Powers & Sullivan, LLC
CPAs AND ADVISORS

SALEM CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2023

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TABLE OF CONTENTS

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, 2023, 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, 2023, 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 September 23, 2024, 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.

Powers & Sullivan LLC

September 23, 2024

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, 2023. 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 $274.3 million (net position restricted for pensions).
- The System's net position increased by $27.2 million for the year ended December 31, 2023.
- Total investment income was $27.5 million; investment expenses were $1.3 million; and net investment income totaled $26.2 million.
- Total contributions were $26.2 million including $18.1 million from employers and $6.3 million from members.
- Retirement benefits, refunds and transfers amounted to $24.6 million.
- Administrative expenses were $536,000 or 2% of total deductions.
- The total pension liability was $386.6 million as of December 31, 2023, while the net pension liability was $112.4 million.
- The Plan fiduciary net position as a percentage of the total pension liability was 70.94%.

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 $274.3 million at the close of 2023.

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 includes investments of $266.8 million, cash and cash equivalents of $7.1 million, receivables of $262,000 and capital assets, net of accumulated depreciation of $66,000.

In 2023, the System's contributions totaled $26.2 million and net investment income totaled $26.2 million, while retirement benefit payments, refunds, transfers, depreciation, and administration expenses totaled $25.1 million which resulted in an increase of $27.2 million in net position. In 2022, the System's contributions totaled $24.0 million and net investment loss totaled $31.1 million, while retirement benefit payments, refunds, transfers, depreciation, and administration expenses were $23.0 million which resulted in a prior year decrease of $30.1 million.

Net investment income/(loss) was $26.2 million and ($31.1) million in 2023, and 2022, respectively. The annual money weighted rate of return was 10.93% and (11.50%) in 2023, and 2022, 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 $27.2 million increase in the fiduciary net position from 2022, to 2023, was the $26.2 million net investment income.

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

	2023	2022
Assets:		
Cash and cash equivalents	$ 7,141,885	$ 444,283
Investments	266,808,383	246,488,369
Receivables	262,203	63,125
Capital assets, net of accumulated depreciation	66,406	69,531
Total assets	274,278,877	247,065,308
Liabilities:		
Warrants payable	10,241	13,349
Net Position Restricted for Pensions	$ 274,268,636	$ 247,051,959

	2023	2022
Additions:		
Contributions:		
Employer contributions	$ 18,146,052	$ 17,191,901
Member contributions	6,348,603	5,760,697
Other contributions	1,694,020	1,026,634
Total contributions	26,188,675	23,979,232
Net investment income (loss)	26,168,011	(31,080,892)
Total additions	52,356,686	(7,101,660)
Deductions:		
Administration	536,286	422,911
Retirement benefits, refunds and transfers	24,600,598	22,587,815
Depreciation	3,125	3,125
Total deductions	25,140,009	23,013,851
Net increase (decrease) in fiduciary net position	27,216,677	(30,115,511)
Fiduciary net position at beginning of year	247,051,959	277,167,470
Fiduciary net position at end of year	$ 274,268,636	$ 247,051,959

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

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2023

Assets		
Cash and cash equivalents	$	7,141,885
Investments in Pension Reserve Investment Trust		266,808,383
Accounts receivable		262,203
Capital assets, net of accumulated depreciation		66,406
Total Assets		274,278,877
Liabilities		
Warrants payable		10,241
Net Position Restricted for Pensions	$	274,268,636

See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED DECEMBER 31, 2023

Additions:		
Contributions:		
Employer pension appropriation	$	18,146,052
Member contributions		6,348,603
Transfers from other systems		979,722
3(8)(c) contributions from other systems		596,492
Workers' compensation settlements		10,000
State COLA reimbursements		55,276
Members' makeup payments and redeposits		52,530
Total contributions		26,188,675
Net investment income (loss):		
Investment income (loss)		27,451,227
Less: investment expense		(1,283,216)
Net investment income (loss)		26,168,011
Total additions		52,356,686
Deductions:		
Administration		536,286
Retirement benefits and refunds		21,889,396
Transfers to other systems		1,926,964
3(8)(c) transfer to other systems		784,238
Depreciation		3,125
Total deductions		25,140,009
Net increase in fiduciary net position		27,216,677
Fiduciary net position at beginning of year		247,051,959
Fiduciary net position at end of year	$	274,268,636

