

**TOWN OF SALEM,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018**

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ANNUAL FINANCIAL REPORT
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PLODZIK & SANDERSON

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Selectmen and Town Manager
Town of Salem
Salem, New Hampshire

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the Town of Salem as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the Town of Salem, as of December 31, 2018, the respective changes in financial position, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2-C to the financial statements, in fiscal year 2018 the Town adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Town of Salem
Independent Auditor's Report

Other Matters

Required Supplementary Information – Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements:

- Management's Discussion and Analysis,
- Schedule of the Town's Proportionate Share of Net Pension Liability,
- Schedule of Town Contributions – Pensions,
- Schedule of the Town's Proportionate Share of the Net Other Postemployment Benefits Liability,
- Schedule of Town Contributions – Other Postemployment Benefits,
- Schedule of Changes in the Town's Total Other Postemployment Benefits Liability and Related Ratios, and
- Notes to the Required Supplementary Information

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

Other Information – Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Salem's basic financial statements. The combining and individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards – In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2019 on our consideration of the Town of Salem'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 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 Town of Salem's internal control over financial reporting and compliance.

August 8, 2019



PLODZIK & SANDERSON
Professional Association

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Town of Salem, New Hampshire (the Town) annual financial report, the Town's management is pleased to provide this narrative discussion and analysis of the financial activities of the Town for the calendar year ending December 31, 2018. The Town's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

- The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$34,266,177 (net position) for the calendar year reported. This is a change of \$(2,597,185) in comparison to the prior year, as restated. Of that amount at December 31, 2018, \$(66,394,983) is considered unrestricted (unrestricted net position), a change of \$(319,037) in comparison to the prior year. The two main factors for this change include the increase for the other postemployment benefits (OPEB) liability and the net pension liability. Unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors. The unrestricted net position of the Town's governmental activities was \$(68,238,656), a change of \$6,504 in comparison to the prior year, as restated. The unrestricted net position of business-type activities was \$1,843,673, a change of \$(325,541) in comparison to the prior year.
- The total cost of all town services for calendar year 2018 was \$61,692,442, as compared to \$60,626,575 in the prior year, as restated, an increase of \$1,065,867 or 2%. Of the total cost of services, \$56,064,160 was spent on governmental activities (compared to \$52,385,438 in the prior year) and an additional \$5,628,282 was spent on business type activities consisting of the water and sewer funds (compared to \$8,241,137 in the prior year, as restated).
- At December 31, 2018, the Town's governmental funds reported a combined ending balance of \$18,482,957, a change of \$2,608,319 in comparison to prior year, as restated.
- At the end of calendar year 2018, unassigned fund balance for the general fund was \$11,431,309, a change of \$3,599,733 in comparison to the prior year.
- Total long-term debt (bonds and notes payable) at the close of the fiscal year 2018 was \$5,730,361, a change of \$245,361 in comparison to the prior year.
- The Town implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during fiscal year 2018. The beginning net position for governmental activities was restated by \$(3,372,927) for the OPEB provided by NHRS and \$(24,290,909) for the Town's local OPEB plan to retroactively report the increase in the net OPEB liability as of July 1, 2017.
- The Town implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during fiscal year 2018. The beginning net position for business-type activities was restated by \$(93,815) for the OPEB provided by NHRS and \$(66,232) for the Town's local OPEB plan to retroactively report the increase in the net OPEB liability as of July 1, 2017.
- Overall, the Town continues to maintain a strong financial position.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

Overview of the Financial Statements

This Management Discussion and Analysis document introduces the Town's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, (3) notes to the basic financial statements, and (4) required supplementary information. The Town also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town of Salem, New Hampshire's finances in a manner similar to a private sector business. These statements provide both long-term and short-term information about the Town's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of activities between funds.

The first of the government-wide statements is the *Statement of Net Position* which presents information that includes all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 of the Town as a whole is improving or deteriorating. Evaluation of the overall health of the Town would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of Town infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the Town's net position changed during the current calendar year. All current year revenues and expenditures are included regardless of the timing of cash flows. An important purpose of the design of the statement of activities is to show the financial reliance of the Town's distinct activities or functions on revenues provided by the Town's taxpayers.

The government-wide financial statements have separate columns for government activities and business-type activities.

Governmental activities include general administration, public safety, highways and streets, sanitation, health, welfare, culture and recreation, and conservation. Property taxes, motor vehicle permit fees, federal, state, and other local revenues finance these activities.

Business-type activities include water and sewer operations. User fees charged to the customer receiving these services primarily finance these activities.

The government-wide financial statements are presented on pages 10-11 of this report.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Town uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for nonmajor funds is provided in the form of combining statements in a later section of this report.

All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are reported in the fund financial statements and are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources. These statements report short-term calendar accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Because the focus of *governmental funds* is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. These two perspectives may provide insight into the long-term impact of short-term financing decisions. The financial statements contain a reconciliation between the government-wide and fund financial statements to assist in understanding the differences between these two perspectives.

The basic governmental fund financial statements are presented on pages 12-15 of this report.

Individual fund information for nonmajor governmental funds is found in the combining statements in a later section of the annual financial report.

The Town's *proprietary funds* are the sewer fund and water fund. Proprietary funds focus on business-type activities and services that mirror similar activities in the private sector. The revenues from proprietary funds come primarily from user fees. Proprietary funds provide the same information as the government-wide business type activities, only in more detail.

The Town's *fiduciary funds* are private purpose trust funds and agency funds. Fiduciary funds are used for those resources that are held for third parties and are not available for governmental use. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Basic Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements begin on page 22 of this report.

Required Supplementary Information

The budgetary comparison schedule for the general fund is presented as required supplementary information. A more detailed budgetary schedule for the general fund is included in the supplementary section. This presentation is presented on page 16 of this report.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the Town's budget presentations for the general fund. Also, combining and individual schedules for nonmajor funds are presented in this section of this report beginning on page 64.

Government-Wide Financial Analysis

	Summary of Net Position					
	Governmental activities		Business-type activities		Total	
	2018	2017 (restated)	2018	2017 (restated)	2018	2017 (restated)
Assets and deferred outflows:						
Current and other assets	\$ 48,077,225	\$ 43,320,432	\$ 7,339,162	\$ 5,400,619	\$ 55,416,387	\$ 48,721,051
Capital assets	84,330,765	87,791,889	23,149,468	20,675,406	107,480,233	108,467,295
Deferred outflows	6,594,297	7,633,988	129,487	174,471	6,723,784	7,808,459
Total assets and deferred outflows	139,002,287	138,746,309	30,618,117	26,250,496	169,620,404	164,996,805
Liabilities and deferred inflows:						
Current liabilities	30,809,300	27,437,366	4,774,899	2,375,978	35,584,199	29,813,344
Noncurrent liabilities	89,096,972	90,728,967	4,730,109	4,122,062	93,827,081	94,851,029
Deferred inflows	5,867,482	7,609,803	75,465	84,828	5,942,947	7,694,631
Total liabilities and deferred inflows	125,773,754	125,776,136	9,580,473	6,582,868	135,354,227	132,359,004
Net position:						
Net investment in capital assets	80,239,975	83,936,975	19,193,971	17,568,386	99,433,946	101,505,361
Restricted	1,227,214	1,433,947	-	-	1,227,214	1,433,947
Unrestricted	(68,238,656)	(68,245,160)	1,843,673	2,169,214	(66,394,983)	(66,075,946)
Total net position	\$ 13,228,533	\$ 17,125,762	\$ 21,037,644	\$ 19,737,600	\$ 34,266,177	\$ 36,863,362

The largest portion of the Town's total net position (290% of total net position) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (4% of total net position) represents resources that are subject to restrictions on how they may be used placed by parties external to the Town. Finally, unrestricted net position of \$(66,394,983) ((194% of total net position) may be used to meet the government's ongoing obligations to citizens and creditors. The negative net position is largely due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits*. GASB Statement No. 68 requires the Town to report its proportionate share of the New Hampshire Retirement System's net pension liability based upon its plan contributions for the year. As of December 31, 2018 the Town's share of this liability was \$46.8 million. The New Hampshire Retirement System has a statutory funding schedule in which the goal is to reach 100% plan funding by June 30, 2039. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits* details the recognition and disclosure requirements for state and local employers for postemployment benefits other than pensions. Additionally, the Town had an OPEB liability of \$31.3 million as of December 31, 2018. The Town expects that its deficit in unrestricted net position will continue to increase for the foreseeable future until a mechanism to fund its OPEB obligation is in place. It is important to note that although total unrestricted net position is \$(66,394,983) this includes the unrestricted net position of the Town's business-type activities of \$1,843,673, which may not be used to fund governmental activities.

At the end of the calendar year, the Town reported decreases in net position for the government-wide activities and total net position. The Town reported an increase in net position for the business-type activities. The Town's total net position changed by \$(2,597,185) during the current calendar year. Governmental activities net position decreased by \$(3,897,229) or 23% during calendar year 2018. Major components of the decrease were 1) the Town's share of the net pension liability, 2) the Town's OPEB liability, and 3) unfunded depreciation. Business-type activities increased by \$1,300,044 or 7% during the calendar year.

The following condensed financial information was derived from the government-wide statement of net position. It reflects how the Town's net position has changed during calendar year 2018.

The following table provides a summary of the Town's changes in net position:

	Summary of Changes in Net Position					
	Governmental activities		Business-type activities		Total	
	2018	2017 (as restated)	2018	2017 (as restated)	2018	2017 (as restated)
Revenues:						
Program:						
Charges for services	\$ 4,879,968	\$ 3,710,812	\$ 5,895,862	\$ 5,844,950	\$ 10,775,830	\$ 9,555,762
Operating grants and contributions	1,630,009	868,871	1,297,101	6,972	2,927,110	875,843
Capital grants and contributions	1,342,340	254,327	-	-	1,342,340	254,327
General:						
Property taxes	30,118,187	28,781,416	-	-	30,118,187	28,781,416
Motor vehicle permits	6,943,221	6,476,483	-	-	6,943,221	6,476,483
Other	6,827,943	5,110,281	160,626	6,950	6,988,569	5,117,231
Total revenues	51,741,668	45,202,190	7,353,589	5,858,872	59,095,257	51,061,062
Program expenses:						
General government	8,594,407	8,761,580	-	-	8,594,407	8,761,580
Public safety	30,225,383	26,349,871	-	-	30,225,383	26,349,871
Highways and streets	13,206,572	13,630,596	-	-	13,206,572	13,630,596
Sanitation	1,187,621	931,945	2,585,790	4,365,882	3,773,411	5,297,827
Water distribution and treatment	-	-	3,042,492	3,875,255	3,042,492	3,875,255
Health	110,070	103,423	-	-	110,070	103,423
Welfare	267,850	280,400	-	-	267,850	280,400
Culture and recreation/conservation	2,402,690	2,239,996	-	-	2,402,690	2,239,996
Interest	69,567	87,627	-	-	69,567	87,627
Total expenses	56,064,160	52,385,438	5,628,282	8,241,137	61,692,442	60,626,575
Change in net position before transfers	(4,322,492)	(7,183,248)	1,725,307	(2,382,265)	(2,597,185)	(9,565,513)
Transfers	425,263	377,988	(425,263)	(377,988)	-	-
Total change in net position	(3,897,229)	(6,805,260)	1,300,044	(2,760,253)	(2,597,185)	(9,565,513)
Net position - beginning of year (as restated) (see note 20)	17,125,762	23,931,022	19,737,600	22,497,853	36,863,362	46,428,875
Net position - end of year	\$ 13,228,533	\$ 17,125,762	\$ 21,037,644	\$ 19,737,600	\$ 34,266,177	\$ 36,863,362

Governmental Funds Financial Analysis

The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the calendar year, the Town's governmental funds reported a combined ending fund balance of \$18,482,957, an increase of \$2,608,319 or 16% in comparison with the prior year. This increase was primarily due to onetime unanticipated general fund revenues.

Governmental Fund – General Fund

The general fund is the Town's primary operating fund and the largest source of day-to-day service delivery. At the end of the calendar year, unassigned fund balance of the General Fund was \$11,431,309, a change of \$3,599,733 from the prior year. Unassigned fund balance is available for spending at the government's discretion. The remainder of the fund balance is nonspendable, restricted, committed, or assigned to indicate that is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period; continued appropriations for capital outlay and improvement purposes; non-expendable permanent fund balances; and other purposes restricted by statute.

GENERAL FUND REVENUES

Total general fund revenues increased 12% over calendar year 2017.

Revenue Trends - General Fund

Source	2018 Amount	% of Total Revenue	Increase/ (Decrease)	% Change
Taxes	\$ 30,223,612	63.2%	\$ 1,311,636	4.5%
Licenses and permits	8,408,239	17.6%	537,323	6.8%
Intergovernmental	3,217,314	6.7%	958,618	42.4%
Charges for services	3,161,877	6.6%	920,669	41.1%
Miscellaneous	2,348,046	4.9%	1,235,659	111.1%
Total	\$ 47,359,088	99.0%	\$ 4,963,905	11.7%
Transfers from other funds	480,857	1.0%	(564,559)	-54.0%
Total	\$ 47,839,945	100.0%	\$ 4,399,346	10.13%

The general fund is reliant on property taxes to support general fund operations and capital. Property taxes provided 63% of the Town's total general fund revenues, which is considerably lower than 2017 at 67% of total general fund revenues. Total taxes increased \$1,311,636 over that of calendar year 2017. Licenses and permits are the second largest revenue source with \$8.4 million of revenues or 18% of the total revenues, which is the same as 2017 at 18%. Licenses and permit fees increased by \$537,323 or 7% in comparison with the prior year. Intergovernmental revenues increased primarily due to a bridge reimbursement from the State and FEMA reimbursements from a federally declared weather emergency event. A major reason for the increase of miscellaneous revenues was that in 2018 the Town sold numerous town owned parcels.

GENERAL FUND EXPENDITURES

Total general fund expenditures and other financing sources totaled \$50,012,282 an increase of \$5,170,728 or 12% over the previous calendar year. The increase in expenditures was due to the usual operating budget increases.

Expenditure Trends - General Fund

	2018 Amount	% of Total Expenditures	Increase/ (Decrease)	% Change
General government	\$ 6,836,688	13.7%	\$ 205,027	3.1%
Public safety	25,975,761	51.9%	3,346,609	14.8%
Highways and streets	4,310,896	8.6%	286,803	7.1%
Sanitation	1,088,217	2.2%	175,095	19.2%
Health	106,263	0.2%	6,694	6.7%
Welfare	263,180	0.5%	8,362	3.3%
Culture and recreation	2,084,061	4.2%	16,990	0.8%
Debt service	704,280	1.4%	(27,030)	-3.7%
Capital outlay	1,855,471	3.7%	(510,961)	-21.6%
Total	\$ 43,224,817	86.4%	\$ 3,507,589	8.8%
Transfers to other funds	4,430,170	8.9%	220,738	5.2%
Capital leases	2,357,295	4.7%	1,442,401	157.7%
Total	\$ 50,012,282	100.0%	\$ 5,170,728	11.5%

Increases and decreases in expenditures in calendar year 2018 were due primarily to contractual wage and salary increases and special article appropriations.

