

Annual Financial Report
of the
Town of Salem, Connecticut
For the Year Ended June 30, 2019

Town of Salem, Connecticut
Annual Financial Report
For the Year Ended June 30, 2019

Table of Contents

		<u>Page</u>
	<u>Financial Section</u>	
	Independent Auditors' Report	1-3
	Management's Discussion and Analysis	4-11
<u>Exhibits</u>	<u>Basic Financial Statements</u>	
	<u>Government-Wide Financial Statements</u>	
A	Statement of Net Position	12-13
B	Statement of Activities	14
	<u>Fund Financial Statements</u>	
C	Balance Sheet - Governmental Funds and Reconciliation of Fund Balance to Net Position of Governmental Activities	15-16
D	Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17
E	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	18-19
F	Statement of Fiduciary Net Position	20
G	Statement of Changes in Fiduciary Net Position	21
H	Notes to Financial Statements	22-49
<u>RSI</u>	<u>Required Supplementary Information</u>	
1A	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	50-53
1B	Notes to Required Supplementary Information - Budgets and Budgetary Accounting	54

Town of Salem, Connecticut
Annual Financial Report
For the Year Ended June 30, 2019

Table of Contents

<u>RSI</u>	<u>Required Supplementary Information</u>	<u>Page</u>
	<u>Connecticut State Teachers' Retirement System</u>	
2A	Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions	55
2B	Notes to Required Supplementary Information	56
	<u>Other Post-Employment Benefits Plan - Education</u>	
3	Schedule of Changes in OPEB Liability	57
	<u>Connecticut State Teachers' Retirement Board Retiree Health Insurance Plan</u>	
4A	Schedule of Proportionate Share of the Net OPEB Liability and Schedule of Contributions	58
4B	Notes to Required Supplementary Information	59
<u>Schedules</u>	<u>Supplemental Schedules</u>	
	<u>General Fund</u>	
1	Report of Tax Collector	60
	<u>Other Governmental Funds</u>	
2	Combining Balance Sheet	61-62
3	Combining Statement of Revenues, Expenditures and Changes in Fund Balances	63-64
<u>Tables</u>	<u>Trend Information</u>	
1	Schedule of Debt Limitation	65

Financial Section

Independent Auditors' Report

**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, 2019, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Page 2

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 of Salem, Connecticut as of June 30, 2019, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, and the pension and other post-employment benefit schedules, as listed 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 supplemental schedules and trend information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The trend information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2020, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Wethersfield, Connecticut
January 30, 2020



Town of Salem

Town Hall 270 Hartford Road Salem, CT 06420-3809
Tel. (860) 859-3873 Fax (860) 859-1184 www.salemct.gov

Management's Discussion and Analysis For the Year Ended June 30, 2019

As management of the Town of Salem, Connecticut ("Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2019.

Financial Highlights

- The Town's total net position totals \$24,695,562. Of this amount, \$6,478,381 is available (unrestricted) to finance ongoing programs.
- On a government-wide basis, the Town's total net position increased by \$938,359 for the fiscal year. The main reasons for the increase were as follows:
 - Positive operations in the General Fund of \$682,466.
 - The differences in the basis of accounting between the modified accrual basis used for the governmental funds as compared to the accrual basis used for the government wide financial statements (Exhibit E). The two most significant accounts impacted by the difference basis of accounting are capital assets and long-term liabilities. Capital outlay was in excess of depreciation expense by \$675,549 and net activity of debt activity of \$(177,201) and other long-term liabilities of \$(63,659).
- The unassigned fund balance in the General Fund was \$3,344,660 22.30% of total General Fund budgetary expenditures and transfers out.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains other supplementary information as well as the basic financial statements.

Government-Wide Financial Statements

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

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

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

The government-wide financial statements present the functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Town include general government, public safety, public works, sanitation, and education.

The government-wide financial statements can be found on Exhibits A and B of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and fiduciary funds.

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

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

For governmental funds, the Town presents separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and Capital Nonrecurring Fund, which are considered to be major funds. The basic governmental fund financial statements can be found on Exhibits C, D and E.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The Town's fiduciary funds include custodial funds.

The basic fiduciary fund financial statements can be found on Exhibits F and G.

Notes to financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on Exhibit H of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide pension and retiree medical benefits to employees. This and other required supplementary information can be found immediately following the notes to financial statements.

The Town adopts an annual budget for its general fund. A budgetary comparison statement has been provided to demonstrate compliance with the budget (RSI-1A).

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$24,695,562 at the close of the most recent fiscal year.

By far the largest portion of the Town's net position (72.02%) reflects its investment in capital assets (e.g., land, construction in progress, buildings and improvements, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position totaled \$431,318 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position totals \$6,478,381.

**Summary Statement of Net Position
June 30**

	2019	2018
Current and other assets	\$ 8,245,463	\$ 7,388,758
Capital assets (net)	22,023,950	21,352,401
Total assets	30,269,413	28,741,159
Deferred outflows of resources	-	55,468
Other liabilities outstanding	1,350,515	537,078
Long-term liabilities outstanding	4,223,336	4,487,119
Total liabilities	5,573,851	5,024,197
Deferred inflows of resources	-	15,227
Net position:		
Net investment in capital assets	17,785,863	17,351,515
Restricted	431,318	429,160
Unrestricted	6,478,381	5,976,528
Total net position	\$ 24,695,562	\$ 23,757,203

The unrestricted net position decreased by \$501,853 to a total of \$6,478,381. This portion of the net position is what may be used to meet the Town's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements.

The Town's total net position increased by \$938,359. The main reasons for the increase are as follows:

- Positive operations in the General Fund of \$682,466.
- The differences in the basis of accounting between the modified accrual basis used for the governmental funds as compared to the accrual basis used for the government wide financial statements (Exhibit E). The two most significant accounts impacted by the difference basis of accounting are capital assets and long-term liabilities. Capital outlay was in excess of depreciation expense by \$675,549 and net activity of debt activity of \$(177,201) and other long-term liabilities of \$(63,659).

**Statement of Changes in Net Position
For the Years Ended June 30**

	2019	2018
Revenues:		
Program revenues:		
Charges for services	\$ 399,897	\$ 392,590
Operating grants and contributions	4,309,362	4,234,978
Capital grants and contributions	213,210	195,225
General revenues:		
Property taxes	12,043,437	12,004,609
Grants and contributions not restricted to specific programs	47,993	22,918
Income from investments	94,573	67,735
Other	-	2,211
	<u>17,108,472</u>	<u>16,920,266</u>
 Expenses:		
General government	1,688,500	1,576,276
Public safety	982,760	1,019,343
Public works	951,310	916,077
Sanitation	166,434	171,454
Education	12,179,068	12,081,286
Interest	202,041	213,327
	<u>16,170,113</u>	<u>15,977,763</u>
 Change in net position	 938,359	 942,503
 Net position - July 1	 <u>23,757,203</u>	 <u>22,814,700</u>
 Net position - June 30	 <u>\$ 24,695,562</u>	 <u>\$ 23,757,203</u>

Significant changes are as follows:

- General government expenses increased \$112,224 primarily due to an approximate \$40,000 increase in salaries and benefits.
- Education expenditures increased \$97,782 due to an approximate \$225,000 increase in education grants and related expenses offset by a \$135,000 decrease in budgetary expenditures.

Financial Analysis of the Town's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$7,329,342, an increase of \$615,817 in comparison with the prior year. \$3,344,174 of this total amount constitutes unassigned fund balance.

The remainder of fund balance is nonspendable, restricted, committed or assigned to indicate that it is not available for new spending due to the following:

1. Nonspendable for endowments/perpetual care and prepaids	\$ 715,522
2. Restricted due to grant restrictions or legal requirements	429,321
3. Committed for capital projects and other specific purposes	1,304,518
4. Assigned for specific purposes	1,535,807

General Fund. The General Fund is the operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,344,660, while total fund balance was \$5,093,456. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 22.30% of total General Fund budgetary expenditures and transfers out, while total fund balance represents 33.96% of that same amount.

During the current fiscal year, the fund balance of the Town's General Fund increased by \$682,466. The increase was substantially attributable to revenues coming in higher than budgeted expectations by \$115,586 and expenditures coming in lower than budgeted expectations by \$121,745. These variances are discussed further in the next section. In the 2019 budget, the Town planned to add \$469,880 to fund balance.

Capital Projects Fund. This fund accounts for financial resources to be used for various capital projects. The primary source of funding is an annual appropriation from the general fund and issuance of debt. The capital project fund's expenditures exceeded its revenues, debt issuance and transfers in by \$(64,450) as a result of timing of funding and capital purchases.

General Fund Budgetary Highlights

Significant budget transfers and additional appropriations were as follows:

- Decrease of \$30,388 from employee benefits was primarily due to reduction of full-time employees.
- Increase of \$34,845 to security to cover a greater amount for State Trooper retirement than was originally projected by the State of Connecticut.
- Increase of \$30,365 to Salem fire department for major repair of fire apparatus. This includes an additional appropriation from assigned fund balance of \$17,000 for repairs and maintenance of the fire engine.
- Additional appropriation from fund balance of \$100,000 to education for anticipated additional costs for repairs and maintenance and tuition.

Significant budget variances were as follows:

- Income from investments is \$29,198 higher than budget due to higher interest rates than expected.
- General government - salaries expenditures are \$16,195 under budget due to an unfilled position for part of the year.
- Public safety – Salem fire department expenditures are \$17,021 under budget due to repairs and maintenance for vehicles not needed after additional appropriation.
- Education expenditures are \$47,354 under budget due to repairs and maintenance and tuition expenses being lower than previously anticipated after additional appropriation.

Capital Assets and Debt Administration

Capital assets

The Town's investment in capital assets amounts to \$22,023,950 (net of accumulated depreciation). This investment in capital assets is as follows:

Capital Assets, Net June 30		
	2019	2018
Land	\$ 1,840,216	\$ 1,840,216
Construction in progress	56,964	270,090
Land improvements	1,381,952	1,245,995
Buildings and systems	13,234,522	13,496,342
Machinery and equipment	1,060,709	1,108,299
Infrastructure	2,425,194	2,139,493
Vehicles	2,024,393	1,251,966
Total	\$ 22,023,950	\$ 21,352,401

The capital assets (net of depreciation) increased in the current year by \$671,549. The increase is due to capital additions exceeding depreciation expense. In the current year, the Town had capital asset additions totaling \$1,662,445. Major capital asset additions consisted of the following:

- Land improvements of \$218,641, including \$199,377 from construction in progress for the recreation multi-purpose path.
- Purchase of vehicles of \$893,678, including a plow truck and engine tanker.
- Infrastructure increased due to road projects of \$448,759

Additional information on the Town's capital assets can be found in Note III.D.