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, 2023, 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 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:	5/3/2024
Elected Member……………………	Robert W. Callahan	Term Expires:	12/1/2024
Elected Member……………………	Sarah M. Hayes	Term Expires:	12/1/2024
Mayor's Appointment (Chair)……..	Lisa J.B. Peterson	Term Expires:	4/1/2025
Fifth Member………………………	Matthew Veno	Term Expires:	3/24/2025

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, 2023, the carrying amount of the System's deposits totaled $7,141,885 and the bank balance totaled $6,950,796, the entirety of which was covered by Federal Depository Insurance.

Investments

At December 31, 2023, all of the System's investments of $266,808,383 were 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 2.98 to 14.57 years. PRIT investments are valued using the net asset value (NAV) method.

The System's annual money-weighted rate of return on pension plan investments was 10.93%. The money–weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested, measured monthly.

NOTE 5 – MEMBERSHIP

The following table represents the System's membership as of the valuation date, January 1, 2024:

Active members	1,013
Inactive members	476
Retirees and beneficiaries currently receiving benefits	641
Total	2,130

NOTE 6 – ACTUARIAL VALUATION

Components of the net pension liability as of December 31, 2023, were as follows:

Total pension liability	$	386,627,767
Total pension plan's fiduciary net position		(274,268,636)
Total net pension liability	$	112,359,131
The pension plan's fiduciary net position as a percentage of the total pension liability		70.94%

The total pension liability was determined by an actuarial valuation as of January 1, 2024, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2023:

Valuation date	January 1, 2024
Actuarial cost method	Entry Age Normal Cost Method.
Amortization method	Appropriation increasing 3.00% per year through 2032.
Remaining amortization period	As of July 1, 2024, 8 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 fair 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	5.00% of first $15,000 of the annual retirement allowance, effective July 1, 2022 as a one-time increase from 3.00%.
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, 2023, are summarized in the following table:

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.00%	6.29%
International developed markets equity	9.50%	6.39%
International emerging markets equity	4.50%	7.63%
Core fixed income	15.00%	1.72%
High-yield fixed income	9.00%	3.43%
Real estate	10.00%	3.24%
Timber	4.00%	3.72%
Hedge fund, GTAA, risk parity	10.00%	2.87%
Private equity	16.00%	9.43%
Total	100.00%	

Discount Rate: The discount rate used to measure the total pension liability was 6.90% at December 31, 2023, and December 31, 2022. 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 rated. 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	$ 155,368,076	$ 112,359,131	$ 76,145,560