Budgetary Highlights

The General Fund – The operating budget was not amended in total appropriations during calendar year 2018, however modifications were made to the allocation of appropriations. The 2018 budget was set to utilize \$780,000 of unassigned fund balance to offset authorized expenditures. An additional \$640,000 was voted from unassigned fund balance for year one of a three-year lease/purchase to replace the existing land mobile radio communications equipment. There was \$15,918 of amortized bond premium that was applied as use of fund balance. Actual expenditures and transfers out were \$767,923 lower than budgeted expenditures. Actual revenues including transfers in were \$3,790,371 higher than budgeted amounts. All of these resulted in a net positive variance to the budget of \$4,558,294.

All functional areas of revenues exceeded the budgeted amount. Licenses and permits exceeded their budget by \$1,102,139. This was largely due to greater motor vehicle fees than what was anticipated. There was (and continues to be) a considerable amount of development which has translated into more residents/vehicles.

There were a few functional areas in which the actual expenditures exceeded the budgeted amounts: general government, highways and streets, sanitation, and health. For general government, this was primarily due to the costs associated with the unanticipated retirement of a few senior staff members. Highways and streets exceeded their budget due to snow and ice removal. Sanitation expenditures was slightly higher than the budgeted amount due to more tonnage of waste and hazardous waste went to the transfer station. Overall, the Town expended 98.1% of the 2018 appropriated budget as compared to 99.6% in 2017.

Capital Assets and Debt Administration

Capital Assets – Governmental Activities & Business Type Activities

The Town's investment in capital assets, net of accumulated depreciation, for governmental activities as well as business type activities as of December 31, 2018, was \$107,480,233, a change of \$(987,062) from the prior year. This decrease is due to capital assets not being added at the same level as previous capital assets are being depreciated. In 2017, the Board of Selectmen amended their capital asset policy threshold from \$25,000 to \$50,000. As a result, the Town is not capitalizing as many assets as it used to. The investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017 (restated)	2018	2017 (restated)
Land and land improvements	\$ 14,451,945	\$ 12,989,509	\$ 350,000	\$ 350,000	\$ 14,801,945	\$ 13,339,509
Construction in progress	319,095	1,601,952	3,281,121	1,290,184	3,600,216	2,892,136
Buildings and building improvements	3,017,587	3,196,031	1,584,488	595,160	4,602,075	3,791,191
Machinery, equipment, and furnishings	5,374,462	5,569,962	2,502,992	2,442,338	7,877,454	8,012,300
Infrastructure	61,167,676	64,434,435	15,430,867	15,997,724	76,598,543	80,432,159
Total	\$ 84,330,765	\$ 87,791,889	\$ 23,149,468	\$ 20,675,406	\$ 107,480,233	\$ 108,467,295

At December 31, 2018, the depreciable capital assets for the Town were 66% depreciated. This compares to 65% as of December 31, 2017. This comparison indicates that the Town is replacing capital assets at a slightly slower rate than they are depreciating.

Major capital asset events during the current year included the following:

Capital asset additions

Two International 7400s	\$	307,792
Horton International Ambulance		289,612
Trackless sidewalk tractor		119,920
Other vehicles/equipment		203,658

Land improvements

Bike Bed Corridor Phase I	\$	1,397,062
Fiber to town buildings		281,084

Building improvements

Commercial Dr Pump Station	\$	588,000
Manor Parkway Station		438,000

Infrastructure

Road reconstruction - Zion Hill Rd	\$	1,391,593
Road reconstruction - Garabedian Dr		390,319
Mill and overlay - Main St		272,064
Mill and overlay Zion Hill Rd		189,000

Additional information of the Town's capital assets can be found in Note 8 to the financial statements.

Long-term Debt

At December 31, 2018 the Town had total bonds and notes outstanding of \$5,730,361. Of this amount, \$1,915,000 was governmental activities debt and \$3,815,361 was business-type debt. The Town issued a new note in the amount of \$1,509,273 in 2018 for water system improvements in the Exit 2 area. A summary of outstanding debt as of December 31, 2018 was as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Bridge construction	\$ 1,915,000	\$ 2,541,000	\$ -	\$ -	\$ 1,915,000	\$ 2,541,000
Water main improvements	-	-	1,810,000	2,134,200	1,810,000	2,134,200
Water system improvements	-	-	2,005,361	745,000	2,005,361	745,000
Sewer	-	-	-	64,800	-	64,800
Total	<u>\$ 1,915,000</u>	<u>\$ 2,541,000</u>	<u>\$ 3,815,361</u>	<u>\$ 2,944,000</u>	<u>\$ 5,730,361</u>	<u>\$ 5,485,000</u>

Total long-term bonds and notes outstanding at December 31, 2018 increased by \$245,361 or 4.5% from December 31, 2017 due to bond and note payments and one note issued. The Town's bonds are rated AA+ by Standard & Poor. Additional information on the Town's long-term debt can be found in Note 14 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances, comply with finance-related laws and regulations, and demonstrate the Town's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the Town's Finance Director at 33 Geremonty Drive, Salem, NH 03079.

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF SALEM, NEW HAMPSHIRE
Statement of Net Position
December 31, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 42,085,713	\$ 5,415,202	\$ 47,500,915
Investments	570,202	-	570,202
Taxes receivables (net)	2,626,053	-	2,626,053
Account receivables (net)	2,215,956	584,344	2,800,300
Intergovernmental receivable	338,812	1,334,441	1,673,253
Prepaid items	240,489	5,175	245,664
Capital assets:			
Land and construction in progress	11,125,611	3,631,121	14,756,732
Other capital assets, net of depreciation	73,205,154	19,518,347	92,723,501
Total assets	<u>132,407,990</u>	<u>30,488,630</u>	<u>162,896,620</u>
DEFERRED OUTFLOWS OF RESOURCES			
Amounts related to pensions	5,897,437	115,803	6,013,240
Amounts related to other postemployment benefits	696,860	13,684	710,544
Total deferred outflows of resources	<u>6,594,297</u>	<u>129,487</u>	<u>6,723,784</u>
LIABILITIES			
Accounts payable	1,177,993	103,301	1,281,294
Accrued salaries and benefits	928,456	20,024	948,480
Retainage payable	150,584	295,376	445,960
Contracts payable	18,114	413,192	431,306
Accrued interest payable	31,017	47,277	78,294
Intergovernmental payable	26,777,788	3,320,819	30,098,607
Long-term liabilities:			
Due within one year	1,725,348	574,910	2,300,258
Due in more than one year	89,096,972	4,730,109	93,827,081
Total liabilities	<u>119,906,272</u>	<u>9,505,008</u>	<u>129,411,280</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	55,716	-	55,716
Deferred assessments	-	2,000	2,000
Amounts related to pensions	2,226,300	43,715	2,270,015
Amounts related to other postemployment benefits	3,585,466	29,750	3,615,216
Total deferred inflows of resources	<u>5,867,482</u>	<u>75,465</u>	<u>5,942,947</u>
NET POSITION			
Net investment in capital assets	80,239,975	19,193,971	99,433,946
Restricted	1,227,214	-	1,227,214
Unrestricted	(68,238,656)	1,843,673	(66,394,983)
Total net position	<u>\$ 13,228,533</u>	<u>\$ 21,037,644</u>	<u>\$ 34,266,177</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT B
TOWN OF SALEM, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended December 31, 2018

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 8,594,407	\$ 412,043	\$ -	\$ -	\$ (8,182,364)	\$ -	\$ (8,182,364)
Public safety	30,225,383	3,971,910	124,419	-	(26,129,054)	-	(26,129,054)
Highways and streets	13,206,572	-	657,594	1,070,288	(11,478,690)	-	(11,478,690)
Sanitation	1,187,621	361,042	-	-	(826,579)	-	(826,579)
Health	110,070	-	-	-	(110,070)	-	(110,070)
Welfare	267,850	6,236	-	-	(261,614)	-	(261,614)
Culture and recreation	2,318,040	128,737	847,996	-	(1,341,307)	-	(1,341,307)
Conservation	84,650	-	-	-	(84,650)	-	(84,650)
Interest on long-term debt	69,567	-	-	-	(69,567)	-	(69,567)
Capital outlay	-	-	-	272,052	272,052	-	272,052
Total governmental activities	56,064,160	4,879,968	1,630,009	1,342,340	(48,211,843)	-	(48,211,843)
Business-type activities:							
Sewer	2,585,790	2,741,564	817,367	-	-	973,141	973,141
Water	3,042,492	3,154,298	479,734	-	-	591,540	591,540
Total business-type activities	5,628,282	5,895,862	1,297,101	-	-	1,564,681	1,564,681
Total	\$ 61,692,442	\$ 10,775,830	\$ 2,927,110	\$ 1,342,340	(48,211,843)	1,564,681	(46,647,162)
General revenues:							
Taxes:							
Property					30,118,187	-	30,118,187
Other					266,252	-	266,252
Motor vehicle permit fees					6,943,221	-	6,943,221
Licenses and other fees					1,466,288	-	1,466,288
Grants and contributions not restricted to specific programs					2,889,362	-	2,889,362
Unrestricted investment earnings					65,066	18,309	83,375
Miscellaneous					2,137,530	142,317	2,279,847
Total general revenues					43,885,906	160,626	44,046,532
Contributions to permanent funds					3,445	-	3,445
Transfers					425,263	(425,263)	-
Total general revenues, contributions, and transfers					44,314,614	(264,637)	44,049,977
Change in net position					(3,897,229)	1,300,044	(2,597,185)
Net position, beginning, as restated (see Note 20)					17,125,762	19,737,600	36,863,362
Net position, ending					\$ 13,228,533	\$ 21,037,644	\$ 34,266,177

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-1
TOWN OF SALEM, NEW HAMPSHIRE
Governmental Funds
Balance Sheet
December 31, 2018

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 40,209,502	\$ 452,343	\$ 1,423,868	\$ 42,085,713
Investments	98,380	-	471,822	570,202
Receivables, net of allowance for uncollectible:				
Taxes	2,707,271	-	-	2,707,271
Accounts	1,765,007	-	450,949	2,215,956
Intergovernmental receivable	338,812	-	-	338,812
Interfund receivable	9,531	424,015	150,000	583,546
Voluntary tax liens	147,415	-	-	147,415
Voluntary tax liens reserved until collected	(147,415)	-	-	(147,415)
Prepaid items	248,820	-	-	248,820
Total assets	<u>\$ 45,377,323</u>	<u>\$ 876,358</u>	<u>\$ 2,496,639</u>	<u>\$ 48,750,320</u>
LIABILITIES				
Accounts payable	\$ 980,008	\$ 150,748	\$ 47,237	\$ 1,177,993
Accrued salaries and benefits	900,436	-	28,020	928,456
Retainage payable	-	150,584	-	150,584
Contracts payable	-	18,114	-	18,114
Intergovernmental payable	26,777,788	-	-	26,777,788
Interfund payable	574,015	-	9,531	583,546
Total liabilities	<u>29,232,247</u>	<u>319,446</u>	<u>84,788</u>	<u>29,636,481</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - Property taxes	542,608	-	-	542,608
Unavailable revenue - Bond premiums	88,274	-	-	88,274
Total deferred inflows of resources	<u>630,882</u>	<u>-</u>	<u>-</u>	<u>630,882</u>
FUND BALANCES				
Nonspendable	248,820	-	483,684	732,504
Restricted	124,458	556,912	186,618	867,988
Committed	2,750,914	-	1,741,549	4,492,463
Assigned	958,693	-	-	958,693
Unassigned	11,431,309	-	-	11,431,309
Total fund balances	<u>15,514,194</u>	<u>556,912</u>	<u>2,411,851</u>	<u>18,482,957</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 45,377,323</u>	<u>\$ 876,358</u>	<u>\$ 2,496,639</u>	<u>\$ 48,750,320</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-2
TOWN OF SALEM, NEW HAMPSHIRE
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
December 31, 2018

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances of governmental funds (Exhibit C-1)		\$ 18,482,957
Capital assets used in governmental activities are not current financial resources, therefore, are not reported in the governmental funds.		
Cost	\$ 248,344,602	
Less accumulated depreciation	<u>(164,013,837)</u>	
		84,330,765
Prepayments on capital leases in the governmental funds are eliminated and instead reduce the liability reported in the Statement of Net Position.		(8,331)
Pension and other postemployment benefit (OPEB) related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year, and therefore, are not reported in the governmental funds as follows:		
Deferred outflows of resources related to pensions	\$ 5,897,437	
Deferred inflows of resources related to pensions	(2,226,300)	
Deferred outflows of resources related to OPEB	696,860	
Deferred inflows of resources related to OPEB	<u>(3,585,466)</u>	
		782,531
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (583,546)	
Payables	<u>583,546</u>	
		-
Long-term revenue (taxes) is not available to pay current-period expenditures, and therefore, is deferred in the governmental funds.		486,892
Allowance for uncollectible property taxes that is recognized on a full accrual basis, but not on the modified accrual basis.		(81,218)
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(31,017)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the governmental funds.		
Bonds	\$ 1,915,000	
Capital leases	2,087,516	
Compensated absences	3,861,826	
Accrued landfill postclosure care costs	492,000	
Net pension liability	45,878,861	
Other postemployment benefits	<u>36,498,843</u>	
		(90,734,046)
Net position of governmental activities (Exhibit A)		<u>\$ 13,228,533</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-3
TOWN OF SALEM, NEW HAMPSHIRE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2018

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 30,223,612	\$ -	\$ 162,375	\$ 30,385,987
Licenses and permits	8,408,239	-	-	8,408,239
Intergovernmental receivable	3,217,314	682,099	1,199,035	5,098,448
Charges for services	3,161,877	-	1,718,091	4,879,968
Miscellaneous	2,348,046	37,247	584,856	2,970,149
Total revenues	47,359,088	719,346	3,664,357	51,742,791
EXPENDITURES				
Current:				
General government	6,836,688	-	819,238	7,655,926
Public safety	25,975,761	-	1,986,986	27,962,747
Highways and streets	4,310,896	4,479,756	-	8,790,652
Sanitation	1,088,217	-	-	1,088,217
Health	106,263	-	-	106,263
Welfare	263,180	-	-	263,180
Culture and recreation	2,084,061	-	105,980	2,190,041
Conservation	-	-	84,650	84,650
Debt service:				
Principal	626,000	-	-	626,000
Interest	78,280	-	-	78,280
Capital outlay	1,855,471	724,212	491,391	3,071,074
Total expenditures	43,224,817	5,203,968	3,488,245	51,917,030
Excess (deficiency) of revenues over (under) expenditures	4,134,271	(4,484,622)	176,112	(174,239)
OTHER FINANCING SOURCES (USES)				
Transfers in	480,857	4,430,170	-	4,911,027
Transfers out	(4,430,170)	-	(55,594)	(4,485,764)
Capital leases	2,357,295	-	-	2,357,295
Total other financing sources (uses)	(1,592,018)	4,430,170	(55,594)	2,782,558
Net change in fund balances	2,542,253	(54,452)	120,518	2,608,319
Fund balances, beginning	12,971,941	611,364	2,291,333	15,874,638
Fund balances, ending	\$ 15,514,194	\$ 556,912	\$ 2,411,851	\$ 18,482,957

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-4
TOWN OF SALEM, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2018

