributions.....	26,536	15,980	174,252	227,373	46,721	490,862
Total Deferred Outflows of Resources.....	\$ 13,478,963	\$ 377,628	\$ 1,147,333	\$ 990,543	\$ 480,757	\$ 16,475,224
Deferred Inflows of Resources						
Differences between expected and actual experience.....	\$ 2,410,988	\$ 64,816	\$ 174,399	\$ 136,778	\$ 77,789	\$ 2,864,770
Changes in proportion and differences between employer contributions and proportionate share of contributions.....	448,963	1,070	29,881	9,685	1,263	490,862
Total Deferred Inflows of Resources.....	\$ 2,859,951	\$ 65,886	\$ 204,280	\$ 146,463	\$ 79,052	\$ 3,355,632
Pension Expense						
Proportionate share of plan pension expense.....	\$ 14,129,538	\$ 379,852	\$ 1,022,061	\$ 801,582	\$ 455,883	\$ 16,788,916
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions....	30,083	36,938	(77,419)	37,872	(27,474)	-
Total Employer Pension Expense.....	\$ 14,159,621	\$ 416,790	\$ 944,642	\$ 839,454	\$ 428,409	\$ 16,788,916
Contributions						
Statutory required contribution.....	\$ 11,657,254	\$ 313,388	\$ 843,228	\$ 661,327	\$ 376,116	\$ 13,851,313
Contribution in relation to statutory required contribution....	(11,657,254)	(313,388)	(843,228)	(661,327)	(376,116)	(13,851,313)
Contribution deficiency/(excess).....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll.....	31.02%	28.02%	20.38%	15.50%	24.05%	28.46%
Deferred (Inflows)/Outflows Recognized in Future Pension Expense						
June 30, 2020.....	\$ 4,103,308	\$ 118,572	\$ 357,022	\$ 313,954	\$ 151,806	\$ 5,044,662
June 30, 2021.....	2,429,933	73,586	235,979	219,022	97,818	3,056,338
June 30, 2022.....	1,165,860	39,559	136,567	147,200	56,944	1,546,130
June 30, 2023.....	2,919,911	80,025	213,485	163,904	95,137	3,472,462
Total Deferred Inflows/(Outflows) Recognized in Future Pension Expense.....	\$ 10,619,012	\$ 311,742	\$ 943,053	\$ 844,080	\$ 401,705	\$ 13,119,592
Discount Rate Sensitivity						
1% decrease (6.375%).....	\$ 142,718,187	\$ 3,836,767	\$ 10,323,527	\$ 8,096,537	\$ 4,604,737	\$ 169,579,755
Current discount rate (7.375%).....	\$ 114,027,529	\$ 3,065,461	\$ 8,248,187	\$ 6,468,889	\$ 3,679,046	\$ 135,489,112
1% increase (8.375%).....	\$ 89,723,628	\$ 2,412,087	\$ 6,490,162	\$ 5,090,106	\$ 2,894,892	\$ 106,610,875
Covered Payroll.....	\$ 37,576,589	\$ 1,118,256	\$ 4,136,583	\$ 4,267,668	\$ 1,564,138	\$ 48,663,234

See notes to schedule of employer allocations and schedule of pension amounts by employer.

NOTE I – Schedule of Employer Allocations

Governmental Accounting Standards Board (GASB) Statement #68 requires employers participating in a cost-sharing pension plan to recognize pension liabilities as employees provide services to the government and earn their pension benefits. Employers participating in cost-sharing plans are required to recognize their proportionate share of the plan's collective pension amounts for all benefits provided through the plan including the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and contributions.

GASB Statement #68 requires the allocation of the collective pension amounts be consistent with the manner in which contributions to the plan are determined. As permissible under GASB Statement #68, The Schedule of Employer Allocations is used to demonstrate the allocation of Salem Contributory Retirement System's collective pension amounts.

