

Town of Salem, Connecticut

Financial Statements and
Supplementary Information

Year Ended June 30, 2017

Town of Salem, Connecticut

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Town of Salem, Connecticut

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Independent Auditors' Report

The Board of Finance
Town of Salem, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Salem, Connecticut ("Town") as of and for the year ended June 30, 2017, 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.

Auditors' 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 of 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 auditors' 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 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, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2017, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Required Supplementary Information, as identified in the table of contents, be presented to supplement the basic financial statements. 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 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining fund financial statements and supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements and supplementary schedules 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. The 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 information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2018 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

January 27, 2018

Town of Salem, Connecticut

Management's Discussion and Analysis
June 30, 2017

**Town of Salem, Connecticut
Management's Discussion and Analysis
June 30, 2017**

Our discussion and analysis of Name of Government's (the Government) financial performance provides an overview of the Government's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the Government's financial statements, which begin with Exhibit 1 in the financial section.

FINANCIAL HIGHLIGHTS

- Town of Salem's Net Position, a measure of the Town's long-term health, increased by \$1,163,044 to \$21,855,005.
- The Town was able to increase its unassigned fund balance by \$816,982.
- As a result of strong fiscal controls, expenditures ended the year \$210,122 less than was budgeted
- Revenues were \$539,045 more than was budgeted due to strong tax collections and increased grant revenues.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities known as the government-wide statements (Exhibits 1 and 2) provide information about the activities of the Government as a whole and present an extended view of the Government's finances. Fund financial statements start with Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Government's operations in more detail than the government-wide statements by providing information about the Government's most significant funds. The remaining statements provide financial information about activities for which the Government acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the Government as a Whole

Our analysis of the Government as a whole begins with Exhibit 1 and Exhibit 2. One of the most important questions asked about the Government's finances is, "Is the Government as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Government's *net position* and changes in them. You can think of the Government's net position—the difference between assets and liabilities—as one way to measure the Government's financial health, or *financial position*. Over time, *increases or decreases* in the Government's net position are one indicator of whether its *financial health* is improving or deteriorating. You need to consider other nonfinancial factors, however, such as changes in the Government's property tax base and the condition of the Government's roads, to assess the *overall health* of the Government; such as changes in the Government's property tax base and the condition of the Government's roads and structures.

**Town of Salem, Connecticut
Management's Discussion and Analysis
June 30, 2017**

In the Statement of Net Position and the Statement of Activities, the Government shows the following activity:

- **Governmental activities**—The Government's basic services are reported here, including the education, public works, and general administration. Property taxes, state and federal grants and local revenues such as fees and licenses finance most of these activities.

Reporting the Government's Most Significant Funds

Our analysis of the Government's major funds begins in the section titled "The Government's Funds". The fund financial statements begin with Exhibit 3 and provide detailed information about the most significant funds—not the Government as a whole. Some funds are required to be established by State law and by bond covenants. However, the Board of Finance establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

- **Governmental funds**—The Government's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified* accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Government's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Government's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.

The Government as Trustee

The Government is the trustee, or *fiduciary*, for the activity funds at the school. These funds do not belong to the Government. The Government's fiduciary activities are reported in separate Statements of Fiduciary Net Position in Exhibits 5. We exclude these activities from the Government's other financial statements because the Government cannot use these assets to finance its operations. The Government is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Town of Salem, Connecticut
Management's Discussion and Analysis
June 30, 2017**

THE GOVERNMENT AS A WHOLE

The Government's *combined* net position increased by \$1,163,044 from a year ago—*increasing* from \$20,691,961 to \$21,855,005. Last year net position *increased* by \$1,072,015. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Government.

**Table 1
Change in Net Position (on Exhibit 1)**

	2017	Change During Year		2016
		Dollars	Percent	
Current and other assets	\$ 6,912,327	\$ 478,729	7.44%	\$ 6,433,598
Capital assets	21,409,809	275,779	1.30%	21,134,030
Total assets	<u>28,322,136</u>	<u>754,508</u>	<u>2.74%</u>	<u>27,567,628</u>
Long-term debt outstanding	5,729,259	(161,531)	-2.74%	5,890,790
Other liabilities	737,872	(247,005)	-25.08%	984,877
Total liabilities	<u>6,467,131</u>	<u>(408,536)</u>	<u>-5.94%</u>	<u>6,875,667</u>
Net position				
Net investment in capital assets	17,053,512	680,618	4.16%	16,372,894
Restricted - Expendable	996,127			856,839
Restricted - Nonexpendable	1,997	-	0.00%	1,997
Unrestricted	3,803,369	343,138	9.92%	3,460,231
Total net position	<u>\$ 21,855,005</u>	<u>\$ 1,163,044</u>	<u>5.62%</u>	<u>\$ 20,691,961</u>

Current and other assets increased by \$478,729 primarily as a result of an increase in cash and equivalents as a result of the Town's increased fund balance.

Capital assets increased by \$275,779 and Net investments in capital assets increased by \$680,618 as a result of the Town continuing their capital plan and spending \$349,481 on road rehabilitation projects, \$136,584 toward the purchase of a Tanker Truck for Gardner Lake Volunteer Fire Company and \$96,986 to reclaim and pave the Salem Volunteer Fire Company parking lot, as well as other smaller capital items.

Long term debt decreased by \$161,531 primarily due to the continued paying down of the Salem School Construction general obligation bond.

Other liabilities decreased by \$247,005 in the current year. The primary factors were a reduction in the accounts payable of \$162,628 and the payoff of a 50,000 short term note for Fire Department rescue tools and exhaust systems.

**Town of Salem, Connecticut
Management's Discussion and Analysis
June 30, 2017**

**Table 2
Change in Net Position (Figures taken from Exhibit 2)**

	Changes During Year			2016
	2017	Dollars	Percent	
Revenues				
Program revenues:				
Charges for services	\$ 351,961	\$ 3,405	0.98%	\$ 348,556
Operating grants and contributions	5,200,882	\$ 254,398	5.14%	4,946,484
Capital grants and contributions	155,051	\$ (3,751)	100.00%	158,802
General revenues:				
Property taxes	11,796,546	\$ 133,751	1.15%	11,662,795
Grants and contributions	108,535	\$ 83,984	342.08%	24,551
Interest and investment earnings	24,489	\$ 12,379	102.22%	12,110
Other general revenues	19,900	\$ 13,335	203.12%	6,565
Total revenues	17,657,364	497,501	2.90%	17,159,863
Program expenses				
General government	1,675,951	174,665	11.63%	1,501,286
Public Safety	826,142	(61,829)	-6.96%	8,879,791
Public Works	1,024,855	116,208	12.79%	908,647
Sanitation	163,241	4,130	2.60%	159,111
Education	12,664,391	266,334	2.15%	12,398,057
Interest on long-term debt	139,740	(93,036)	-39.97%	232,776
Total expenses	16,494,320	406,472	2.53%	16,087,848
Excess (deficiency) before transfers	1,163,044	91,029	8.49%	1,072,015
Beginning net position	20,691,961	1,072,015	5.46%	19,619,946
Ending net position	\$21,855,005	\$ 1,163,044	5.62%	\$20,691,961

Operating grants and contributions increased \$254,398. The main factors in the increase was an increase in payments to the teacher's retirement system made by the State on behalf of the Town of \$434,602 and a new \$85,617 municipal revenue sharing grant the State distributed this fiscal year. The increase in teacher's retirement on behalf of payments also factored into the increase of \$266,334 in educational expenditures.

Governmental Activities

Table 3 presents the cost of each of the Government's governmental programs as well as each governmental program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Government's taxpayers by each of these functions.

Governmental Type Activities

	Total Cost of Services		Incr. Decr.	Net Cost of Services		Incr. Decr.
	2017	2016		2017	2016	
Governmental Activities						
General government	\$ 1,675,951	\$ 1,503,463	11.47%	\$ 1,134,267	\$ 846,361	34.02%
Public safety	826,142	887,971	-6.96%	826,142	887,971	-6.96%
Public works	1,024,855	908,647	12.79%	676,270	612,975	10.33%
Sanitation	163,241	159,111	2.60%	111,823	107,290	4.22%
Education	12,664,391	12,398,057	2.15%	7,898,184	7,809,910	1.13%
Interest on long-term debt	139,740	232,776	-39.97%	139,740	232,776	-39.97%
Totals	\$ 16,494,320	\$ 16,090,025	2.51%	\$ 10,786,426	\$ 10,497,283	2.75%

**Town of Salem, Connecticut
Management's Discussion and Analysis
June 30, 2017**

THE GOVERNMENT'S FUNDS

The Town's unassigned fund balance increased \$816,982 and total fund balance increased \$885,452. Contributing factors included increased grant and property tax revenues, a conservative approach to spending, and a reduction of liabilities.

Governmental Fund liabilities decreased \$353,896. Reductions include a decrease in accounts payable of \$162,628 and payoff of a \$50,000 short term note.

General Fund Budgetary Highlights

Over the course of the year, the Board of Finance can revise the Government budget with additional appropriations and budget transfers. Additional appropriates increase the total budget. The Board of Finance is allowed by the Salem Town Charter to make one additional appropriations up to two tenths of one percent of the Town Budget per department. Additional appropriation over two tenths of one percent up to one percent of the Town's Budget requires a Town Meeting. Additional appropriations over one percent of the Town's Budget require a referendum. Transfers do not increase the total budget, but instead pull appropriations from one department that needs additional funding from other departments that might have excess funding. The Town Charter allow s these transfers to be made by the Board of Finance without a Town Meeting. Below is a summarized view of the final budget and actual results for the General Fund:

**Table 4
General Fund - Budget Summary**

	Final Budget	Actual	Variance
Revenues			
Property Taxes	\$ 11,733,197	\$ 11,944,985	\$ 211,788
Intergovernmental	3,480,132	3,658,369	178,237
Use of Town Money	7,000	24,011	17,011
Chagres for Services	225,295	293,425	68,130
Intergovernmental transfers	-	63,879	63,879
Total Revenues	15,445,624	15,984,669	539,045
Expenditures			
General Government	3,705,517	3,559,601	145,916
Education	10,698,225	10,634,019	64,206
Capital	864,890	864,890	-
Total Expenditures	15,268,632	15,058,510	210,122
Increase (Decrease) in Fund Balance	\$ 176,992	\$ 926,159	\$ 749,167

Significant variances are summarized as follows:

- The Tax Collector Department collected \$211,788 more than budgeted.
- The General Government expenditures were under budget by \$145,916 due to strong budget controls.
- The Board of Education expenditures were under budget by \$64,206.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of this year, the Government had \$21,409,809 invested government activity capital assets. This amount represents a net increase (including additions and deductions) of \$275,779 from last year. More detailed information about the Government's capital assets is presented in Note 3D to the financial statements.

Debt

At year end, the Government had \$4,356,297 in bonds and notes outstanding. This is a decrease of \$354,839 from last year. The Government's general obligation bond rating continues to carry an A1 rating. More detailed information about the Government's long-term liabilities is presented in Note 3.F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Government's elected and appointed officials considered many factors when setting the fiscal-year 2017/2018 budget. The State of Connecticut's Office of Policy and Management ("OPM") has adopted new laws that will affect the Government's budgets in subsequent years. The motor vehicle mill rate will be capped at 32 mills beginning in fiscal-year 2018. Beginning in fiscal-year 2018, a cap will be imposed on municipal spending to limit general budget expenditures to 2.5 percent above the previous year or the rate of inflation, whichever is greater. Exemptions from the cap include debt service, special education expenditures, and expenditures related to major disaster or emergency declaration. The Minimum Budget Requirement ("MBR") for education expenditures has been relaxed effective July 1, 2015. The change allows the Government more flexibility in lowering its MRB. Due to the fiscal condition of the State of Connecticut, the Town of Salem is maintaining higher than normal levels of the unassigned fund balance.

CONTACTING THE GOVERNMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Government's finances and to show the Government's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board of Finance or First Selectman at Town of Salem 270 Hartford Road, Salem CT 06420.