Net change in fund balances of governmental funds (Exhibit C-3)		\$ 2,608,319
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures, while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.		
Depreciation expense exceeded capital outlay expenditures in the current year, as follows:		
Capitalized capital outlay	\$ 5,001,256	
Disposal of capital assets	(50,106)	
Depreciation expense	<u>(8,412,274)</u>	
		(3,461,124)
Transfers in and out between governmental funds are eliminated on the Statement of Activities.		
Transfers in	\$ (4,485,764)	
Transfers out	<u>4,485,764</u>	
		-
Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the governmental funds.		
Change in deferred tax revenue		(1,123)
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position.		
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Inception of capital leases	\$ (2,357,295)	
Repayment of bond principal	626,000	
Repayment of capital leases	<u>1,479,501</u>	
		(251,794)
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued interest expense	\$ 8,713	
Increase in prepaid items	(228)	
Increase in compensated absences	(297,412)	
Increase in accrued landfill postclosure care costs	(62,000)	
Net change in net pension liability and deferred outflows and inflows of resources related to pensions	(621,953)	
Net change in net other postemployment benefits liability and deferred outflows and inflows of resources related to other postemployment benefits	<u>(1,818,627)</u>	
		(2,791,507)
Changes in net position of governmental activities (Exhibit B)		<u>\$ (3,897,229)</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT D
TOWN OF SALEM, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Taxes	\$ 29,435,833	\$ 30,222,489	\$ 786,656
Licenses and permits	7,306,100	8,408,239	1,102,139
Intergovernmental receivable	2,639,527	3,217,314	577,787
Charges for services	2,358,952	3,161,877	802,925
Miscellaneous	1,727,127	2,239,206	512,079
Total revenues	<u>43,467,539</u>	<u>47,249,125</u>	<u>3,781,586</u>
EXPENDITURES			
Current:			
General government	6,564,512	6,731,225	(166,713)
Public safety	24,639,693	24,050,603	589,090
Highways and streets	3,865,440	3,935,101	(69,661)
Sanitation	947,280	991,216	(43,936)
Health	104,596	106,263	(1,667)
Welfare	299,197	253,024	46,173
Culture and recreation	2,156,583	2,083,114	73,469
Debt service:			
Principal	626,000	626,000	-
Interest	88,531	78,280	10,251
Capital outlay	2,104,241	1,773,324	330,917
Total expenditures	<u>41,396,073</u>	<u>40,628,150</u>	<u>767,923</u>
Excess of revenues over expenditures	<u>2,071,466</u>	<u>6,620,975</u>	<u>4,549,509</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	544,641	553,426	8,785
Transfers out	(4,036,107)	(4,036,107)	-
Total other financing sources (uses)	<u>(3,491,466)</u>	<u>(3,482,681)</u>	<u>8,785</u>
Net change in fund balances	<u>\$ (1,420,000)</u>	3,138,294	<u>\$ 4,558,294</u>
Decrease in nonspendable fund balance		510,823	
Decrease in restricted fund balance		20,743	
Increase in assigned fund balance (non-encumbrance)		(71,250)	
Unassigned fund balance, beginning		8,238,373	
Unassigned fund balance, ending		<u>\$ 11,836,983</u>	

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-1
TOWN OF SALEM, NEW HAMPSHIRE
Proprietary Funds
Statement of Net Position
December 31, 2018

	Business-type Activities		
	Enterprise Funds		
	Sewer	Water	Total
ASSETS			
Cash and cash equivalents	\$ 2,578,449	\$ 2,836,753	\$ 5,415,202
Receivables, net of allowance for uncollectible:			
Accounts	271,034	313,310	584,344
Intergovernmental	1,063,129	271,312	1,334,441
Voluntary tax liens	15,340	-	15,340
Voluntary tax liens reserved until collected	(15,340)	-	(15,340)
Prepaid items	-	5,175	5,175
Capital assets:			
Land and construction in progress	2,282,728	1,348,393	3,631,121
Other capital assets, net of depreciation	4,321,886	15,196,461	19,518,347
Total assets	10,517,226	19,971,404	30,488,630
DEFERRED OUTFLOWS OF RESOURCES			
Amounts related to pensions	16,078	99,725	115,803
Amounts related to other postemployment benefits	1,900	11,784	13,684
Total deferred outflows of resources	17,978	111,509	129,487
LIABILITIES			
Current liabilities:			
Accounts payable	31,925	71,376	103,301
Accrued salaries and benefits	1,947	18,077	20,024
Retainage payable	206,385	88,991	295,376
Contract payable	303,633	109,559	413,192
Accrued interest payable	-	47,277	47,277
Intergovernmental payable	2,319,175	1,001,644	3,320,819
Long term liabilities:			
Due within one year	-	574,910	574,910
Due in more than one year	196,079	4,534,030	4,730,109
Total liabilities	3,059,144	6,445,864	9,505,008
DEFERRED INFLOWS OF RESOURCES			
Deferred assessments	-	2,000	2,000
Amounts related to pensions	6,069	37,646	43,715
Amounts related to other postemployment benefits	6,149	23,601	29,750
Total deferred inflows of resources	12,218	63,247	75,465
NET POSITION			
Net investment in capital assets	6,604,614	12,589,357	19,193,971
Unrestricted	859,228	984,445	1,843,673
Total net position	\$ 7,463,842	\$ 13,573,802	\$ 21,037,644

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-2
TOWN OF SALEM, NEW HAMPSHIRE
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended December 31, 2018

	Business-type Activities		
	Enterprise Funds		
	Sewer	Water	Total
Operating revenues:			
User charges	\$ 2,741,564	\$ 3,154,298	\$ 5,895,862
Other sales	584,403	354,588	938,991
Fees and interest	11,360	13,514	24,874
Miscellaneous	142	74,983	75,125
Total operating revenues	<u>3,337,469</u>	<u>3,597,383</u>	<u>6,934,852</u>
Operating expenses:			
Salaries and wages	171,423	1,104,889	1,276,312
Operation and maintenance	230,843	865,876	1,096,719
Contractual services	1,975,173	296,788	2,271,961
Materials and supplies	10,195	95,630	105,825
Depreciation and amortization	196,131	576,184	772,315
Total operating expenses	<u>2,583,765</u>	<u>2,939,367</u>	<u>5,523,132</u>
Operating gain	<u>753,704</u>	<u>658,016</u>	<u>1,411,720</u>
Nonoperating revenue (expense):			
Interest income	9,633	8,676	18,309
Intergovernmental revenues	221,462	36,649	258,111
Interest expense	(2,025)	(103,125)	(105,150)
Other	-	142,317	142,317
Total nonoperating revenues	<u>229,070</u>	<u>84,517</u>	<u>313,587</u>
Other financing sources (uses):			
Transfers in	118,147	-	118,147
Transfers out	(212,109)	(331,301)	(543,410)
Total other financing sources (uses)	<u>(93,962)</u>	<u>(331,301)</u>	<u>(425,263)</u>
Change in net position	888,812	411,232	1,300,044
Net position, beginning, as restated (see Note 20)	<u>6,575,030</u>	<u>13,162,570</u>	<u>19,737,600</u>
Net position, ending	<u>\$ 7,463,842</u>	<u>\$ 13,573,802</u>	<u>\$ 21,037,644</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-3
TOWN OF SALEM, NEW HAMPSHIRE
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2018

	Business-type Activities		
	Enterprise Funds		
	Sewer	Water	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 3,274,803	\$ 3,588,274	\$ 6,863,077
Payments to employees	(203,844)	(1,153,512)	(1,357,356)
Payments to suppliers	(2,415,138)	(1,329,601)	(3,744,739)
Net cash provided by operating activities	655,821	1,105,161	1,760,982
Cash flows from capital and related financing activities:			
State revolving loan proceeds	1,256,047	730,332	1,986,379
Principal paid on bonds	(64,800)	(573,112)	(637,912)
Acquisition and construction of fixed assets	(1,772,711)	(535,671)	(2,308,382)
Interest paid	(3,240)	(115,622)	(118,862)
Net cash used for capital and related financing activities	(584,704)	(494,073)	(1,078,777)
Cash flows from non-capital financing activities:			
Intergovernmental revenues	230,202	40,048	270,250
Operating transfers in	118,147	-	118,147
Operating transfers out	(212,109)	(331,301)	(543,410)
Net cash provided by (used for) non-capital financing activities	136,240	(291,253)	(155,013)
Cash flows from investing activities:			
Interest received	9,633	8,676	18,309
Net increase in cash	216,990	328,511	545,501
Cash, beginning	2,361,459	2,508,242	4,869,701
Cash, ending	\$ 2,578,449	\$ 2,836,753	\$ 5,415,202

Reconciliation of Operating Gain to Net Cash Provided by Operating Activities

Operating gain	\$ 753,704	\$ 658,016	\$ 1,411,720
Adjustments to reconcile operating gain (loss) to net cash provided (used) by operating activities:			
Depreciation expense	196,131	576,184	772,315
Increase in other receivables	(62,666)	(9,109)	(71,775)
Decrease in prepaid items	-	1,035	1,035
Decrease in deferred outflows related to pensions	7,615	46,623	54,238
Increase in deferred outflows related to OPEB	(1,285)	(7,969)	(9,254)
Decrease in accounts payable	(198,927)	(72,342)	(271,269)
Increase/(Decrease) in accrued salaries and benefits	(1,153)	3,920	2,767
Increase/(Decrease) in compensated absences	(24,501)	231	(24,270)
Decrease in net pension liability	(24,605)	(148,766)	(173,371)
Increase/(Decrease) in OPEB	(316)	10,553	10,237
Decrease in deferred inflows related to pensions	(937)	(5,631)	(6,568)
Decrease in deferred inflows related to OPEB	12,761	52,416	65,177
Total adjustments	(97,883)	447,145	349,262
Net cash provided by operating activities	\$ 655,821	\$ 1,105,161	\$ 1,760,982

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT F-1
TOWN OF SALEM, NEW HAMPSHIRE
Fiduciary Funds
Statement of Net Position
December 31, 2018

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ 81,874	\$ 3,884,801
Investments	1,249,235	-
Total assets	<u>1,331,109</u>	<u>3,884,801</u>
LIABILITIES		
Intergovernmental payable	23,196	198,687
Due to others	-	3,686,114
Total liabilities	<u>23,196</u>	<u>3,884,801</u>
NET POSITION		
Held in trust for specific purposes	<u>\$ 1,307,913</u>	<u>\$ -</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT F-2
TOWN OF SALEM, NEW HAMPSHIRE
Fiduciary Funds
Statement of Changes in Net Position
For the Fiscal Year Ended December 31, 2018

	Private Purpose Trust
ADDITIONS	
New funds	\$ 100
Interest	28,235
Change in fair market value	(65,722)
Total additions	(37,387)
DEDUCTIONS	
Scholarships	24,196
Administrative expenses	3,187
Total deductions	27,383
Change in net position	(64,770)
Net position, beginning	1,372,683
Net position, ending	\$ 1,307,913

The notes to the basic financial statements are an integral part of this statement.

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

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TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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TOWN OF SALEM, NEW HAMPSHIRE
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Salem, New Hampshire (the Town), have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

In 2018, the Town implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which changed the way other postemployment benefit (OPEB) liabilities and related expenses are recorded. See Note 1-P for further information on this pronouncement.

The more significant of the Town's accounting policies are described below.

1-A Reporting Entity

The Town of Salem is a municipal corporation governed by an elected five-member Board of Selectmen and Town Manager. In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by the GASB. The Town has no component units to include in its reporting entity.

1-B Basis of Accounting, and Measurement Focus

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements – The Town's government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental and business-type activities for the Town accompanied by a total column. Fiduciary activities of the Town are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the Town are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated.

Governmental Fund Financial Statements – Include a balance sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. An accompanying statement is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position of the governmental activities presented in the government-wide financial statements. The Town has presented all major funds that met those qualifications.

Governmental fund financial statements are reported using the *current financial resources* measurement focus and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of reimbursement-based grants, which use a period of one year. Property taxes, licenses and permits, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special

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assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

General Fund – is the Town’s primary operating fund. The general fund accounts for all financial resources except those required to be accounted for in another fund. The primary revenue sources include property taxes, State grants, and motor vehicle permit fees. The primary expenditures are for general government, public safety, highways and streets, sanitation, culture and recreation, debt service and capital outlay. Under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* guidance, the expendable trust funds are consolidated in the general fund.

Capital Project Fund – the capital projects fund accounts for the activity pertaining to the construction/renovation of Town owned property reported in the governmental activities.

Additionally, the Town reports the following fund types:

Special Revenue Funds – are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Permanent Fund – is used to record activity of legal trusts for which the interest on the corpus provides funds for the Town’s cemetery operations.

All the governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements. The Town reports ten nonmajor governmental funds.

Proprietary Fund Financial Statements – Include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows for each major proprietary fund.

Proprietary funds are reported using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The Town reports the following major proprietary funds:

Sewer Fund – accounts for the activities related to the operation of the Town’s pumping stations, sewer lines, and sewage flow, which is sent to the Greater Lawrence Sanitary District.

Water Fund – accounts for the activities related to the operation of the water treatment plant, wells, and water system.

Fiduciary Fund Financial Statements – Include a Statement of Net Position and a Statement of Changes in Net Position. The Town’s fiduciary funds are private purpose trust and agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These funds are accounted for on a spending or “economic resources” measurement focus and the accrual basis of accounting as are the proprietary funds explained above.

TOWN OF SALEM, NEW HAMPSHIRE
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The Town reports the following fiduciary funds:

Private Purpose Trust Fund – are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments.

Agency Fund – are custodial in nature and do not involve the measurement of operating results. An agency fund is used to account for assets held on behalf of outside parties, including other governments.

1-C Cash and Cash Equivalents

The Town considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and cash equivalents."

The treasurer is required to deposit such moneys in solvent banks in state or the Public Deposit Investment Pool pursuant to New Hampshire RSA 383:22. Funds may be deposited in banks outside of the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations to the State of New Hampshire in value at least equal to the amount of the deposit in each case.

1-D Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Town considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

1-E Investments

State statutes place certain limitations on the nature of deposits and investments available as follows:

New Hampshire law authorizes the Town to invest in the following type of obligations:

- Obligations of the United States government,
- The public deposit investment pool established pursuant to RSA 383:22,
- Savings bank deposits,
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the State treasurer.

Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the Town. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

Fair Value Measurements of Investments – In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, except for investments measured using net asset value (NAV) as a practical expedient to estimate fair value, the Town categorizes the fair value measurements of its investments within the fair value hierarchy established by US GAAP. The fair value hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

Level 1 – Inputs reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the Town has the ability to access at the measurement date. Directly held marketable equity securities would be examples of Level 1 investments.

Level 2 – Inputs are other than quoted prices that are observable for the assets or liabilities, either directly or indirectly, including inputs in markets that are not considered to be active. Because they most often are priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held fixed income securities are categorized in Level 2.

Level 3 – Inputs are significant unobservable inputs.

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The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, it is the level in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. Investments are reported at fair value. In determining fair value, the Town utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

1-F Receivables

Receivables recorded in the financial statements represent amounts due to the Town at December 31. They are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. They consist primarily of taxes, billing for charges, and other user fees.

1-G Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements, and expenses/expenditures as the items are used. Under the full accrual basis of accounting used for the government-wide and proprietary fund financial statements, prepayments of debt are recognized as they occurred (see Note 7).

1-H Capital Assets

Capital assets include property, plant, and equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), which are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The accounting and reporting treatment applied to capital assets associated with a fund are determined by the fund's measurement focus. General capital assets are assets of the Town as a whole. When purchased, such assets are recorded as expenditures in a governmental fund and capitalized as assets in the government-wide Statement of Net Position. Capital assets of the proprietary funds are capitalized in the fund and the cost basis for proprietary fund capital assets is the same as that used for general capital assets.