Long-term debt

All debt is backed by the full faith and credit of the Town. During the year, the Town's long-term debt increased by \$177,202. The increase is the net result of principal payments of \$378,362 and new fire truck notes payable of \$555,563. At the end of the fiscal year, the Town had total long-term debt outstanding as follows:

Long-Term Debt		
June 30		
	2019	2018
General obligation bonds	\$ 3,575,000	\$ 3,900,000
Notes and loans	603,088	100,886
Total	\$ 4,178,088	\$ 4,000,886

The Town maintains an "Aa3" credit rating from Moody's for general obligation debt.

State Statutes limit the amount of general obligation debt a governmental entity may issue to 7 times the prior year total tax collections including interest and lien fees and the tax relief for elderly freeze grant. The current debt limitation for the Town is \$83,918,597, which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town's long-term debt can be found in Note III.F.

Economic Factors and Next Year's Budgets and Rates

As of June 2019, the unemployment rate for the Town was at 3.3%, which is lower than the State's average unemployment rate of 3.9% and national average of 3.7%.

Inflationary trends in the region compare favorably to national indices.

The level of State funding continues to be of concern as it has been reduced in the past two fiscal years.

All of these factors were considered in preparing the Town's budget for the 2020 fiscal year.

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 Town's finances and to show the Town'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.

Basic Financial Statements

Town of Salem, Connecticut

Statement of Net Position
Governmental Activities
June 30, 2019

Assets

Current assets:	
Cash	\$ 2,336,197
Investments	4,731,907
Receivables:	
Property taxes	74,673
Accounts	24,678
Intergovernmental	6,762
Loans	298,554
Prepaid and other	713,525
Total current assets	<u>8,186,296</u>
Noncurrent assets:	
Restricted assets:	
Temporarily restricted:	
Cash	16,863
Investments	5,591
Permanently restricted:	
Investments	1,997
Total restricted assets	<u>24,451</u>
Receivables (net):	
Property taxes	<u>34,716</u>
Capital assets (net of accumulated depreciation):	
Land	1,840,216
Construction in progress	56,964
Land improvements	1,381,952
Buildings and systems	13,234,522
Machinery and equipment	1,060,709
Infrastructure	2,425,194
Vehicles	2,024,393
Total capital assets (net of accumulated depreciation)	<u>22,023,950</u>
Total noncurrent assets	<u>22,083,117</u>
Total assets	<u>30,269,413</u>

(Continued)

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

Town of Salem, Connecticut

Statement of Net Position
Governmental Activities
June 30, 2019

Liabilities

Liabilities:

Current liabilities:

Accounts payable	\$ 684,111
Accrued payroll	46,362
Accrued interest payable	56,652
Performance bonds	16,203
Unearned revenues	7,781
Notes payable (short term)	60,000
Bonds and notes payable	457,013
Compensated absences	3,724
Post closure landfill costs	2,500
Other liabilities	16,169

Total current liabilities	1,350,515
---------------------------	-----------

Noncurrent liabilities:

Bonds and notes payable	3,721,074
Compensated absences	33,514
Post closure landfill costs	12,500
OPEB liability	456,248

Total noncurrent liabilities	4,223,336
------------------------------	-----------

Total liabilities	5,573,851
-------------------	-----------

Net Position

Net investment in capital assets	17,785,863
----------------------------------	------------

Restricted for:

Endowment/Perpetual care:

Nonexpendable	1,997
Expendable	6,251
General government	41,541
Residential rehabilitation program	307,648
Town clerk documents	42,191
Education	31,690

Unrestricted	6,478,381
--------------	-----------

Total net position	\$ 24,695,562
--------------------	---------------

(Concluded)

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

Town of Salem, Connecticut

Statement of Activities
 Governmental Activities
 For the Year Ended June 30, 2019

14

Functions/Programs	Expenses	Program Revenues			Net Expenses and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 1,688,500	\$ 206,155	\$ 169,869	\$ -	\$ (1,312,476)
Public safety	982,760	4,881	-	-	(977,879)
Public works	951,310	2,116	-	213,210	(735,984)
Sanitation	166,434	53,746	-	-	(112,688)
Education	12,179,068	132,999	4,139,493	-	(7,906,576)
Interest	202,041	-	-	-	(202,041)
Total	\$ 16,170,113	\$ 399,897	\$ 4,309,362	\$ 213,210	(11,247,644)
General revenues:					
Property taxes					12,043,437
Grants and contributions not restricted to specific programs					47,993
Income from investments					94,573
Total general revenues					<u>12,186,003</u>
Change in net position					938,359
Net position - July 1, 2018					<u>23,757,203</u>
Net position - June 30, 2019					<u>\$ 24,695,562</u>

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

Town of Salem, Connecticut

Balance Sheet
Governmental Funds
June 30, 2019

	General Fund	Capital Non-Recurring Fund	Education Grants Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Cash	\$ 1,575,556	\$ -	\$ 381,565	\$ 379,736	\$ 2,336,857
Restricted cash	16,203	-	-	-	16,203
Investments	4,695,777	2,314	-	41,404	4,739,495
Receivables (net)					
Property taxes	109,389	-	-	-	109,389
Accounts	24,628	-	-	50	24,678
Intergovernmental	-	-	1,225	5,537	6,762
Loans	-	-	-	298,554	298,554
Due from other funds	377,290	1,463,251	1,323	259,235	2,101,099
Prepays	713,525	-	-	-	713,525
Total assets	\$ 7,512,368	\$ 1,465,565	\$ 384,113	\$ 984,516	\$ 10,346,562
<u>Liabilities</u>					
Accounts payable	\$ 681,948	\$ -	\$ 219	\$ 1,944	\$ 684,111
Accrued payroll	46,362	-	-	-	46,362
Due to other funds	1,572,044	117,453	377,290	34,312	2,101,099
Unearned revenue	691	-	7,090	-	7,781
Performance bonds	16,203	-	-	-	16,203
Notes payable	-	60,000	-	-	60,000
Other liabilities	16,169	-	-	-	16,169
Total liabilities	2,333,417	177,453	384,599	36,256	2,931,725
<u>Deferred Inflows of Resources</u>					
Unavailable revenue - property taxes	85,495	-	-	-	85,495
<u>Fund Balances</u>					
Nonspendable	713,525	-	-	1,997	715,522
Restricted	42,191	-	-	387,130	429,321
Committed	-	821,781	-	482,737	1,304,518
Assigned	993,080	466,331	-	76,396	1,535,807
Unassigned	3,344,660	-	(486)	-	3,344,174
Total fund balances	5,093,456	1,288,112	(486)	948,260	7,329,342
Total liabilities, deferred inflows of resources and fund balances	\$ 7,512,368	\$ 1,465,565	\$ 384,113	\$ 984,516	\$ 10,346,562

(Continued)

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

Town of Salem, Connecticut

Reconciliation of Fund Balance
to Net Position of Governmental Activities
June 30, 2019

Amounts reported in the statement of net position (Exhibit A) are different from the governmental fund balance sheet due to:

Total fund balance (Exhibit C, Page 1)	\$ 7,329,342
--	--------------

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Beginning capital assets	21,352,401
Current year additions (net of construction in progress)	1,444,068
Depreciation expense	(768,519)
Disposal of assets	(4,000)

Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the funds:

Property tax receivable - accrual basis change	85,495
--	--------

Some liabilities and deferred inflows of resources, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Bonds and notes payable	(4,178,087)
Compensated absences	(37,238)
Post closure landfill costs	(15,000)
OPEB liability	(456,248)
Accrued interest payable	(56,652)

Net position (Exhibit A)	<u>\$ 24,695,562</u>
--------------------------	----------------------

(Concluded)

Town of Salem, Connecticut

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019**

	General Fund	Capital Non- Recurring Fund	Education Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 12,071,358	\$ -	\$ -	\$ -	\$ 12,071,358
Intergovernmental	4,143,826	-	442,713	60,003	4,646,542
Charges for services	209,198	-	77,409	59,331	345,938
Contributions	-	-	249	4,000	4,249
Income from investments	94,198	32	-	343	94,573
Other	53,959	-	-	-	53,959
Total revenues	16,572,539	32	520,371	123,677	17,216,619
Expenditures:					
Current:					
General government	1,573,372	-	-	23,908	1,597,280
Public safety	839,372	-	-	-	839,372
Public works	650,531	-	-	-	650,531
Sanitation	149,191	-	-	-	149,191
Education	11,248,866	-	521,418	100,921	11,871,205
Debt service	532,767	48,971	-	-	581,738
Capital outlay	-	1,467,048	-	-	1,467,048
Total expenditures	14,994,099	1,516,019	521,418	124,829	17,156,365
Excess (deficiency) of revenues over expenditures	1,578,440	(1,515,987)	(1,047)	(1,152)	60,254
Other financing sources (uses):					
Issuance of debt	-	555,563	-	-	555,563
Transfers in	-	895,974	-	2,793	898,767
Transfers out	(895,974)	-	-	(2,793)	(898,767)
Net other financing sources (uses)	(895,974)	1,451,537	-	-	555,563
Net change in fund balances	682,466	(64,450)	(1,047)	(1,152)	615,817
Fund balances - July 1, 2018	4,410,990	1,352,562	561	949,412	6,713,525
Fund balances - June 30, 2019	\$ 5,093,456	\$ 1,288,112	\$ (486)	\$ 948,260	\$ 7,329,342

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

Town of Salem, Connecticut

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2019

Amounts reported in the statement of activities (Exhibit B) are different due to:

Net change in fund balances - total governmental funds (Exhibit D) \$ 615,817

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	1,444,068
Depreciation expense	<u>(768,519)</u>

Total	<u>675,549</u>
-------	----------------

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to increase/decrease net position. In the statement of activities, only the *loss* on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets sold.

Loss on disposal of assets	<u>(4,000)</u>
----------------------------	----------------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Change in property tax - accrual basis change	(27,921)
Change in long term receivable	<u>(80,226)</u>

Total	<u>(108,147)</u>
-------	------------------

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

Debt issued or incurred:	
Issuance of notes payable	(555,563)

Principal repayments:	
General obligation bonds and notes	<u>378,362</u>

Total	<u>(177,201)</u>
-------	------------------

(Continued)

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

Town of Salem, Connecticut

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2019

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:

Change in:	
Post closure landfill costs	\$ 2,500
Compensated absences	4,554
OPEB expense	(29,307)
Accrued interest payable	(1,165)
Amortization of deferred outflow related to OPEB	(55,468)
Amortization of deferred inflow related to OPEB	<u>15,227</u>
Total	<u>(63,659)</u>
Change in net position (Exhibit B)	<u>\$ 938,359</u>

(Concluded)

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

Town of Salem, Connecticut

Statement of Fiduciary Net Position
 Fiduciary Funds
 June 30, 2019

		<u>Custodial Funds</u>
		<u>Student Activity</u>
	<u>Assets</u>	
Cash		<u>\$ 20,392</u>
	<u>Net Position</u>	
Restricted for individuals and organizations		<u>\$ 20,392</u>

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

Town of Salem, Connecticut
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2019

	Custodial Funds
	Student Activity
Additions:	
Activity fees	\$ 63,133
Deductions:	
Activities	64,335
Change in net position	(1,202)
Net position - July 1, 2018	21,594
Net position - June 30, 2019	\$ 20,392

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

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**History and organization**

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.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government; (2) organizations for which the primary government is financially accountable; and (3) 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. The Town does not report any component units.