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 2023, 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 23, 2024 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	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022	December 31, 2023
Total pension liability:										
Service cost……	$ 5,854,030	$ 6,097,323	$ 6,350,728	$ 6,879,418	$ 7,179,699	$ 7,450,413	$ 7,639,598	$ 7,887,870	$ 8,502,223	$ 8,762,256
Interest……	18,557,934	19,386,667	20,274,844	21,023,505	21,882,675	22,806,632	23,849,121	24,727,136	25,044,080	25,838,949
Changes in benefit terms……	-	-	-	-	-	-	-	5,031,297	-	1,782,644
Differences between expected and actual experience…	-	-	(5,574,549)	(1,058,253)	-	1,818,559	-	(6,522,814)	-	(3,991,880)
Changes in assumptions……	-	-	12,360,928	5,467,970	-	9,780,518	-	6,325,829	-	-
Benefit payments……	(14,146,676)	(13,777,134)	(14,776,958)	(15,699,301)	(16,724,907)	(16,876,507)	(18,591,225)	(20,303,576)	(21,598,689)	(22,969,108)
Net change in total pension liability……	10,265,288	11,706,856	18,634,993	16,613,339	12,337,467	24,979,615	12,897,494	17,145,742	11,947,614	9,422,861
Total pension liability - beginning……	240,676,498	250,941,786	262,648,642	281,283,635	297,896,974	310,234,441	335,214,056	348,111,550	365,257,292	377,204,906
Total pension liability - ending (a)……	$ 250,941,786	$ 262,648,642	$ 281,283,635	$ 297,896,974	$ 310,234,441	$ 335,214,056	$ 348,111,550	$ 365,257,292	$ 377,204,906	$ 386,627,767
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	$ 15,431,474	$ 16,287,922	$ 17,191,901	$ 18,146,052
Member contributions……	3,939,454	4,121,728	4,311,175	4,488,581	4,640,867	4,980,577	5,178,200	5,381,973	5,798,205	6,411,133
Net investment income (loss)……	9,022,647	659,962	10,046,275	25,387,723	(4,217,149)	27,850,445	24,592,019	44,812,905	(31,080,892)	26,168,011
Retirement benefits and refunds……	(14,146,676)	(13,777,134)	(14,776,958)	(15,699,301)	(16,724,907)	(16,876,507)	(18,591,225)	(20,303,576)	(21,598,689)	(22,969,108)
Administrative expenses……	(239,169)	(235,249)	(263,091)	(270,574)	(318,142)	(298,640)	(300,235)	(333,877)	(422,911)	(536,286)
Depreciation……	(3,125)	(3,125)	(3,125)	(3,125)	(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	26,307,108	45,842,222	(30,115,511)	27,216,677
Fiduciary net position - beginning of year……	123,879,403	135,650,902	138,598,253	150,440,259	177,516,472	174,745,329	205,018,140	231,325,248	277,167,470	247,051,959
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	$ 231,325,248	$ 277,167,470	$ 247,051,959	$ 274,268,636
Net pension liability - ending (a)-(b)……	$ 115,290,884	$ 124,050,389	$ 130,843,376	$ 120,380,502	$ 135,489,112	$ 130,195,916	$ 116,786,302	$ 88,089,822	$ 130,152,947	$ 112,359,131
Plan fiduciary net position as a percentage of the total pension liability……	54.06%	52.77%	53.48%	59.59%	56.33%	61.16%	66.45%	75.88%	65.50%	70.94%
Covered payroll……	$ 40,399,678	$ 42,015,665	$ 45,841,256	$ 46,608,505	$ 48,663,234	$ 50,117,547	$ 52,188,241	$ 53,564,840	$ 55,735,457	$ 62,565,743
Net pension liability as a percentage of covered payroll……	285.38%	295.25%	285.43%	258.28%	278.42%	259.78%	223.78%	164.45%	233.52%	179.59%

(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, 2023………	$ 18,146,052	$ (18,146,052)	$ -	$ 62,565,743	29.00%
December 31, 2022………	17,191,901	(17,191,901)	-	55,735,457	30.85%
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%

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expense
December 31, 2023	10.93%
December 31, 2022	-11.50%
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%

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

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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, 2023, 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, 2023, 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, 2023, 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, 2023, and our report thereon, September 23, 2024 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 23, 2024

SCHEDULE OF EMPLOYER ALLOCATIONS

FOR THE YEAR ENDED DECEMBER 31, 2023

Employer	2024 Pension Fund Appropriation	(A) Share of Net Pension Liability	Percent of Total Net Pension Liability
City of Salem	$ 15,130,794	$ 93,688,856	83.383%
Salem and Beverly Water Supply Board	463,038	2,867,101	2.552%
South Essex Sewerage District	1,008,460	6,244,316	5.557%
Essex Technical High School	1,010,423	6,256,471	5.568%
Salem Housing Authority	533,337	3,302,387	2.939%
Total	$ 18,146,052	$ 112,359,131	100.000%

(A) South Essex Sewerage District has made additional contributions to the System, which are allocated to reduce their share of the annual appropriation. The net pension liability is then allocated based on the pension fund appropriation.