Capital assets are defined by the Town as assets with an initial, individual cost of more than \$50,000 and an estimated useful life in excess of five years, with the exception of police cruisers, which are capitalized regardless of cost and are assigned a three-year useful life. Assets are carried at historical cost or estimated historical cost. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Capital Asset Classes:	
Land improvements	20 - 40
Buildings and building improvements	45 - 50
Machinery, equipment, and furnishings	3 - 45
Infrastructure	10 - 50

1-I Interfund Activities

Interfund activities are reported as follows:

Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Interfund Transfers – Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making the transfers and other financing sources in the funds receiving the transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses. In the government-wide financial statements, all interfund transfers between individual governmental funds have been eliminated.

1-J Property Taxes

Property tax billings occur semi-annually and are based on the assessed inventory values as of April 1 of each year in accordance with RSA 76:15-a, *Semi-Annual Collection of Taxes in certain Towns and Cities*. Warrants for the year were issued on May 18, 2018 and October 15, 2018, and were due on July 2, 2018 and December 3, 2018, respectively. Interest accrues at a rate of 12% on bills outstanding after the due date and 18% on tax liens outstanding.

In connection with the setting of the tax rate, Town officials with the approval of the Department of Revenue Administration, establish and raise through taxation an amount for tax abatement and refunds, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any reserve for uncollectable at year end. The property taxes collected by the Town include taxes levied for the State of New Hampshire, Salem School District, and Rockingham County, which are remitted to these entities as required by law.

The Town net assessed valuation as of April 1, 2018 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 4,403,238,701
For all other taxes	\$ 4,490,128,901

The tax rates and amounts assessed for the year ended December 31, 2018 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$ 6.78	\$ 30,451,348
School portion:		
State of New Hampshire	2.31	10,177,796
Local	11.49	51,581,244
County portion	1.03	4,620,581
Total	<u>\$ 21.61</u>	<u>\$ 96,830,969</u>

1-K Accounts Payable

Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers as of December 31, 2018.

1-L Deferred Outflows/Inflows of Resources

Deferred outflows of resources, a separate financial statement element, represents a consumption of net position or fund balance that applies to a future period(s) and thus will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred inflows of resources, a separate financial statement element, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

1-M Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, business-type activities, or proprietary fund Statement of Net Position. Bond premiums are deferred and amortized over the life of the bonds using the straight-line method.

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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1-N Compensated Absences

Vacation - The Town's policy allows certain employees to earn varying amounts of vacation based on the employee's length of employment. Upon separation from service, employees are paid in full for any accrued leave earned as set forth by personnel policy. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

Sick Leave - The Town's policy allows certain employees to earn varying amounts of sick time as set forth by the Town's personnel policy. A liability for those amounts is recorded in the government-wide and proprietary fund financial statements.

1-O Defined Benefit Pension Plan

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* and GASB Statement No. 82 *Pension Issues – an amendment of GASB Statement No. 67, No. 68 and No.73* requires participating employers to recognize their proportionate share of collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, and schedules have been prepared to provide employers with their calculated proportionate share of these amounts. The collective amounts have been allocated based on employer contributions during the respective fiscal years. Contributions from employers are recognized when legally due, based on statutory requirements.

The schedules prepared by New Hampshire Retirement System, and audited by the plan's independent auditors, require management to make a number of estimates and assumptions related to the reported amounts. Due to the inherent nature and uncertainty of these estimates, actual results could differ, and the differences may be material.

1-P Postemployment Benefits Other Than Pensions

The Town maintains two separate other postemployment benefit plans (OPEB), as follows:

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

Single Employer Plan – For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information has been determined based on the Town's actuarial report. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms.

1-Q Net Position/Fund Balances

Government-wide Statements – Equity is classified as net position and displayed in three components:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Results when constraints placed on net position use are either externally imposed by a third party (statutory, bond covenant, or granting agency) or are imposed by law through constitutional provisions or enabling legislation. The Town typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

Unrestricted net position – Consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

TOWN OF SALEM, NEW HAMPSHIRE
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Fund Balance Classifications – GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides more clearly defined fund balance categories to make sure the nature and extent of the constraints placed on a government's fund balances are more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable – Amounts that cannot be spent because they are either (a) not in spendable form (such as prepaid items, inventory or tax deeded property subject to resale); or (b) are legally or contractually required to be maintained intact.

Restricted – Amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the legislative body (Town Meeting). These amounts cannot be used for any other purpose unless the legislative body removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Selectmen through the budgetary process.

Unassigned – Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

When multiple net position/fund balance classifications are available for use, it is the Town's policy to utilize the most restricted balances first, then the next most restricted balance as needed. When components of unrestricted fund balance are used, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

The Town's Fund Balance Policy states that the Town shall maintain adequate fund reserves to protect itself against emergencies and economic downturns. In addition, the Town has established the following guidelines:

General Fund – The Town will strive to retain between 6% and 10% of the municipality's gross appropriations, plus local school net tax commitment, plus the statewide enhanced education amount, plus the county appropriation, which is measured annually at tax rate setting time.

1-R Use of Estimates

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. These estimates include assessing the collectability of accounts receivable and the useful lives and impairment of capital assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Town's operations. At its annual meeting, the Town adopts a budget for the current year for the general fund and proprietary sewer and water funds. Except as reconciled below, the budget was adopted on a basis consistent with US generally accepted accounting principles.

Management may transfer appropriations between operating categories as deemed necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at year-end unless encumbered.

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Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects and specific items not fully expended at year-end) are recognized, is employed in the governmental funds. Encumbrances are not the equivalent of expenditures, and are therefore, reported as part of the assigned fund balance at year-end, and are carried forward to supplement appropriations of the subsequent year.

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. For the fiscal year 2018, \$780,000 of the beginning general fund unassigned fund balance was applied for this purpose and \$640,000 was voted from unassigned fund balance as the first year's payment for the town wide communications system.

2-B Budgetary Reconciliation to GAAP Basis

The Town employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Basis presents the actual results to provide a comparison with the budget. The major difference between the budgetary basis and GAAP basis is as follows:

Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and commitments (encumbrances) for goods or services not received at year-end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no liability exists.

The following reconciles the general fund budgetary basis to the GAAP basis:

Revenues and other financing sources:	
Per Exhibit D (budgetary basis)	\$ 47,802,551
Adjustment:	
Basis difference:	
Inception of capital leases	2,357,295
GASB Statement No. 54:	
To record miscellaneous income of the blended funds	108,840
To eliminate transfers between expendable trust and general funds	4,036,107
To eliminate transfers between blended funds	(4,108,676)
Change in deferred tax revenue relating to 60-day revenue recognition recognized as revenue on the GAAP basis, but not on the budgetary basis	1,123
Per Exhibit C-3 (GAAP basis)	<u>\$ 50,197,240</u>
Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 44,664,257
Adjustment:	
Basis differences:	
Inception of capital leases	2,357,295
Encumbrances, beginning	749,815
Encumbrances, ending	(514,693)
GASB Statement No. 54:	
To record expenditures of the blended funds during the year	4,250
To eliminate transfers between general and blended funds	(4,108,676)
To recognize transfers out of the expendable trust funds	4,502,739
Per Exhibit C-3 (GAAP basis)	<u>\$ 47,654,987</u>

2-C Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local

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government employer to use the entry age normal actuarial cost method and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. Beginning net position for governmental activities, business-type activities, and proprietary funds was restated to retroactively report the change in valuation of the beginning total OPEB liability, deferred inflows and outflows of resources, as follows:

Governmental Activities:

	Local OPEB	State OPEB	Total OPEB
Change in total OPEB liability under current standards, January 1	\$ (24,290,909)	\$ (3,598,552)	\$ (27,889,461)
Initial balance of deferred outflows of resources	-	225,625	225,625
Cumulative restatement related to GASB No. 75 implementation (see Note 20)	<u>\$ (24,290,909)</u>	<u>\$ (3,372,927)</u>	<u>\$ (27,663,836)</u>

Business-type Activities - Sewer:

	Local OPEB	State OPEB	Total OPEB
Change in total OPEB liability under current standards, January 1	\$ (47,834)	\$ (9,811)	\$ (57,645)
Initial balance of deferred outflows of resources	-	615	615
Cumulative restatement related to GASB No. 75 implementation (see Note 20)	<u>\$ (47,834)</u>	<u>\$ (9,196)</u>	<u>\$ (57,030)</u>

Business-type Activities - Water:

	Local OPEB	State OPEB	Total OPEB
Change in total OPEB liability under current standards, January 1	\$ (45,981)	\$ (60,851)	\$ (106,832)
Initial balance of deferred outflows of resources	-	3,815	3,815
Cumulative restatement related to GASB No. 75 implementation (see Note 20)	<u>\$ (45,981)</u>	<u>\$ (57,036)</u>	<u>\$ (103,017)</u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

The Town's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held by the Town's agent in the Town's name. The FDIC currently insures the first \$250,000 of the Town's deposits at each financial institution, per case custodian. Deposit balances over \$250,000 are insured by the collateral. As of year-end, the carrying amount of the Town's deposits was \$51,467,590 and the bank balances totaled \$52,628,634. Petty cash totaled \$2,764. The Town held \$19,497 in certificates of deposit at various banks at year-end.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 47,500,915
Cash per Statement of Net Position - Fiduciary Fund (Exhibit F-1)	3,966,675
Total cash and cash equivalents	<u>\$ 51,467,590</u>

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NOTE 4 – INVESTMENTS

Note 1-E describes statutory requirements covering the investment of the Town funds. The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town's mission, the Town determines that the disclosures related to these investments only need to be disaggregated by major type. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Town has the following recurring fair value measurements and maturities as of December 31, 2018:

	Valuation Measurement Method	Fair Value	Less Than 1 Year	1-5 Years
Investments type:				
Common stock	Level 1	\$ 98,380	\$ -	\$ -
Corporate and foreign bonds	Level 1	-	25,370	75,089
Corporate equities	Level 1	732,641	-	-
Equity mutual funds	Level 1	334,274	-	-
Fixed income funds	Level 1	408,688	-	-
U.S. Treasury obligations	Level 1	-	-	144,995
Total fair value		<u>\$ 1,573,983</u>	<u>\$ 25,370</u>	<u>\$ 220,084</u>

Interest Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Town's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Town has no formal policy on managing credit risk; however, state law limits investments as explained in Note 1-E. As of December 31, 2018, the Town's investment pool had the following credit risk structure:

Investment Type	Credit Rating*	Fair Value	Percentage of Total
Corporate and foreign bonds:			
Morgan Stanley	A3	\$ 25,370	1.39%
Becton Dickinson & Co	BA1	24,657	1.36%
Union Pacific Corp	BAA1	50,432	2.77%
U.S. Treasury obligations:			
U.S. Treasury notes	AAA	144,995	7.97%
		<u>\$ 245,454</u>	<u>13.49%</u>

* Per Moody's

Custodial Credit Risk – This is the risk that in the event of the failure of the counterparty (e.g. broker/dealer) to honor a transaction, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have custodial credit risk policies for investments.

Concentration of Credit Risk – The Town places no limit on the amount it may invest in any one issuer. More than 5% of the Town's investments are in MetLife, Inc. These investments are 5.41% of the Town's total investments.

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 570,202
Investments per Statement of Net Position - Fiduciary Funds (Exhibit F-1)	<u>1,249,235</u>
Total investments	<u>\$ 1,819,437</u>

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NOTE 5 – TAXES RECEIVABLE

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of December 31, 2018. Taxes receivable by year are as follows:

	As reported on:	
	Exhibit A	Exhibit C-1
Property:		
Levy of 2018	\$ 1,927,950	\$ 1,927,950
Unredeemed (under tax lien):		
Levy of 2017	480,712	480,712
Levy of 2016	274,167	274,167
Levies of 2015 and prior	24,442	24,442
Less: allowance for estimated uncollectible taxes	(81,218) *	-
Net taxes receivable	<u>\$ 2,626,053</u>	<u>\$ 2,707,271</u>

*The allowance for uncollectible property taxes is not recognized under the modified accrual basis of accounting (Exhibit C-1 and C-3) due to the 60-day rule as explained in Note 1-B. However, the allowance is recognized under the full accrual basis of accounting (Exhibits A and B).

NOTE 6 – OTHER RECEIVABLES

Receivables at December 31, 2018, consisted of accounts (billings for police details, water, sewer, ambulance, and other user charges) and intergovernmental amounts arising from grants. Receivables are recorded on the Town's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

Receivables as of December 31, 2018 for the Town's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds		Total
	General	Nonmajor	Governmental Funds
Receivables:			
Accounts	\$ 2,233,393	\$ 456,495	\$ 2,689,888
Intergovernmental	338,812	-	338,812
Voluntary tax liens	147,415	-	147,415
Gross receivables	2,719,620	456,495	3,176,115
Less: allowance for uncollectibles	(615,801)	(5,546)	(621,347)
Net total receivables	<u>\$ 2,103,819</u>	<u>\$ 450,949</u>	<u>\$ 2,554,768</u>

	Proprietary Funds		Total
	Sewer	Water	Proprietary Funds
Receivables:			
Accounts	\$ 300,653	\$ 346,708	\$ 647,361
Intergovernmental	1,063,129	271,312	1,334,441
Voluntary tax liens	15,340	-	15,340
Gross receivables	1,379,122	618,020	1,997,142
Less: allowance for uncollectibles	(44,959)	(33,398)	78,357
Net total receivables	<u>\$ 1,334,163</u>	<u>\$ 584,622</u>	<u>\$ 2,075,499</u>

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NOTE 7 – PREPAID ITEMS

Prepaid items at December 31, 2018 consisted of the following:

	Government-wide Statements		Governmental	Proprietary
	Governmental	Business-type	Funds	Funds
	Activities	Activities	General	Water
Property and liability insurance	\$ 225,923	\$ -	\$ 225,923	\$ -
Interest	13,738	5,175	13,738	5,175
Miscellaneous	828	-	828	-
Capital lease	-	-	8,331	-
Total	<u>\$ 240,489</u>	<u>\$ 5,175</u>	<u>\$ 248,820</u>	<u>\$ 5,175</u>

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 is as follows:

	Balance, beginning	Additions	Deletions	Balance, ending
Governmental activities:				
At cost:				
Not being depreciated:				
Land	\$ 10,862,082	\$ -	\$ (55,566)	\$ 10,806,516
Construction in progress	1,601,952	395,289	(1,678,146)	319,095
Total capital assets not being depreciated	<u>12,464,034</u>	<u>395,289</u>	<u>(1,733,712)</u>	<u>11,125,611</u>
Being depreciated:				
Land improvements	2,363,808	1,678,146	-	4,041,954
Buildings and building improvements	7,655,861	-	(26,171)	7,629,690
Machinery, equipment, and furnishings	13,657,471	691,542	(534,710)	13,814,303
Infrastructure	211,106,236	3,969,991	(3,343,183)	211,733,044
Total capital assets being depreciated	<u>234,783,376</u>	<u>6,339,679</u>	<u>(3,904,064)</u>	<u>237,218,991</u>
Total all capital assets	<u>247,247,410</u>	<u>6,734,968</u>	<u>(5,637,776)</u>	<u>248,344,602</u>
Less accumulated depreciation:				
Land improvements	(236,381)	(160,144)	-	(396,525)
Buildings and building improvements	(4,459,830)	(156,419)	4,146	(4,612,103)
Machinery, equipment, and furnishings	(8,087,509)	(883,218)	530,886	(8,439,841)
Infrastructure	(146,671,801)	(7,212,493)	3,318,926	(150,565,368)
Total accumulated depreciation	<u>(159,455,521)</u>	<u>(8,412,274)</u>	<u>3,853,958</u>	<u>(164,013,837)</u>
Net book value, capital assets being depreciated	<u>75,327,855</u>	<u>(2,072,595)</u>	<u>(50,106)</u>	<u>73,205,154</u>
Net book value, all governmental activities capital assets	<u>\$ 87,791,889</u>	<u>\$ (1,677,306)</u>	<u>\$ (1,783,818)</u>	<u>\$ 84,330,765</u>