Massachusetts General Law (MGL) Chapter 32 Section 22 Paragraph 7c dictates that Massachusetts cost sharing defined benefit pension plans allocate the annual required pension fund appropriation to employer units based on their proportionate share of the aggregate of the annual rates of regular compensation of all members in service of the system who are employees of any government unit at the close of business on the September 30th immediately preceding the fiscal year. The Public Employee Retirement Administration Commission (PERAC) approves each system's proportionate share of the annual required contribution. PERAC can accept alternative allocation methodologies and as such the System has elected to use an actuarial based allocation methodology. Accordingly, each member unit's proportionate share of the total pension liability has been calculated based on each member unit's actual current employees, retirees and inactive participants. Administrative expenses are allocated in proportion to each member's normal cost. Each member's share on the System's net position at year end is allocated in proportion to the actuarial accrued liability less the present value of future E.R.I. payments and adjusted for additional contributions to the system made by the South Essex Sewerage District and the City of Salem.

When a member unit accepts an Early Retirement Incentive Program (E.R.I. or ERIP), PERAC completes an analysis of the costs and liabilities attributable to the additional benefits payable in accordance with the ERIP. The accrued liability for the members who accept the ERIP as retirees including the ERIP less the accrued liability for the members as active employees excluding the ERIP represents the increase in accrued liability due to the ERIP. The net increase is amortized for each member unit accepting the ERIP, and is separately identified in the system's funding schedule. The 2003 ERIP amortization is straight line ending in fiscal 2020.

The allocation percentage of the total net pension liability is a blended rate of the following two items. (1) The proportionate share of active employer's fiscal year 2019 pension fund appropriation as calculated by the actuary, and as adjusted for the additional voluntary employer contributions in excess of the statutory required contribution to reduce their net pension liability. (2) ERIP is a direct charge calculated by PERAC for only the employers that accepted the ERIP.

NOTE II – Schedule of Pension Amounts by Employer

The Schedule of Pension Amounts by Employer presents the net pension liability, the various categories of deferred outflows of resources and deferred inflows of resources, pension expense, covered payroll and contributions for all participating employers including differences between expected and actual economic experience; differences between projected and actual investment earnings, net; and changes of assumptions.

Changes in Assumptions

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

- The investment return assumption was lowered from 7.50% to 7.375%.
- The mortality assumption for non-disabled participants was updated from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally from 2009 with Scale BB2D to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year for female participants projected generationally with Scale MP-2017.
- The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 with Scale B2D to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year projected generationally with Scale MP-2017.
- The administrative expense assumption was changed from \$305,000 for calendar 2016, increasing 3.5% per year, to \$350,000 for calendar 2018, increasing 3.5% per year.

Changes in Plan Provisions

There were no changes in plan provisions.

SALEM CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

SALEM CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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Financial Section

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Independent Auditor's Report

To the Honorable Salem Contributory Retirement Board
Salem Contributory Retirement System
Salem, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Salem Contributory Retirement System (the System) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Salem Contributory Retirement System's 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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Salem Contributory Retirement System as of December 31, 2017, and the results of its operations and changes in its financial position 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; Schedule of Changes in the Net Pension Liability and Related Ratios; the Schedule of Contributions; and the Schedule of Investment Return be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018 on our consideration of the Salem Contributory Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Salem Contributory Retirement System's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of the Salem Contributory Retirement System, the Public Employee Retirement Commission and all member units and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan LLC

October 30, 2018

Management's Discussion and Analysis

As management of the Salem Contributory Retirement System, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2017. The System complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB).

The 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 rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users can assess the financial condition of a public retirement system compared to others.

Financial Highlights

- The System's assets exceeded its liabilities at the close of the most recent year by \$177.5 million (net position, restricted for pensions).
- The System's net position increased by \$27.1 million for the year ended December 31, 2017.
- Total investment income was \$26.2 million; investment expenses were \$846,000; and net investment income totaled \$25.4 million.
- Total contributions were \$18.5 million including \$13.2 million from employers and \$4.5 million from members.
- Retirement benefits, refunds and transfers amounted to \$16.6 million.
- Administrative expenses were \$271,000 or 2% of total deductions.
- The Total Pension Liability is \$297.9 million as of December 31, 2017, while the Net Pension Liability is \$120.4 million.
- The Plan fiduciary net position as a percentage of the total pension liability is 59.59%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's fiduciary financial statements. These fiduciary financial statements comprise of four components: 1) management's discussion and analysis, 2) fiduciary financial statements, 3) notes to the financial statements and 4) required supplementary information.