I. Summary of significant accounting policies**A. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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.

B. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**B. Measurement focus, basis of accounting and financial statement presentation (continued)**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. In addition, the Town considers reimbursement grants to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in the governmental funds.

Property taxes, expenditure reimbursement type grants, certain intergovernmental revenues, charges, transfers and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another 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.

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.

Additionally, the Town reports the following fund types:

Special Revenue Funds are used to account for and report the proceeds of specific revenue resources that are restricted, committed or assigned to expenditures for specified purposes other than debt.

Capital Project Funds are used to account for and report resources and expenditures that are restricted, committed or assigned for the acquisition and construction of capital facilities.

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the Town's programs.

Custodial Funds account for monies held on behalf of student groups.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions are charges between certain Town functions because elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**B. Measurement focus, basis of accounting and financial statement presentation (continued)**

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

For purposes of measuring the net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position and additions to/deductions from fiduciary net position of the Town OPEB, the Connecticut State Teachers' Retirement System ("TRS"), and the Connecticut State Retiree Health Insurance Plan ("RHIP") have been determined on the same basis as they are reported by the Town's OPEB plan, TRS, and RHIP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

C. Assets, liabilities, deferred outflows/inflows of resources and equity**1. Cash and investments****a. Cash**

The Town considers cash as cash on hand and demand deposits.

b. Investments

In general, State of Connecticut Statutes allow the Town to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool or no-load, open-end management type investment company or investment trust (as defined), in obligations of any State or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service. For the capital nonrecurring fund, not more than 31% can be invested in equity securities. Income from investment is recorded in the fund in which it was earned.

State Treasurers Investment Fund is an investment pool managed by the State of Connecticut Office of the State Treasurer. Investments must be made in instruments authorized by Connecticut General Statutes 3-27c - 3-27e. Investment guidelines are adopted by the State Treasurer. The fair value of the position in the pool is the same as the value of the pool shares.

c. Method used to value investments

Investments for the Town are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**C. Assets, liabilities, deferred outflows/inflows of resources and equity (continued)****Fair value of investments**

The Town measures and records its investments using fair value measurement guidelines established by accounting principles generally accepted in the United States of America (GAAP). These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1:* Quoted prices for identical investments in active markets;
- Level 2:* Quoted prices for identical investments in markets that are not active; and
- Level 3:* Unobservable inputs.

d. Risk policies

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 increasing interest rates.

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 has no investment policy that would limit its investment choices due to credit risk other than State Statutes governing investments in obligations of any State or political subdivision or in obligations of the State of Connecticut or political subdivision.

Concentration of credit risk – Concentration of credit risk is the risk attributed to the magnitude of an entity'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 in any one depository.

Custodial credit risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Town does not have a formal policy with respect to custodial credit risk.

2. Receivables and payables**a. Interfunds**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

b. Property taxes and other receivables

In the fund financial and government-wide financial statements, all trade and property tax receivables are shown net of an allowance for uncollectibles. Allowance percentages range from 23% to 29% of outstanding receivable balances and are calculated based upon prior collections.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019

C. Assets, liabilities, deferred outflows/inflows of resources and equity (continued)

In the fund financial statements, property taxes receivable which have not been collected within 60 days of June 30, have been recorded as deferred inflows of resources, since they are not considered to be available to finance expenditures of the current year. Taxes collected during the 60-day period have been recorded as revenue.

Property taxes are assessed on property as of October 1. Taxes are billed in the following July and are due in two installments, July 1 and January 1. Personal property and motor vehicle taxes are billed in July and are due in one installment, on July 1, and supplemental motor vehicle taxes are due in full January 1. Liens are effective on the assessment date and are continued by filing before the end of the year following the due date.

Loan receivables consist of Community Development Block Grant loans. The Town provides the low interest loans for residential rehabilitation as well as loans to local businesses for facility improvements.

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Restricted assets

The restricted assets for the Town are restricted for performance bonds and endowments. Performance bonds are restricted until the monies are returned to the vendor after satisfactory completion of the contract or the Town calls the bond for nonperformance. The trust agreement restricts the expenditure of the investment income only for the designated purpose.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>	<u>Capitalization Threshold</u>
Land	N/A	\$ All
Land improvements	10 - 40	20,000
Building and improvements	15 - 100	20,000
Machinery and equipment	10 - 50	5,000
Infrastructure	20 - 50	100,000
Vehicles	10 - 25	5,000

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**C. Assets, liabilities, deferred outflows/inflows of resources and equity (continued)****6. Deferred outflows/inflows of resources**

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

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

The Town reports deferred outflows and inflows of resources related to pensions and OPEB in the government-wide statements for differences between expected and actual experience, changes in assumptions and net difference between projected and actual earnings on plan investments. The deferred outflow or inflow related to differences between expected and actual experience and changes in assumptions will be amortized over the average remaining service life of all plan members. The deferred outflow or inflow related to the net difference between projected and actual earnings on plan investments will be amortized over a five-year period.

For governmental funds, the Town reports unavailable revenue, which arises only under the modified accrual basis of accounting. Accordingly, unavailable revenue is reported only in the governmental funds' balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are recognized as an inflow of resources in the period that the amounts become available.

7. Compensated absences

Town employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. Sick leave and vacation leave expenditures are recognized in the governmental funds in the current year to the extent they are paid during the year or the vested amount is expected to be paid with available resources. A liability for these amounts has been recorded in the government-wide financial statements.

8. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities' statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenses.

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, are reported as debt service expenditures.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**C. Assets, liabilities, deferred outflows/inflows of resources and equity (continued)****9. Net position and fund balances**

In the government-wide financial statements, net position is classified into the following categories:

Net Investment in Capital Assets

This category presents the net position that reflects capital assets net of only the debt applicable to the acquisition or construction of these assets. Debt issued for non-capital purposes, and unspent bond proceeds, are excluded.

Restricted Net Position

This category presents the net position restricted by external parties (creditors, grantors, contributors or laws and regulations).

Unrestricted Net Position

This category presents the net position of the Town which is not restricted.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide 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.

In the fund financial statements, fund balances are classified into the following categories:

Nonspendable

This category presents amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted

This category presents amounts that can be spent only for specific purposes because of enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors or the laws or regulations of other governments.

Committed

This category presents amounts that can be used only for specific purposes determined by a formal action at the highest level of decision-making authority for the Town. Commitments may be established, modified or rescinded only through resolutions approved by the Board of Finance.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**C. Assets, liabilities, deferred outflows/inflows of resources and equity (continued)**Assigned

This category presents amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Intent is expressed by the approval of a resolution by the Board of Finance or by a properly approved purchase order (encumbrance).

Unassigned

This category presents amounts that do not meet the criteria above and are available for any purpose. This category is only reported in the general fund for positive amounts and in any other fund that has a fund balance deficit.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds and finally unassigned funds, as needed, unless the Board of Finance has provided otherwise in its commitment or assignment actions.

10. Use of Estimates

The preparation of the 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 and liabilities including disclosures of contingent assets and liabilities and reported revenues, expenses and expenditures during the fiscal year. Accordingly, actual results could differ from those estimates.

11. Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

II. Stewardship, compliance and accountability**A. Basis of budgeting**

Only the General Fund has a legally adopted annual budget.

The Town uses the budgetary basis of accounting under which purchase orders for contracts or other commitments are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order, contract or other commitment is issued and, accordingly, encumbrances outstanding at year end are reported in the budgetary statements included as required supplementary information.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019

B. Donor-restricted endowments

The Town has received certain endowments for scholarships and maintenance of the cemetery. The amounts are reflected in net position as restricted for endowments. Investment income is approved for disbursement by the Board of Education or the applicable Trustee and is included in restricted fund balance.

The Town allocates investment income of donor-restricted endowments in accordance with donor restrictions and Connecticut law, which has adopted the provisions of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Under UPMIFA, investment income earned on donor-restricted endowment funds is considered to be unrestricted in the absence of explicit donor restrictions. Further, in the absence of explicit donor restrictions regarding investment appreciation, such appreciation is treated the same as the related investment income. Investment losses that reduce the value of endowment investments below the original principal amount serve to reduce restricted net position or unrestricted net position, depending upon the applicable donor's stipulations regarding the treatment of investment income and appreciation.

C. Capital projects authorizations

The following is a summary of certain capital projects:

<u>Project</u>	<u>Project Authorization</u>	<u>Cumulative Expenditures</u>	<u>Balance</u>
Roadway rehabilitation 2019	\$ 408,565	\$ -	\$ 408,565
School roof replacement 2019	<u>152,000</u>	<u>-</u>	<u>152,000</u>
Totals	<u>\$ 560,565</u>	<u>\$ -</u>	<u>\$ 560,565</u>

III. Detailed notes**A. Cash and investments****1. Deposits – custodial credit risk**

At year end, the Town's bank balance was \$3,032,416 and was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 1,774,312
Uninsured and collateral held by the pledging bank's trust department, not in the Town's name	<u>758,104</u>
Total amount subject to custodial credit risk	<u>\$ 2,532,416</u>

Financial instruments that potentially subject the Town to significant concentrations of credit risk consist primarily of cash. From time to time, the Town's cash account balances exceeded the Federal Deposit Insurance Corporation limit. The Town reduces its credit risk by maintaining its cash deposits with major financial institutions and monitoring their credit ratings.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019

A. Cash and investments (continued)

2. Investments

- a. The Town's investments consisted of the following types and maturities. Specific identification was used to determine maturities:

Type of Investment	Fair Value	Investment Maturities (in Years) Less Than 1
Certificates of deposit	\$ 49,351	\$ 49,351
Pooled fixed income	4,690,144	4,690,144
Total	<u>\$ 4,739,495</u>	<u>\$ 4,739,495</u>

- b. The Town does not have any investments that require fair value.
- c. The Town's investments subject to credit risk had average ratings by Standard & Poor's as follows:

Type of Investment	Ratings AAA
Pooled fixed income	<u>\$ 4,690,144</u>

B. Receivables

Receivable balances have been disaggregated by type and presented separately in the financial statements. Only receivables with allowances for uncollectible accounts, including the applicable allowances for uncollectible accounts, are presented below.