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, 2023

	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	$ 109,238,606	$ 2,887,804	$ 7,993,710	$ 6,503,302	$ 3,529,525	$ 130,152,947
Ending net pension liability	$ 93,688,856	$ 2,867,101	$ 6,244,316	$ 6,256,471	$ 3,302,387	$ 112,359,131
Deferred Outflows of Resources						
Net difference between projected and actual investment earnings on pension plan investments	$ 8,009,920	$ 245,122	$ 533,857	$ 534,896	$ 282,337	$ 9,606,132
Changes of assumptions	2,109,877	64,567	140,622	140,896	74,370	2,530,332
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	307,713	15,218	537,886	265,448	1,126,265
Total Deferred Outflows of Resources	$ 10,119,797	$ 617,402	$ 689,697	$ 1,213,678	$ 622,155	$ 13,262,729
Deferred Inflows of Resources						
Differences between expected and actual experience	$ 4,838,377	$ 148,066	$ 322,475	$ 323,103	$ 170,545	$ 5,802,566
Changes in proportion and differences between employer contributions and proportionate share of contributions	550,683	41,080	531,594	2,908	-	1,126,265
Total Deferred Inflows of Resources	$ 5,389,060	$ 189,146	$ 854,069	$ 326,011	$ 170,545	$ 6,928,831
Pension Expense						
Proportionate share of plan pension expense	$ 10,461,003	$ 320,132	$ 697,220	$ 698,576	$ 368,734	$ 12,545,665
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions	(177,658)	63,604	(117,431)	181,899	49,586	-
Total Employer Pension Expense	$ 10,283,345	$ 383,736	$ 579,789	$ 880,475	$ 418,320	$ 12,545,665
Contributions						
Statutory required contribution	$ 15,130,794	$ 463,038	$ 1,008,460	$ 1,010,423	$ 533,337	$ 18,146,052
Contribution in relation to statutory required contribution	(15,130,794)	(463,038)	(1,008,460)	(1,010,423)	(533,337)	(18,146,052)
Contribution deficiency/(excess)	$ -	$ -	$ -	$ -	$ -	$ -
Contributions as a percentage of covered payroll	31.31%	30.82%	22.46%	16.29%	26.03%	29.00%
Deferred (Inflows)/Outflows Recognized in Future Pension Expense						
June 30, 2025	$ (341,154)	$ 52,795	$ (141,383)	$ 126,393	$ 74,642	$ (228,707)
June 30, 2026	1,308,573	101,110	(34,060)	238,178	131,873	1,745,674
June 30, 2027	6,066,376	266,758	286,872	541,115	271,220	7,432,341
June 30, 2028	(2,303,058)	7,593	(275,801)	(18,019)	(26,125)	(2,615,410)
Total Deferred (Inflows)/Outflows Recognized in Future Pension Expense	$ 4,730,737	$ 428,256	$ (164,372)	$ 887,667	$ 451,610	$ 6,333,898
Discount Rate Sensitivity						
1% decrease (5.90%)	$ 129,551,174	$ 3,964,573	$ 8,634,522	$ 8,651,329	$ 4,566,478	$ 155,368,076
Current discount rate (6.90%)	$ 93,688,856	$ 2,867,101	$ 6,244,316	$ 6,256,471	$ 3,302,387	$ 112,359,131
1% increase (7.90%)	$ 63,492,751	$ 1,943,029	$ 4,231,761	$ 4,239,998	$ 2,238,021	$ 76,145,560
Covered Payroll	$ 48,321,393	$ 1,502,581	$ 4,489,930	$ 6,203,181	$ 2,048,658	$ 62,565,743

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, 2023, 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 employee 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.

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 2024 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 – The Board adopted a one-time increase in the COLA from 3.0% to 5.0% effective July 1, 2022.

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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, 2023, 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 September 23, 2024.

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.

Powers & Sullivan LLC

September 23, 2024