Town of Salem, Connecticut

Basic Financial Statements
June 30, 2017

Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash and equivalents	\$ 6,209,229
Investments	48,481
Receivables	
Taxes, net	197,742
Accounts	54,298
Loans (long-term)	317,219
Intergovernmental	85,108
Prepaid expenses	250
Capital assets	
Nondepreciable	6,162,321
Depreciable, net of accumulated depreciation	<u>15,247,488</u>
Total Assets	<u>28,322,136</u>
LIABILITIES	
Accounts payable	613,688
Intergovernmental payable	1,743
Accrued payroll and related	45,948
Accrued interest payable	60,529
Performance bonds	15,237
Unearned revenues	727
Non-current liabilities	
Due within one year	361,782
Due in more than one year	<u>5,367,477</u>
Total Liabilities	<u>6,467,131</u>
NET POSITION	
Net investment in capital assets	17,053,512
Restricted	
Expendable	996,127
Nonexpendable	1,997
Unrestricted	<u>3,803,369</u>
Total Net Position	<u>\$ 21,855,005</u>

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

Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Governmental activities					
General government	\$ 1,675,951	\$ 219,789	\$ 321,895	\$ -	\$ (1,134,267)
Public safety	826,142	-	-	-	(826,142)
Public works	1,024,855	-	193,534	155,051	(676,270)
Sanitation	163,241	51,418	-	-	(111,823)
Education	12,664,391	80,754	4,685,453	-	(7,898,184)
Interest on long-term debt	139,740	-	-	-	(139,740)
Total Governmental Activities	<u>\$ 16,494,320</u>	<u>\$ 351,961</u>	<u>\$ 5,200,882</u>	<u>\$ 155,051</u>	<u>(10,786,426)</u>
General Revenues					
Property taxes, payments in lieu of taxes, interest and liens					11,796,546
Grants and contributions not restricted to specific programs					108,535
Unrestricted interest and investment earnings					24,489
Other general revenues					19,900
Total General Revenues					<u>11,949,470</u>
Change in Net Position					1,163,044
Net Position - Beginning of Year					<u>20,691,961</u>
Net Position - End of Year					<u>\$ 21,855,005</u>

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

Balance Sheet
 Governmental Funds
 June 30, 2017

	General Fund	Capital Non-Recurring Fund	Education Grants Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and equivalents	\$ 5,520,021	\$ -	\$ 311,401	\$ 377,807	\$ 6,209,229
Investments	5,480	2,250	-	40,751	48,481
Taxes receivable, net of allowance for uncollectible amounts	197,742	-	-	-	197,742
Other receivables					
Accounts	18,865	-	35,433	-	54,298
Loans (long-term)	-	-	-	317,219	317,219
Intergovernmental	-	-	-	85,108	85,108
Due from other funds	524,467	1,388,433	179,328	256,462	2,348,690
Prepaid expenditures	-	-	-	250	250
Total Assets	<u>\$ 6,266,575</u>	<u>\$ 1,390,683</u>	<u>\$ 526,162</u>	<u>\$ 1,077,597</u>	<u>\$ 9,261,017</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 611,392	\$ -	\$ -	\$ 2,296	\$ 613,688
Intergovernmental payable	1,743	-	-	-	1,743
Accrued payroll and related	45,948	-	-	-	45,948
Due to other funds	1,672,458	117,454	524,467	34,311	2,348,690
Performance bonds	15,237	-	-	-	15,237
Unearned revenues - performance	727	-	-	-	727
Total Liabilities	<u>2,347,505</u>	<u>117,454</u>	<u>524,467</u>	<u>36,607</u>	<u>3,026,033</u>
Deferred inflow of resources					
Revenues not available	<u>113,351</u>	<u>-</u>	<u>-</u>	<u>80,226</u>	<u>193,577</u>
Fund balances					
Nonspendable	-	-	-	2,247	2,247
Restricted	35,141	-	-	880,760	915,901
Committed	-	807,137	-	-	807,137
Assigned	1,526,678	466,092	1,695	77,757	2,072,222
Unassigned	<u>2,243,900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,243,900</u>
Total Fund Balances	<u>3,805,719</u>	<u>1,273,229</u>	<u>1,695</u>	<u>960,764</u>	<u>6,041,407</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,266,575</u>	<u>\$ 1,390,683</u>	<u>\$ 526,162</u>	<u>\$ 1,077,597</u>	<u>\$ 9,261,017</u>

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

Reconciliation of Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position - Governmental Activities
June 30, 2017

Fund Balances - Total Governmental Funds	<u>\$ 6,041,407</u>
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>21,409,809</u>
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	<u>193,577</u>
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
General obligation bonds	(4,200,000)
Notes and loans	(156,297)
Compensated absences	(38,709)
Post-closure landfill costs	(20,000)
Other post employment benefits	(1,314,253)
Accrued interest payable	<u>(60,529)</u>
	<u>(5,789,788)</u>
Net Position of Governmental Activities	<u>\$ 21,855,005</u>

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

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2017

	General Fund	Capital Non- Recurring Fund	Education Grants Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 11,944,985	\$ -	\$ -	\$ -	\$ 11,944,985
State grants for specified purpose	545,079	-	-	223,636	768,715
State grants for education	4,466,497	-	189,970	34,802	4,691,269
Licenses and permits	170,964	-	-	4,061	175,025
Charges for current services	29,559	-	16,700	64,054	110,313
Miscellaneous revenue	96,281	-	19,901	1,488	117,670
Income from investments	24,011	35	-	443	24,489
Total Revenues	<u>17,277,376</u>	<u>35</u>	<u>226,571</u>	<u>328,484</u>	<u>17,832,466</u>
EXPENDITURES					
Current					
General government	1,464,971	-	-	122,817	1,587,788
Public safety	773,416	-	-	-	773,416
Public works	653,195	-	-	-	653,195
Sanitation	148,496	-	-	-	148,496
Education	11,991,823	-	223,617	82,115	12,297,555
Debt service					
Principal	311,256	43,583	-	-	354,839
Interest	149,734	5,389	-	-	155,123
Capital outlay	-	961,402	-	15,199	976,601
Total Expenditures	<u>15,492,891</u>	<u>1,010,374</u>	<u>223,617</u>	<u>220,131</u>	<u>16,947,013</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,784,485</u>	<u>(1,010,339)</u>	<u>2,954</u>	<u>108,353</u>	<u>885,453</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	63,879	864,890	-	-	928,769
Transfers out	(864,890)	(63,879)	-	-	(928,769)
Total Other Financing Sources (Uses)	<u>(801,011)</u>	<u>801,011</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	983,474	(209,328)	2,954	108,353	885,453
Fund Balances - Beginning of Year	<u>2,822,245</u>	<u>1,482,557</u>	<u>(1,259)</u>	<u>852,411</u>	<u>5,155,954</u>
Fund Balances - End of Year	<u>\$ 3,805,719</u>	<u>\$ 1,273,229</u>	<u>\$ 1,695</u>	<u>\$ 960,764</u>	<u>\$ 6,041,407</u>

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

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2017

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because

Net Change in Fund Balances - Total Governmental Funds	\$ 885,453
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay expenditures	949,166
Depreciation expense	<u>(673,387)</u>
	<u>275,779</u>
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Real property taxes and other revenues in the General Fund	(169,286)
Revenues in the School Cafeteria Fund	<u>(5,816)</u>
	<u>(175,102)</u>
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	
Principal payments on general obligation bonds	300,000
Principal payments on notes payable	54,839
Post-closure landfill costs	<u>2,500</u>
	<u>357,339</u>
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, including the change in:</p>	
Accrued interest	15,383
Compensated absences	(6,230)
Pension and other post employment benefits asset/liability	<u>(189,578)</u>
	<u>(180,425)</u>
Change in Net Position of Governmental Activities	<u>\$ 1,163,044</u>

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

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	<u>Agency Funds</u>
ASSETS	
Cash	\$ <u>21,234</u>
LIABILITIES	
Due to others	\$ <u>21,234</u>

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

1. Summary of Significant Accounting Policies

The Town of Salem, Connecticut (“Town”) is a municipal corporation governed by a town charter. The charter establishes the Town Meeting as the legislative body. A town meeting is required to make appropriations, levy taxes and borrow money. The executive branch is led by an elected five-member board of selectmen. The selectmen oversee most of the activities not assigned specifically to another body. An elected board of education manages the public school system. The elected board of finance is the budget making authority and supervises the town financial matters.

The accounting policies conform to generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Town’s more significant accounting policies:

A. Financial Reporting Entity

The financial reporting entity consists of: a) the primary government; b) organizations for which the primary government is financially accountable and c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete as set forth by GASB.

In evaluating how to define the financial reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in this reporting entity was made by applying the criteria set forth by GASB, including legal standing, fiscal dependency and financial accountability. The criterion has been considered and there are no agencies or entities which should be presented with this government.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all non-fiduciary activities of the primary government as a whole. For the most part, the effect of interfund activity has been removed from these statements, except for interfund services provided and used. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities (if any), which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the financial position of the Town at the end of its fiscal year. The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods or services, or privileges provided by a given function or segment, (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and (3) interest earned on grants that is required to be used to support a particular program. Taxes and other items not identified as program revenues are reported as general revenues. The Town does not allocate indirect expenses to functions in the Statement of Activities.

1. Summary of Significant Accounting Policies (Continued)

C. Fund Financial Statements

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The Town maintains the minimum number of funds consistent with legal and managerial requirements. The focus of governmental fund financial statements is on major funds as that term is defined in professional pronouncements. Each major fund is to be presented in a separate column, with non-major funds, if any, aggregated and presented in a single column. The Town maintains fiduciary funds, which are reported by type. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the pages following, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activities column of the government-wide presentation.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Town's resources are reflected in the fund financial statements in two broad fund categories, in accordance with generally accepted accounting principles as follows:

Fund Categories

- a. Governmental Funds - Governmental funds are those through which most general government functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The following are the Town's major governmental funds:

General Fund - The General Fund constitutes the primary operating fund of the Town and is used to account for and report all financial resources not accounted for and reported in another fund.

Capital Non-Recurring Fund - The Capital Nonrecurring Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of major capital facilities and other capital assets.

Education Grants Fund – The Education Grants Fund accounts for and reports financial resources for educational purposes funded by various federal and state grants as well as preschool revenues and expenses. These funds are required by State Statute to be accounted for separately from the General Funds.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

1. Summary of Significant Accounting Policies (Continued)

The Town also reports the following non-major governmental funds:

Special Revenue Funds – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purpose other than debt service or capital projects. The non-major Special Revenue Funds of the Town are:

- Town Grants Fund – This fund accounts for miscellaneous general government grants.
- Senior Citizen Fund – This fund accounts for the fundraising activities that are raised by and committed to use for the benefit of the senior citizens.
- Dog Fund – This fund is established based on State Statute for license fees committed for animal control.
- School Cafeteria Fund – This fund accounts for the costs of the school milk and lunch programs and the related federal and state grants and charges for services.
- Community Foundation Grant Fund – This fund accounts for a one-time grant from the Community Foundation of Eastern Connecticut for use by the Salem Library.
- Needy Fund – This fund was established by restricted donations and is used to assist Salem families in need of food and other essentials.
- Small Cities Grant Fund – This fund accounts for and reports financial resources for the Community Development Block Grant.

The following are the Town's non-major capital projects funds:

- School Construction Fund – This fund was established to account for an approved \$6,200,000 appropriation to refurbish the Salem School.
- Land Acquisition Fund – This fund accounts for monies restricted, committed and assigned for the purchase of land.
- Open Space Land Acquisition Fund – This fund accounts for monies restricted, committed and assigned for the purchase of land that qualified as open space.

The Town's permanent fund is the Memorial and Cemetery Fund – This fund accounts for donations where the principal balance must remain intact and the interest may be used for scholarships and the maintenance of cemeteries.

- b. Fiduciary Funds (Not Included in Government-Wide Financial Statements) - The Fiduciary Funds are used to account for assets held by the Town in an agency capacity on behalf of others. The Agency Funds are primarily utilized to account for monies held as custodian for outside groups.

1. Summary of Significant Accounting Policies (Continued)

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources (current assets less current liabilities) or economic resources (all assets and liabilities). The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The Agency Fund has no measurement focus, but utilizes the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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.