	Property Taxes		
	Taxes	Interest and lien fees	Total
Current portion	<u>\$ 60,512</u>	<u>\$ 14,161</u>	<u>\$ 74,673</u>
Long-term portion	\$ 72,687	\$ 7,736	\$ 80,423
Less allowance for uncollectibles	<u>(39,254)</u>	<u>(6,453)</u>	<u>(45,707)</u>
Net long-term portion	<u>\$ 33,433</u>	<u>\$ 1,283</u>	<u>\$ 34,716</u>

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019

C. Interfund accounts

1. Interfund payables and receivables

A summary of interfund balances is as follows:

<u>Major Funds</u>	<u>Corresponding Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund			
Capital Nonrecurring Fund	N/A	\$ -	\$ 1,430,262
Education Grants Fund	N/A	377,290	-
School Cafeteria Fund	N/A	-	752
Town Grants Fund	N/A	-	44,333
Community Foundation Grant Fund	N/A	-	3,126
School Construction Fund	N/A	-	93,571
Total General Fund		<u>377,290</u>	<u>1,572,044</u>
Capital Nonrecurring Fund			
School Construction Fund	N/A	-	117,453
General Fund	N/A	1,430,262	-
Town Grants Fund	N/A	32,989	-
Total Capital Nonrecurring Fund		<u>1,463,251</u>	<u>117,453</u>
Education Grants Fund			
General Fund	N/A	-	377,290
Town Grants Fund	N/A	1,323	-
Total Education Grants Fund		<u>1,323</u>	<u>377,290</u>
Other Governmental Funds			
School Cafeteria Fund	General Fund	752	-
Town Grants Fund	General Fund	44,333	-
Town Grants Fund	Capital Nonrecurring Fund	-	32,989
Town Grants Fund	Education Grants Fund	-	1,323
Community Foundation Grant Fund	General Fund	3,126	-
School Construction Fund	Capital Nonrecurring Fund	117,453	-
School Construction Fund	General Fund	93,571	-
Total Other Governmental Funds		<u>259,235</u>	<u>34,312</u>
Grand Total		<u>\$ 2,101,099</u>	<u>\$ 2,101,099</u>

All interfund balances resulted from the time lag between the dates payments occurred between funds for interfund goods, payroll and services provided or in instances where certain funds do not have a cash account.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019

C. Interfund accounts (continued)

2. Interfund transfers

A summary of interfund transfers for the fiscal year is as follows:

	Corresponding Fund	Transfers In	Transfers Out
General Fund			
Capital Nonrecurring Fund	N/A	\$ -	\$ 895,974
Capital Nonrecurring Fund			
General Fund	N/A	895,974	-
<u>Other Governmental Funds</u>			
Special Revenue Funds			
Community Foundation Grant Fund	Memorial and Cemetery Fund	2,793	-
Permanent Funds			
Memorial and Cemetery Fund	Community Foundation Grant Fund	-	2,793
Total Other Governmental Funds		2,793	2,793
Total		\$ 898,767	\$ 898,767

Transfers are used to move budgeted appropriations from the general fund for funding of the capital nonrecurring fund and various programs and activities in other funds.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**D. Capital assets**

Capital asset activity for the fiscal year was as follows:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Capital Assets, Not Being Depreciated				
Land	\$ 1,840,216	\$ -	\$ -	\$ 1,840,216
Construction in progress	270,090	5,251	218,377	56,964
Total Capital Assets, Not Being Depreciated	<u>2,110,306</u>	<u>5,251</u>	<u>218,377</u>	<u>1,897,180</u>
Capital Assets, Being Depreciated				
Land improvements	1,781,364	218,641	-	2,000,005
Buildings and systems	16,609,475	45,000	-	16,654,475
Machinery and equipment	2,207,643	51,116	-	2,258,759
Infrastructure	2,920,533	448,759	-	3,369,292
Vehicles	3,085,586	893,678	168,000	3,811,264
Total Capital Assets, Being Depreciated	<u>26,604,601</u>	<u>1,657,194</u>	<u>168,000</u>	<u>28,093,795</u>
Total Capital Assets	<u>28,714,907</u>	<u>1,662,445</u>	<u>386,377</u>	<u>29,990,975</u>
Less Accumulated Depreciation For				
Land improvements	535,369	82,684	-	618,053
Building and systems	3,113,133	306,820	-	3,419,953
Machinery and equipment	1,099,344	98,706	-	1,198,050
Infrastructure	781,040	163,058	-	944,098
Vehicles	1,833,620	117,251	164,000	1,786,871
Total Accumulated Depreciation	<u>7,362,506</u>	<u>768,519</u>	<u>164,000</u>	<u>7,967,025</u>
Total Capital Assets, Being Depreciated, Net	<u>19,242,095</u>	<u>888,675</u>	<u>4,000</u>	<u>20,126,770</u>
Capital Assets, Net	<u>\$ 21,352,401</u>	<u>\$ 893,926</u>	<u>\$ 222,377</u>	<u>\$ 22,023,950</u>

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

General government	\$ 129,813
Public safety	140,491
Public works	242,657
Sanitation	17,243
Education	238,315
Total depreciation expense	<u>\$ 768,519</u>

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019

E. Short-term obligations

The Town uses short-term notes during the construction period of various public projects prior to the issuance of the bonds at the completion of the project.

Short-term obligation activity for the fiscal year was as follows:

Type of Obligation	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019
Note payable	\$ -	\$ 60,000	\$ -	\$ 60,000

The note matures in August 2019 and carries a coupon interest rate of 3.2%.

F. Changes in long-term obligations

1. Summary of changes

Description	Original Amount	Date of Issue	Date of Maturity	Interest Rate	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Current Portion	Long-Term Portion
<u>Bonds:</u>										
<u>Schools:</u>										
General obligation	\$ 4,500,000	07/02/14	07/01/29	2.25-4.00%	\$ 3,900,000	\$ -	\$ 325,000	\$ 3,575,000	\$ 325,000	\$ 3,250,000
<u>Notes payable:</u>										
Energy	34,105	06/08/15	06/30/19	0.00%	7,237	-	7,237	-	-	-
Fire department tools	182,000	07/16/15	07/06/19	2.99%	93,649	-	46,125	47,524	47,524	-
Fire truck	555,563	07/01/18	07/01/24	3.65%	-	555,563	-	555,563	84,489	471,074
Total notes payable	771,668				100,886	555,563	53,362	603,087	132,013	471,074
Total bonds and notes payable					4,000,886	555,563	378,362	4,178,087	457,013	3,721,074
Compensated absences					41,792	-	4,554	37,238	3,724	33,514
Post closure landfill costs					17,500	-	2,500	15,000	2,500	12,500
OPEB liability					426,941	105,313	76,006	456,248	-	456,248
Total long-term obligations					\$ 4,487,119	\$ 660,876	\$ 461,422	\$ 4,686,573	\$ 463,237	\$ 4,223,336

All long-term liabilities are generally liquidated by the general fund.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**F. Changes in long-term obligations (continued)**

The following is a summary of principal and interest amounts of bond and note maturities:

Year Ended June 30	Governmental Activities		
	Bond Principal	Note Principal	Total Interest
2020	\$ 325,000	\$ 132,013	\$ 129,804
2021	325,000	87,577	112,276
2022	325,000	90,777	96,076
2023	325,000	94,094	82,602
2024	325,000	97,532	71,446
2025	325,000	101,094	58,944
2026	325,000	-	45,500
2027	325,000	-	35,750
2028	325,000	-	26,000
2029	325,000	-	15,844
2030	325,000	-	5,281
	<u>\$ 3,575,000</u>	<u>\$ 603,087</u>	<u>\$ 679,523</u>

2. Statutory debt limitations

The Town's indebtedness does not exceed the legal debt limitations as required by Connecticut General Statutes as reflected in the following schedule:

Category	Debit Limit	Net Indebtedness	Balance
General purpose	\$ 26,973,835	\$ 60,000	\$ 26,913,835
Schools	53,947,670	3,575,000	50,372,670
Sewers	44,956,391	-	44,956,391
Urban renewal	38,962,206	-	38,962,206
Pension deficit	35,965,113	-	35,965,113

The total overall statutory debt limit for the Town is equal to seven times prior year annual receipts from taxation, \$83,918,597.

The indebtedness reflected above includes bonds outstanding in addition to the amount of bonds authorized and unissued against which bond anticipation notes are issued and outstanding.

3. Landfill closure and post-closure care costs

State and Federal laws and regulations require that the Town perform certain maintenance and monitoring functions at the landfill site for 30 years. Estimated total current costs of landfill post-closure care is \$15,000 which is based on the amount estimated to be paid for all equipment, facilities and services required to monitor and maintain the landfill. However, the actual cost of monitoring and other post-closure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**G. Fund balances and restricted net position**

Fund balances are composed of the following:

Fund Balance Component	General Fund	Capital Nonrecurring Fund	Education Grants Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable					
Memorial and cemetery	\$ -	\$ -	\$ -	\$ 1,997	\$ 1,997
Prepays	713,525	-	-	-	713,525
Total nonspendable	713,525	-	-	1,997	715,522
Restricted					
General government	-	-	-	41,541	41,541
Memorial and cemetery	-	-	-	6,251	6,251
Residential rehabilitation	-	-	-	307,648	307,648
Town clerk documents	42,191	-	-	-	42,191
Education	-	-	-	31,690	31,690
Total restricted	42,191	-	-	387,130	429,321
Committed					
Capital projects	-	821,781	-	482,737	1,304,518
Assigned					
General government	-	-	-	76,396	76,396
Capital projects	993,080	466,331	-	-	1,459,411
Total assigned	993,080	466,331	-	76,396	1,535,807
Unassigned	3,344,660	-	(486)	-	3,344,174
Total	<u>\$ 5,093,456</u>	<u>\$ 1,288,112</u>	<u>\$ (486)</u>	<u>\$ 948,260</u>	<u>\$ 7,329,342</u>

The amount of restricted net position, which was restricted by enabling legislation totaled \$31,690.

IV. Other information**A. Risk management**

The Town is exposed to various risks of loss including torts, theft of, damage to and destruction of assets; errors or omissions; injuries to employees and natural disasters. The Town obtains commercial insurance for these risks. Settled claims have not exceeded commercial coverage in any of the past three years, and there has not been any significant reductions in insurance coverage from amounts held in prior years.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**A. Risk management (continued)**

The Town is a member in Connecticut Interlocal Risk Management Association ("CIRMA"). CIRMA is a public entity risk pool established under the provisions of the Connecticut General Statutes Section 7-479a et. seq. 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 pool coverage with no deductible retention. A separate agreement limits the member's obligation to pay indemnification obligations and expenses should CIRMA be unable to do so.