Fiduciary Financial Statements

The *statement of net position* presents information on all assets and deferred outflows less deferred inflows and liabilities with the difference 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 changes in fiduciary net position* presents information showing how the System'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, additions and deductions are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the fiduciary financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis; Schedule of Changes in the Net Pension Liability and Related Ratios; the Schedule of Contributions; and the Schedule of Investment Return be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the System's financial position. The System's assets exceeded liabilities (net position) by \$177.5 million at the close of 2017.

The assets accumulated are held to provide pension benefits for qualified retirees along with active and inactive employees of the member units. At year end the system's net position include investments of \$177 million, cash and cash equivalents of \$214,000, receivables of \$190,000 and capital assets, net of accumulated depreciation of \$85,000.

In 2017 the System's contributions totaled \$18.5 million and net investment income totaled \$25.4 million, while retirement benefit payments, refunds, transfers, depreciation and administration expenses totaled \$16.9 million which resulted in an increase of \$27.1 million. In 2016 the System's contributions totaled \$17.7 million and net investment income totaled \$10.0 million, while retirement benefit payments, refunds, transfers, depreciation, and administration expenses were \$15.9 million which resulted in a prior year increase of \$11.8 million.

Net investment income was \$25.4 million and \$10.0 million in 2017 and 2016 respectively. The annual money weighted rate of return was 17.23% and 7.41% in 2017 and 2016 respectively. The system's investment policy is designed to achieve a long-term rate of return of 7.5% and fluctuation in annual investment returns is expected.

The key reasons for the \$15.2 million increase in the net income from 2016 to 2017 is the \$15.3 million increase in investment earnings.

The following tables present summarized financial information for the past two years:

	2017	2016
Assets:		
Cash and cash equivalents.....	\$ 213,636	\$ 2,584,302
Investments.....	177,036,635	147,768,466
Receivables.....	189,693	-
Capital assets, net of accumulated depreciation....	85,156	88,281
Total assets.....	177,525,120	150,441,049
Liabilities:		
Accounts payable and refunds due to members....	8,648	790
Net Position Restricted for Pension Benefits.....	\$ 177,516,472	\$ 150,440,259

	2017	2016
Statement of Changes in Fiduciary Net Position		
Additions:		
Contributions:		
Employer contributions.....	\$ 13,172,909	\$ 12,527,730
Member contributions.....	4,454,440	4,291,023
Other contributions.....	918,644	891,654
Total contributions.....	18,545,993	17,710,407
Net investment income.....	25,387,723	10,046,275
Total additions.....	43,933,716	27,756,682
Deductions:		
Administration.....	270,574	263,090
Retirement benefits, refunds and transfers.....	16,583,804	15,648,461
Depreciation.....	3,125	3,125
Total deductions.....	16,857,503	15,914,676
Net increase in fiduciary net position.....	27,076,213	11,842,006
Fiduciary net position at beginning of year.....	150,440,259	138,598,253
Fiduciary net position at end of year.....	\$ 177,516,472	\$ 150,440,259

Requests for Information

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the System's Executive Director, 20 Central Street, Suite 110, Salem, Massachusetts, 01970.

Financial Statements

Salem Contributory Retirement System

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Financial Statements

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2017

Assets

Cash and cash equivalents.....	\$	213,636
Investments:		
Investments in Pension Reserve Investment Trust.....		175,313,753
Repurchase agreements.....		1,610,414
Alternative investments.....		112,468
Receivables:		
Member deductions.....		31,323
Reimbursements from other systems.....		158,370
Capital assets, net of accumulated depreciation.....		85,156
Total Assets.....		<u>177,525,120</u>

Liabilities

Warrants payable.....		<u>8,648</u>
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Net Position Restricted for Pensions..... \$ 177,516,472

See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED DECEMBER 31, 2017

Additions:

Contributions:

Employer pension appropriation.....	\$ 13,172,909
Member contributions.....	4,454,440
Transfers from other systems.....	636,186
3(8)(c) contributions from other systems.....	179,521
State COLA reimbursements.....	68,796
Members' makeup payments and redeposits.....	34,141