Property taxes are considered to be available if collected within sixty days of the fiscal year end. Reimbursement grants are considered to be available if they are collected within one year of the end of the current fiscal period. Property taxes associated with the current fiscal period, as well as charges for services and intergovernmental revenues are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Fees and other similar revenues are not susceptible to accrual because generally they are not measurable until received in cash. If expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are accrued when the expenditure is made.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures, when applicable, related to early retirement incentives, compensated absences, capital leases, post closure landfill costs, pollution remediation obligations, other post-employment benefit obligations, certain pension obligations and certain claims payable are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Fund Balances

Deposits, Investments and Risk Disclosure

Cash and Equivalents - Cash and equivalents consist of funds deposited in demand deposit accounts, time deposit accounts, certificates of deposit, money market funds, State of Connecticut Treasurer's Short-Term Investment Fund, Tax Exempt Proceeds Funds and treasury bills with original maturities of less than three months.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

1. Summary of Significant Accounting Policies (Continued)

The Town's custodial credit risk policy is to only allow the Town to use banks that are in the State of Connecticut. The State of Connecticut requires that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk-based capital ratio.

Investments - The investment policies of the Town conform to the policies as set forth by the State of Connecticut. The Town's policy is to only allow prequalified financial institution broker/dealers and advisors. The Town policy allows investments in the following: (1) obligations of the United States and its agencies; (2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof; and (3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the Connecticut Short-Term Investment Fund and the Tax Exempt Proceeds Fund.

The Town follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quote prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Investments are stated at fair value.

The Short-Term Investment Fund ("STIF"), is a money market investment pool managed by the Cash Management Division of the State Treasurer's Office created by Section 3-27 of the Connecticut General Statutes ("CGS"). Pursuant to CGS 3-27a through 3-27f, the State, municipal entities, and political subdivisions of the State are eligible to invest in the fund. The fund is considered a "2a7-like" pool and, as such, reports its investments at amortized cost (which approximates fair value). A 2a7-like pool is not necessarily registered with the Security and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940 that allows money market mutual funds to use the amortized cost to report net assets. The pool is rated AAAM by Standard & Poor. This is the highest rating for money market funds and investment pools. The pooled investment funds' risk category cannot be determined since the Town does not own identifiable securities but invests as a shareholder of the investment pool.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

1. Summary of Significant Accounting Policies (Continued)

Interest Rate Risk - Interest rate risk is the risk that the government will incur losses in fair value caused by changing interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. Generally, the Town does not invest in any long-term investment obligations.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town's policy for custodial credit risk is to invest in obligations allowable under the Connecticut General Statutes as described previously.

Credit Risk – Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity's complete failure. The Town does not have a formal credit risk policy other than restrictions to obligations allowable under the Connecticut General Statutes.

Concentration of Credit Risk – Concentration of credit risk is the risk attributed to the magnitude of a government's investments in a single issuer. The Town follows the limitations specified in the Connecticut General Statutes. Generally, the Town's deposits cannot be 75% or more of the total capital of any one depository.

Taxes Receivable - Property taxes are assessed on property values as of October 1st. The tax levy is divided into two billings; the following July 1st and January 1st. This is used to finance the fiscal year from the first billing (July 1st) to June 30th of the following year. The billings are considered due on those dates; however, the actual due date is based on a period ending 31 days after the tax bill. On these dates (August 1st and February 1st), the bill becomes delinquent at which time the applicable property is subject to lien, and penalties and interest are assessed.

Under State Statute, the Town has the right to impose a lien on a taxpayer if any personal property tax, other than a motor vehicle tax, due to the Town is not paid within the time limited by any local charter or ordinance. The lien shall be effective for a period of fifteen years from the date of filing unless discharged. A notice of tax lien shall not be effective if filed more than two years from the date of assessment for the taxes claimed to be due.

An allowance for uncollectible taxes of \$93,356 has been recorded net with taxes receivable as of June 30, 2017.

Other Receivables - Other receivables include amounts due from other governments and individuals for services provided by the Town. Receivables are recorded and revenues recognized as earned or as specific program expenditures/expenses are incurred. Allowances are recorded when appropriate.

Loans Receivable - Loans receivable in the Small Cities Fund represent amounts due from homeowners in the Town. Loans receivable are recorded and revenues recognized as earned. The loans are funded through a federal grant. The loans are due in full when the homeowner dies, refinances or sells the property. There is no interest on the loans. The loans are secured by a lien on the property.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

1. Summary of Significant Accounting Policies (Continued)

Prepaid Expenses/Expenditures - Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items using the consumption method in both the government-wide and fund financial statements. Reported amounts are equally offset by nonspendable fund balance, in the fund financial statements, which indicates that these amounts do not constitute "available spendable resources" even though they are a component of current assets.

Due From/To Other Funds - During the course of its operations, the Town has numerous transactions between funds to finance operations, provide services and construct assets. To the extent that certain transactions between funds had not been paid or received as of June 30, 2017, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than the capitalization threshold for that asset type and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Intangible assets lack physical substance, is nonfinancial in nature and its useful life extends beyond a single reporting period. These are reported at historical cost if identifiable. Intangible assets with no legal, contractual, regulatory, technological or other factors limiting their useful life are considered to have an indefinite useful life and are not amortized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land is considered inexhaustible and, therefore, not depreciated. Property, plant, and equipment of the Town is depreciated or amortized using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>	<u>Capitalization Threshold</u>
Land	N/A	\$ 25,000
Land improvements	10-40	20,000
Buildings and improvements	15-100	20,000
Machinery and equipment	10-50	5,000
Vehicles	10-25	5,000
Infrastructure	20-50	100,000
Intangible assets	Varies, if any	25,000

1. Summary of Significant Accounting Policies (Continued)

Unearned Revenues - Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. In the government-wide financial statements, unearned revenues consist of revenue received in advance and/or amounts from grants received before the eligibility requirements have been met.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Also, deferred inflows of resources in the fund financial statements are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Such amounts in the fund financial statements have been deemed to be measurable but not "available" pursuant to generally accepted accounting principles.

Long-Term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, and debt payments, are reported as expenditures.

Compensated Absences – Certain Town employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. Vacation and sick leave expenses to be paid in future periods are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if the liability has matured through employee resignation or retirement.

Net Position - Net position represents the difference between assets, liabilities and deferred outflows/inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position on the Statement of Net Position includes, net investment in capital assets and restricted. The balance is classified as unrestricted.

In order to calculate the amount to be reported as restricted and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

1. Summary of Significant Accounting Policies (Continued)

Fund Balance - Generally, fund balance represents the difference between current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Under this standard, the fund balance classifications are as follows:

- Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form (inventories, prepaid amounts, long-term receivables) or they are legally or contractually required to be maintained intact (the corpus of a permanent fund). However, if the use of the proceeds from amounts not in spendable form is restricted, committed, or assigned, then they are included in the appropriate fund balance classification (restricted, committed, or assigned), rather than nonspendable fund balance.
- Restricted fund balance is to be reported when constraints placed on the use of the resources are imposed by grantors, contributors, laws or regulations of other governments or imposed by law through enabling legislation. Enabling legislation includes a legally enforceable requirement that these resources be used only for the specific purposes as provided in the legislation. This fund balance classification will be used to report funds that are restricted for debt service obligations and for other items contained in the Connecticut statutes.
- Committed fund balance will be reported for amounts that can only be used for specific purposes pursuant to formal action of the Town's highest level of decision making authority. A motion at a Town Meeting is the highest level of decision making authority for the Town that can, by the adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, these funds may only be used for the purpose specified unless the Town removes or changes the purpose by taking the same action that was used to establish the commitment.
- Assigned fund balance, in the General Fund, represents amounts constrained either by policies of the Board of Finance for amounts assigned for balancing the subsequent year's budget or management for amounts assigned for encumbrances. Unlike commitments, assignments generally only exist temporarily, in that additional action does not normally have to be taken for the removal of an assignment. An assignment cannot result in a deficit in the unassigned fund balance in the General Fund. Assigned fund balance in all funds except the General Fund includes all remaining amounts, except for negative balances, that are not classified as nonspendable and are neither restricted nor committed.
- Unassigned fund balance, in the General Fund, represents amounts not classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would report a positive amount in unassigned fund balance. For all governmental funds other than the General Fund, unassigned fund balance would necessarily be negative, since the fund's liabilities and deferred inflows, together with amounts already classified as nonspendable, restricted and committed would exceed the fund's assets and deferred outflows.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

1. Summary of Significant Accounting Policies (Continued)

In order to calculate the amounts to report as restricted and unrestricted fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the Town's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the Town's policy to use fund balance in the following order: committed, assigned, and unassigned.

F. Encumbrances

In governmental funds, encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve applicable appropriations, is generally employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are generally reported as assigned fund balance since they do not constitute expenditures or liabilities.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows and outflows, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

H. Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is January 27, 2018.

2. Stewardship, Compliance and Accountability

A. Budget Basis

A formal, legally approved, annual budget is adopted for the General Fund only. This budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exceptions:

- **Teacher's Retirement** - The Town does not recognize as income or expenditures payments made for the teacher's retirement by the State of Connecticut on the Town's behalf in its budget. The Governmental Accounting Standards Board's Statement 24 requires that the employer governments recognize payments for salaries and fringe benefits paid on behalf of its employees.
- **Encumbrances** - Unless committed through a formal encumbrance (e.g., purchase orders, signed contracts), all annual appropriations lapse at fiscal year-end. Encumbrances outstanding at year end are reported on the budgetary basis statements as expenditures.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)

June 30, 2017

- **Excess Cost Grant** - The State reimburses the Town for certain costs incurred for special educational needs of students that exceed a set multiple of a student in the regular program. This reimbursement is the Excess Cost Grant – Student Based. Connecticut General Statute 10-76g states that this grant should reduce the education expenditures instead of being reported as revenue.
- **Netting Revenues with Expenditures** – A number of other grants and revenues are netted with the expenditures on the budget basis. These are not netted on the statements prepared under Generally Accepted Accounting Principles so that the flow of current financial resources can be shown.
- **Reconciling Costs with East Lyme High School (ELHS)** – The Town pays and budgets for tuition to ELHS based on estimated costs per student. This is compared to the actual cost each year. A reconciling payment or benefit is included in the second subsequent year. This is posted against the budget in the second subsequent year.

B. Budget Calendar

The Boards of Selectmen and Education submit requests for appropriation(s) to the Board of Finance. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations of the next fiscal year.

The Board of Finance holds a public hearing, at which itemized estimates of the expenditures of the Town for the next fiscal year are presented. At this time, individuals are able to recommend any appropriations, which they desire the Board of Finance to consider. The Board of Finance then considers the estimates and any other matters brought to their attention at a public meeting held subsequent to the public hearing and prior to the annual meeting. The Board of Finance prepares the proposed budget.

The Board of Finance's estimated and recommended budget reports are submitted at the Annual Town Meeting. The Annual Town Meeting takes action on this budget. After the Annual Town Meeting the Board of Finance meets to levy a tax on the grand list which will be sufficient to cover, together with other income or revenue surplus which is appropriated, the amounts appropriated and any revenue deficit of the Town.

C. Budget Control

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level except expenditures for education, which are, by State Statutes, appropriated as one department.

The Board of Finance, in accordance with the provisions set forth by the Town Charter, is authorized to transfer unexpended balances from one appropriation to another. The Board of Finance is subject to the following limitations when making supplemental appropriations to the budget:

- All additional appropriations less than 0.2% of the annual budget require Board of Finance approval.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

2. Stewardship, Compliance and Accountability (Continued)

- All additional appropriations in excess of 0.2% of the annual budget shall be submitted to a Town Meeting, which must be held no later than thirty days following the endorsement by the Board of Finance.
- All additional appropriations which exceed 1% of the annual budget shall be submitted to referendum at a time set by the Board of Selectmen.

D. Changes to the Original Budget

During the year \$4,500 of additional appropriations were made. The appropriation for revaluation was over expended by \$1,259.