The Town is a member of CIRMA's Liability-Automobile-Property Pool a risk sharing pool. The Town paid CIRMA for provisions of general liability, automobile liability, employee benefit liability, law enforcement liability, public officials and property coverage. The premium is subject to these coverages and claims and expense payments falling within the deductible amounts are the responsibility of the Town. CIRMA's Liability-Automobile-Property Pool retains \$1,000,000 per occurrence for each line of liability coverage.

The Town is also a member of CIRMA's Workers' Compensation Pool, a risk sharing pool. The Workers' Compensation Pool provides statutory benefits pursuant to the provisions of the Connecticut Workers' Compensation Act. The coverage is subject to an insured loss retrospective rating plan and losses incurred in the coverage period will be evaluated at 18, 30 and 42 months after the effective date of coverage. The premium is subject to a payroll audit at the close of the coverage period. CIRMA's Workers' Compensation Pool retains \$1,000,000 per occurrence and purchases reinsurance above that amount to the limit of liability of \$10,000,000 per occurrence.

B. Commitments and litigation

Amounts received or receivable from Federal and State grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

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

C. Regionalization

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 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 the Town paid \$1,918,114 in regular education tuition and \$789,098 in special education tuition to the Town of East Lyme.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**C. Regionalization (continued)**

- 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 will reimburse the Town of East Lyme a per student fee.
- 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 tuition and other 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.

V. Pensions and other post-employment benefit plans**A. Connecticut State Teachers' Retirement System****1. 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/trb.

2. Benefit provisions

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 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.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019

A. Connecticut State Teachers' Retirement System (continued)

Disability Retirement: Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for nonservice-related disability eligibility. Disability benefits are calculated as 2% of average annual salary times credited service to the date of disability, but not less than 15% of the average annual salary, nor more than 50% of the 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 the annual average salary.

Pre-Retirement Death Benefit: The Plan also offers a lump-sum return of contributions with interest or surviving spouse benefit depending on length of service.

3. 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.

Employer (School Districts)

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

Employees

Effective January 1, 2018, each teacher is required to contribute 7% of their salary for the pension benefit.

4. 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 of Connecticut's proportionate share of the net pension liability associated with the Town	<u>10,043,313</u>
Total	<u>\$ 10,043,313</u>

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**A. Connecticut State Teachers' Retirement System (continued)**

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. The Town has no proportionate share of the net pension liability.

During the year the Town recognized pension expense and revenue of \$970,664 for on-behalf amounts for contributions to the plan by the State.

5. Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2018, 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 pension plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015.

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%.

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:

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019

A. Connecticut State Teachers' Retirement System (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap U.S. equities	21.0%	5.8%
Developed non-U.S. equities	18.0%	6.6%
Emerging markets (non-U.S.)	9.0%	8.3%
Real estate	7.0%	5.1%
Private equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Core fixed income	7.0%	1.3%
High yield bonds	5.0%	3.9%
Emerging market bond	5.0%	3.7%
Inflation linked bond fund	3.0%	1.0%
Cash	6.0%	0.4%
Total	<u>100.0%</u>	

6. 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.

7. 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.

8. 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, 2018.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019

B. Other Post-Employment Benefit Plan

1. Plan description

a. Plan administration

The Town administers a single-employer, post-retirement healthcare plan for retired certified teachers and their spouses in accordance with the Connecticut General Statutes and various collective bargaining agreements. The plan is considered to be part of the Town's financial reporting entity. The plan does not have assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The plan does not issue stand-alone financial reports.

b. Plan membership

As of July 1, 2018, the plans' membership consisted of:

Retirees and beneficiaries receiving benefits	2
Active members	<u>43</u>
Total	<u><u>45</u></u>

2. Benefit provisions

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 the Connecticut General Statutes and various collective bargaining agreements.

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.

3. Contributions

Teachers who no longer work for the Board of Education are allowed by State Statute to participate in the Town's group medical insurance plan until they formally begin receiving benefits from the State Teachers' Retirement Plan. These retirees are required to contribute the cost of the insurance to the Town.

4. OPEB liability

The Board of Education's OPEB liability of \$456,248 was measured as of June 30, 2019 and was determined by an actuarial valuation as of July 1, 2018.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019

B. Other Post-Employment Benefit Plan (continued)

5. Actuarial methods and significant assumptions:

The Town has elected to use the alternative approach to calculate OPEB related benefits. This allows financial statement preparers to use certain simplified assumptions to project benefits without the use of an actuary. The significant assumptions used 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:

Valuation date	July 1, 2018
Actuarial cost method	Entry age normal
Amortization method	Level percentage
Amortization period	20 years
Discount rate	3.62%
Healthcare cost trend rate	Ranges from 4.6% - 4.8%
Salary increases	3.00%
Mortality rates	RP2000 Mortality Table for Males and Females Projected 18 years; this assumption does not include a margin for future improvements in longevity

The discount rate for the plan was based on the Standard and Poor's municipal bond 20-year high grade index as of the measurement date.

6. Changes from prior year

a. Changes in assumptions

Projected salary increases increased from 2.50% to 3.00%.

b. Changes in benefit terms

There were no changes in benefit terms.

7. Changes in the OPEB liability

Balance at July 1, 2018	\$ 426,941
Service cost	15,788
Interest	20,454
Differences between expected and actual experience	(76,006)
Changes in assumptions	69,071
Net change	29,307
Balance at June 30, 2019	\$ 456,248

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019

B. Other Post-Employment Benefit Plan (continued)

8. Sensitivity of the OPEB liability to changes in the discount rate

The following presents the OPEB liability, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percent lower or 1-percent higher than the current discount rate:

	1% Decrease 2.62%	Current Discount Rate 3.62%	1% Increase 4.62%
OPEB Liability	\$ 542,305	\$ 456,248	\$ 387,177

9. Sensitivity of the OPEB liability to changes in the healthcare cost trend rate

The following presents the OPEB liability, as well as what the OPEB liability would be if it were calculated using trend rates that are 1-percent lower or 1-percent higher than the current trend rates:

	1% Decrease	Current Health Care Trend Rates	1% Increase
OPEB Liability	\$ 371,522	\$ 456,248	\$ 565,120

10. OPEB expense and deferred outflows of resources related to OPEB

For the fiscal year, the Town recognized OPEB expense of \$29,307. There are no deferred outflows or inflows of resources related to OPEB.

C. Connecticut State Teachers' Retirement Board Retiree Health Insurance Plan

1. Plan description

Teachers, principals, superintendents, supervisors and professional employees at State schools of higher education if they choose to be covered that are currently receiving a retirement or disability benefit are eligible to participate in the Connecticut State Teachers' Retirement System Retiree Health Insurance Plan ("TRS-RHIP") - a cost sharing multiple-employer defined benefit other post-employment benefit plan administered by the Teachers' Retirement Board ("TRB"). Chapter 167a Section 10-183t of the State Statutes grants authority to establish and amend the benefit terms to the TRB. TRS-RHIP issues a publicly available financial report that can be obtained at www.ct.gov/trb.

2. Benefit provisions

The Plan provides for retiree health insurance benefits. Eligibility is as follows:

- **Normal Retirement:** Eligibility - 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.
- **Early Retirement:** Eligibility - 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.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**C. Connecticut State Teachers' Retirement Board Retiree Health Insurance Plan (continued)**

- **Proratable Retirement:** Eligibility - Age 60 with 10 years of Credited Service.
- **Disability Retirement:** Eligibility - 5 years of Credited Service in Connecticut if not incurred in the performance of duty and no service requirement if incurred in the performance of duty.
- **Termination of Employment:** Eligibility - 10 or more years of Credited Service.

Retiree health care coverage

Any member that is currently receiving a retirement or disability benefit is eligible to participate in the Plan. There are two types of the health care benefits offered through the system. Subsidized Local School District Coverage provides a subsidy paid to members still receiving coverage through their former employer and the CTRB Sponsored Medicare Supplemental Plans provide coverage for those participating in Medicare, but not receiving Subsidized Local School District Coverage.

Any member that is not currently participating in Medicare Parts A & B is eligible to continue health care coverage with their former employer. A subsidy of up to \$110 per month for a retired member plus an additional \$110 per month for a spouse enrolled in a local school district plan is provided to the school district to first offset the retiree's share of the cost of coverage, any remaining portion is used to offset the district's cost. The subsidy amount is set by statute, and has not increased since July of 1996. A subsidy amount of \$220 per month may be paid for a retired member, spouse or the surviving spouse of a member who has attained the normal retirement age to participate in Medicare, is not eligible for Part A of Medicare without cost, and contributes at least \$220 per month towards coverage under a local school district plan.

Any member that is currently participating in Medicare Parts A & B is eligible to either continue health care coverage with their former employer, if offered, or enroll in the plan sponsored by the System. If they elect to remain in the plan with their former employer, the same subsidies as above will be paid to offset the cost of coverage.

If a member participating in Medicare Parts A & B so elects, they may enroll in one of the CTRB Sponsored Medicare Supplemental Plans. Active members, retirees, and the State pay equally toward the cost of the basic coverage (medical and prescription drug benefits).

Those participants electing vision, hearing, and/or dental are required by the System's funding policy to pay the full cost of coverage for these benefits, and no liability is assumed by the Plan for these benefits.

Survivor health care coverage

Survivors of former employees or retirees remain eligible to participate in the Plan and continue to be eligible to receive either the \$110 monthly subsidy or participate in the TRB-Sponsored Medicare Supplemental Plans, as long as they do not remarry.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019

C. Connecticut State Teachers' Retirement Board Retiree Health Insurance Plan (continued)

3. Contributions

State of Connecticut

Per Connecticut General Statutes Section 10-183z, 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 State contributions are not currently actuarially funded. The State appropriates from the General Fund one third of the annual costs of the Plan. Administrative costs of the Plan are financed by the State. Based upon Chapter 167a, Subsection D of Section 10-183t of the Connecticut statutes, it is assumed the State will pay for any long-term shortfall arising from insufficient active member contributions.

Employer (School Districts)

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

Employees

Each member is required to contribute 1.25% of their annual salary.

4. OPEB liabilities, OPEB expense, deferred outflows of resources and deferred inflows of resources related to OPEB

The Town reports no amounts for its proportionate share of the net OPEB 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 OPEB liability, the related state support, and the total portion of the net OPEB liability that was associated with the Town were as follows:

Town's proportionate share of the collective net OPEB liability	\$ -
State of Connecticut's proportionate share of the net OPEB liability associated with the Town	<u>2,007,734</u>
Total	<u>\$ 2,007,734</u>

The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. The Town has no proportionate share of the net OPEB liability.