Total contributions..... 18,545,993

Net investment income:

Investment income.....	26,233,897
Less: investment expense.....	(846,174)

Net investment income..... 25,387,723

Total additions..... 43,933,716

Deductions:

Administration.....	270,574
Retirement benefits and refunds.....	15,356,905
Transfers to other systems.....	578,480
3(8)(c) transfer to other systems.....	648,419
Depreciation.....	3,125

Total deductions..... 16,857,503

Net increase in fiduciary net position..... 27,076,213

Fiduciary net position at beginning of year..... 150,440,259

Fiduciary net position at end of year..... \$ 177,516,472

See notes to financial statements.

NOTE 1 – PLAN DESCRIPTION

The Salem Contributory Retirement System (the System) is a multiple-employer, cost-sharing, contributory defined benefit pension plan covering all employees of the governmental member units deemed eligible by the Salem Contributory Retirement Board (Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. Membership in the System is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 25 hours per week. As of December 31, 2017, the System had 5 participating employers.

The System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. The Public Employee Retirement Administration Commission (PERAC) is the state agency responsible for oversight of the commonwealth public retirement system.

Massachusetts contributory retirement system benefits are, with certain exceptions, uniform from system to system. The System 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 those hired prior to April 2, 2012 and the highest five-year average for members hired after that date. 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. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension.

Active members contribute between 5 and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by PERAC's actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' 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 System and all costs are borne by the System.

Administrative expenses are paid from investment income.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status and group classification.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the System 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.

Due to the significance of its operational and functional relationship with the City of Salem, the System is included as a component unit in the City of Salem's basic financial statements.

The System is a special-purpose government engaged only in fiduciary activities. Accordingly, the financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, additions are recorded when earned and deductions are recorded when the liabilities are incurred.

Cash and Investments

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. The fair value of private equities are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values. Real estate assets are reported at fair value utilizing an income approach to valuation along with independent appraisals and estimates by management.

Fair Value Measurement

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

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

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

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

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

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

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the System's financial instruments, see Note 4 – Cash and Investments.

Accounts Receivable

Accounts receivable consist of member deductions, pension fund appropriations, and other miscellaneous reimbursements. These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of fiduciary 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 fiduciary net position that applies to a future period(s) and so will not be recognized as an outflow of resources (deduction) until then. The System did not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of fiduciary 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 (addition) until that time. The System did not have any items that qualify for reporting in this category.

NOTE 3 – PLAN ADMINISTRATION

The System is administered by a five-person Board of Retirement consisting of two representatives of the City of Salem government, two who are elected from and by the active and retired members of the system, and a fifth member, selected by the four who shall not be a member of the system.

Ex-Officio Member.....	Laurie Giardella	Term Expires:	N/A
Elected Member.....	Marcia A. Pelletier	Term Expires:	12/3/2020
Mayor's Appointment (Chair).....	Dominic Pangallo	Term Expires:	4/1/2019
Elected Member.....	Sarah M. Hayes	Term Expires:	6/3/2019
5th Member.....	Robert T. Lutts	Term Expires:	3/24/2019

Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the System. The Board must annually file a financial statement of condition for the System with the Executive Director of PERAC.

The investment of the System's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the System has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by three persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer-Custodian:	MACRS Blanket Policy
Ex-Officio Member:	\$50,000,000 Fiduciary Liability
Elected Members:	\$1,000,000 Fidelity (ERISA) Bond
Appointed Members:	St. Paul Travelers Insurance Company
Staff Employees:	National Union Fire Arch Insurance Company

NOTE 4 – CASH AND INVESTMENTS

Custodial Credit Risk - Deposits

At December 31, 2017, the carrying amount of the System's deposits totaled \$213,636, and the bank balance totaled \$424,021, which was covered by Federal Depository Insurance and Depositors Insurance Fund.

Investments

The System's investments are as follows:

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

Approximately 99% of the Retirement System's investments are in the Pension Reserve Investment Trust (PRIT). This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board. The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The Administration does not have the ability to control any of the investment decisions relative to its funds in PRIT. The effective weighted duration rate for PRIT investments ranged from 0.15 to 16.31 years.