E. Application of Accounting Standards

For the year ended June 30, 2017, the Town implemented:

- GASB Statement 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68* – This Statement establishes requirements for defined benefit and contribution pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions.
- GASB Statement 77 – *Tax Abatement Disclosures* – This Statement requires governments to disclose information about their tax abatements and agreements.
- GASB Statement 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* – This Statement amends the scope and applicability of Statement 68 to exclude certain pensions provided through certain cost-sharing multiple-employer defined benefit plan.
- Certain provisions of GASB Statement 79 – *Certain External Investment Pools and Pool Participants* – This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost.
- GASB Statement 80 – *Blending Requirements for Certain Component Units* – This Statement amends the blending requirements of Statement 14 to require the blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.
- Certain provisions of GASB Statement 82 – *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* – This Statement addresses certain issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance for financial reporting purposes, and the classification of payments made by employers to satisfy plan member contribution requirements.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

3. Detailed Notes on All Funds

A. Cash, Cash Equivalents and Investments

Cash and investments of the Town consist of the following at June 30, 2017:

Statement of Net Position	
Cash and equivalents	\$ 6,209,229
Investments	<u>48,481</u>
	6,257,710
Fiduciary Funds	
Cash and equivalents	<u>21,234</u>
Total Cash and Investments	<u>\$ 6,278,944</u>

Cash and Cash Equivalents - As of June 30, 2017 the carrying amount of the Town's deposits with financial institutions was:

Cash and Cash Equivalents	
Deposits with financial institutions	\$ 2,138,613
Plus external investment pools	4,417,281
Less Certificates of deposits (in investments)	<u>(48,481)</u>
	<u>\$ 6,230,463</u>

The bank balance of the deposits was \$3,768,869 and was exposed to custodial credit risk as follows:

Covered by Federal Depository Insurance	\$ 764,319
Collateralized by securities held in trust	
In the Town's name	131,149
Uninsured and uncollateralized	<u>1,243,145</u>
	<u>\$ 2,138,613</u>

Investments – Investments are summarized as follows at June 30, 2017:

	General Fund	Capital Non-Recurring Fund	Other Governmental Funds	Total Investments
Certificates of deposit	<u>\$ 5,480</u>	<u>\$ 2,250</u>	<u>\$ 40,751</u>	<u>\$ 48,481</u>

Below is a summary of the interest rate risk and credit risk as of June 30, 2017:

Type of Investment	Average Credit Rating	Carrying Value *	Investment Maturities (in Years) <u>1-5 Years</u>
Certificates of deposit	NA	<u>\$ 48,481</u>	<u>\$ 48,481</u>

* These are reported using a cost-based measure because they are nonnegotiable certificates of deposit.

NA Not applicable

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

3. Detailed Notes on All Funds (Continued)

B. Receivables, Deferred Inflows and Unearned Revenue

Receivables - Of the intergovernmental receivables, \$80,226 in school construction grant reimbursements from the State is a long-term receivable and not expected to be collected within one year.

Revenue Not Available - Governmental funds report deferred inflows of resources in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period as follows:

	General Fund	Other Governmental Funds	Total
Property taxes	\$ 113,351	\$ -	\$ 113,351
Intergovernmental revenue	-	80,226	80,226
	<u>\$ 113,351</u>	<u>\$ 80,226</u>	<u>\$ 193,577</u>

Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. This is recorded as the liability *unearned revenue* at June 30, 2017.

C. Interfund Transactions

The outstanding balances between 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. At June 30, 2017 these were summarized as follows:

Receivable fund	Payable Fund	Amount
General Fund	Other Governmental Funds	\$ 524,467
Capital Non-Recurring Fund	General Fund	1,355,444
Capital Non-Recurring Fund	Other Governmental Funds	32,989
Education Grants Fund	General Fund	179,328
Other Governmental Funds	General Fund	137,686
Other Governmental Funds	Capital Non-Recurring Fund	117,454
Other Governmental Funds	Other Governmental Funds	1,322
		<u>\$ 2,348,690</u>

Fund transfers are generally used to fund special projects with general fund revenues. Transfers during the year ended June 30, 2017 were as follows:

	Transfers into		
	General Fund	Capital Non-Recurring Fund	Total
Transfers out of			
General Fund	\$ -	\$ 864,890	\$ 864,890
Capital Non-recurring Fund	63,879	-	63,879
	<u>\$ 63,879</u>	<u>\$ 864,890</u>	<u>\$ 928,769</u>

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

3. Detailed Notes on All Funds (Continued)

D. Capital Assets

Changes in the Town's capital assets used in the governmental activities are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,786,816	\$ -	\$ -	\$ 1,786,816
Construction in progress	4,882,754	368,431	(875,680)	4,375,505
	<u>6,669,570</u>	<u>368,431</u>	<u>(875,680)</u>	<u>6,162,321</u>
Capital assets being depreciated				
Land improvements	1,335,356	443,440	-	1,778,796
Buildings and systems	12,014,760	609,383	-	12,624,143
Machinery and equipment	2,166,659	54,112	-	2,220,771
Infrastructure	2,312,122	349,480	-	2,661,602
Vehicles	2,908,219	-	-	2,908,219
	<u>20,737,116</u>	<u>1,456,415</u>	<u>-</u>	<u>22,193,531</u>
Less accumulated depreciation for:				
Land improvements	(412,459)	(68,118)	-	(480,577)
Buildings and systems	(2,619,416)	(229,923)	-	(2,849,339)
Machinery and equipment	(912,361)	(113,795)	-	(1,026,156)
Infrastructure	(480,816)	(150,112)	-	(630,928)
Vehicles	(1,847,604)	(111,439)	-	(1,959,043)
Less: Accumulated Depreciation	<u>(6,272,656)</u>	<u>(673,387)</u>	<u>-</u>	<u>(6,946,043)</u>
	<u>\$ 21,134,030</u>	<u>\$ 1,151,459</u>	<u>\$ (875,680)</u>	<u>\$ 21,409,809</u>

Depreciation and amortization expense was charged to functions/programs of the governmental activities as follows:

General government	\$ 120,407
Public safety	116,456
Public works	243,429
Sanitation	17,244
Education	175,851
	<u>\$ 673,387</u>

E. Short-Term Obligations – Note Payable

The Town used a \$50,000 one year note to partially finance the purchase of Fire Department rescue tools and an exhaust system. Short-term obligation activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Note payable	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ -</u>

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

3. Detailed Notes on All Funds (Continued)

F. Long-Term Liabilities

The following table summarizes changes in the Town's long-term indebtedness for the year ending June 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 4,500,000	\$ -	\$ (300,000)	\$ 4,200,000	300,000
Notes and loans	211,136	-	(54,839)	156,297	55,411
Compensated absences	32,479	6,230	-	38,709	3,871
Post closure landfill costs	22,500	-	(2,500)	20,000	2,500
OPEB obligations	1,124,675	203,333	(13,755)	1,314,253	-
	<u>\$ 5,890,790</u>	<u>\$ 209,563</u>	<u>\$ (371,094)</u>	<u>\$ 5,729,259</u>	<u>\$ 361,782</u>

Each governmental funds liability is liquidated by the respective fund, primarily the General Fund, and Capital Non-Recurring Fund. Interest on these obligations is expensed to the respective fund, primarily the General Fund, and Capital Non-Recurring Fund.

General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations of the Town and pledge the full faith and credit of the Town. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds outstanding as of June 30, 2017 consisted of the following:

Purpose	Year of Issue	Original Amount	Final Maturity	Interest Rates	Amount Outstanding
Salem School Construction	2014	4,500,000	2029	2.25-4%	<u>4,200,000</u>

Interest incurred and expensed on general obligation bonds for the year ended June 30, 2017 totaled \$141,062 and \$131,060 respectively.

Payments to maturity on the general obligation bonds are as follows:

Year End	General Obligation Bonds		Year End	General Obligation Bonds	
	Principal	Interest		Principal	Interest
2018	\$ 300,000	\$ 132,063	2025	325,000	55,250
2019	325,000	121,063	2026	325,000	45,500
2020	325,000	108,063	2027	325,000	35,750
2021	325,000	95,063	2028	325,000	26,000
2022	325,000	82,063	2029	325,000	15,844
2023	325,000	71,906	2030	325,000	5,281
2024	325,000	64,188			
				<u>\$ 4,200,000</u>	<u>\$ 858,034</u>

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

3. Detailed Notes on All Funds (Continued)

Loans and Notes Payable

The Town has four small business energy advantage loans for the installation of energy efficiency products in the initial amount of \$42,100. The loans are payable in annual installments through 2019 totaling \$17,880. The loans do not carry interest.

The Town has an installment note for the purchase of Fire Department rescue tools and an exhaust system in the initial amount of \$182,000. The note is payable in annual installments of \$48,964. The installments include interest at a rate of 2.99 percent per year.

Annual debt service requirements to maturity for the loans and note payable are as follows:

Year End	Notes and Loans	
	Principal	Interest
2018	\$ 55,411	\$ 4,196
2019	53,362	2,839
2020	47,524	1,441
	<u>\$ 156,297</u>	<u>\$ 8,476</u>

Compensated Absences

Vacation time earned during the fiscal year can be carried over to the succeeding year, subject to limitations as provided in the respective collective bargaining agreements. Employees are entitled to accumulate sick leave up to a maximum amount stipulated in each contract. Payment for accumulated sick leave is dependent upon the length of service and accumulated days. The value of all compensated absences has been reflected in the government-wide financial statements.

Post Closure Landfill Costs

The Town has a closed landfill with no further capacity or estimated useful life. State and federal laws and regulations require that the Town perform certain maintenance and monitoring functions on its closed landfill site for thirty years after closure. These costs will be paid through the General Fund each year as part of the annual budget. Total estimated costs based on the current actual costs are included in the long-term debt. The actual costs may vary based on actual events, inflation, changes in technology and applicable laws and regulations. During the year the actual costs amounted to \$3,990.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
 June 30, 2017

3. Detailed Notes on All Funds (Continued)

Legal Debt Limit

Connecticut General Statutes Section 7-374 sets limits on the debt, as defined by the statutes, which can be incurred by the Town and other governmental agencies within the Town. The limitations for the Town of Salem, Connecticut are as follows:

Total tax collections (including interest and lien fees) for the year - primary government					\$ 11,944,985
Reimbursement for revenue loss on tax relief for the elderly (C.G.S. 12-129d)					<u>17,173</u>
Debt limitation base					<u>\$ 11,962,158</u>

	General Purpose	Schools	Sewers	Urban Renewal	Pension Deficit
Debt limitation					
2 1/4 times base	\$ 26,914,856	\$ -	\$ -	\$ -	\$ -
4 1/2 times base	-	53,829,711	-	-	-
3 3/4 times base	-	-	44,858,093	-	-
3 1/4 times base	-	-	-	38,877,014	-
3 times base	-	-	-	-	35,886,474
Total debt limitation	<u>26,914,856</u>	<u>53,829,711</u>	<u>44,858,093</u>	<u>38,877,014</u>	<u>35,886,474</u>
Indebtedness					
Bonds payable	-	4,200,000	-	-	-
Total indebtedness	<u>\$ -</u>	<u>\$ 4,200,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Debt limitation in excess of debt outstanding and authorized	<u>\$ 26,914,856</u>	<u>\$ 49,629,711</u>	<u>\$ 44,858,093</u>	<u>\$ 38,877,014</u>	<u>\$ 35,886,474</u>

In no case shall total indebtedness exceed seven times the annual receipts from taxation	<u>\$ 83,735,106</u>
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F. Net Position

The components of net position are detailed below:

Net Investment in Capital Assets - the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position - Nonexpendable - the component of net position that reflects funds set aside in accordance with laws, regulations, grants, and other agreements that must be kept intact and cannot be spent. This is made up of \$1,997 in trust fund principal.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
 June 30, 2017

3. Detailed Notes on All Funds (Continued)

Restricted Net Position – Expendable - the component of net position that reflects funds that can only be spent subject to the laws, regulations, grants, and other agreements relating to these funds.

This is made up of:

General Government purposes	\$ 67,987
Long-term receivables	317,219
Capital Projects	570,103
Other Purposes	40,818
	<u>\$ 996,127</u>

Unrestricted - all other net position that do not meet the definition of "restricted" or "net investment in capital assets".

G. Fund Balances

As discussed in Note 1, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. These are summarized below:

	General Fund	Capital Non-Recurring Fund	Other Governmental Funds	Total
Nonspendable				
Not in spendable form				
Prepaid expenditures	\$ -	\$ -	\$ 250	\$ 250
Trust principal	-	-	1,997	1,997
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,247</u>	<u>\$ 2,247</u>
Restricted				
General Government purposes	\$ -	\$ -	\$ 67,987	\$ 67,987
Long-term receivables			317,219	317,219
Capital Projects	-	-	489,877	489,877
Other Purposes	35,141	-	5,677	40,818
	<u>\$ 35,141</u>	<u>\$ -</u>	<u>\$ 880,760</u>	<u>\$ 915,901</u>
Committed				
Capital Projects	<u>\$ -</u>	<u>\$ 807,137</u>	<u>\$ -</u>	<u>\$ 807,137</u>
Assigned				
General Government purposes	\$ 17,250	\$ -	\$ 56,399	\$ 73,649
Education	-	-	23,053	23,053
Capital Projects	1,010,080	466,092	-	1,476,172
To balance next year's budget	499,348	-	-	499,348
	<u>\$ 1,526,678</u>	<u>\$ 466,092</u>	<u>\$ 79,452</u>	<u>\$ 2,072,222</u>

4. Pension and Other Post Retirement Plans

A. Teacher's Retirement System

Plan Description

Teachers, principals, superintendents, or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers' Retirement System (TRS) - a cost sharing multiple-employer defined benefit pension plan administered by the Teachers' Retirement Board (TRB). Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the TRB. TRS issues a publicly available financial report that can be obtained at www.ct.gov.