(Continued)

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Capital assets continued:

	Balance, beginning (as restated)	Additions	Deletions	Balance, ending
Business-type activities:				
At cost:				
Not being depreciated:				
Land	\$ 350,000	\$ -	\$ -	\$ 350,000
Construction in progress	1,290,184	3,290,074	(1,299,137)	3,281,121
Total capital assets not being depreciated	1,640,184	3,290,074	(1,299,137)	3,631,121
Being depreciated:				
Buildings and building improvements	1,010,650	1,026,000	-	2,036,650
Machinery, equipment, and furnishings	5,451,952	229,440	(33,252)	5,648,140
Infrastructure	27,637,280	-	-	27,637,280
Total capital assets being depreciated	34,099,882	1,255,440	(33,252)	35,322,070
Total all capital assets	35,740,066	4,545,514	(1,332,389)	38,953,191
Less accumulated depreciation:				
Buildings and building improvements	(415,490)	(36,672)	-	(452,162)
Machinery, equipment, and furnishings	(3,009,614)	(168,786)	33,252	(3,145,148)
Infrastructure	(11,639,556)	(566,857)	-	(12,206,413)
Total accumulated depreciation	(15,064,660)	(772,315)	33,252	(15,803,723)
Net book value, capital assets being depreciated	19,035,222	483,125	-	19,518,347
Net book value, all business-type activities capital assets	\$ 20,675,406	\$ 3,773,199	\$ (1,299,137)	\$ 23,149,468

Depreciation expense was charged to functions of the Town based on their usage of the related assets. The amounts allocated to each function are as follows:

Governmental activities:	
General government	\$ 225,309
Public safety	652,380
Highways and streets	7,443,478
Sanitation	6,913
Culture and recreation	84,194
Total depreciation expense	\$ 8,412,274

NOTE 9 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of December 31, 2018 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor	\$ 9,531
Capital Projects	General	424,015
Nonmajor	General	150,000
		\$ 583,546

The outstanding balances among funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

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Interfund Transfers - The composition of interfund transfers for the year ended December 31, 2018 is as follows:

	Transfers In:			
	Governmental Funds		Proprietary	Total
	General	Capital Projects	Fund Sewer	
Transfers out:				
Governmental funds:				
General	\$ -	\$ 4,430,170	\$ -	\$ 4,430,170
Nonmajor	55,594	-	-	55,594
Proprietary funds:				
Sewer	212,109	-	-	212,109
Water	213,154	-	118,147	331,301
Total	<u>\$ 480,857</u>	<u>\$ 4,430,170</u>	<u>\$ 118,147</u>	<u>\$ 5,029,174</u>

During the year, transfers are used to (1) move revenues from the fund with collection authority to the fund responsible for expenditure and (2) move general fund resources to provide an annual subsidy.

NOTE 10 – ACCRUED LIABILITIES

Accrued liabilities reported at December 31, 2018, were as follows:

	Governmental Funds		Proprietary Funds		Total
	General	Nonmajor	Sewer	Water	
Payroll	\$ 699,234	\$ 28,020	\$ 1,947	\$ 18,077	\$ 747,278
Employee benefits	201,202	-	-	-	201,202
Total accrued liabilities	<u>\$ 900,436</u>	<u>\$ 28,020</u>	<u>\$ 1,947</u>	<u>\$ 18,077</u>	<u>\$ 948,480</u>

NOTE 11 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments consist of the following:

Governmental fund:	
General:	
Balance due to the Salem School District	\$ 26,759,040
Fees due to the State of New Hampshire	18,748
Total governmental fund	<u>26,777,788</u>
Proprietary funds:	
Sewer:	
Amounts due to the State of New Hampshire (unissued SRF loan)	<u>2,319,175</u>
Water:	
Amounts due to the State of New Hampshire (unissued SRF loan)	<u>1,001,644</u>
Total proprietary funds	<u>3,320,819</u>
Fiduciary funds:	
Private purpose trust:	
Balances held on behalf of the Salem School District	<u>23,196</u>
Agency:	
Balances held on behalf of the Salem School District	<u>198,687</u>
Total fiduciary funds	<u>221,883</u>
Total intergovernmental payables due	<u>\$ 30,320,490</u>

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NOTE 12 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows of resources are as follows:

Governmental activities:	
Amounts related to pensions (see Note 15)	\$ 5,897,437
Amounts related to other postemployment benefits (see Note 16)	696,860
Total governmental activities	<u>6,594,297</u>
Business-type activities:	
Proprietary funds:	
Sewer:	
Amounts related to pensions (see Note 15)	16,078
Amounts related to other postemployment benefits (see Note 16)	1,900
Total sewer fund	<u>17,978</u>
Water:	
Amounts related to pensions (see Note 15)	99,725
Amounts related to other postemployment benefits (see Note 16)	11,784
Total water fund	<u>111,509</u>
Total proprietary funds	<u>129,487</u>
Total deferred outflows of resources	<u>\$ 6,723,784</u>

Deferred inflows of resources are as follows:

	Exhibit A	Exhibit C-1
Governmental activities:		
Property taxes levied prior to their due date	\$ 55,716	\$ 55,716
Property taxes not collected within 60 days of year-end	-	486,892
Bond premiums amortized over life of bond	-	88,274
Amounts related to pensions (see Note 15)	2,226,300	-
Amounts related to other postemployment benefits (see Note 16)	3,585,466	-
Total governmental activities	<u>5,867,482</u>	<u>\$ 630,882</u>
Business-type activities:		
Proprietary funds:		
Sewer:		
Amounts related to pensions (see Note 15)	6,069	
Amounts related to other postemployment benefits (see Note 16)	6,149	
Total sewer fund	<u>12,218</u>	
Water:		
Deferred assessments	2,000	
Amounts related to pensions (see Note 15)	37,646	
Amounts related to other postemployment benefits (see Note 16)	23,601	
Total water fund	<u>63,247</u>	
Total proprietary funds	<u>75,465</u>	
Total deferred outflows of resources	<u>\$ 5,942,947</u>	

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NOTE 13 – CAPITAL LEASE OBLIGATIONS

The Town has entered into certain capital lease agreements under which the related equipment will become the property of the Town when all the terms of the lease agreements are met.

	Standard Interest Rate	Present Value of Remaining Payments as of December 31, 2018
Governmental activities:		
Capital lease obligations:		
Backhoe	2.79%	\$ 25,168
Multiple vehicles and equipment (2017)	2.84%	467,121
Multiple vehicles and equipment (2018)	2.67%	635,227
Communications upgrade	0.00%	960,000
Total capital lease obligations		<u>\$ 2,087,516</u>

Leased equipment under capital leases, included in capital assets, is as follows:

	Governmental Activities
Equipment:	
Backhoe	\$ 97,600
Multiple vehicles and equipment (2017)	914,894
Multiple vehicles and equipment (2018)	757,295
Communications upgrade	1,600,000
Total equipment	<u>3,369,789</u>
Less: accumulated depreciation	(1,870,220)
Total capital lease equipment	<u>\$ 1,499,569</u>

The annual requirements to amortize the capital leases payable as of December 31, 2018, including interest payments, are as follows:

Fiscal Year Ending December 31,	Governmental Activities
2019	\$ 1,090,177
2020	904,497
2021	132,178
Total requirements	<u>2,126,852</u>
Less: interest	(39,336)
Present value of remaining payments	<u>\$ 2,087,516</u>

Amortization of lease equipment under capital assets is included with depreciation expense.

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NOTE 14 – LONG-TERM LIABILITIES

Changes in the Town's long-term liabilities consisted of the following for the year ended December 31, 2018:

	Balance January 1, 2018 (as restated)	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 2,541,000	\$ -	\$ (626,000)	\$ 1,915,000	\$ 626,000
Premium	104,192	-	(15,918)	88,274	15,918
Total bonds payable	2,645,192	-	(641,918)	2,003,274	641,918
Capital leases	1,209,722	2,357,295	(1,479,501)	2,087,516	1,063,430
Compensated absences	3,564,414	357,912	(60,500)	3,861,826	-
Accrued landfill postclosure care costs	430,000	62,000	-	492,000	20,000
Net pension liability	46,803,392	-	(924,531)	45,878,861	-
Net other postemployment benefits	37,794,447	-	(1,295,604)	36,498,843	-
Total long-term liabilities	<u>\$ 92,447,167</u>	<u>\$ 2,777,207</u>	<u>\$ (4,402,054)</u>	<u>\$ 90,822,320</u>	<u>\$ 1,725,348</u>
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 2,944,000	\$ -	\$ (499,000)	\$ 2,445,000	\$ 409,000
Premium	163,020	-	(22,884)	140,136	22,884
Total bonds payable	3,107,020	-	(521,884)	2,585,136	431,884
Notes payable	-	1,509,273	(138,912)	1,370,361	143,026
Compensated absences	110,438	231	(24,501)	86,168	-
Net pension liability	1,074,254	-	(173,371)	900,883	-
Net other postemployment benefits	316,807	45,664	-	362,471	-
Total long-term liabilities	<u>\$ 4,608,519</u>	<u>\$ 1,555,168</u>	<u>\$ (858,668)</u>	<u>\$ 5,305,019</u>	<u>\$ 574,910</u>

Long-term bonds/notes are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2018	Current Portion
Governmental activities:						
General obligation bonds payable:						
Bridge reconstruction	\$ 2,394,500	2009	2019	2.00-3.00	\$ 235,000	\$ 235,000
Bridges reconstruction	\$ 1,297,000	2010	2020	2.00-4.00	255,000	130,000
Bridge construction/water improvements	\$ 1,189,909	2013	2023	3.00	585,000	121,000
Bridge construction/water improvements	\$ 1,418,000	2014	2024	2.00-3.00	840,000	140,000
Total bonds payable					1,915,000	626,000
Bond premium					88,274	15,918
Total governmental activities					<u>2,003,274</u>	<u>641,918</u>

(Continued)

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Long-term bonds/notes continued:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2018	Current Portion
Business-type activities:						
Water and sewer bonds payable:						
Blake Road project	\$ 695,900	2004	2024	3.00-5.00	210,000	35,000
Bridge construction/water improvements	\$ 692,091	2013	2023	3.00	345,000	69,000
Bridge construction/water improvements	\$ 1,900,000	2014	2024	2.00-3.00	1,120,000	195,000
Water main improvement	\$ 1,110,000	2015	2025	2.00-4.00	770,000	110,000
Total bonds payable					<u>2,445,000</u>	<u>409,000</u>
Bond premium					140,136	22,884
Water note payable:						
Exit 2 water system improvement	\$ 1,509,273	2018	2027	1.515	<u>1,370,361</u>	<u>143,026</u>
Total					<u>3,955,497</u>	<u>574,910</u>
Grand total					<u>\$ 5,958,771</u>	<u>\$ 1,216,828</u>

The annual requirements to amortize all *governmental activities* general obligation bonds outstanding as of December 31, 2018, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2019	\$ 626,000	\$ 59,375	\$ 685,375
2020	386,000	39,295	425,295
2021	261,000	27,090	288,090
2022	251,000	19,260	270,260
2023	251,000	11,730	262,730
2024	140,000	4,200	144,200
Totals	<u>\$ 1,915,000</u>	<u>\$ 160,950</u>	<u>\$ 2,075,950</u>

The annual requirements to amortize all *business-type activities* bonds and notes outstanding as of December 31, 2018, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2019	\$ 552,026	\$ 98,379	\$ 650,405
2020	544,193	84,515	628,708
2021	546,392	70,832	617,224
2022	548,625	57,029	605,654
2023	550,892	40,994	591,886
2024-2027	1,073,233	44,023	1,117,256
Totals	<u>\$ 3,815,361</u>	<u>\$ 395,772</u>	<u>\$ 4,211,133</u>

Accrued Landfill Postclosure Care Costs – Previously a 30-year period after closure was presented in the Town’s engineer’s estimates based on New Hampshire Department of Environmental Safety (NHDES) requirements for financial assurance for landfills. The financial assurance rules were modified in 2014 to provide for financial assurance for 30 years on an on-going basis. The necessary effort and costs for postclosure care will vary with a range of issues, including water quality, NHDES requirements, cap condition and gas production, all of which will vary over time. Requirements for monitoring and reporting, including groundwater testing and gas testing are anticipated to reduce over time. Requirements for maintenance of the cap itself will occur for an indefinite amount of time. The Town’s engineer anticipates postclosure costs will potentially decrease, on average, by approximately half after the first 30 years of closure (12 years from now) and continue at the reduced level for an indefinite time frame. The Town’s engineer believes a 30-year period from today is a reasonable evaluation period for accounting purposes. The resulting estimate of total costs is \$492,000 as of December 31, 2018.

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Bonds/Notes Authorized and Unissued – Bonds and notes authorized and unissued as of December 31, 2018 were as follows:

Per Town Meeting Vote of	Purpose	Unissued Amount
Warrant Article No. 8 - March 2014	Replacement of bridges and one culvert at Shannon Road	\$ 24
Warrant Article No. 9 - March 2017	Depot intersection land acquisition	3,127,150
Warrant Article No. 10 - March 2017	Wastewater and stormwater asset management plan	60,000
Warrant Article No. 5 - March 2018	Water, sewer, and bridge improvements on South Broadway	11,650,000
		<u>\$ 14,837,174</u>

NOTE 15 – DEFINED BENEFIT PENSION PLAN

Plan Description – The New Hampshire Retirement System (NHRS or the System) is a public employee retirement system that administers one cost-sharing multiple-employer defined benefit pension plan (Pension Plan), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans* – an amendment of GASB Statement No. 25. The Pension Plan was established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Pension Plan is a contributory, defined benefit plan providing service, disability, death, and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and permanent police officers within the State are eligible and required to participate in the Pension Plan. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

Benefits Provided – The Pension Plan is divided into two membership groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and available to pay retirement benefits to all members.

Group I members at age 60 or 65 (for members who commence service after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest of either three or five years, depending on when their service commenced. The yearly pension amount is 1/60 or 1.667% of average final compensation (AFC) multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at 1/66 or 1.515% of AFC multiplied by years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have nonvested status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the member attains 52.5 years of age by ¼ of 1% or age 60.

Members of both groups may qualify for vested deferred allowances, disability allowances and death benefit allowances, subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

Contributions - The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees are required to contribute 7% of earnable compensation. For fiscal year 2018, the Town contributed 25.33% for police, 27.79% for fire and 11.08% for other employees. The contribution requirement for the fiscal year 2018 was \$4,208,614, which was paid in full.