Approximately 0.1% of the System's funds are invested in pooled alternative investments. The market values of assets in those funds are based on the quoted values obtained from each pool.

The Administration's annual money-weighted rate of return on pension plan investments was 17.23%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense,

adjusted for the changing amounts actually invested, measured monthly.

The plan holds significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the plan's activities, the plan shows greater disaggregation in its disclosures. The plan chooses a tabular format for disclosing the levels within the fair value hierarchy. The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The System has the following recurring fair value measurements as of December 31, 2017:

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

Alternative Investments and Repurchase Agreements classified in level 3 are valued using either a discounted cash flow or market comparable companies technique.

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

NOTE 5 – MEMBERSHIP

The following table represents the System's membership at December 31, 2017:

Active members.....	1,072
Inactive members.....	105
Disabled members.....	56
Retirees and beneficiaries currently receiving benefits.....	510
Total.....	<u>1,743</u>

NOTE 6 – ACTUARIAL VALUATION

Components of the net pension liability as of December 31, 2017, were as follows:

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

The total pension liability was determined by an actuarial valuation as of January 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2017:

Valuation date.....	January 1, 2018
Actuarial cost method.....	Entry Age Normal Cost Method
Amortization method.....	Increasing at 4.5% per year for 2002 and 2003 ERI and level dollar amortization for 2010 ERI, with total contribution increasing 5.15% per year
Remaining amortization period.....	As of July 1, 2016, 15 years remaining for 2002 and 2003 ERI liability, 6 years remaining for 2010 ERI liability and 15 years for remaining unfunded liability
Asset valuation method.....	The difference between the expected return on an actuarial basis and the actual investment return on a market value basis is recognized over a five-year period. Asset value is adjusted as necessary to be within 20% of the market value
Investment rate of return/Discount rate....	7.375% (previously, 7.50%)
Inflation rate.....	3.50%
Projected salary increases.....	Varies by length of service with ultimate rates of 4.25% for Group 1, 4.50% for Group 2, and 4.75% for Group 4
Cost of living adjustments.....	3.00% of first \$12,000

Mortality Rates:

Pre-Retirement.....	RP-2014 Blue Collar Employee Mortality Table set forward one year for female participants projected generationally using Scale MP-2017 (Previously, RP-2000 Employee Mortality Table projected generationally from 2009 using Scale BB2D)
Healthy Retiree.....	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year for female participants projected generationally using Scale MP-2017 (Previously, RP-2000 Healthy Annuitant Mortality Table projected generationally from 2009 using Scale BB2D)
Disabled Retiree.....	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year projected generationally using Scale MP-2017 (Previously, RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 using Scale BB2D)

Investment policy: The System'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 expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption as of December 31, 2017, are summarized in the following table:

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

Discount rate: The discount rate used to measure the total pension liability was 7.375%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.375%)	Current Discount (7.375%)	1% Increase (8.375%)
The System's total net pension liability..... \$	\$ 153,524,490	\$ 120,380,502	\$ 92,296,594

Contributions: Governmental employers are required to pay an annual appropriation as established by PERAC. The total 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 pension fund appropriations are allocated amongst employers based on the actuarial valuation.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The System has no significant commitments or contingencies at year end.

NOTE 8 – IMPLEMENTATION OF GASB PRONOUNCEMENTS

During 2017, the following GASB pronouncements were implemented:

- GASB Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*. This pronouncement did not impact the financial statements.

The following GASB pronouncement will be implemented in the future:

- The GASB issued Statement #85, *Omnibus 2017*, which is required to be implemented in 2018.

Management is currently assessing the impact the implementation of this pronouncement will have on the financial statements.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 30, 2018, which is the date the financial statements were available to be issued.