Plan Membership – All teachers, principals, superintendents or supervisors engaged in service of public schools are eligible for participation.

Plan Benefits – The plan provides retirement, disability and death benefits. Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.

Normal Retirement: Retirement benefits for the employees are calculated as 2% of the average annual salary times the years of credited service (maximum benefit is 75% of average annual salary during the 3 years of highest salary).

Early Retirement: Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service. Benefit amounts are reduced by 6% per year for the first 5 years preceding normal retirement age and 4% per year for the next 5 years preceding the normal retirement age. Effective July 1, 1999, the reduction for individuals with 30 or more years of service is 3% per year by which retirement precedes normal retirement date.

Disability Retirement: Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for non-service related disability eligibility. Disability benefits are calculated as 2% of average annual salary times credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary. In addition, disability benefits under this plan (without regard to cost-of-living adjustments) plus any initial award of social security benefits and workers' compensation cannot exceed 75% of average annual salary.

Contributions

State of Connecticut

Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut are amended and certified by the State Teachers' Retirement Board and appropriated by the General Assembly. The contributions are actuarially determined as an amount that, when combined with employee contributions and investment earnings, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

4. Pension and Other Post Retirement Plans (Continued)

Employer (School Districts)

School district employers are not required to make contributions to the plan.

Employees

Effective July 1, 1992, each teacher is required to contribute 6% of their salary for the pension benefit.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – The Town reports no amounts for its proportionate share of the net pension liability, and related deferred outflows and inflows due to the statutory requirement that the State pay 100% of the required contribution. The amounts recognized by the Town as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the Town were as follows:

Town's Proportionate share of the net pension liability	\$	-
State's proportionate share of the net pension liability associated with the Town		10,507,911
Total	<u>\$</u>	<u>10,507,911</u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town has no proportionate share of the net pension liability.

For the fiscal year ended, the Town recognized pension expense and revenue of \$1,145,925 for on-behalf amounts for the benefits provided by the State.

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.25-6.50%, including inflation
Investment rate of return	8.00%, net of investment related expense, including inflation

Mortality rates were based on the RPH-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvements scale.

Future cost-of-living increases - For teachers who retired prior to September 1, 1992, pension benefit adjustments are made in accordance with increases in the Consumer Price Index, with a minimum of 3% and a maximum of 5% per annum. For teachers who were members of the Teachers' Retirement System before July 1, 2007, and retire on or after September 1, 1992, pension benefit adjustments are made that are consistent with those provided for social security benefits on January 1 of the year granted, with a maximum of 6% per annum. If the return on assets in the previous year was less than 8.5%, the maximum increase is 1.5%. For teachers who were members of the Teachers' Retirement System after July 1, 2007, pension benefit adjustments are made that are consistent with those provided for social security benefits on January 1 of the year granted, with a maximum of 5% per annum. If the return on assets in the previous year was less than 11.5%, the maximum increase is 3%, and if the return on the assets in the previous year was less than 8.5%, the maximum increase is 1.0%.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

4. Pension and Other Post Retirement Plans (Continued)

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S. Equities	21.00%	5.80%
Developed Non-U.S. Equities	18.00%	6.60%
Emerging Markets (Non-U.S.)	9.00%	8.30%
Real Estate	7.00%	5.10%
Private Equity	11.00%	7.60%
Alternative Investments	8.00%	4.10%
Core fixed income	7.00%	1.30%
High yield bonds	5.00%	3.90%
Emerging market bond	5.00%	3.70%
Inflation linked bond fund	3.00%	1.00%
Cash	6.00%	0.40%

Discount Rate – The discount rate used to measure the total pension liability was 8.00%. 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. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The Town's proportionate share of the net pension liability is \$0 and, therefore, the change in the discount rate would only impact the amount recorded by the State of Connecticut.

Plan Fiduciary Net Position – Detailed information about the Connecticut State Teachers' Retirement Plan fiduciary net position is available in the separately issued State of Connecticut Comprehensive Annual Financial Report as of and for the year ended June 30, 2016.

4. Pension and Other Post Retirement Plans (Continued)

B. Other Post-Employment Benefits (“OPEB”)

From an accrual accounting perspective, the cost of post-employment health care benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. The Town recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Town’s future cash flows. The liability accumulated from the years prior to adopting this accounting procedure will be phased in over 30 years.

Plan Description - The Town provides certain health care benefits for retired certified teachers and their spouses through a single-employer defined benefit plan administered by the Town of Salem, Connecticut in accordance with Connecticut General Statutes and various collective bargaining agreements. The plan does not issue a separate financial statement.

Funding Policy - Retired teachers and their spouses must be allowed to continue their health insurance benefits, in the same health insurance plan offered to active teachers, through their last employing Town. The Town does not contribute to the retirees’ health insurance

Eligibility	Age 60 with 20 years of service or 35 years of service at any age (Normal Retirement); or age 55 with 20 years of service or 25 years of service at any age (Early Retirement). Upon reaching age 65 retired teachers and certified administrators who elect to participate in Medicare are removed from coverage.
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Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

4. Pension and Other Post Retirement Plans (Continued)

Annual OPEB Cost ("AOC") and Net OPEB Obligation ("NOO")

Amortization Component	
Actuarial Accrued Liability as of June 30, 2017	\$ 1,811,113
Assets at Market Value	-
Unfunded Actuarial Accrued Liability ("UAAL")	<u>\$ 1,811,113</u>
Funded Ratio	0.00%
Covered Payroll (Active plan members)	<u>\$ 3,056,608</u>
UAAL as a Percentage of Covered Payroll	<u>59.25%</u>
Annual Required Contribution	\$ 199,263
Interest on Net OPEB Obligation	50,610
Adjustment to Annual Required Contribution	<u>(46,541)</u>
Annual OPEB Cost	203,332
Contributions made	<u>(13,754)</u>
Increase in Net OPEB Obligation	189,578
Net OPEB Obligation - Beginning of the year	<u>1,124,675</u>
Net OPEB Obligation - End of the year	<u>\$ 1,314,253</u>

Actuarial Methods and Significant Assumptions - The Town's annual other postemployment benefit cost (expense) is calculated based on the annual required contribution ("ARC"), an amount actuarially determined in accordance with the parameters of GASB. GASB establishes standards for the measurement, recognition and display of the expenses and liabilities for retirees' medical insurance.

The "normal cost" is derived for each active participant as the actuarial present value of the projected benefits that are attributed to expected service in the current plan year. The normal cost for the plan is the total of the individual normal costs for each participant. The accrued liability is equal to the portion of the present value of future benefits that is allocated to years of service before the valuation date.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Calculations are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the assumptions and projections utilized do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial calculations of the OPEB plan reflect a long-term perspective.

The Town is required to accrue on the government-wide financial statements the amounts necessary to finance the plan as actuarially determined, which is equal to the balance not paid by plan members. Funding for the Plan has been established on a pay-as-you-go basis.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

4. Pension and Other Post Retirement Plans (Continued)

The government has elected to use the alternative approach to calculate OPEB related benefits. This allows financial statement preparers to use certain simplifying assumptions to project benefits without the use of an actuary. The significant assumptions to apply this method were developed by the Board of Education with the use of an outside vendor.

Other actuarial methods and significant assumptions are summarized as follows:

Latest Actuarial Date	June 30, 2016
Actuarial Cost Method	Entry Age
Discount Rate	4.50%
Payroll Growth Rate	3.00%
Medical Inflation	Initial rate of 8% grading down to an ultimate inflation rate of 4.7% in 2025 and later.
Amortization Method	Level percentage of payroll
Remaining amortization	30 years, closed
Mortality	RP2000 Mortality Table for Males and Females projected 10 years
Turnover	Standard Turnover assumptions- GASB 45 paragraph 35b
Retirement	Average Retirement Age of 65
Future Retiree Coverage	100% are assumed to elect coverage at retirement

Three year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	\$ 203,332	\$ 13,754	6.8%	\$ 1,314,253
June 30, 2016	196,868	14,367	7.3%	1,124,675
June 30, 2015	185,343	25,338	13.7%	942,174

Funding Progress

As of the last valuation date, June 30, 2017, the actuarial valuation of the plan assets was \$0. The actuarial accrued liability was \$1,811,113. The schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. There is no requirement for funding and the plan has not been funded.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

5. Other Information

A. Litigation

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

B. Contingencies

Grants - The Town participates in various Federal and State grant programs. These programs are subject to program compliance audits pursuant to the Federal and State Single Audit Acts. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town anticipates such amounts, if any, to be immaterial.

School Building Grants - Section 10-283(a)(3)(A) of the Connecticut General Statutes states that if the Town abandons, sells, leases, demolishes or otherwise redirects the use of a school building project authorized on or after July 1, 1996, paid partially with State funding, to other than a public school, will owe a portion of the State funding back to the State.

For projects with a cost of over two million dollars, the contingency will be amortized over twenty years. For smaller projects, the contingency will be amortized over ten years.

C. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

The Town currently is a member of the Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool established under the provisions of Connecticut General Statutes section 7-479a et. seq. for some of its insurance. The Town is liable only for contributions to the pool. Members do not retain the risk of loss, as they have transferred the risk by purchasing coverage with no deductible retention. A separate agreement states limits on the member's obligation to pay indemnification obligations and expenses should CIRMA be unable to do so.

D. Commitments

East Lyme High School- In 1997, the Towns of Salem and East Lyme entered into a cooperative agreement to build and maintain an expansion of the East Lyme High School for the mutual benefit of both towns. This agreement has the following financial provisions:

Tuition - Tuition will be charged at a base rate per Salem's regular education students attending East Lyme High School and a premium rate, equal to 1.85 times the base rate, for special educational students. Regardless of the number of students attending East Lyme High School, Salem is required to pay the base rate for a minimum enrollment equal to 80% of the total Salem high school students enrolled in grades nine through twelve at any high school. During the year ended June 30, 2017 the Town paid \$2,090,403 in regular education tuition and \$769,502 in special education tuition to the Town of East Lyme.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

5. Other Information (Continued)

The tuition fees paid during the year are based on an estimated amount. The final costs are calculated after the end of the year and are billed, or refunded, in the second subsequent year based on the final audited amounts. In this fiscal year, the Town paid \$132,841 to the Town of East Lyme which was the underpayment for the year ending June 30, 2015.

For the year ended June 30, 2017 there is an estimated, unaudited underpayment of \$61,665 which will be added to the 2018-2019 tuition payments. For the year ended June 30, 2016 there was an audited underpayment of \$55,120 which will be added to the 2017-18 tuition payments. These amounts are included in accounts payable on the balance sheet.

Services Surcharge - To compensate for services, such as police, fire safety, water and sewer, paid by the Town of East Lyme on behalf of the school, the Town of Salem, Connecticut will reimburse the Town of East Lyme a per student fee. In this fiscal year, the per student fee was \$71.50 and the Town had approximately 195 students. The final costs are calculated after the end of the year and are billed, or refunded, in the subsequent year. This is included in the reconciliation of costs for tuition.

Annual Flat Facilities Charge - The Town will pay the Town of East Lyme a flat facilities expansion and improvement charge for 20 years. This charge is equal to 20% of the non-reimbursed construction related costs. It is payable in two equal semi-annual installments. The amount paid to the Town of East Lyme for the year ended June 30, 2017 was \$86,705.

E. Jointly Governed Organizations

Gardner Lake Authority - The Towns of Salem, Montville and Bozrah established the Gardner Lake Authority to govern the body of water known as Gardner Lake. The Authority, in cooperation with the State Boating Commission, enforces boating laws and makes recommendations concerning water management. The towns split the operating costs of the authority. The Town of Salem's appropriation to the Authority for the year ended June 30, 2017 was \$8,500.