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Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions – At December 31, 2018 the Town reported a liability of \$46,779,744 (\$45,878,861 for governmental activities and \$900,883 for business-type activities) for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating towns and school districts, actuarially determined. At June 30, 2018, the Town's proportion was 0.97%, which was the same as its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the Town recognized pension expense of \$496,250 (\$621,951 for governmental activities and (\$125,701) for business-type activities). At December 31, 2018 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental Activities		Business-type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 218,955	\$ 793,141	\$ 4,299	\$ 15,574
Changes in assumptions	3,175,043	-	62,346	-
Net difference between projected and actual investment earnings on pension plan investments	-	1,061,676	-	20,847
Differences between expected and actual experience	366,196	371,483	7,191	7,294
Contributions subsequent to the measurement date	2,137,243	-	41,967	-
Total	<u>\$ 5,897,437</u>	<u>\$ 2,226,300</u>	<u>\$ 115,803</u>	<u>\$ 43,715</u>

The \$2,137,243 in the governmental activities and \$41,967 in the business-type activities reported as deferred outflows of resources related to pensions results from the Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending December 31,	Governmental Activities	Business-type Activities
2019	\$ 1,769,772	\$ 34,751
2020	1,071,532	21,041
2021	(1,117,536)	(21,944)
2022	(189,874)	(3,727)
Totals	<u>\$ 1,533,894</u>	<u>\$ 30,121</u>

Actuarial Assumptions – The collective total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2017, using the following actuarial assumptions which, accordingly apply to 2018 measurements:

Inflation:	2.5%
Salary increases:	5.6% average, including inflation
Wage inflation	3.25%
Investment rate of return:	7.25% net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on last experience study.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

Long-term Rates of Return – The long-term expected rate of return on pension plan investment was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return net of investment expenses by the target asset allocation percentage and by adding expected inflation.

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Following is a table presenting target allocations and long-term rates of return for 2018:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return 2018
Large Cap Equities	22.50%	4.25%
Small/Mid Cap Equities	7.50%	4.50%
Total domestic equity	30.00%	
Int'l Equities (unhedged)	13.00%	4.50%
Emerging Int'l Equities	7.00%	6.00%
Total international equity	20.00%	
Core Bonds	4.50%	0.50%
Short Duration	2.50%	(0.25%)
Global Multi-Sector Fixed Income	11.00%	1.80%
Absolute Return Fixed Income	7.00%	1.14%
Total fixed income	25.00%	
Private equity	5.00%	6.25%
Private debt	5.00%	4.25%
Opportunistic	5.00%	2.15%
Total alternative investments	15.00%	
Real estate	10.00%	3.25%
Total	100.00%	

Discount Rate – The discount rate used to measure the collective total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the Pension Plan's actuarial funding policy as required by RSA 100-A:16. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on Pension Plan investment was applied to all periods of projected benefit payments to determine the collective total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following table presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.25% as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Governmental activities:

Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
June 30, 2018	\$ 61,042,200	\$ 45,878,861	\$ 33,171,518

Business-type activities:

Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
June 30, 2018	\$ 1,198,631	\$ 900,883	\$ 651,360

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Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued New Hampshire Retirement System Cost-Sharing Multiple Employer Defined Benefit Pension Plan financial report.

NOTE 16 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

16-A New Hampshire Retirement System (NHRS)

Plan Description – The New Hampshire Retirement System (NHRS or the System) administers a cost-sharing multiple-employer other postemployment benefit plan medical subsidy healthcare plan (OPEB Plan). For additional system information, please refer to the 2018 Comprehensive Annual Financial Report, which can be found on the system’s website at www.nhrs.org.

Benefits Provided - Benefit amounts and eligibility requirements for the OPEB Plan are set by state law (RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b), and members are designated in statute by type. The four membership types are Group II, Police Officers and Firefighters; Group I, Teachers; Group I, Political Subdivision Employees; and Group I, State Employees. The OPEB Plan provides a medical insurance subsidy to qualified retired members. The medical insurance subsidy is a payment made by NHRS to the former employer or its insurance administrator toward the cost of health insurance for a qualified retiree, his/her qualified spouse, and his/her certified dependent children with a disability who are living in the household and being cared for by the retiree. If the health insurance premium amount is less than the medical subsidy amount, then only the health insurance premium amount will be paid. If the health insurance premium amount exceeds the medical subsidy amount, then the retiree or other qualified person is responsible for paying any portion that the employer does not pay.

Group I benefits are based on creditable service, age and retirement date. Group II benefits are based on hire date, age and creditable service. The OPEB plan is closed to new entrants.

Maximum medical subsidy rates paid during fiscal year 2018 were as follows:

For qualified retirees not eligible for Medicare, the amounts were \$375.56 for a single-person plan and \$751.12 for a two-person plan.

For those qualified retirees eligible for Medicare, the amounts were \$236.84 for a single-person plan and \$473.68 for a two-person plan.

Contributions – The OPEB Plan is funded by allocating to the 401(h) subtrust the lesser of: 25% of all employer contributions made in accordance with RSA 100-A:16 or the percentage of employer contributions determined by the actuary to be the minimum rate necessary to maintain the benefits provided under RSA 100-A:53-b, RSA 100-A:53-c, and RSA 100-A:53-d. For fiscal year 2018, the minimum rates determined by the actuary to maintain benefits were the lesser of the two options and were used to determine the employer contributions due to the 401(h) subtrust. The State Legislature has the authority to establish, amend and discontinue the contribution requirements of the OPEB Plan. Administrative costs are allocated to the OPEB Plan based on fund balances. For fiscal year 2018, the Town contributed 4.10% for police and fire, and 0.30% for other employees. The contribution requirement for the fiscal year 2018 was \$548,072, which was paid in full.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – At December 31, 2018, the Town reported a liability of \$5,514,957 (\$5,408,750 for governmental activities and \$106,207 for business-type activities) for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Town’s proportion of the net OPEB liability was based on a projection of the Town’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating towns and school districts, actuarially determined. At June 30, 2018, the Town’s proportion was 1.20%, which was an increase of 0.40% from its proportion measured as of June 30, 2017.

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For the year ended December 31, 2018, the Town recognized OPEB expense of \$1,382,778 (\$1,356,148 for governmental activities and \$26,630 for business-type activities). At December 31, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Governmental Activities		Business-type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 383,732	\$ -	\$ 7,536	\$ -
Net difference between projected and actual investment earnings on OPEB plan investments	-	17,186	-	337
Differences between expected and actual experience	31,749	-	623	-
Contributions subsequent to the measurement date	281,379	-	5,525	-
Total	<u>\$ 696,860</u>	<u>\$ 17,186</u>	<u>\$ 13,684</u>	<u>\$ 337</u>

The \$281,379 in the governmental activities and \$5,525 in the business-type activities reported as deferred outflows of resources related to OPEB results from the Town contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending December 31,	Governmental Activities	Business-type Activities
2019	\$ 410,120	\$ 8,053
2020	(5,362)	(105)
2021	(5,362)	(105)
2022	(1,101)	(21)
Totals	<u>\$ 398,295</u>	<u>\$ 7,822</u>

Actuarial Assumptions – The total OPEB liability in this report is based on an actuarial valuation performed as of June 30, 2018 and a measurement date of June 30, 2017. The total OPEB liability was determined using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Price inflation:	2.5% per year
Wage inflation:	3.25% per year
Salary increases:	5.6% average, including inflation
Investment rate of return:	7.25% net of OPEB plan investment expense, including inflation
Health care trend rate:	Not applicable, given that the benefits are fixed stipends

Mortality rates were based on the RP-2014 healthy annuitant and employee generational mortality tables for males and females with credibility adjustments, adjusted for fully generational mortality improvements using Scale MP-2015, based on last experience study.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

Long-term Rates of Return – The long-term expected rate of return on OPEB plan investment was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return net of investment expenses by the target asset allocation percentage and by adding expected inflation.

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Following is a table presenting target allocations and long-term rates of return for 2018:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return 2018
Large Cap Equities	22.50%	4.25%
Small/Mid Cap Equities	7.50%	4.50%
Total domestic equity	30.00%	
Int'l Equities (unhedged)	13.00%	4.50%
Emerging Int'l Equities	7.00%	6.00%
Total international equity	20.00%	
Core Bonds	4.50%	0.50%
Short Duration	2.50%	(0.25%)
Global Multi-Sector Fixed Income	11.00%	1.80%
Absolute Return Fixed Income	7.00%	1.14%
Total fixed income	25.00%	
Private equity	5.00%	6.25%
Private debt	5.00%	4.25%
Opportunistic	5.00%	2.15%
Total alternative investments	15.00%	
Real estate	10.00%	3.25%
Total	100.00%	

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2018 was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made under the current statute RSA 100-A:16 and that plan member contributions will be made under RSA 100-A:16. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the collective total OPEB liability.

Sensitivity of the Town's Proportionate Share of the OPEB Liability to Changes in the Discount Rate – The following table presents the Town's proportionate share of the OPEB liability calculated using the discount rate of 7.25% as well as what the Town's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Governmental activities:			
Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
June 30, 2018	\$ 5,629,451	\$ 5,408,750	\$ 4,790,529
Business-type activities:			
Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
June 30, 2018	\$ 110,541	\$ 106,207	\$ 94,067

Sensitivity of the Town's Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Assumption – GASB No. 75 requires the sensitivity of the OPEB liability to the healthcare cost trend assumption. Since the medical subsidy benefits are fixed stipends, there is no sensitivity to changes in the healthcare cost trend assumption.

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OPEB Plan Fiduciary Net Position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued New Hampshire Retirement System Cost-Sharing Multiple Employer Defined Benefit OPEB Plan financial report.

16-B Town of Salem Retiree Health Benefit Program

Plan Description – GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, requires governments to account for other postemployment benefits (OPEB) on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially determined expense on the Statement of Activities when a future retiree earns their postemployment benefits, rather than when they use their postemployment benefit. The postemployment benefit liability is recognized on the Statement of Net Position over time.

Benefits Provided – The Town provides postemployment healthcare benefits for certain eligible retirees. The Town provides medical benefits to its eligible retirees. The benefits are provided through the New Hampshire Inter-Local Trust.

Employees Covered by Benefit Terms – At January 1, 2017 the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	79
Active employees	241
Total participants covered by OPEB plan	<u>320</u>

Total OPEB Liability – The Town’s total OPEB liability of \$31,346,357 (\$31,090,093 for governmental activities and \$256,264 for business-type activities) was measured as of January 1, 2017, and was determined by an actuarial valuation of that date.

Actuarial Assumptions and Other Inputs – The total OPEB liability of \$31,346,357 in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate:	4.1%
Healthcare Cost Trend Rates:	
Current Year Trend	7.5%
Second Year Trend	7.0%
Decrement	0.5%
Ultimate Trend	5.0%
Year Ultimate Trend is Reached	2023

The discount rate was based on a tax-exempt, high-quality municipal bond rate.

Mortality rates were based on the RP-2014 combined mortality tables for males and females, projected with generational mortality improvement using scale MP-2015.

Changes in the Total OPEB Liability

	Governmental Activities	Business-type Activities
OPEB liability beginning of year	\$ 34,195,895	\$ 246,145
Changes for the year:		
Service cost	732,844	6,041
Interest	1,186,590	9,781
Assumption changes and difference between actual and expected experience	(4,226,442)	881
Benefit payments	(798,794)	(6,584)
OPEB liability end of year	<u>\$ 31,090,093</u>	<u>\$ 256,264</u>

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Sensitivity of the Town's OPEB Liability to Changes in the Discount Rate – The January 1, 2017 actuarial valuation was prepared using a discount rate of 4.10%. If the discount rate were 1% lower than what was used, the OPEB liability would increase by 21.56%. If the discount rate were 1% higher than what was used, the OPEB liability would decrease by 16.09%.

Governmental Activities:

	Discount Rate		
	1% Decrease	Baseline 4.10%	1% Increase
Total OPEB Liability	\$ 37,793,756	\$ 31,090,093	\$ 26,088,073

Business-type Activities:

	Discount Rate		
	1% Decrease	Baseline 4.10%	1% Increase
Total OPEB Liability	\$ 311,520	\$ 256,264	\$ 215,034

Sensitivity of the Town's OPEB Liability to Changes in the Healthcare Cost Trend Rates – The January 1, 2017 actuarial valuation was prepared using an initial trend rate of 8.00%. If the trend rate were 1% higher than what was used, the OPEB liability would decrease by 19.27%. If the trend rate were 1% lower than what was used, the OPEB liability would increase by 25.61%.

Governmental Activities:

	Healthcare Cost Trend Rates		
	1% Decrease 7.00% Year 1 Decreasing to 4.00%	Baseline 8.00% Year 1 Decreasing to 5.00%	1% Increase 9.00% Year 1 Decreasing to 6.00%
Total OPEB Liability	\$ 25,099,200	\$ 31,090,093	\$ 39,051,166

Business-type Activities:

	Healthcare Cost Trend Rates		
	1% Decrease 7.00% Year 1 Decreasing to 4.00%	Baseline 8.00% Year 1 Decreasing to 5.00%	1% Increase 9.00% Year 1 Decreasing to 6.00%
Total OPEB Liability	\$ 206,883	\$ 256,264	\$ 321,884

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB – For the year ended December 31, 2018, the Town recognized OPEB expense of \$3,095,683 (\$3,070,375 for governmental activities and \$25,308 for business-type activities). At December 31, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Governmental Activities		Business-type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 3,568,280	\$ -	\$ 29,413

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

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

Fiscal Year Ending December 31,	Governmental Activities	Business-type Activities
2019	\$ (622,736)	\$ (5,133)
2020	(622,736)	(5,133)
2021	(622,736)	(5,133)
2022	(622,736)	(5,133)
2023	(622,736)	(5,133)
Thereafter	(454,600)	(3,748)
Totals	<u>\$ (3,568,280)</u>	<u>\$ (29,413)</u>

NOTE 17 – ENCUMBRANCES

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at December 31, 2018 and are as follows:

General fund:	
General government	\$ 344,370
Public safety	82,108
Highways and streets	25,817
Sanitation	28,095
Culture and recreation	3,303
Capital outlay	31,000
Total encumbrances	<u>\$ 514,693</u>

NOTE 18 – GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES NET POSITION

Governmental and business-type activities net position reported on the Statement of Net Position at December 31, 2018 include the following:

	Governmental Activities	Business-type Activities	Total
Net investment in capital assets:			
Net book value, all capital assets	\$ 84,330,765	\$ 23,149,468	\$ 107,480,233
Less:			
General obligation bonds payable	(1,915,000)	(2,445,000)	(4,360,000)
Unamortized bond premiums	(88,274)	(140,136)	(228,410)
Notes payable	-	(1,370,361)	(1,370,361)
Capital leases payable	(2,087,516)	-	(2,087,516)
Total net investment in capital assets	<u>80,239,975</u>	<u>19,193,971</u>	<u>99,433,946</u>
Restricted net position:			
Capital projects	556,912	-	556,912
CDBG	551	-	551
Grants and donations	13,705	-	13,705
Library	68,165	-	68,165
Perpetual care - nonexpendable	483,684	-	483,684
Police forfeiture	104,197	-	104,197
Total restricted net position	<u>1,227,214</u>	<u>-</u>	<u>1,227,214</u>
Unrestricted	<u>(68,238,656)</u>	<u>1,843,673</u>	<u>(66,394,983)</u>
Total net position	<u>\$ 13,228,533</u>	<u>\$ 21,037,644</u>	<u>\$ 34,266,177</u>