The Town recognized OPEB expense and revenue of \$26,931 for on-behalf amounts for contributions to the plan by the State.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019

C. Connecticut State Teachers' Retirement Board Retiree Health Insurance Plan (continued)

5. Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Health care cost trend rate	5.00% decreasing to 4.75% by 2028
Salary increases	3.25-6.50%, including inflation
Investment rate of return	3.87%, net of OPEB plan investment expense, including inflation
Year fund net position will be depleted	2019

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015.

Changes in assumptions and inputs

As a result of the experience study for the five-year period ending June 30, 2015:

- The payroll growth rate assumption was decreased from 3.75% to 3.25% to reflect the decrease in the rate of inflation and the decrease in the rate of real wage increase.
- The demographic assumptions of salary growth, payroll growth, the rates of withdrawal, the rates of retirement, the rates of mortality, and the rates of disability incidence were adjusted based upon the experience study's findings and their adoption by the Board.
- The discount rate has been increased from 3.56% to 3.87% based upon the increase in the municipal bond index.

Additionally, the assumed initial per capita health care costs, the assumed rates of healthcare inflation used to project the per capita costs, and the participation assumptions have been revised.

Long-term expected rate of return

The long-term expected rate of return on OPEB 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 OPEB 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

All the plan assets are assumed to be invested in cash equivalents due to the need for liquidity. The expected rate of return is 3.00%.

Town of Salem, Connecticut

Notes to Financial Statements
As of and for the Year Ended June 30, 2019**D. Connecticut State Teachers' Retirement Board Retiree Health Insurance Plan (continued)****Affordable Care Act ("ACA")**

The impact of the Affordable Care Act ("ACA") was addressed in this valuation. Review of the information currently available did not identify any specific provisions of the ACA that are anticipated to significantly impact results. While the impact of certain provisions such as the excise tax on high-value health insurance plans beginning in 2020 (if applicable), mandated benefits and participation changes due to the individual mandate should be recognized in the determination of liabilities, overall future plan costs and the resulting liabilities are driven by amounts employers and retirees can afford (i.e., trend). The trend assumption forecasts the anticipated increase to initial per capita costs, taking into account health care cost inflation, increases in benefit utilization, plan changes, government-mandated benefits, and technological advances.

Given the uncertainty regarding the ACA's implementation (e.g., the impact of excise tax on high-value health insurance plans, changes in participation resulting from the implementation of state-based health insurance exchanges), continued monitoring of the ACA's impact on the Plan's liability will be required.

6. Discount rate

The discount rate used to measure the total OPEB liability was 3.87%. 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.

7. Sensitivity of the OPEB liability to changes in the discount rate and the health care cost trend rate

The Town's proportionate share of the net OPEB liability is \$0 and, therefore, the change in the discount rate would only impact the amount recorded by the State of Connecticut.

8. Plan fiduciary net position

Detailed information about the Connecticut State Teachers' OPEB 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, 2018.

**Required
Supplementary
Information**

Town of Salem, Connecticut
Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2019

	Original	Additional Appropriations and Transfers	Final	Actual	Variance with Final Budget
Revenues					
Property tax revenues					
Property taxes	\$ 11,642,747	\$ -	\$ 11,642,747	\$ 11,700,360	\$ 57,613
Prior year tax collections	170,000	-	170,000	150,798	(19,202)
Supplemental motor vehicle tax collections	100,000	-	100,000	135,685	35,685
Interest on property taxes	70,000	-	70,000	79,601	9,601
Interest on supplemental motor vehicles	3,000	-	3,000	3,810	810
Liens on property taxes	1,200	-	1,200	1,104	(96)
Total property tax revenues	11,986,947	-	11,986,947	12,071,358	84,411
Intergovernmental					
State/federal grants for education					
Education equalization	2,757,007	-	2,757,007	2,727,638	(29,369)
Adult education	4,126	-	4,126	5,666	1,540
Total state/federal grants for education	2,761,133	-	2,761,133	2,733,304	(27,829)
Other state/federal grants					
Town Aid Road (TAR)	193,534	-	193,534	193,591	57
Reimbursable trails grant	-	-	-	19,619	19,619
State property in lieu of taxes	35,653	-	35,653	35,653	-
Local capital improvement	40,128	-	40,128	-	(40,128)
Mashantucket Pequot grant	7,370	-	7,370	7,370	-
Tax relief for the elderly	-	-	-	333	333
Veterans' tax relief	-	-	-	4,637	4,637
Telephone access line	-	-	-	7,696	7,696
Office of policy and management grant	4,699	-	4,699	4,699	-
Miscellaneous	132,694	-	132,694	139,329	6,635
Total other state/federal grants	414,078	-	414,078	412,927	(1,151)
Total intergovernmental	3,175,211	-	3,175,211	3,146,231	(28,980)
Charges for services					
Licenses and permits					
Garbage bag revenue	38,000	-	38,000	39,933	1,933
Conveyance tax	45,000	-	45,000	55,310	10,310
Building permits	40,000	-	40,000	48,259	8,259
Tipping and hauling fees	5,000	-	5,000	6,421	1,421
Landfill fees - bulky waste	7,000	-	7,000	7,392	392
Heating	5,000	-	5,000	6,522	1,522
Electrical	8,000	-	8,000	7,354	(646)
Plumbing	2,750	-	2,750	2,116	(634)
Zoning compliance	1,500	-	1,500	1,312	(188)
Miscellaneous permits and fees	1,000	-	1,000	2,680	1,680
Pistol permits/sport licenses	2,000	-	2,000	3,010	1,010
Total licenses and permits	155,250	-	155,250	180,309	25,059

(Continued)

Town of Salem, Connecticut

Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2019

	Original	Additional Appropriations and Transfers	Final	Actual	Variance with Final Budget
Charges for current services					
Recording fees	\$ 15,000	\$ -	\$ 15,000	\$ 16,720	\$ 1,720
Sale of copies	5,000	-	5,000	3,988	(1,012)
Planning and zoning commission fees	1,000	-	1,000	1,672	672
CFC evacuation fees	750	-	750	1,065	315
Sale of maps	500	-	500	518	18
Inland/wetland commission fees	300	-	300	450	150
Zoning board of appeals fees	-	-	-	1,140	1,140
Sale of zoning regulations	250	-	250	-	(250)
Electronic registration fees	3,500	-	3,500	3,336	(164)
Total charges for current services	26,300	-	26,300	28,889	2,589
Total charges for services	181,550	-	181,550	209,198	27,648
Income from investments					
General fund	65,000	-	65,000	94,198	29,198
Other					
Recreation fee based activity	20,000	-	20,000	14,427	(5,573)
Library fees/fines	14,000	-	14,000	12,897	(1,103)
Miscellaneous	5,000	-	5,000	15,281	10,281
Insurance claims and refunds	5,500	-	5,500	8,684	3,184
Use of recreation fields	3,000	-	3,000	1,950	(1,050)
Pavilion rental	3,150	-	3,150	720	(2,430)
Total other	50,650	-	50,650	53,959	3,309
Total revenues	15,459,358	-	15,459,358	15,574,944	115,586
Other financing sources					
Appropriation of fund balance	-	132,165	132,165	-	(132,165)
Total revenues and other financing sources	15,459,358	132,165	15,591,523	15,574,944	(16,579)
Expenditures					
General government					
Selectman's department	7,752	(170)	7,582	7,040	542
Salaries	591,115	3,784	594,899	578,704	16,195
Building official, sanitarian	3,803	-	3,803	1,847	1,956
Town clerk	15,645	-	15,645	15,645	-
Treasurer, auditor, board of finance	36,985	-	36,985	31,817	5,168
Assessor	16,790	-	16,790	16,790	-

(Continued)

Town of Salem, Connecticut

Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2019

	Original	Additional Appropriations and Transfers	Final	Actual	Variance with Final Budget
General government (continued)					
Tax collector	\$ 13,655	\$ -	\$ 13,655	\$ 10,587	\$ 3,068
Registrar	13,515	-	13,515	13,396	119
Town counsel	20,100	6,000	26,100	23,724	2,376
Town office operations	98,000	-	98,000	97,969	31
Municipal building maintenance	48,830	-	48,830	48,696	134
Employee benefits	350,008	(30,388)	319,620	318,313	1,307
Utilities	59,416	1,818	61,234	62,877	(1,643)
Town services	107,794	(6,018)	101,776	101,775	1
Regional services	10,203	160	10,363	10,362	1
Economic development	1,500	-	1,500	1,500	-
Inland wetlands, conservation commission	1,350	1,800	3,150	2,840	310
Planning and zoning commission	14,500	-	14,500	13,429	1,071
Zoning board of appeals	800	-	800	800	-
Recreation commission	47,100	-	47,100	42,472	4,628
Municipal insurance	121,132	(1,308)	119,824	119,417	407
Unanticipated expenses	1,000	170	1,170	1,170	-
Library	34,350	-	34,350	33,952	398
Total general government	1,615,343	(24,152)	1,591,191	1,555,122	36,069
Public safety					
Salaries	223,925	-	223,925	223,925	-
Security	261,046	34,845	295,891	295,891	-
Utilities	47,910	-	47,910	46,515	1,395
Gardner lake fire department	77,470	-	77,470	70,055	7,415
Salem fire department	85,500	30,365	115,865	98,844	17,021
Ambulance	42,455	-	42,455	40,193	2,262
Public safety	64,200	-	64,200	63,949	251
Total public safety	802,506	65,210	867,716	839,372	28,344
Public works					
Salaries	358,912	-	358,912	352,507	6,405
Utilities	42,073	-	42,073	41,640	433
Public works	256,500	-	256,500	256,384	116
Total public works	657,485	-	657,485	650,531	6,954
Sanitation					
Transfer station	161,101	(8,893)	152,208	149,191	3,017

(Continued)

Town of Salem, Connecticut

Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2019

	Original	Additional Appropriations and Transfers	Final	Actual	Variance with Final Budget
Debt service					
Interest payments	\$ 122,797	\$ -	\$ 122,797	\$ 122,795	\$ 2
Principal payable	409,972	-	409,972	409,972	-
Total debt service	532,769	-	532,769	532,767	2
Capital outlay					
Open space land acquisition	5	-	5	-	5
Education	10,324,295	100,000	10,424,295	10,376,941	47,354
Total expenditures	14,093,504	132,165	14,225,669	14,103,924	121,745
Other financing uses					
Transfers out	895,974	-	895,974	895,974	-
Total expenditures and other financing uses	14,989,478	132,165	15,121,643	14,999,898	121,745
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ 469,880	\$ -	\$ 469,880	\$ 575,046	\$ 105,166

Reconciliation to Exhibit D

	Revenues	Expenditures
Budgetary basis- RSI-1	\$ 15,574,944	\$ 14,103,924
State Teachers' pension on behalf amount	970,664	970,664
State Teachers' OPEB on behalf amount	26,931	26,931
Liquidation of prior year encumbrances	-	18,250
Tuition true up	-	(125,670)
GAAP Basis- Exhibit D	\$ 16,572,539	\$ 14,994,099

(Concluded)

Town of Salem, Connecticut
Notes to Required Supplementary Information
Budgets and Budgetary Accounting

The District adheres to the following procedures in establishing the budgetary data included in the general fund financial statements. The general fund is the only fund for which a legal budget is adopted.