F. Motor Vehicle Tax Cap

Beginning in fiscal year 2017, the State of Connecticut Office of Policy and Management ("OPM") capped the mill rate for motor vehicle taxes. The motor vehicle mill rate cap for fiscal year 2018 will be 39 mills. Towns with mill rates above these thresholds are currently scheduled to be reimbursed for lost revenue.

G. Minimum Budget Requirement

The State of Connecticut has established a Minimum Budget Requirement ("MBR") for education expenditures. The MBR prohibits a town from budgeting less for education than it did in the previous year unless, and with limits, the town can demonstrate (1) a decrease in school enrollment or (2) savings through increased efficiencies. If the Town receives an increase or decrease in their Education Cost Sharing grant, the MBR will increase or decrease by the same amount.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

5. Other Information (Continued)

H. Municipal Spending Cap

Beginning in fiscal year 2018, OPM will impose a cap on municipal spending to limit general budget expenditures to 2.5 percent above the previous year, or the rate of inflation, whichever is greater. Exemptions to the cap include debt service, special education expenditures, expenditures for implementing court orders, arbitration awards, expenditures related to major disaster or emergency declaration, and grants distributed to a special taxing district under certain circumstances. Municipalities that increase their adopted budget expenditures over the previous fiscal year by an amount that exceeds the cap receive a reduced municipal revenue sharing grant. The reduction is equal to 50 cents for every dollar the municipality spend over the cap. However, OPM may not reduce a municipality's grant in any year which its adopted budget expenditures exceed the cap by an amount proportionate to its population increase over the previous fiscal year (based on the most recent Department of Public Health population estimate). The total municipal revenue sharing grant for the Town of Salem, Connecticut for the year ending June 30, 2018, before any reductions, is \$85,617. This amount is subject to change based on changes in the State of Connecticut's budget.

I. GASB Pronouncements Issued, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) is the standard setting board for governmental entities. The following are statements which have been approved by GASB, but are not yet effective:

- GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits (OPEB) Other than Pensions* – This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) and applies to all governments whose employees are provided with OPEB. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. Management is currently assessing the impact of this standard on the Town.
- GASB Statement 81 – *Irrevocable Split-Interest Agreements* – This Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement and is effective for periods beginning after December 15, 2016. Management does not expect this to have any financial impact on the Town.
- GASB Statement 83 – *Certain Asset Retirement Obligations* – This Statement addresses accounting and financial reporting for certain asset retirement obligations and is effective for periods beginning after June 15, 2018. Management does not expect this to have any financial impact on the Town.
- GASB Statement 84 – *Fiduciary Activities* – This Statement provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported and is effective for periods beginning after December 15, 2018. Management is currently assessing the impact of this standard on the Town.

Town of Salem, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

5. Other Information (Continued)

- GASB Statement 85 – *Omnibus 2017* – This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements and effective for periods beginning after June 15, 2017. Management is currently assessing the impact of this standard on the Town.

Town of Salem, Connecticut

Required Supplementary Information
June 30, 2017

Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Budgetary Basis) - General Fund
 Year Ended June 30, 2017

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Additional Appropriations and Transfers	Final		
REVENUES					
Property Tax Revenues					
Property taxes	11,409,797	\$ -	\$11,409,797	\$11,496,984	\$ 87,187
Prior year tax collections	170,000	-	170,000	170,343	343
Supplemental motor vehicle tax collections	85,000	-	85,000	142,144	57,144
Interest on property taxes	65,000	-	65,000	131,007	66,007
Interest on supplemental motor vehicles	2,200	-	2,200	3,795	1,595
Liens on property taxes	1,200	-	1,200	712	(488)
	<u>11,733,197</u>	<u>-</u>	<u>11,733,197</u>	<u>11,944,985</u>	<u>211,788</u>
Intergovernmental Revenues					
State/Federal Grants for Education					
Education equalization	3,148,490	-	3,148,490	3,108,774	(39,716)
Adult education	3,200	-	3,200	4,516	1,316
	<u>3,151,690</u>	<u>-</u>	<u>3,151,690</u>	<u>3,113,290</u>	<u>(38,400)</u>
Other State/Federal Grants					
Town Aid Road (TAR) and Transfer in	184,000	-	184,000	193,534	9,534
Reimbursable trails grant	-	-	-	155,051	155,051
State property in lieu of taxes	53,000	-	53,000	47,337	(5,663)
Local capital improvement	32,676	-	32,676	-	(32,676)
Mashantucket Pequot grant	18,266	-	18,266	18,219	(47)
Tax relief for the elderly	18,000	-	18,000	17,173	(827)
Telephone access line	12,000	-	12,000	10,583	(1,417)
Civil preparedness	-	-	-	6,000	6,000
Library state aid and connecticard grants	2,000	-	2,000	868	(1,132)
Veterans' tax relief	3,000	-	3,000	3,474	474
Tax relief for the disabled	300	-	300	199	(101)
Municipal revenue sharing	-	-	-	85,617	85,617
Office of policy and management grant	4,200	-	4,200	4,699	499
Miscellaneous	1,000	-	1,000	2,325	1,325
	<u>328,442</u>	<u>-</u>	<u>328,442</u>	<u>545,079</u>	<u>216,637</u>
Total Intergovernmental Revenues	<u>3,480,132</u>	<u>-</u>	<u>3,480,132</u>	<u>3,658,369</u>	<u>178,237</u>
Revenue from the Use of Town Money					
General Fund	6,940	-	6,940	23,925	16,985
Other Funds	60	-	60	86	26
	<u>7,000</u>	<u>-</u>	<u>7,000</u>	<u>24,011</u>	<u>17,011</u>
Charges for Services					
Licenses and Permits					
Garbage bag revenue	38,000	-	38,000	38,657	657
Conveyance tax	39,000	-	39,000	39,211	211
Building permits	35,000	-	35,000	51,945	16,945
Tipping and hauling fees	9,000	-	9,000	4,411	(4,589)
Landfill fees - bulky waste	8,000	-	8,000	8,350	350
Heating	5,000	-	5,000	7,264	2,264
Electrical	12,000	-	12,000	6,924	(5,076)
Plumbing	2,500	-	2,500	3,692	1,192
Zoning compliance	1,500	-	1,500	2,145	645
Miscellaneous permits and fees	1,400	-	1,400	4,900	3,500
Pistol permits/sport licenses	1,500	-	1,500	3,220	1,720
Town engineering fees	175	-	175	-	(175)
Warrant fees	65	-	65	-	(65)
	<u>153,140</u>	<u>-</u>	<u>153,140</u>	<u>170,964</u>	<u>17,824</u>

(Continued)

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
Year Ended June 30, 2017

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Additional Appropriations and Transfers	Final		
Charges for Current Services					
Recording fees	\$ 15,000	\$ -	\$ 15,000	\$ 17,710	\$ 2,710
Sale of copies	5,000	-	5,000	4,118	(882)
Planning and zoning commission fees	1,500	-	1,500	2,318	818
CFC evacuation fees	1,500	-	1,500	480	(1,020)
Sale of maps	700	-	700	512	(188)
Inland/wetland commission fees	500	-	500	475	(25)
Zoning board of appeals fees	500	-	500	-	(500)
Sale of zoning regulations	100	-	100	-	(100)
Electronic Registration Fees	-	-	-	3,946	3,946
	<u>24,800</u>	<u>-</u>	<u>24,800</u>	<u>29,559</u>	<u>4,759</u>
Miscellaneous					
Recreation fee based activity	20,000	-	20,000	16,178	(3,822)
Library fees/fines	16,204	-	16,204	13,577	(2,627)
Miscellaneous	5,000	-	5,000	21,974	16,974
Use of recreation fields	3,000	-	3,000	4,800	1,800
Leases	1	-	1	25,597	25,596
Pavilion Rental	3,150	-	3,150	3,080	(70)
	<u>47,355</u>	<u>-</u>	<u>47,355</u>	<u>92,902</u>	<u>45,547</u>
Total charges for services	<u>225,295</u>	<u>-</u>	<u>225,295</u>	<u>293,425</u>	<u>68,130</u>
Transfer in from Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,879</u>	<u>63,879</u>
Total revenues	<u>15,445,624</u>	<u>-</u>	<u>15,445,624</u>	<u>15,984,669</u>	<u>539,045</u>
EXPENDITURES					
General Government					
Selectman's department	7,952	-	7,952	7,860	92
Salaries	1,125,176	18,432	1,143,608	1,125,671	17,937
Building official, sanitarian	3,232	-	3,232	2,187	1,045
Town clerk	16,025	-	16,025	16,025	-
Treasurer, auditor, board of finance	38,485	-	38,485	31,529	6,956
Assessor	17,010	-	17,010	16,796	214
Tax collector	14,415	-	14,415	13,247	1,168
Registrar	14,380	-	14,380	11,149	3,231
Town counsel	20,300	12,000	32,300	30,557	1,743
Town office operations	98,200	-	98,200	95,667	2,533
Municipal building maintenance	48,830	-	48,830	48,637	193
Employee benefits	349,854	(28,432)	321,422	286,206	35,216
Utilities	162,740	-	162,740	150,618	12,122
Town services	82,998	-	82,998	82,995	3
Regional services	12,003	-	12,003	11,999	4
Library	32,555	1,800	34,355	34,264	91
Security	242,359	6,000	248,359	247,623	736
Gardner lake fire department	74,940	-	74,940	74,925	15
Salem fire department	85,525	2,700	88,225	87,398	827
Ambulance	41,705	-	41,705	40,813	892
Public safety	73,200	-	73,200	71,137	2,063
Public works	261,500	-	261,500	259,791	1,709
Transfer station	165,864	-	165,864	145,180	20,684
Economic development	2,150	-	2,150	730	1,420
Inland wetlands, conservation commission	2,400	-	2,400	2,201	199

(Continued)

Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Budgetary Basis) - General Fund
 Year Ended June 30, 2017

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Additional Appropriations and Transfers	Final		
EXPENDITURES (Continued)					
General Government (Continued)					
Planning and zoning commission	\$ 21,750	\$ -	\$ 21,750	\$ 21,352	\$ 398
Zoning board of appeals	800	-	800	559	241
Recreation commission	52,900	-	52,900	38,344	14,556
Municipal insurance	103,000	(8,000)	95,000	73,844	21,156
Unanticipated expenses	1,000	-	1,000	1,000	-
Interest payments	149,734	-	149,734	149,734	-
Principal payable	378,035	-	378,035	378,034	1
Revaluation	-	-	-	1,529	(1,529)
	<u>3,701,017</u>	<u>4,500</u>	<u>3,705,517</u>	<u>3,559,601</u>	<u>145,916</u>
Education	10,698,225	-	10,698,225	10,634,019	64,206
Capital expenditures	<u>864,890</u>	<u>-</u>	<u>864,890</u>	<u>864,890</u>	<u>-</u>
Total expenditures	<u>15,264,132</u>	<u>4,500</u>	<u>15,268,632</u>	<u>15,058,510</u>	<u>210,122</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 181,492</u>	<u>\$ (4,500)</u>	<u>\$ 176,992</u>	<u>926,159</u>	<u>\$ 749,167</u>
Adjustments to Generally Accepted Accounting Principles (GAAP):					
Reconciling payments with East Lyme High School				73,941	
On behalf revenues from teacher's retirement netted in budget				1,145,925	
On behalf expenditures from teacher's retirement netted in budget				(1,145,925)	
Revenues from Excess Cost Grant				207,282	
Expenditures from Excess Cost Grant				(207,282)	
Net revenues from Town Clerk reserved money				3,379	
Change in encumbrances				<u>(20,005)</u>	
Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses) - GAAP basis				<u>\$ 983,474</u>	

Notes to Required Supplementary Information: A formal, legally approved, annual budget is adopted for the General Fund only. This budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exceptions: 1. The Town does not recognize as income or expenditures payments made for the teacher's retirement by the State of Connecticut on the Town's behalf; 2. The Town nets revenues from the Excess Cost Grant in the Board of Education expenditure accounts; 3. The Town recognizes encumbrances payable as an expenditure in the year they were committed; 4. A number of other grants and revenues are netted with expenditures on the budgetary basis; 5. The Town pays and budgets for tuition to East Lyme High School on an estimated cost per student. A reconciling payment or benefit is included and budgeted for in the second subsequent year.