Required Supplementary Information

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS**

	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Total pension liability:				
Service cost.....	\$ 5,854,030	\$ 6,097,323	\$ 6,350,728	\$ 6,879,418
Interest.....	18,557,934	19,386,667	20,274,844	21,023,505
Changes in benefit terms.....	-	-	-	-
Differences between expected and actual experience.....	-	-	(5,574,549)	(1,058,253)
Changes in assumptions.....	-	-	12,360,928	5,467,970
Benefit payments.....	(14,146,676)	(13,777,134)	(14,776,958)	(15,699,301)
Net change in total pension liability.....	10,265,288	11,706,856	18,634,993	16,613,339
Total pension liability - beginning.....	240,676,498	250,941,786	262,648,642	281,283,635
Total pension liability - ending (a).....	\$ 250,941,786	\$ 262,648,642	\$ 281,283,635	\$ 297,896,974
Plan fiduciary net position:				
Employer pension appropriation.....	\$ 11,942,341	\$ 12,181,169	\$ 12,527,730	\$ 13,172,909
Member contributions.....	3,939,454	4,121,728	4,311,175	4,488,581
Net investment income (loss).....	9,022,647	659,962	10,046,275	25,387,723
Administrative expenses.....	(242,294)	(238,374)	(266,216)	(270,574)
Retirement benefits and refunds.....	(14,146,676)	(13,777,134)	(14,776,958)	(15,699,301)
Depreciation.....	-	-	-	(3,125)
Net increase (decrease) in fiduciary net position.....	10,515,472	2,947,351	11,842,006	27,076,213
Fiduciary net position - beginning of year.....	123,879,403	135,650,902	138,598,253	150,440,259
Adjustment to include members transferred from Essex Agricultural and Technical School (c).....	1,256,027	-	-	-
Fiduciary net position - end of year (b).....	\$ 135,650,902	\$ 138,598,253	\$ 150,440,259	\$ 177,516,472
Net pension liability - ending (a)-(b).....	\$ 115,290,884	\$ 124,050,389	\$ 130,843,376	\$ 120,380,502
Plan fiduciary net position as a percentage of the total pension liability.....	54.06%	52.77%	53.48%	59.59%
Covered payroll.....	\$ 40,399,678	\$ 42,015,665	\$ 45,841,256	\$ 46,608,505
Net pension liability as a percentage of covered payroll.....	285.38%	295.25%	285.43%	258.28%

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

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

See notes to required supplementary information.

SCHEDULE OF CONTRIBUTIONS

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

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS

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

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

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

See notes to required supplementary information.

NOTE A – 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.

NOTE B – CONTRIBUTIONS

Governmental employers are required to pay an annual appropriation as established by PERAC. The total 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 total appropriation for the City of Salem, Salem and Beverly Water Supply Board, South Essex Sewerage District, North Shore Technical High School and Salem Housing Authority is payable on July 1, August 1, August 1, June 30, and August 1, respectively. The pension fund appropriations are allocated amongst employers based on the actuarial valuation. In addition, an employer may contribute more than the amount required.

NOTE C – MONEY-WEIGHTED RATE OF 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.

Audit of Specific Elements, Accounts and Items of Financial Statements

Salem Contributory Retirement System

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***Audit of Specific Elements, Accounts and
Items of Financial Statements***



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Independent Auditor's Report

To the Honorable Salem Contributory Retirement Board
Salem Contributory Retirement System
Salem, Massachusetts

We have audited the accompanying schedule of employer allocations of the Salem Contributory Retirement System (the System) as of and for the year ended December 31, 2017, and the related notes. We have also audited the total for all entities of the rows titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, total covered payroll, total pension expense and contributions included in the accompanying schedule of pension amounts by employer of the System Pension Plan as of and for the year ended December 31, 2017, and the related notes.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules 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 the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified row totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer, 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 schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer 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 schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer.

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 schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, total covered payroll, total pension expense and contributions for the total of all participating entities for the Salem Contributory Retirement System as of and for the year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Salem Contributory Retirement System as of and for the year ended December 31, 2017, and our report thereon, dated October 30, 2018, expressed an unmodified opinion on those financial statements.

Restriction on Use

This report is intended solely for the information and use of the Salem Contributory Retirement System management, the Salem Contributory Retirement System employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Powers & Sullivan LLC".