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 budget for as revenue or expenditures payments made for the State Teachers' pension and OPEB by the State of Connecticut on the Town's behalf.
2. Encumbrances are reported as expenditures for the budgetary basis of accounting.
3. The Town pays and budgets for tuition to East Lyme High School based on estimated costs per student. The actual cost for each year is not determined until an audit is completed. Once the audit has been completed the cost per student is recalculated and the billing is adjusted. The adjusted costs are paid in the subsequent year for budget purposes.

Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order, contract or other commitment is issued and, accordingly, encumbrances outstanding at year end are reported in budgetary reports (RSI 1) as expenditures in the current year. Generally, all unencumbered appropriations lapse at year end, except those for the capital projects funds and those specifically reappropriated by the Board of Finance.

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.

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.

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.

There were \$132,165 of additional appropriations made during the year.

The Board of Education is authorized under state law to make any transfers required within their budget at their discretion. Additionally, as required by the Charter, these transfers must be reported to the Board of Selectmen. Any additional appropriations must have Board of Education and Board of Selectmen approval and, if over one-half of one percent of the annual budget, Town Meeting approval.

Town of Salem, Connecticut
Required Supplementary Information
Connecticut State Teachers' Retirement System
Last Five Years (3)

2019 2018 2017 2016 2015

Schedule of Proportionate Share of the Net Pension Liability

Town's proportion of the net pension liability	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Town's proportionate share of the collective net pension liability	\$ -	\$ -	\$ -	\$ -	\$ -
State of Connecticut's proportionate share of the net pension liability associated with the Town	<u>10,043,313</u>	<u>9,960,033</u>	<u>10,507,911</u>	<u>8,877,646</u>	<u>8,205,604</u>
Total	<u>\$ 10,043,313</u>	<u>\$ 9,960,033</u>	<u>\$ 10,507,911</u>	<u>\$ 8,877,646</u>	<u>\$ 8,205,604</u>
Town's covered payroll	<u>(2)</u>	<u>(2)</u>	<u>(2)</u>	<u>(2)</u>	<u>(2)</u>
Town's proportionate share of the net pension liability as a percentage of its covered payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>57.69%</u>	<u>55.93%</u>	<u>52.26%</u>	<u>59.50%</u>	<u>61.51%</u>

Schedule of Contributions

Contractually required contribution	(1) \$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Town's covered payroll	<u>(2)</u>	<u>(2)</u>	<u>(2)</u>	<u>(2)</u>	<u>(2)</u>
Contributions as a percentage of covered payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>

(1) Local employers are not required to contribute to the plan.

(2) Not applicable since 0% proportional share of the net pension liability

(3) These schedules are intended to present information for 10 years. Additional years will be presented as they become available.

Town of Salem, Connecticut

Notes to Required Supplementary Information

Connecticut State Teachers' Retirement System
Schedule of Contributions
Last Five Years (1)

	2019	2018	2017	2016	2015
Changes of Benefit Terms	Beginning January 1, 2018, member contributions increased from 6% to 7% of salary	None	None	None	None
The actuarially determined contribution rates are calculated as of	July 1, 2018	July 1, 2016	July 1, 2016	July 1, 2014	July 1, 2014
Actuarial methods and assumptions used to determine contribution rates:					
Actuarial Cost Method	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization Method	Level percent of salary, closed	Level percent of salary, closed	Level percent of salary, closed	Level percent of salary, closed	Level percent of salary, closed
Remaining Amortization Period	17.6 years	20.4 years	20.4 years	21.4 years	22.4 years
Asset Valuation Method	4 year smoothed market	4 year smoothed market	4 year smoothed market	4 year smoothed market	4 year smoothed market
Inflation	2.75%	2.75%	2.75%	3.00%	3.00%
Salary Increases	3.25%-6.50%, average, including inflation	3.25%-6.50%, average, including inflation	3.25%-6.50%, average, including inflation	3.75%-7.00%, average, including inflation	3.75%-7.00%, average, including inflation
Investment Rate of Return	8.00%	8.00%	8.00%	8.50%	8.50%
Mortality	RP-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale and further adjusted to grade in increases (5% for females and 8% for males) to rates over age 80. For disabled retirees, the RPH-2014 Disabled Mortality table projected to 2017 using the BB improvement scale	RP-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale and further adjusted to grade in increases (5% for females and 8% for males) to rates over age 80. For disabled retirees, the RPH-2014 Disabled Mortality table projected to 2017 using the BB improvement scale	RP-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale and further adjusted to grade in increases (5% for females and 8% for males) to rates over age 80. For disabled retirees, the RPH-2014 Disabled Mortality table projected to 2017 using the BB improvement scale	RP-2000 Combined Mortality Table projected 19 years using scale AA, with a two year setback for males and females for the period after service retirement and for dependent beneficiaries.	RP-2000 Combined Mortality Table projected 19 years using scale AA, with a two year setback for males and females for the period after service retirement and for dependent beneficiaries.

(1) This schedule is intended to present information for 10 years. Additional years will be presented as they become available.

Town of Salem, Connecticut

Required Supplementary Information

Other Post-Employment Benefits Plan - Education
Last Two Years (1)

<u>Schedule of Changes in OPEB Liability</u>	<u>2019</u>	<u>2018</u>
OPEB liability:		
Service cost	\$ 15,788	\$ 13,225
Interest	20,454	16,550
Difference between expected and actual experience	(76,006)	(16,123)
Changes in assumptions	<u>69,071</u>	<u>58,731</u>
Net change in OPEB liability	29,307	72,383
OPEB liability - July 1	<u>426,941</u>	<u>354,558</u>
OPEB liability - June 30 (a) *	<u>\$ 456,248</u>	<u>\$ 426,941</u>
Covered payroll	<u>N/A</u>	<u>N/A</u>
Total OPEB liability as a percentage of cover payroll	<u>N/A</u>	<u>N/A</u>

* There are no assets that are being accumulated in a trust that meets the criteria in GASB 75 to pay benefits.

(1) These schedules are intended to present information for 10 years. Additional years will be presented as the information becomes available.

N/A - Not Available

Town of Salem, Connecticut
Required Supplementary Information
Connecticut State Teachers' Retirement Board Retiree Health Insurance Plan
Last Two Years (3)

	2019	2018
<u>Schedule of Proportionate Share of the Net OPEB Liability</u>		
Town's proportion of the net OPEB liability	<u>0.00%</u>	<u>0.00%</u>
Town's proportionate share of the collective net OPEB liability	\$ -	\$ -
State of Connecticut's proportionate share of the net OPEB liability associated with the Town	<u>2,007,734</u>	<u>2,563,588</u>
Total	<u>\$ 2,007,734</u>	<u>\$ 2,563,588</u>
Town's covered payroll	<u>(2)</u>	<u>(2)</u>
Town's proportionate share of the net OPEB liability as a percentage of its covered payroll	<u>0.00%</u>	<u>0.00%</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>1.49%</u>	<u>1.79%</u>

Schedule of Contributions

Contractually required contribution	(1)	\$ -	\$ -
Contributions in relation to the contractually required contribution		<u>-</u>	<u>-</u>
Contribution deficiency (excess)		<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll		<u>(2)</u>	<u>(2)</u>
Contributions as a percentage of covered payroll		<u>0.00%</u>	<u>0.00%</u>

- (1) Local employers are not required to contribute to the plan
- (2) Not applicable since 0% proportional share of the net OPEB liability
- (3) These schedules are intended to present information for 10 years. Additional years will be presented as they become available.

Town of Salem, Connecticut

Notes to Required Supplementary Information

Connecticut State Teachers' Retirement Board Retiree Health Insurance Plan
 Schedule of Contributions
 Last Two Years (1)

	2019	2018
Changes of Benefit Terms	None	None
The actuarially determined contribution rates are calculated as of	July 1, 2018	July 1, 2016
Actuarial methods and assumptions used to determine contribution rates:		
Actuarial Cost Method	Entry age	Entry age
Amortization Method	Level percentage, open	Level percentage, open
Amortization Period	30 years	30 years
Asset Valuation Method	Fair Value	Fair Value
Inflation	2.75%	2.75%
Healthcare Inflation Rate	Initial 7.25% decreasing to 5.00% (ultimate) by 2022	Initial 7.25% decreasing to 5.00% (ultimate) by 2022
Salary Increases	3.25% to 6.50%, including inflation	3.25% to 6.50%, including inflation
Investment Rate of Return	3.00%	4.25%
Mortality Rate	RP-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale and further adjusted to grade in increases (5% for females and 8% for males) to rates over age 80. For disabled retirees, the RPH-2014 Disabled Mortality table projected to 2017 using the BB improvement scale.	RP-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale and further adjusted to grade in increases (5% for females and 8% for males) to rates over age 80. For disabled retirees, the RPH-2014 Disabled Mortality table projected to 2017 using the BB improvement scale.

59

(1) These schedules are intended to present information for 10 years. Additional years will be presented as they become available.

Supplemental Schedules

General Fund

The general fund is the principal fund of the Town and is used to account for all activities of the Town, except those required to be accounted for in another fund. The general fund accounts for the normal recurring activities of the Town (i.e., general government, public safety, public works, health and welfare, parks and recreation, education, library, etc.). These activities are funded principally by property taxes, user fees and grants from other governmental units.