Required Supplementary Information - Schedule of Funding Progress
 Other Post Employment Benefits
 Last Three Valuations

Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	Excess (Unfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	AAL/UAAL as a Percentage of Covered Payroll
6/30/2016	\$ -	\$ 1,811,113	\$ (1,811,113)	0.00%	\$ 2,726,185	66.43%
6/30/2015	-	1,838,459	(1,838,459)	0.00%	2,663,155	69.03%
6/30/2014	-	2,309,165	(2,309,165)	0.00%	3,081,173	74.94%

Required Supplementary Information - Schedule of Employer Contributions
 Other Post Employment Benefits
 Last Six Fiscal Years

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
6/30/2017	\$ 199,263	\$ 13,755	6.90%
6/30/2016	193,459	14,367	7.43%
6/30/2015	182,513	25,338	13.88%
6/30/2014	160,010	32,780	20.49%
6/30/2013	138,694	32,388	23.35%
6/30/2012	219,962	40,950	18.62%

Required Supplementary Information
 Connecticut Teachers Retirement System
 June 30, 2017

**Schedule of Changes in Net Pension Liability and Related Ratios
 Last 10 Fiscal Years or Since Inception of GASB 68**

	<u>2017</u>	<u>2016</u>	<u>2016</u>
Town's percentage of collective net pension liability	<u>0.000000%</u>	<u>0.000000%</u>	<u>0.000000%</u>
Town's proportionate share of the collective net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the collective net pension liability associated with the employer	<u>\$ 10,507,911</u>	<u>\$ 8,877,646</u>	<u>\$ 8,205,604</u>
Total proportionate share of the collective net pension liability	<u>\$ 10,507,911</u>	<u>\$ 8,877,646</u>	<u>\$ 8,205,604</u>
Town's covered payroll	(1) N/A	N/A	N/A
Town's proportionate share of the collective net pension liability as a % of covered payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Plan fiduciary net position as a % of total pension liability	<u>52.26%</u>	<u>59.50%</u>	<u>61.51%</u>

**Schedule of Employer Contributions
 Last 10 Fiscal Years or Since Inception of GASB 68**

Contractually required Town contribution	(2) \$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>
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(1) Not applicable since 0% proportional share of the net pension liability

(2) The Town is not required to contribute to the plan. The State contributes on behalf of the Town.

Required Supplementary Information
 Connecticut Teachers Retirement System (*continued*)
 June 30, 2017

Notes to Required Supplementary Information

Changes of benefit term	None
Changes of assumptions	<p>2016:</p> <ol style="list-style-type: none"> 1. Reduce the inflation assumption from 3.00% to 2.75%. 2. Reduce the real rate of return assumption from 5.50% to 5.25% which, when combined with the inflation assumption change results in a decrease in the investment rate of return assumption from 8.50% to 8.00%. 3. Reduce the annual rate of wage increase assumption from 0.75% to 0.50%. 4. Slightly modify the merit portion of the salary scale. 5. Reduce the payroll growth assumption from 3.75% to 3.25%. 6. Update mortality tables to projected versions of the RPH-2014 mortality tables. 7. Increase normal retirement rates for females at most ages and proratable retirement rates for males at most ages. Decrease early retirement rates for both males and females. 8. Increase rates of withdrawal. 9. Decrease rates of disability for males.
Actuarial cost method	Entry Age
Amortization method	Level percent of salary, closed
Remaining amortization period	21.4 years
Asset valuation method	4 year smoothed market
Inflation	2.75%
Salary increases	3.25%-6.00%, average, including inflation
Investment rate of return	8.00% net of pension plan investment expense, including inflation

See Independent Auditors' Report

Town of Salem, Connecticut

Combining and Individual Fund Financial Statements
June 30, 2017

Combining Balance Sheet
Other Governmental Funds
June 30, 2017

	Special Revenue Funds	Capital Projects Funds	Permanent Fund: Memorial & Cemetery	Total Other Governmental Funds
ASSETS				
Cash and equivalents	\$ 89,130	\$ 280,258	\$ 8,419	\$ 377,807
Investments	33,357	-	7,394	40,751
Other receivables				
Loans	317,219	-	-	317,219
Intergovernmental	4,880	80,228	-	85,108
Due from other funds	45,437	211,025	-	256,462
Prepaid expenditures	250	-	-	250
Total Assets	<u>\$ 490,273</u>	<u>\$ 571,511</u>	<u>\$ 15,813</u>	<u>\$ 1,077,597</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 2,296	\$ -	\$ -	\$ 2,296
Due to other funds	34,311	-	-	34,311
Total Liabilities	<u>36,607</u>	<u>-</u>	<u>-</u>	<u>36,607</u>
Deferred Inflows of Resources				
Deferred revenues - not available	<u>-</u>	<u>80,226</u>	<u>-</u>	<u>80,226</u>
Fund Balances				
Nonspendable	250	-	1,997	2,247
Restricted	390,883	489,877	-	880,760
Assigned	62,533	1,408	13,816	77,757
Total Fund Balances	<u>453,666</u>	<u>491,285</u>	<u>15,813</u>	<u>960,764</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 490,273</u>	<u>\$ 571,511</u>	<u>\$ 15,813</u>	<u>\$ 1,077,597</u>

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Other Governmental Funds
 Year Ended June 30, 2017

	Special Revenue Funds	Capital Projects Funds	Permanent Fund: Memorial & Cemetery	Total Other Governmental Funds
REVENUES				
State grants for specified purpose	\$ 223,636	\$ -	\$ -	\$ 223,636
State grants for education	34,802	-	-	34,802
Licenses and permits	4,061	-	-	4,061
Charges for current services	64,054	-	-	64,054
Miscellaneous revenue	1,488	-	-	1,488
Income from investments	<u>227</u>	<u>3</u>	<u>213</u>	<u>443</u>
Total revenues	<u>328,268</u>	<u>3</u>	<u>213</u>	<u>328,484</u>
EXPENDITURES				
Current				
General government	122,817	-	-	122,817
Education	82,115	-	-	82,115
Capital Outlay	<u>-</u>	<u>15,199</u>	<u>-</u>	<u>15,199</u>
Total expenditures	<u>204,932</u>	<u>15,199</u>	<u>-</u>	<u>220,131</u>
Net Change in Fund Balance	123,336	(15,196)	213	108,353
Fund Balances - Beginning of Year	<u>330,330</u>	<u>506,481</u>	<u>15,600</u>	<u>852,411</u>
Fund Balances - End of Year	<u>\$ 453,666</u>	<u>\$ 491,285</u>	<u>\$ 15,813</u>	<u>\$ 960,764</u>

Combining Balance Sheet
 Special Revenue Funds
 June 30, 2017

	Town Grants Fund	Senior Citizens Fund	Dog Fund	School Cafeteria Fund	Community Foundation Grant Fund	Needy Fund	Small Cities Grant Fund	Total Special Revenue Funds
ASSETS								
Cash and equivalents	\$ 63,887	\$ -	\$ 6,093	\$ 15,724	\$ -	\$ 3,421	\$ 5	\$ 89,130
Investments	-	31,101	-	-	-	2,256	-	33,357
Other receivables								
Loans	-	-	-	-	-	-	317,219	317,219
Intergovernmental	-	-	-	4,880	-	-	-	4,880
Due from other funds	44,517	-	-	754	166	-	-	45,437
Prepaid expenditures	-	-	-	-	-	250	-	250
Total Assets	\$ 108,404	\$ 31,101	\$ 6,093	\$ 21,358	\$ 166	\$ 5,927	\$ 317,224	\$ 490,273
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	\$ -	\$ -	\$ 2,291	\$ -	\$ -	\$ -	\$ 5	\$ 2,296
Due to other funds	34,311	-	-	-	-	-	-	34,311
Total Liabilities	34,311	-	2,291	-	-	-	5	36,607
Fund Balances								
Nonspendable	-	-	-	-	-	250	-	250
Restricted	36,720	31,101	-	-	166	5,677	317,219	390,883
Assigned	37,373	-	3,802	21,358	-	-	-	62,533
Total Fund Balances	74,093	31,101	3,802	21,358	166	5,927	317,219	453,666
Total Liabilities and Fund Balances	\$ 108,404	\$ 31,101	\$ 6,093	\$ 21,358	\$ 166	\$ 5,927	\$ 317,224	\$ 490,273

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Special Revenue Funds
 Year Ended June 30, 2017

	Town Grants Fund	Senior Citizens Fund	Dog Fund	School Cafeteria Fund	Community Foundation Grant Fund	Needy Fund	Small Cities Grant Fund	Total Special Revenue Funds
REVENUES								
State grants for specified purpose	\$ 27,300	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 196,336	\$ 223,636
State grants for education	-	-	-	34,802	-	-	-	34,802
Licenses and permits	-	-	4,061	-	-	-	-	4,061
Charges for current services	-	-	-	64,054	-	-	-	64,054
Miscellaneous revenue	-	-	-	-	-	1,488	-	1,488
Income from investments	-	200	-	-	-	27	-	227
Total Revenues	<u>27,300</u>	<u>200</u>	<u>4,061</u>	<u>98,856</u>	<u>-</u>	<u>1,515</u>	<u>196,336</u>	<u>328,268</u>
EXPENDITURES								
Current								
General government	47,545	-	6,776	-	-	3,493	65,003	122,817
Education	-	-	-	82,115	-	-	-	82,115
Total Expenditures	<u>47,545</u>	<u>-</u>	<u>6,776</u>	<u>82,115</u>	<u>-</u>	<u>3,493</u>	<u>65,003</u>	<u>204,932</u>
Net Change in Fund Balances	(20,245)	200	(2,715)	16,741	-	(1,978)	131,333	123,336
Fund Balances - Beginning of Year	<u>94,338</u>	<u>30,901</u>	<u>6,517</u>	<u>4,617</u>	<u>166</u>	<u>7,905</u>	<u>185,886</u>	<u>330,330</u>
Fund Balances - End of Year	<u>\$ 74,093</u>	<u>\$ 31,101</u>	<u>\$ 3,802</u>	<u>\$ 21,358</u>	<u>\$ 166</u>	<u>\$ 5,927</u>	<u>\$ 317,219</u>	<u>\$ 453,666</u>

Combining Balance Sheet
 Capital Projects Funds
 June 30, 2017

	School Construction Fund	Land Acquisition Fund	Open Space Land Acquisition Fund	Total Capital Projects Funds
ASSETS				
Cash and equivalents	\$ 278,850	\$ 830	\$ 578	\$ 280,258
Other receivables				
Intergovernmental	80,228	-	-	80,228
Due from other funds	211,025	-	-	211,025
Total Assets	<u>\$ 570,103</u>	<u>\$ 830</u>	<u>\$ 578</u>	<u>\$ 571,511</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Due to other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred inflow of resources				
Deferred revenues - not available	<u>80,226</u>	<u>-</u>	<u>-</u>	<u>80,226</u>
Fund balances				
Restricted	489,877	-	-	489,877
Assigned	<u>-</u>	<u>830</u>	<u>578</u>	<u>1,408</u>
Total Fund Balances	<u>489,877</u>	<u>830</u>	<u>578</u>	<u>491,285</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 570,103</u>	<u>\$ 830</u>	<u>\$ 578</u>	<u>\$ 571,511</u>

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Capital Projects Funds
 Year Ended June 30, 2017

	School Construction Fund	Land Acquisition Fund	Open Space Land Acquisition Fund	Total Capital Projects Funds
REVENUES				
Income from investments	\$ -	\$ 1	\$ 2	\$ 3
Total Revenues	<u>-</u>	<u>1</u>	<u>2</u>	<u>3</u>
EXPENDITURES				
Capital outlay	<u>15,199</u>	<u>-</u>	<u>-</u>	<u>15,199</u>
Net Change in Fund Balances	(15,199)	1	2	(15,196)
Fund Balances - Beginning of Year	<u>505,076</u>	<u>829</u>	<u>576</u>	<u>506,481</u>
Fund Balances - End of Year	<u>\$ 489,877</u>	<u>\$ 830</u>	<u>\$ 578</u>	<u>\$ 491,285</u>

Combining Statement of Changes in Assets and Liabilities
 Agency Funds
 Year Ended June 30, 2017

	<u>Balance Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Ending</u>
Student Activity Fund				
ASSETS				
Cash	<u>\$ 18,744</u>	<u>\$ 64,178</u>	<u>\$ (61,688)</u>	<u>\$ 21,234</u>
LIABILITIES				
Due to others	<u>\$ 18,744</u>	<u>\$ 64,178</u>	<u>\$ (61,688)</u>	<u>\$ 21,234</u>