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

NOTE 19 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2018 include the following:

	General Fund	Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
Nonspendable:				
Prepaid items	\$ 248,820	\$ -	\$ -	\$ 248,820
Permanent fund - principal balance	-	-	483,684	483,684
Total nonspendable fund balance	248,820	-	483,684	732,504
Restricted:				
Unspent bond proceeds	124,458	-	-	124,458
Capital projects	-	556,912	-	556,912
CDBG fund	-	-	551	551
Grants and donations	-	-	13,705	13,705
Police forfeiture	-	-	104,197	104,197
Library	-	-	68,165	68,165
Total restricted fund balance	124,458	556,912	186,618	867,988
Committed:				
Expendable trust	2,686,677	-	-	2,686,677
MetLife investments Fair Market Value adjustment	64,237	-	-	64,237
Cable TV	-	-	335,196	335,196
Conservation commission	-	-	872,662	872,662
Fire outside details	-	-	21,689	21,689
Police outside details	-	-	340,910	340,910
Recreation	-	-	171,092	171,092
Total committed fund balance	2,750,914	-	1,741,549	4,492,463
Assigned:				
Encumbrances	514,693	-	-	514,693
Contingency	444,000	-	-	444,000
Total assigned fund balance	958,693	-	-	958,693
Unassigned	11,431,309	-	-	11,431,309
Total governmental fund balances	\$ 15,514,194	\$ 556,912	\$ 2,411,851	\$ 18,482,957

NOTE 20 – PRIOR PERIOD ADJUSTMENTS

Net position at January 1, 2018 was restated to give retroactive effect to the following prior period adjustments:

	Governmental Activities	Business-type Activities	Sewer Fund	Water Fund
To restate for the cumulative changes related to implementation of GASB No. 75, see Note 2-C	\$ (27,663,836)	\$ (160,047)	\$ (57,030)	\$ (103,017)
To record previously unrecorded building and related accumulated depreciation in the in water fund	-	595,160	-	595,160
To recognize intergovernmental revenue not capitalized as part of SRF grant in water fund	-	296,725	-	296,725
Net position, as previously reported	44,789,598	19,005,762	6,632,060	12,373,702
Net position, as restated	\$ 17,125,762	\$ 19,737,600	\$ 6,575,030	\$ 13,162,570

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 21 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2018, the Town was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability programs.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from January 1, 2018 to December 31, 2018 by Primex³, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The workers' compensation section of the self-insurance membership agreement permits Primex³ to make additional assessments to members should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex³ foresees no likelihood of any additional assessment for this or any prior year.

The Town continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 22 – CONTINGENT LIABILITIES

There are various legal claims and suits pending against the Town which arose in the normal course of the government's activities. In the opinion of management, the ultimate disposition of these various claims and suits will not have a material effect on the financial position of the Town.

The Town participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

NOTE 23 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through August 8, 2019, the date the December 31, 2018 financial statements were available to be issued, and has identified the following subsequent events:

At the March 12, 2019 Annual Town Meeting, the following warrant articles were voted:

Warrant Article No. 5 – the Town voted to purchase drinking water rights capacity of up to 1.5 million gallons per day from Manchester Water Works and to cover the costs by authorizing not more than \$5,355,000 of bonds or notes.

Warrant Article No. 6 – the Town voted to authorize a long-term/purchase agreement in the amount of \$750,221 payable over 60 months for the purchase of a fire engine-pumper and related equipment.

Warrant Article No. 7 – the Town approved its 2019 operating budget totaling \$48,820,114, of which \$1,941,155 is to come from unassigned fund balance.

Warrant Article No. 9 – the Town voted to replace and improve the HVAC system at the Salem District Court House totaling \$788,426, of which \$710,000 is to come from unassigned fund balance.

Warrant Article No. 12 – the Town voted to construct a public safety radio tower and shed totaling \$85,000, with said funds to come from unassigned fund balance.

Warrant Article No. 13 – the Town voted to transfer \$734,874 from the Road Construction Road Program capital projects fund to the Roadway Capital Reserve Fund, with said funds representing unused road program monies.

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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On March 22, 2019, the Town issued bonds totaling \$2,830,000 for land acquisition and related work required for the reconstruction of the Depot intersection (Main Street/Broadway). This amount was previously authorized at the March 2017 Annual Town Meeting, Warrant Article No. 9 (see Note 14).

On May 29, 2019, the Town entered a master lease purchase agreement totaling \$338,992 for the purchase of new police vehicles.

On June 11, 2019, the Town issued bonds totaling \$1,000,000 for the purchase of drinking water rights capacity from Manchester Water Works. This amount was authorized at the March 2019 Annual Town Meeting, Warrant Article No. 5, see above.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT G
TOWN OF SALEM, NEW HAMPSHIRE
Schedule of the Town's Proportionate Share of Net Pension Liability
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,					
	2013	2014	2015	2016	2017	2018
Town's proportion of the net pension liability	0.96%	1.01%	1.00%	0.99%	0.97%	0.97%
Town's proportionate share of the net pension liability	\$ 41,281,824	\$ 37,801,337	\$ 39,790,897	\$ 52,814,323	\$ 47,877,646	\$ 46,779,743
Town's covered payroll	\$ 16,548,303	\$ 17,665,164	\$ 18,230,211	\$ 17,795,519	\$ 18,538,018	\$ 19,239,017
Town's proportionate share of the net pension liability as a percentage of its covered payroll	249.46%	213.99%	218.27%	296.78%	258.27%	243.15%
Plan fiduciary net position as a percentage of the total pension liability	59.81%	66.32%	65.47%	58.30%	62.66%	64.73%

The Note to the Required Supplementary Information – Pension Liability is an integral part of this schedule.

EXHIBIT H
TOWN OF SALEM, NEW HAMPSHIRE
Schedule of Town Contributions - Pensions
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,					
	2013	2014	2015	2016	2017	2018
Contractually required contribution	\$ 2,385,091	\$ 3,267,177	\$ 3,369,755	\$ 3,556,439	\$ 3,566,426	\$ 4,106,124
Contributions in relation to the contractually required contributions	(2,385,091)	(3,267,177)	(3,369,755)	(3,556,439)	(3,566,426)	(4,106,124)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town's covered payroll	\$ 16,548,303	\$ 17,665,164	\$ 18,230,211	\$ 17,795,519	\$ 18,538,018	\$ 19,239,017
Contributions as a percentage of covered payroll	14.41%	18.50%	18.48%	19.99%	19.24%	21.34%

The Note to the Required Supplementary Information – Pension Liability is an integral part of this schedule.

TOWN OF SALEM, NEW HAMPSHIRE

***NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION –
PENSION LIABILITY***

***FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018***

***Schedule of the Town's Proportionate Share of Net Pension Liability and
Schedule of Town Contributions - Pensions***

As required by GASB Statement No. 68, and as amended by GASB Statement No. 71, Exhibits G and H represent the actuarial determined costs associated with the Town's pension plan at December 31, 2018. These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2018:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	21 years beginning July 1, 2018 (30 years beginning July 1, 2009)
Asset Valuation Method	5-year smooth market for funding purposes
Price Inflation	2.5% per year
Wage Inflation	3.25% per year
Salary Increases	5.6% Average, including inflation
Municipal Bond Rate	3.62% per year
Investment Rate of Return	7.25% per year, net of investment expenses, including inflation
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2015.
Mortality	RP-2014 Employee generational mortality table for males and females, adjusted for mortality improvements using Scale MP -2015, based in the last experience study.

Other Information:

Notes	Contribution rates for fiscal year 2018 were determined based on the benefit changes adopted under House Bill No. 2 as amended by 011-2513-CofC.
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EXHIBIT I
TOWN OF SALEM, NEW HAMPSHIRE
Schedule of the Town's Proportionate Share of the Net Other Postemployment Benefits Liability
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,		
	2016	2017	2018
Town's proportion of the net OPEB liability	0.83%	0.80%	1.20%
Town's proportionate share of the net OPEB liability (asset)	\$ 3,994,098	\$ 3,669,214	\$ 5,514,957
Town's covered payroll	\$ 17,795,519	\$ 18,538,018	\$ 19,239,017
Town's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	22.44%	19.79%	28.67%
Plan fiduciary net position as a percentage of the total OPEB liability	5.21%	7.91%	7.53%

The Notes to the Required Supplementary Information – Other Postemployment Benefit Liability is an integral part of this schedule.

EXHIBIT J
TOWN OF SALEM, NEW HAMPSHIRE
Schedule of Town Contributions - Other Postemployment Benefits
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,		
	2016	2017	2018
Contractually required contribution	\$ 479,403	\$ 475,631	\$ 532,806
Contributions in relation to the contractually required contribution	(479,403)	(475,631)	(532,806)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Town's covered payroll	\$ 17,795,519	\$ 18,538,018	\$ 19,239,017
Contributions as a percentage of covered payroll	2.69%	2.57%	2.77%

The Notes to the Required Supplementary Information – Other Postemployment Benefit Liability is an integral part of this schedule.

EXHIBIT K
TOWN OF SALEM, NEW HAMPSHIRE
Schedule of Changes in the Town's Total Other Postemployment Benefits Liability and Related Ratios
Retiree Health Benefit Program
For the Fiscal Year Ended December 31, 2018

	<u>December 31, 2018</u>
OPEB liability, beginning of year	\$ 34,442,040
Changes for the year:	
Service cost	738,885
Interest	1,196,371
Assumption changes and difference between actual and expected experience	(4,225,561)
Benefit payments	<u>(805,378)</u>
OPEB liability, end of year	<u>\$ 31,346,357</u>
Covered payroll	<u>\$ 18,879,190</u>
Total OPEB liability as a percentage of covered payroll	166.04%

The Notes to the Required Supplementary Information – Other Postemployment Benefit Liability is an integral part of this schedule.

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION –
OTHER POSTEMPLOYMENT BENEFIT LIABILITY
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

Schedule of the Town's Proportionate Share of Net Other Postemployment Benefits Liability and Schedule of Town Contributions – Other Postemployment Benefits

As required by GASB Statement No. 75, Exhibits I and J represent the actuarial determined costs associated with the Town's other postemployment benefits at December 31, 2018. These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

There were no changes to benefit terms or assumptions in the current actuarial valuation report.

Methods and Assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	Not applicable under statutory funding
Asset Valuation Method	5-year smooth market: 20% corridor
Price Inflation	2.5% per year
Wage Inflation	3.25% per year
Salary Increases	5.6% Average, including inflation
Municipal Bond Rate	3.62% per year
Investment Rate of Return	7.25% per year, net of OPEB plan investment expense, including inflation for determining solvency contributions
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2015.
Mortality	RP-2014 Healthy Annuitant and Employee generational mortality tables for males and females with credibility adjustments, adjusted for fully generational mortality improvements using Scale MP-2015, based on the last experience study.

Schedule of Changes in Town's Total Other Postemployment Benefits Liability and Related Ratios

As required by GASB Statement No. 75, Exhibit K represents the actuarial determined costs associated with the Town's other postemployment benefits at December 31, 2018. The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

Actuarial Assumptions and Methods:

Valuation Date	January 1, 2017.
Municipal Bond Rate	4.1 %, based on the Bond Buyer 20-Bon-GO Index published December 28, 2018.
Discount Rate (GASB)	4.1%, compounded annually, for the measurement as of December 31, 2018.
Discount Rate (ADEC)	3.44%, compounded annually, for development of the Actuarially Determined Contribution (ADEC) as of December 31, 2018.
Amortization Method	Level dollar amount over 30 years on an open amortization period for pay-as-you-go funding.

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION --
OTHER POSTEMPLOYMENT BENEFIT LIABILITY
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

Health Care Cost Trend Rates

Year	Trend
1	8.00%
2	7.50%
3	7.00%
4	6.50%
5	6.00%
6	5.50%
Ultimate	5.00%

Health care trend assumptions begin at current levels and grade down over a period of years to a lower level equal to some real rate plus inflation. The principal components of health trend are medical inflation, deductible erosion, cost shifting, utilization, technology, and catastrophic claims. The overall effect of these components are expected to decline year by year.

New Hampshire Retirement
System Medical Subsidy
Increases

No future increases are assumed.

Inflation

2.6% per year, based on the 2017 Social Security Trustees Report.

Chained Consumer Price Index

2.35% per year, based on assumed CPI of 2.6% and historical data trends of chained CPI approximately 0.25% lower than standard CPI.

Participation Rates

Medical – 90% of eligible retired employees will elect to participate. Dental – None assumed since retirees may elect coverage at their own expense.

Life – Not offered to retired employees.

Medicare – all retired employees are assumed to enroll in Medicare at age 65.

Dependent Status

Male spouses are assumed to be three years older and female spouses are assumed to be three years younger than the retired employee.

60% of employees are assumed to retire with a covered spouse.

For current retired employees, the actual census information is used.

Medical Per Capita Costs

The following annual per capita costs are for the fiscal year beginning January 1, 2017 and are applicable to retirees, survivors, and spouses. Annual costs for current and future retirees are based on the blended curve shown below, developed using the plan coverages elected by current retirees and survivors and premium rates currently in effect.

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION –
OTHER POSTEMPLOYMENT BENEFIT LIABILITY
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

Future years costs are based on the first year cost adjusted with trend.

Age	Non-Disabled		Disabled	
	Male	Female	Male	Female
Under 20	\$ 4,052	\$ 4,757	\$ 4,052	\$ 4,757
20-24	3,193	5,065	3,193	5,065
25-29	3,323	7,473	3,323	7,473
30-34	4,174	9,442	4,174	9,442
35-39	5,236	9,726	5,236	9,726
40-44	6,524	9,961	6,524	9,961
45-49	8,234	10,933	8,234	10,933
50-54	10,852	12,862	10,852	12,862
55-59	14,102	14,872	14,102	14,872
60-64	18,098	17,701	18,098	17,701
65-69	-	-	6,083	5,924
70-74	-	-	7,290	6,988
75-79	-	-	8,608	8,108
80-84	-	-	9,895	9,299
85-89	-	-	11,023	10,395
90-94	-	-	11,999	11,094
95+	-	-	12,754	10,729

Retiree Contributions

Annual per capita participant contributions for the fiscal year beginning January 1, 2017 are as follow:

<u>Plan</u>	<u>Contribution</u>
Non-Medicare	\$ 10,320
Medicare	6,984

Group II employees who retire under a job-related

Excise Tax

For purposes of estimating the excise tax, per capita plan costs are developed for individual and family coverage for both Medicare and non-Medicare members. These plan costs are compared to the thresholds stipulated in the Patient Protection and Affordable Care Act (PPACA). Beginning in 2022, a 40% excise tax is applied on the excess of the plan costs over the thresholds, which increase annually by chained CPI.

Actuarial Cost Method

Entry Age Normal. The costs of each employee's postemployment benefits are allocated as a level basis over the earnings of the employee between the employee's date of hire and the assumed exit ages.

Employee Data

Employee and retiree data were submitted by the Town. We made reasonable adjustments for missing or invalid data.

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION –
OTHER POSTEMPLOYMENT BENEFIT LIABILITY
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

Mortality Rates

Pre-Retirement Healthy Lives: RP-2014 Employees Mortality Tables for males and females, projected with generational mortality improvement using scale MP-2015.