Town of Salem, Connecticut
Report of Tax Collector
For the Year Ended June 30, 2019

Grand List Year	Uncollected Taxes July 1, 2018	Current Year Levy	Lawful Corrections		Transfers to Suspense	Adjusted Taxes Collectible	Collections				Uncollected Taxes June 30, 2019	
			Additions	Deductions			Net Taxes Collected	Interest Liens and Other Fees	Refunds	Total		
2004	\$ 241	\$ -	\$ -	\$ -	\$ 241	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2005	1,015	-	-	-	1,015	-	-	-	-	-	-	-
2006	1,287	-	-	-	1,005	282	-	-	-	-	-	282
2007	861	-	-	-	606	255	-	-	-	-	-	255
2008	289	-	-	-	268	21	-	-	-	-	-	21
2009	2,656	-	-	-	2,464	192	-	-	-	-	-	192
2010	2,146	-	-	-	1,751	395	200	271	-	471	-	195
2011	3,343	-	-	-	2,652	691	609	680	-	1,289	-	82
2012	1,768	-	-	181	717	870	802	340	181	1,323	-	249
2013	8,659	-	-	187	1,467	7,005	6,710	4,173	187	11,070	-	482
2014	18,508	-	-	190	3,812	14,506	12,189	5,426	190	17,805	-	2,507
2015	36,702	-	87	765	9,642	26,382	20,402	7,082	190	27,674	-	6,170
2016	<u>151,423</u>	<u>-</u>	<u>826</u>	<u>1,611</u>	<u>11,628</u>	<u>139,010</u>	<u>117,770</u>	<u>23,531</u>	<u>708</u>	<u>142,009</u>	-	<u>21,948</u>
Total Prior Years	228,898	-	913	2,934	37,268	189,609	158,682	41,503	1,456	201,641	-	32,383
2017	<u>-</u>	<u>12,014,126</u>	<u>19,501</u>	<u>60,324</u>	<u>14,521</u>	<u>11,958,782</u>	<u>11,878,155</u>	<u>66,753</u>	<u>20,189</u>	<u>11,965,097</u>	-	<u>100,816</u>
Total	<u>\$ 228,898</u>	<u>\$ 12,014,126</u>	<u>\$ 20,414</u>	<u>\$ 63,258</u>	<u>\$ 51,789</u>	<u>\$ 12,148,391</u>	<u>\$ 12,036,837</u>	<u>\$ 108,256</u>	<u>\$ 21,645</u>	<u>\$ 12,166,738</u>	-	133,199
											Interest receivable	21,897
											Allowance for doubtful accounts	<u>(45,707)</u>
											Net taxes receivables	<u>\$ 109,389</u>

69

Other Governmental Funds

Special Revenue Funds

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

Capital Project Funds

Capital project funds are used to account for the acquisition and construction of major capital assets.

Permanent Fund

The Permanent Fund is used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the memorial scholarships and cemetery.

Town of Salem, Connecticut

Other Governmental Funds
Combining Balance Sheet
June 30, 2019

Special Revenue Funds

	Town Grants Fund	Senior Citizens Fund	Dog Fund	School Cafeteria Fund	Community Foundation Grant Fund	Needy Fund
<u>Assets</u>						
Cash	\$ 63,259	\$ -	\$ 3,652	\$ 25,401	\$ -	\$ 4,549
Investments	-	31,506	-	-	-	2,310
Receivables						
Accounts	-	-	-	-	-	50
Intergovernmental	-	-	-	5,537	-	-
Loans	-	-	-	-	-	-
Due from other funds	44,333	-	-	752	3,126	-
Total assets	<u>\$ 107,592</u>	<u>\$ 31,506</u>	<u>\$ 3,652</u>	<u>\$ 31,690</u>	<u>\$ 3,126</u>	<u>\$ 6,909</u>
<u>Liabilities</u>						
Accounts payable	\$ -	\$ -	\$ 1,944	\$ -	\$ -	\$ -
Due to other funds	34,312	-	-	-	-	-
Total liabilities	<u>34,312</u>	<u>-</u>	<u>1,944</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Fund Balances</u>						
Nonspendable	-	-	-	-	-	-
Restricted	-	31,506	-	31,690	3,126	6,909
Committed	-	-	-	-	-	-
Assigned	73,280	-	1,708	-	-	-
Total fund balances	<u>73,280</u>	<u>31,506</u>	<u>1,708</u>	<u>31,690</u>	<u>3,126</u>	<u>6,909</u>
Total liabilities and fund balances	<u>\$ 107,592</u>	<u>\$ 31,506</u>	<u>\$ 3,652</u>	<u>\$ 31,690</u>	<u>\$ 3,126</u>	<u>\$ 6,909</u>

(Continued)

Town of Salem, Connecticut

Other Governmental Funds
Combining Balance Sheet
June 30, 2019

	Special Revenue Funds		Capital Project Funds				Permanent Fund	Total Other Governmental Funds
	Small Cities Grant Fund	Total Special Revenue Funds	Open Space Land Acquisition Fund	Land Acquisition Fund	School Construction Fund	Total Capital Project Funds	Memorial and Cemetery Fund	
<u>Assets</u>								
Cash	\$ 9,094	\$ 105,955	\$ 578	\$ 830	\$ 271,713	\$ 273,121	\$ 660	\$ 379,736
Investments	-	33,816	-	-	-	-	7,588	41,404
Receivables								
Accounts	-	50	-	-	-	-	-	50
Intergovernmental	-	5,537	-	-	-	-	-	5,537
Loans	298,554	298,554	-	-	-	-	-	298,554
Due from other funds	-	48,211	-	-	211,024	211,024	-	259,235
Total assets	\$ 307,648	\$ 492,123	\$ 578	\$ 830	\$ 482,737	\$ 484,145	\$ 8,248	\$ 984,516
<u>Liabilities</u>								
Accounts payable	\$ -	\$ 1,944	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,944
Due to other funds	-	34,312	-	-	-	-	-	34,312
Total liabilities	-	36,256	-	-	-	-	-	36,256
<u>Fund Balances</u>								
Nonspendable	-	-	-	-	-	-	1,997	1,997
Restricted	307,648	380,879	-	-	-	-	6,251	387,130
Committed	-	-	-	-	482,737	482,737	-	482,737
Assigned	-	74,988	578	830	-	1,408	-	76,396
Total fund balances	307,648	455,867	578	830	482,737	484,145	8,248	948,260
Total liabilities and fund balances	\$ 307,648	\$ 492,123	\$ 578	\$ 830	\$ 482,737	\$ 484,145	\$ 8,248	\$ 984,516

62

(Concluded)

Town of Salem, Connecticut

Other Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2019

Special Revenue Funds

	Town Grants Fund	Senior Citizens Fund	Dog Fund	School Cafeteria Fund	Community Foundation Grant Fund	Needy Fund
Revenues:						
Intergovernmental	\$ 13,445	\$ -	\$ -	\$ 45,858	\$ 700	\$ -
Charges for services	-	-	3,741	55,590	-	-
Contributions	-	-	-	-	2,350	1,650
Income from investments	-	203	-	-	-	41
Total revenues	<u>13,445</u>	<u>203</u>	<u>3,741</u>	<u>101,448</u>	<u>3,050</u>	<u>1,691</u>
Expenditures:						
Current:						
General government	15,959	-	4,748	-	2,789	-
Education	-	-	-	100,921	-	-
Total expenditures	<u>15,959</u>	<u>-</u>	<u>4,748</u>	<u>100,921</u>	<u>2,789</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(2,514)</u>	<u>203</u>	<u>(1,007)</u>	<u>527</u>	<u>261</u>	<u>1,691</u>
Other financing sources (uses):						
Transfers in	-	-	-	-	2,793	-
Transfers out	-	-	-	-	-	-
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,793</u>	<u>-</u>
Net change in fund balances	(2,514)	203	(1,007)	527	3,054	1,691
Fund balances - July 1, 2018	<u>75,794</u>	<u>31,303</u>	<u>2,715</u>	<u>31,163</u>	<u>72</u>	<u>5,218</u>
Fund balances - June 30, 2019	<u>\$ 73,280</u>	<u>\$ 31,506</u>	<u>\$ 1,708</u>	<u>\$ 31,690</u>	<u>\$ 3,126</u>	<u>\$ 6,909</u>

(Continued)

Town of Salem, Connecticut

Other Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2019

	Special Revenue Fund		Capital Project Funds				Permanent Fund	
	Small Cities Grant Fund	Total Special Revenue Funds	Open Space Land Acquisition Fund	Land Acquisition Fund	School Construction Fund	Total Capital Project Funds	Memorial and Cemetery Fund	Total Other Governmental Funds
Revenues:								
Intergovernmental	\$ -	\$ 60,003	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,003
Charges for services	-	59,331	-	-	-	-	-	59,331
Income from investments	-	244	-	-	-	-	99	343
Contributions	-	4,000	-	-	-	-	-	4,000
Total revenues	-	123,578	-	-	-	-	99	123,677
Expenditures:								
Current:								
General government	412	23,908	-	-	-	-	-	23,908
Education	-	100,921	-	-	-	-	-	100,921
Total expenditures	412	124,829	-	-	-	-	-	124,829
Excess (deficiency) of revenues over expenditures	(412)	(1,251)	-	-	-	-	99	(1,152)
Other financing sources (uses):								
Transfers in	-	2,793	-	-	-	-	-	2,793
Transfers out	-	-	-	-	-	-	(2,793)	(2,793)
Net other financing sources (uses)	-	2,793	-	-	-	-	(2,793)	-
Net change in fund balances	(412)	1,542	-	-	-	-	(2,694)	(1,152)
Fund balances - July 1, 2018	308,060	454,325	578	830	482,737	484,145	10,942	949,412
Fund balances - June 30, 2019	<u>\$ 307,648</u>	<u>\$ 455,867</u>	<u>\$ 578</u>	<u>\$ 830</u>	<u>\$ 482,737</u>	<u>\$ 484,145</u>	<u>\$ 8,248</u>	<u>\$ 948,260</u>

64

(Concluded)

Trend Information

Town of Salem, Connecticut
Schedule of Debt Limitation
Connecticut General Statutes, Section 7-374 (b)
For the Year Ended June 30, 2019
(Unaudited)

Tax Base:

Town tax collections (including interest and lien fees) for prior year \$ 11,988,371

Debt limitation:	General Purpose	Schools	Sewers	Urban Renewal	Pension Deficit
2 1/4 times base	\$ 26,973,835	\$ -	\$ -	\$ -	\$ -
4 1/2 times base	-	53,947,670	-	-	-
3 3/4 times base	-	-	44,956,391	-	-
3 1/4 times base	-	-	-	38,962,206	-
3 times base	-	-	-	-	35,965,113
Total debt limitation	<u>26,973,835</u>	<u>53,947,670</u>	<u>44,956,391</u>	<u>38,962,206</u>	<u>35,965,113</u>
Indebtedness:					
Bonds payable	-	3,575,000	-	-	-
Notes payable	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total indebtedness	<u>60,000</u>	<u>3,575,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt limitation in excess of outstanding debt	<u>\$ 26,913,835</u>	<u>\$ 50,372,670</u>	<u>\$ 44,956,391</u>	<u>\$ 38,962,206</u>	<u>\$ 35,965,113</u>
The total net indebtedness above amounts to:					<u>\$ 3,635,000</u>
In no event shall total indebtedness exceed seven time the base for debt limitation computation:					<u>\$ 83,918,597</u>