Town of Salem, Connecticut

Supplementary Schedules
June 30, 2017

Statement of Changes in Fund Balance by Project - Capital Non-Recurring Fund
Year Ended June 30, 2017

	Beginning Balance	Transfers In	Internal Transfers	Additions (Revenues)	Reductions (Expenditures)	Transfers Out	Ending Balance
Committed:							
Salem Fire Co							
Gear & hose	\$ 2,704	\$ 10,000	\$ -	\$ -	\$ (10,457)	\$ -	\$ 2,247
SCBA	43,826	-	-	-	-	(43,826)	-
Training building fund	25,349	25,000	-	-	(27,767)	-	22,582
Engine tanker	-	35,000	-	-	-	-	35,000
	<u>71,879</u>	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>(38,224)</u>	<u>(43,826)</u>	<u>59,829</u>
Gardner Firehouse Projects							
Gear & hose	5,251	14,000	-	-	(17,713)	-	1,538
Parking lot	38,057	-	-	-	-	-	38,057
Tanker truck	-	225,000	-	-	(136,584)	-	88,416
Telephone system	-	6,400	-	-	(4,000)	-	2,400
Slip resistant flooring	-	26,000	-	-	(25,889)	(111)	-
	<u>43,308</u>	<u>271,400</u>	<u>-</u>	<u>-</u>	<u>(184,186)</u>	<u>(111)</u>	<u>130,411</u>
Public Safety							
Hydraulic rescue tools/exhaust	68,565	-	-	-	(48,972)	-	19,593
General Government							
Town center roof	1,278	-	-	-	(1,160)	(118)	-
Parking lot rehabilitation	9,035	-	-	-	(7,230)	-	1,805
Heating/cooling system	3,522	-	-	-	-	(3,522)	-
Library interior upgrade - carpet	-	15,805	-	-	(14,926)	-	879
5000 watt light tower towable	-	5,000	-	-	(4,634)	(366)	-
	<u>13,835</u>	<u>20,805</u>	<u>-</u>	<u>-</u>	<u>(27,950)</u>	<u>(4,006)</u>	<u>2,684</u>
Public Works							
Intern. snow/plow truck	8,619	-	-	-	(1,516)	-	7,103
Road rehab 15/16	292,513	-	-	-	(292,513)	-	-
Fuel system replacement	81,000	-	-	-	(2,000)	-	79,000
Heavy duty dump truck trailer 7x14	1,230	-	-	-	-	(1,230)	-
Pave and construction drive at Old Library	6,740	-	-	-	-	-	6,740
Pave and reclaim Salem Fire Department	96,986	-	-	-	(96,986)	-	-
Pave and reclaim Public Works area	375	-	-	-	(359)	(16)	-
Used forklift	4,000	-	-	-	-	(4,000)	-
Used sweeper	4,781	-	-	-	(1,595)	(3,186)	-
Eleven foot snow plow	-	10,359	-	-	(10,290)	(69)	-
Zero turn mower	-	15,604	-	-	(13,827)	(1,777)	-
Tractor	-	30,022	-	-	(29,994)	(28)	-
Road rehab 16/17	-	392,700	-	-	(56,968)	-	335,732
	<u>496,244</u>	<u>448,685</u>	<u>-</u>	<u>-</u>	<u>(506,048)</u>	<u>(10,306)</u>	<u>428,575</u>

(Continued)

Statement of Changes in Fund Balance by Project - Capital Non-Recurring Fund
 Year Ended June 30, 2017

	Beginning Balance	Transfers In	Internal Transfers	Additions (Revenues)	Reductions (Expenditures)	Transfers Out	Ending Balance
Recreation Commission							
Playground - Round Hill Road	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ (6)	\$ -
Round Hill Road lighting	4,306	-	-	-	-	-	4,306
Round Hill Road parking lot upgrades	3,388	-	2,827	-	(6,215)	-	-
Replace press box	748	-	-	-	-	(748)	-
Multi-Purpose Path	5,552	-	-	-	-	-	5,552
Reimbursable trail grant	214,530	-	-	-	(186,880)	-	27,650
Forsyth Park well	46,000	-	-	-	(3,814)	-	42,186
Volunteer Park well, septic and bathrooms	-	54,000	-	-	-	-	54,000
	<u>274,530</u>	<u>54,000</u>	<u>2,827</u>	<u>-</u>	<u>(196,909)</u>	<u>(754)</u>	<u>133,694</u>
Building Committee	<u>13,806</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,806</u>
Education							
Clock/spreader system	6,018	-	-	-	(5,562)	(456)	-
Security upgrade	501	-	-	-	-	(501)	-
School Tile Replacement	15,825	-	-	-	-	-	15,825
Upgrade track/athletic field	5,243	-	-	-	(2,523)	-	2,720
Site plan	3,919	-	-	-	-	(3,919)	-
	<u>31,506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,085)</u>	<u>(4,876)</u>	<u>18,545</u>
Total Committed Fund Balance	1,013,673	864,890	2,827	-	(1,010,374)	(63,879)	807,137
Assigned Fund Balance	<u>468,884</u>	<u>-</u>	<u>(2,827)</u>	<u>35</u>	<u>-</u>	<u>-</u>	<u>466,092</u>
Total Fund Balance	<u>\$ 1,482,557</u>	<u>\$ 864,890</u>	<u>\$ -</u>	<u>\$ 35</u>	<u>\$ (1,010,374)</u>	<u>\$ (63,879)</u>	<u>\$ 1,273,229</u>

Statement of Changes in Fund Balance by Project - Town Grants Fund
 Year Ended June 30, 2017

	Beginning Balance	Transfers In	Internal Transfers	Additions (Revenues)	Reductions (Expenditures)	Ending Balance
Restricted:						
Preservation	\$ 15,850	\$ -	\$ -	\$ -	\$ -	\$ 15,850
STEAP - Harris Brook	1,234	-	(1,234)	20,880	(20,880)	-
Library	6,000	-	(6,000)	-	-	-
Multi-Path	(1,234)	-	1,234	-	-	-
Nutmeg Wifi	5,134	-	-	-	(1,650)	3,484
Other						
Highways	14,892	-	-	2,419	-	17,311
Town Clerk	(5,925)	-	6,000	4,000	(4,000)	75
Gazebo	(9,182)	-	9,182	-	-	-
Integrated Security	(1,250)	-	1,250	-	-	-
Arrow Fence	(6,663)	-	6,663	-	-	-
	<u>18,856</u>	<u>-</u>	<u>17,095</u>	<u>27,299</u>	<u>(26,530)</u>	<u>36,720</u>
Assigned						
FEMA	<u>75,483</u>	<u>-</u>	<u>(17,095)</u>	<u>-</u>	<u>(21,015)</u>	<u>37,373</u>
Total Fund Balance	<u>\$ 94,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,299</u>	<u>\$ (47,545)</u>	<u>\$ 74,093</u>

See Independent Auditors' Report

Town of Salem, Connecticut

Internal Control and Compliance Reports
June 30, 2017

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

Independent Auditors' Report

**The Board of Finance
Town of Salem, Connecticut**

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Salem, Connecticut ("Town") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 27, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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'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 result of that testing, and not to provide an opinion on the effectiveness of the Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

PKF O'Connor Davies, LLP

January 27, 2018

Town of Salem, Connecticut

State Single Audit
June 30, 2017

**Report on Compliance for Each Major State Program; Report on Internal Control over Compliance; and
Report on the Schedule of Expenditures of State Financial Assistance Required by the State Single Audit
Act**

Independent Auditors' Report

**The Board of Finance
Town of Salem, Connecticut**

Report on Compliance for Each Major State Program

We have audited the Town of Salem, Connecticut's ("Town") compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of the Town's major state programs for the year ended June 30, 2017. The Town's major state programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major state 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 State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act 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 state program occurred. An audit includes examining, on a test basis, evidence about the Town'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 state program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major State Program

In our opinion, the Town 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 state programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the Town 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's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the

circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, 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's internal control over compliance.

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 state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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 state 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state 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 significant deficiencies or material weaknesses. 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 State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We have issued our report thereon dated Report Date, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis as required by the State Single Audit Act, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 Schedule of Expenditures of State Financial Assistance is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PKF O'Connor Davies, LLP

January 27, 2018

Town of Salem, Connecticut

Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2017

State Grantor Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Passed To	
		Sub- recipients	Expenditures
Connecticut State Library			
Connecticard Payments	11000-CSL66051-17010	\$ -	\$ 868
Historic Documents Preservation Grants	12060-CSL66094-35150	-	4,000
Total Connecticut State Library		-	4,868
Department of Energy and Environmental Protection			
Small Town Economic Assistance Program (DEP)	12052-DEP43153-40531	-	22,194
Total Department of Energy and Environmental Protection		-	22,194
Department of Transportation			
Town Aid Road Grants Transportation Fund	12052-DOT57131-43455	-	193,534
Total Department of Transportation		-	193,534
Department of Justice			
Non-Budgeted Operating Appropriation	34001-JUD95162-40001	-	1,640
Total Department of Justice		-	1,640
Office of Policy and Management			
Reimbursement to Towns: Tax Loss on State Owned Property	11000-OPM20600-17004	-	47,337
Reimbursement of Property Tax: Disability Exemption	11000-OPM20600-17011	-	199
Property Tax Relief for Elderly Circuit Breaker	11000-OPM20600-17018	-	17,173
Property Tax Relief for Veterans	11000-OPM20600-17024	-	3,474
Municipal Grants-In-Aid	12052-OPM20600-43587	-	4,699
Total Office of Policy and Management		-	72,882
Department of Education			
Child Nutrition State Match	11000-SDE64370-16211	-	915
Health Foods Initiative	11000-SDE64370-16212	-	1,856
Adult Education	11000-SDE64370-17030	-	4,516
School Breakfast Program	11000-SDE64370-17046	-	2,913
Total Department of Education		-	10,200
Total State Financial Assistance before Exempt Programs		-	305,318
EXEMPT PROGRAMS			
Department of Education			
Education Cost Sharing	11000-SDE64370-17041	-	3,108,774
Special Education - Excess Cost - Student Based	11000-SDE64000-17047	-	207,282
Total Department of Education		-	3,316,056
Office of Policy and Management			
Municipal Revenue Sharing	12002-OPM20600-17102	-	85,617
Mashantucket Pequot and Mohegan Fund Grant	12009-OPM20600-17005	-	18,219
Total Office of Policy and Management		-	103,836
Total Exempt Programs		-	3,419,892
Total State Financial Assistance		\$ -	\$ 3,725,210

Town of Salem, Connecticut

Notes to Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2017

1. Summary of Significant Accounting Policies

General

The accompanying Schedule of Expenditures of State Financial Assistance includes state grant activity of the Town of Salem, Connecticut ("Town") under programs of the State of Connecticut for the fiscal year ended June 30, 2017. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut.

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America as applicable to governments.

The information in the Schedule of Expenditures of State Financial Assistance is presented based on regulations established by the State of Connecticut, Office of Policy and Management.

Basis of Accounting

The financial statements for the governmental fund types contained in the Town's basic financial statements are prepared on the modified accrual basis of accounting. The government-wide financial statements are prepared on the full 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 for the current period,
- Expenditures are generally recorded when a liability is incurred except for debt service expenditures, as well as certain other expenditures, when applicable, related to compensated absences, pension obligations, landfill closure costs, claims and judgments, and other post-employment benefits which are recorded only when payment is due (matured).

The expenditures reported on the Schedule of Expenditures of State Financial Assistance are reported on the modified accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations of the State Single Audit Act, certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule of Expenditures of State Financial Assistance.

Section 1 - Summary of Auditors' Results

Financial Statements

Type of auditors' opinion issued 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

State Financial Assistance

Internal control over major programs

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

Type of auditors' opinion issued on compliance for major programs unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act? yes x no

The following schedule reflects the major programs included in the audit:

State Grantor and Program	State Core-CT Number	Expenditures
Department of Transportation Town Aid Road Grants Transportation Fund	12052-DOT57131-43455	\$193,534

Dollar threshold used to distinguish between type A and type B programs: \$100,000

Section II - Financial Statement Findings

No matters were reported.

Section III - State Financial Assistance Findings and Questioned Costs

No matters were reported