Post-Retirement Healthy Lives: RP-2014 Healthy Annuitant Mortality Tables for males and females, projected with generational mortality improvement using scale MP-2015.

Disabled Lives: RP-2014 Disabled Mortality Table for males and females, projected with generational mortality improvement using scale MP-2015.

COMBINING AND INDIVIDUAL FUND SCHEDULES

SCHEDULE 1
TOWN OF SALEM, NEW HAMPSHIRE
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2018

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 29,103,583	\$ 29,826,539	\$ 722,956
Yield	2,000	4,924	2,924
Timber	12,000	13,012	1,012
Payment in lieu of taxes	70,000	76,425	6,425
Interest and penalties on taxes	248,250	301,589	53,339
Total from taxes	<u>29,435,833</u>	<u>30,222,489</u>	<u>786,656</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	51,750	53,080	1,330
Motor vehicle permit fees	6,050,000	6,813,786	763,786
Building permits	970,000	1,256,263	286,263
Other	234,350	285,110	50,760
Total from licenses, permits, and fees	<u>7,306,100</u>	<u>8,408,239</u>	<u>1,102,139</u>
Intergovernmental:			
State:			
Meals and rooms distribution	1,481,559	1,481,559	-
Highway block grant	657,968	657,594	(374)
Federal:			
Other	500,000	1,078,161	578,161
Total from intergovernmental	<u>2,639,527</u>	<u>3,217,314</u>	<u>577,787</u>
Charges for services:			
Income from departments	<u>2,358,952</u>	<u>3,161,877</u>	<u>802,925</u>
Miscellaneous:			
Sale of municipal property	900,000	897,111	(2,889)
Interest on investments	6,700	100,902	94,202
Other	820,427	1,241,193	420,766
Total from miscellaneous	<u>1,727,127</u>	<u>2,239,206</u>	<u>512,079</u>
Other financing sources:			
Transfers in	<u>544,641</u>	<u>553,426</u>	<u>8,785</u>
Total revenues and other financing sources	44,012,180	<u>\$ 47,802,551</u>	<u>\$ 3,790,371</u>
Unassigned fund balance used to reduce tax rate	780,000		
Amounts voted from fund balance	640,000		
Total revenues, other financing sources, and use of fund balance	<u>\$ 45,432,180</u>		

SCHEDULE 2
TOWN OF SALEM, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2018

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 362,120	\$ 363,398	\$ -	\$ (1,278)
Election and registration	-	292,484	264,623	-	27,861
Financial administration	6,000	2,088,072	1,972,399	3,750	117,923
Legal	665	95,276	123,725	36,828	(64,612)
Personnel administration	-	1,417,885	1,689,196	-	(271,311)
Planning and zoning	-	613,938	616,082	-	(2,144)
General government buildings	1,062	210,872	204,627	7,992	(685)
Cemeteries	41,712	350,478	403,837	1,267	(12,914)
Insurance, not otherwise allocated	9,163	481,748	413,344	17,410	60,157
Other	361,370	651,639	755,596	277,123	(19,710)
Total general government	419,972	6,564,512	6,806,827	344,370	(166,713)
Public safety:					
Police	11,868	11,609,303	11,266,777	13,680	340,714
Fire	110,398	12,204,708	12,015,602	68,428	231,076
Building inspection	-	825,682	808,382	-	17,300
Total public safety	122,266	24,639,693	24,090,761	82,108	589,090
Highways and streets:					
Administration	-	482,234	492,911	-	(10,677)
Highways and streets	42,371	2,810,799	2,866,869	20,154	(33,853)
Street lighting	6,807	572,407	598,682	5,663	(25,131)
Total highways and streets	49,178	3,865,440	3,958,462	25,817	(69,661)
Sanitation:					
Solid waste disposal	35,096	947,280	998,217	28,095	(43,936)
Health:					
Pest control	-	104,596	106,263	-	(1,667)
Welfare:					
Administration and direct assistance	10,156	169,197	141,055	-	38,298
Vendor payments and other	-	130,000	122,125	-	7,875
Total welfare	10,156	299,197	263,180	-	46,173
Culture and recreation:					
Parks and recreation	-	566,586	505,510	-	61,076
Library	-	1,530,089	1,497,529	-	32,560
Patriotic purposes	-	22,704	22,577	-	127
Other	-	37,204	54,195	3,303	(20,294)
Total culture and recreation	-	2,156,583	2,079,811	3,303	73,469
Debt service:					
Principal of long-term debt	-	626,000	626,000	-	-
Interest on long-term debt	-	78,280	78,280	-	-
Interest on tax anticipation notes	-	1	-	-	1
Other	-	10,250	-	-	10,250
Total debt service	-	714,531	704,280	-	10,251
Capital outlay	113,147	2,104,241	1,855,471	31,000	330,917
Other financing uses:					
Transfers out	-	4,036,107	4,036,107	-	-
Total appropriations, expenditures, other financing uses, and encumbrances	\$ 749,815	\$ 45,432,180	\$ 44,899,379	\$ 514,693	\$ 767,923

SCHEDULE 3
TOWN OF SALEM, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unassigned Fund Balance
For the Fiscal Year Ended December 31, 2018

Unassigned fund balance, beginning (Non-GAAP Budgetary Basis)		\$ 8,238,373
Changes:		
Unassigned fund balance used to reduce 2018 tax rate		(780,000)
Amounts voted from fund balance		(640,000)
2018 Budget summary:		
Revenue surplus (Schedule 1)	\$ 3,790,371	
Unexpended balance of appropriations (Schedule 2)	767,923	
2018 Budget surplus		4,558,294
Decrease in nonspendable fund balance		510,823
Decrease in restricted fund balance		20,743
Increase in assigned fund balance (non-encumbrance)		(71,250)
Unassigned fund balance, ending (Non-GAAP Budgetary Basis)		11,836,983
Reconciliation on Non-GAAP Budgetary Basis to GAAP Basis		
To record deferred property taxes not collected within 60 days of the fiscal year-end, not recognized on a budgetary basis		(486,892)
Elimination of the allowance for uncollectible taxes		81,218
Unassigned fund balance, ending, GAAP basis (Exhibit C-1)		\$ 11,431,309

SCHEDULE 4
TOWN OF SALEM, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2018

	Special Revenue Funds			
	Cable TV	CDBG	Conservation Commission	Fire Outside Details
ASSETS				
Cash and cash equivalents	\$ 236,725	\$ 551	\$ 766,140	\$ 20,092
Investments	-	-	-	-
Accounts receivable, net of allowance for uncollectable	108,158	-	-	1,597
Interfund receivable	-	-	150,000	-
Total assets	<u>\$ 344,883</u>	<u>\$ 551</u>	<u>\$ 916,140</u>	<u>\$ 21,689</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,019	\$ -	\$ 43,478	\$ -
Accrued salaries and benefits	6,668	-	-	-
Interfund payable	-	-	-	-
Total liabilities	<u>9,687</u>	<u>-</u>	<u>43,478</u>	<u>-</u>
Fund balances:				
Nonspendable	-	-	-	-
Restricted	-	551	-	-
Committed	335,196	-	872,662	21,689
Total fund balances	<u>335,196</u>	<u>551</u>	<u>872,662</u>	<u>21,689</u>
Total liabilities and fund balances	<u>\$ 344,883</u>	<u>\$ 551</u>	<u>\$ 916,140</u>	<u>\$ 21,689</u>

Special Revenue Funds						
Grants and Donations	Police Forfeiture	Police Outside Details	Recreation	Library	Permanent Fund	Total
\$ 13,728	\$ 104,197	\$ 21,068	\$ 171,809	\$ 68,165	\$ 21,393	\$ 1,423,868
-	-	-	-	-	471,822	471,822
-	-	341,194	-	-	-	450,949
-	-	-	-	-	-	150,000
<u>\$ 13,728</u>	<u>\$ 104,197</u>	<u>\$ 362,262</u>	<u>\$ 171,809</u>	<u>\$ 68,165</u>	<u>\$ 493,215</u>	<u>\$ 2,496,639</u>
\$ 23	\$ -	\$ -	\$ 717	\$ -	\$ -	\$ 47,237
-	-	21,352	-	-	-	28,020
-	-	-	-	-	9,531	9,531
<u>23</u>	<u>-</u>	<u>21,352</u>	<u>717</u>	<u>-</u>	<u>9,531</u>	<u>84,788</u>
-	-	-	-	-	483,684	483,684
13,705	104,197	-	-	68,165	-	186,618
-	-	340,910	171,092	-	-	1,741,549
<u>13,705</u>	<u>104,197</u>	<u>340,910</u>	<u>171,092</u>	<u>68,165</u>	<u>483,684</u>	<u>2,411,851</u>
<u>\$ 13,728</u>	<u>\$ 104,197</u>	<u>\$ 362,262</u>	<u>\$ 171,809</u>	<u>\$ 68,165</u>	<u>\$ 493,215</u>	<u>\$ 2,496,639</u>

SCHEDULE 5
TOWN OF SALEM, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2018

	Special Revenue Funds			
	Cable TV	CDBG	Conservation Commission	Fire Outside Details
Revenues:				
Taxes	\$ -	\$ -	\$ 162,375	\$ -
Intergovernmental	-	491,391	326,942	-
Charges for services	-	-	-	40,806
Miscellaneous	429,879	1	2,771	59
Total revenues	429,879	491,392	492,088	40,865
Expenditures:				
Current:				
General government	817,821	-	-	-
Public safety	-	-	-	37,788
Culture and recreation	-	-	-	-
Conservation	-	-	84,650	-
Capital outlay	-	491,391	-	-
Total expenditures	817,821	491,391	84,650	37,788
Excess (deficiency) of revenues over (under) expenditures	(387,942)	1	407,438	3,077
Other financing sources:				
Transfers out	(7,500)	-	-	-
Net change in fund balances	(395,442)	1	407,438	3,077
Fund balances (deficit), beginning	730,638	550	465,224	18,612
Fund balances, ending	\$ 335,196	\$ 551	\$ 872,662	\$ 21,689

Special Revenue Funds						
Grants and Donations	Police Forfeiture	Police Outside Details	Recreation	Library	Permanent Fund	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 162,375
380,702	-	-	-	-	-	1,199,035
-	-	1,579,924	97,361	-	-	1,718,091
23,841	124,016	344	646	12,928	(9,629)	584,856
404,543	124,016	1,580,268	98,007	12,928	(9,629)	3,664,357
197	-	-	-	-	1,220	819,238
369,905	121,216	1,458,077	-	-	-	1,986,986
17,726	-	-	72,120	16,134	-	105,980
-	-	-	-	-	-	84,650
-	-	-	-	-	-	491,391
387,828	121,216	1,458,077	72,120	16,134	1,220	3,488,245
16,715	2,800	122,191	25,887	(3,206)	(10,849)	176,112
-	-	(38,563)	-	-	(9,531)	(55,594)
16,715	2,800	83,628	25,887	(3,206)	(20,380)	120,518
(3,010)	101,397	257,282	145,205	71,371	504,064	2,291,333
\$ 13,705	\$ 104,197	\$ 340,910	\$ 171,092	\$ 68,165	\$ 483,684	\$ 2,411,851

***SINGLE AUDIT ACT SCHEDULES
AND INDEPENDENT AUDITOR'S REPORTS***



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX-224-1380

INDEPENDENT AUDITOR'S 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

To the Members of the Board of Selectmen and Town Manager
Town of Salem
Salem, New Hampshire

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the Town of Salem, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Town of Salem's basic financial statements, and have issued our report thereon dated August 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Salem'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Salem's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Salem'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 may exist that have not been identified.

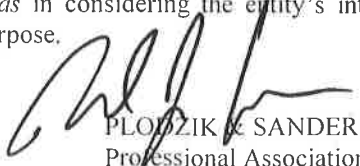
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Salem's financial statements are free of 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

August 8, 2019


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Professional Association



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Members of the Board of Selectmen and Town Manager
Town of Salem
Salem, New Hampshire

Report on Compliance for Each Major Federal Program

We have audited the Town of Salem's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town of Salem's major federal programs for the year ended December 31, 2018. The Town of Salem's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Salem's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Salem's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Salem's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Salem complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control Over Compliance

Management of the Town of Salem is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Salem's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Salem's internal control over compliance.

Town of Salem

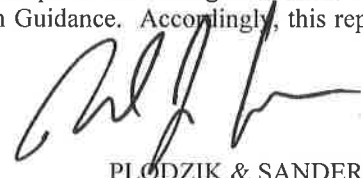
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

August 8, 2019



PLODZIK & SANDERSON
Professional Association

SCHEDULE I
TOWN OF SALEM, NEW HAMPSHIRE
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issues on whether the financial statements audited were prepared in accordance with GAAP:
Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in
accordance with 2 CFR 200.516(a)? yes X no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds
97.044	Assistance to Firefighters Grant

Dollar threshold used to distinguish between type A and
type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SCHEDULE II
TOWN OF SALEM, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed Through the New Hampshire Community Development Finance Authority				
Community Development Block Grant/State's Program	14.228	17-201-CDED	\$ 475,000	\$ 491,391
U.S. DEPARTMENT OF TRANSPORTATION				
Passed Through the State of New Hampshire Department of Transportation				
Highway Planning and Construction:				
NH Route 28/97 Intersection Improvements	20.205	12334	-	18,921
CMAQ - Rail Trail	20.205	16031	-	585
Rail Trail Phase II	20.205	40432	-	326,098
<i>PROGRAM TOTAL</i>			-	345,604
Passed Through the New Hampshire Highway Safety Agency				
HIGHWAY SAFETY CLUSTER				
State and Community Highway Safety:				
Radar Equipment Grant	20.600	315-18A-084	-	8,358
STEP Patrols	20.600	315-18A-085	-	12,808
Distracted Driving Patrols	20.600	318-18A-039	-	8,327
National Priority Safety Programs	20.616	308-18A-070	-	13,332
<i>CLUSTER TOTAL</i>			-	42,825
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Passed Through the New Hampshire Department of Environmental Services				
Capitalization Grants for Drinking Water State Revolving Funds (<i>note 4</i>)	66.468	2051010-01	-	791,147
EXECUTIVE OFFICE OF THE PRESIDENT				
Passed Through the Town of Scarborough, Maine				
High Intensity Drug Trafficking Areas Program	95.001	N/A	-	18,424
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed Through the New Hampshire Department of Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4370-DR-NH	-	241,318
Pre-Disaster Mitigation	97.047	N/A	-	4,800
DIRECT FUNDING				
U.S. DEPARTMENT OF JUSTICE				
Bullet Proof Vest Partnership Program	16.607	N/A	-	4,400
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	-	11,317
U.S. DEPARTMENT OF HOMELAND SECURITY				
Assistance to Firefighters Grant	97.044	N/A	-	354,393
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	N/A	-	347,510
<i>Total Expenditures of Federal Awards</i>			\$ 475,000	\$ 2,653,129

The accompanying notes are an integral part of this schedule.

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Town of Salem under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town of Salem, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Town of Salem.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rate

The Town of Salem has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4. Loans Outstanding

The Town of Salem had the following loan balance outstanding at December 31, 2018. The loans made during the year are included in the federal expenditures presented in the Schedule.

<i>CFDA Number</i>	<i>Program Name</i>	<i>Outstanding Balances at December 31, 2018</i>
66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$ 791,147