October 30, 2018

SCHEDULE OF EMPLOYER ALLOCATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

Employer	2018 Pension Fund Appropriation	(A) Share of Net Pension Liability	Percent of Total Net Pension Liability
City of Salem.....	\$ 11,087,694	\$ 101,324,784	84.17043%
Salem and Beverly Water Supply Board.....	297,233	2,716,261	2.25640%
South Essex Sewerage District.....	800,774	7,317,866	6.07895%
North Shore Technical High School.....	629,979	5,757,057	4.78238%
Salem Housing Authority.....	357,229	3,264,534	2.71185%
Total.....	\$ 13,172,909	\$ 120,380,502	100.00000%

(A) South Essex Sewerage District has made additional contributions to the System which are allocated directly to offset their net pension liability.

See notes to schedule of employer allocations and schedule of pension amounts by employer.

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

FOR THE YEAR ENDED DECEMBER 31, 2017

	City of Salem	Salem and Beverly Water Supply Board	South Essex Sewerage District	Salem Housing Authority	North Shore Technical High School	Totals
Net Pension Liability						
Beginning net pension liability.....	\$ 110,864,598	\$ 2,935,154	\$ 7,731,225	\$ 3,470,363	\$ 5,842,036	\$ 130,843,376
Ending net pension liability.....	\$ 101,324,784	\$ 2,716,261	\$ 7,317,866	\$ 3,264,534	\$ 5,757,057	\$ 120,380,502
Deferred Outflows of Resources						
Changes of assumptions.....	\$ 9,924,478	\$ 266,050	\$ 716,764	\$ 319,752	\$ 563,888	\$ 11,790,932
Changes in proportion and differences between employer contributions and proportionate share of contributions.....	231,055	47,322	250,822	57,955	303,425	890,579
Total Deferred Outflows of Resources.....	\$ 10,155,533	\$ 313,372	\$ 967,586	\$ 377,707	\$ 867,313	\$ 12,681,511
Deferred Inflows of Resources						
Differences between expected and actual experience.....	\$ 3,527,861	\$ 94,573	\$ 254,789	\$ 113,662	\$ 200,446	\$ 4,191,331
Net difference between projected and actual investment earnings on pension plan investments.....	5,598,189	150,073	404,312	180,365	318,077	6,651,016
Changes in proportion and differences between employer contributions and proportionate share of contributions.....	610,849	2,782	194,339	44,194	38,415	890,579
Total Deferred Inflows of Resources.....	\$ 9,736,899	\$ 247,428	\$ 853,440	\$ 338,221	\$ 556,938	\$ 11,732,926
Pension Expense						
Proportionate share of plan pension expense.....	\$ 11,834,818	\$ 317,261	\$ 854,735	\$ 381,299	\$ 672,432	\$ 14,060,545
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions....	32,598	35,478	(79,517)	(28,321)	39,762	-
Total Employer Pension Expense.....	\$ 11,867,416	\$ 352,739	\$ 775,218	\$ 352,978	\$ 712,194	\$ 14,060,545
Contributions						
Statutory required contribution.....	\$ 11,087,694	\$ 297,233	\$ 800,774	\$ 357,229	\$ 629,979	\$ 13,172,909
Contribution in relation to statutory required contribution....	(11,087,694)	(297,233)	(800,774)	(357,229)	(629,979)	(13,172,909)
Contribution deficiency/(excess).....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll.....	30.81%	27.75%	20.21%	23.85%	15.41%	28.26%
Deferred (Inflows)/Outflows Recognized in Future Pension Expense						
June 30, 2019.....	\$ 1,479,349	\$ 74,260	\$ 24,973	\$ 18,293	\$ 121,966	\$ 1,718,841
June 30, 2020.....	1,183,561	38,449	143,397	56,616	150,177	1,572,200
June 30, 2021.....	(490,022)	(6,415)	22,528	2,698	55,087	(416,124)
June 30, 2022.....	(1,754,254)	(40,350)	(76,752)	(38,121)	(16,855)	(1,926,332)
Total Deferred Inflows/(Outflows) Recognized in Future Pension Expense.....	\$ 418,634	\$ 65,944	\$ 114,146	\$ 39,486	\$ 310,375	\$ 948,585
Discount Rate Sensitivity						
1% decrease (6.375%).....	\$ 129,222,222	\$ 3,464,120	\$ 9,332,671	\$ 4,163,348	\$ 7,342,129	\$ 153,524,490
Current discount rate (7.375%).....	\$ 101,324,784	\$ 2,716,261	\$ 7,317,866	\$ 3,264,534	\$ 5,757,057	\$ 120,380,502
1% increase (8.375%).....	\$ 77,686,439	\$ 2,082,577	\$ 5,610,660	\$ 2,502,941	\$ 4,413,977	\$ 92,296,594
Covered Payroll.....	\$ 35,989,977	\$ 1,071,039	\$ 3,961,922	\$ 1,498,095	\$ 4,087,472	\$ 46,608,505

See notes to schedule of employer allocations and schedule of pension amounts by employer.

NOTE I – Schedule of Employer Allocations

Governmental Accounting Standards Board (GASB) Statement #68 requires employers participating in a cost-sharing pension plan to recognize pension liabilities as employees provide services to the government and earn their pension benefits. Employers participating in cost-sharing plans are required to recognize their proportionate share of the plan's collective pension amounts for all benefits provided through the plan including the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and contributions.

GASB Statement #68 requires the allocation of the collective pension amounts be consistent with the manner in which contributions to the plan are determined. As permissible under GASB Statement #68, The Schedule of Employer Allocations is used to demonstrate the allocation of Salem Contributory Retirement System's collective pension amounts.

Massachusetts General Law (MGL) Chapter 32 Section 22 Paragraph 7c dictates that Massachusetts cost sharing defined benefit pension plans allocate the annual required pension fund appropriation to employer units based on their proportionate share of the aggregate of the annual rates of regular compensation of all members in service of the system who are employees of any government unit at the close of business on the September 30th immediately preceding the fiscal year. The Public Employee Retirement Administration Commission (PERAC) approves each system's proportionate share of the annual required contribution. PERAC can accept alternative allocation methodologies and as such the System has elected to use an actuarial based allocation methodology. Accordingly, each member unit's proportionate share of the total pension liability has been calculated based on each member unit's actual current employees, retirees and inactive participants. Administrative expenses are allocated in proportion to each member's normal cost. Each member's share on the System's net position at year end is allocated in proportion to the actuarial accrued liability less the present value of future E.R.I. payments and adjusted for additional contributions to the system made by the South Essex Sewerage District and the City of Salem.

When a member unit accepts an Early Retirement Incentive Program (E.R.I. or ERIP), PERAC completes an analysis of the costs and liabilities attributable to the additional benefits payable in accordance with the ERIP. The accrued liability for the members who accept the ERIP as retirees including the ERIP less the accrued liability for the members as active employees excluding the ERIP represents the increase in accrued liability due to the ERIP. The net increase is amortized for each member unit accepting the ERIP, and is separately identified in the system's funding schedule. The 2002 ERIP amortization is straight line ending in 2017. The 2003 ERIP amortization is straight line ending in fiscal 2020.

The allocation percentage of the total net pension liability is a blended rate of the following two items. (1) The proportionate share of active employer's fiscal year 2018 pension fund appropriation as calculated by the actuary, and as adjusted for the additional voluntary employer contributions in excess of the statutory required contribution to reduce their net pension liability. (2) ERIP is a direct charge calculated by PERAC for only the employers that accepted the ERIP.

NOTE II – Schedule of Pension Amounts by Employer

The Schedule of Pension Amounts by Employer presents the net pension liability, the various categories of deferred outflows of resources and deferred inflows of resources, pension expense, covered payroll and contributions for all participating employers including differences between expected and actual economic experience; differences between projected and actual investment earnings, net; and changes of assumptions.

Changes in Assumptions

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

- The investment return assumption was lowered from 7.50% to 7.375%.
- The mortality assumption for non-disabled participants was updated from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally from 2009 with Scale BB2D to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year for female participants projected generationally with Scale MP-2017.
- The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 with Scale B2D to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year projected generationally with Scale MP-2017.
- The administrative expense assumption was changed 305,000 for calendar 2016, increasing 3.5% per year, to \$350,000 for calendar 2018, increasing 3.5% per year.

Changes in Plan Provisions

There were no changes in plan provisions.

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