

**TOWN OF SALEM,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the Town of Salem as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the Town of Salem as of December 31, 2014, and the respective changes in financial position, the respective budgetary comparison for the major general fund and where applicable, cash flows, thereof 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 (pages 3 through 9) and the Schedule of Funding Progress for Other Postemployment Benefit Plan (page 46) 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 them

*Town of Salem
Independent Auditor's Report*

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

Other Information - Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Salem's basic financial statements. The combining and individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial 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 combining and individual fund financial schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

June 10, 2015

*Blodzik & Sanderson
Professional Association*

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Town of Salem, New Hampshire (the Town) annual financial report, the Town's management is pleased to provide this narrative discussion and analysis of the financial activities of the Town for the calendar year ended December 31, 2014. The Town's financial performance is discussed and analyzed within the context of the accompanying financial statements and the disclosures that follow this section.

Overview of the Financial Statements

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

Government-wide Financial Statements

The Town's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the Town's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of activities between funds.

The first of these government-wide statements is the *Statement of Net Position*. This is the government-wide statement of position presenting information that includes all of the Town's assets, liabilities, and deferred inflow of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town as a whole is improving or deteriorating. Evaluation of the overall health of the Town would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of Town infrastructure, in addition to the financial information provided in this report.

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

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

Fund Financial Statements

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

The Town has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the Town's governmental funds. These statements report short-term calendar accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to assist in understanding the differences between these two perspectives.

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

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water operations. The proprietary funds financial statements are presented on pages 17-19 of this report.

Fiduciary funds are a private purpose trust fund and agency funds. The fiduciary funds financial statements are presented on pages 20-21 of this report.

Notes to the Basic Financial Statements

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

Required Supplementary Information

The Schedule of Funding Progress for Other Postemployment Benefit Plan is presented as required supplementary information. This presentation is presented on page 46 of this report.

Other Supplementary Information

In addition to the basic financial statements, accompanying notes to the basic financial statements, and required supplementary information, combining and individual schedules for the general and nonmajor funds are presented beginning on page 48.

Financial Highlights

- The Town's assets exceeded its liabilities and deferred inflows of resources by \$119,585,028 (net position) for the calendar year reported.
- As of the close of the current year, governmental funds reports combined ending fund balances of \$17,304,655, a change of \$1,406,425 in comparison to prior year.
- At the end of the current year, unassigned fund balances for General Fund was \$7,113,093, a change of \$995,312 in comparison to the prior year.
- Total long-term debt (bonds payable) at the close of the current year was \$8,908,000, a change of \$1,811,000 in comparison to the prior year.
- Overall, the Town continues to maintain a strong financial position.

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

Government-Wide Financial Analysis

	NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other assets	37,805,515	48,268,989	7,240,824	-	45,046,339	48,268,989
Capital assets	95,979,757	115,693,168	17,851,008	-	113,830,765	115,693,168
Total assets	133,785,272	163,962,157	25,091,832	-	158,877,104	163,962,157
Current liabilities	19,747,994	13,802,270	108,361	-	19,856,355	13,802,270
Noncurrent liabilities	15,211,377	23,736,374	4,000,014	-	19,211,391	23,736,374
Total Liabilities	34,959,371	37,538,644	4,108,375	-	39,067,746	37,538,644
Deferred inflows of resources	224,330	42,643	-	-	224,330	42,643
Net Position:						
Net investment in capital assets	90,452,571	110,139,801	14,040,825	-	104,493,396	110,139,801
Restricted	3,985,552	10,305,024	123,655	-	4,109,207	10,305,024
Unrestricted	4,163,448	5,936,045	6,818,977	-	10,982,425	5,936,045
Total net position	98,601,571	126,380,870	20,983,457	-	119,585,028	126,380,870

	CHANGES IN NET POSITION					
	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	3,898,865	10,208,077	6,052,733	-	9,951,598	10,208,077
Operating grants and contributions	657,581	-	188,354	-	845,935	-
Capital grants and contributions	1,197,299	310,611	-	-	1,197,299	310,611
General revenues:						
Property and other Taxes	27,718,491	26,807,543	-	-	27,718,491	26,807,543
Licenses and permits	6,392,293	4,872,268	-	-	6,392,293	4,872,268
Grants and contributions not restricted to specific programs	2,847,896	2,921,169	-	-	2,847,896	2,921,169
Investment income	56,453	187,297	-	-	56,453	187,297
Miscellaneous	1,623,805	2,704,830	149,503	-	1,773,308	2,704,830
Total revenues	44,392,683	48,011,795	6,390,590	-	50,783,273	48,011,795
Expenses:						
General government	7,370,987	6,730,813	-	-	7,370,987	6,730,813
Public safety	22,158,139	22,268,491	-	-	22,158,139	22,268,491
Highways and streets	14,446,430	13,407,724	-	-	14,446,430	13,407,724
Sanitation	1,017,455	1,111,765	-	-	1,017,455	1,111,765
Health	319,499	557,947	-	-	319,499	557,947
Welfare	346,311	-	-	-	346,311	-
Sewer distribution and treatment	-	2,145,902	2,629,869	-	2,629,869	2,145,902
Water distribution and treatment	-	2,470,971	3,020,832	-	3,020,832	2,470,971
Culture and recreation	2,057,434	2,074,255	-	-	2,057,434	2,074,255
Conservation	25,986	-	-	-	25,986	-
Interest on long-term debt	83,308	267,788	-	-	83,308	267,788
Total expenses	47,825,549	51,035,656	5,650,701	-	53,476,250	51,035,656
Change in net position before transfers and contributions	(3,432,866)	(3,023,861)	739,889	-	(2,692,977)	(3,023,861)
Transfers	162,297	-	(162,297)	-	-	-
Loss on Disposal of assets	-	-	-	-	-	-
Increase in net position	(3,270,569)	(3,023,861)	577,592	-	(2,692,977)	(3,023,861)
Net position - beginning of year, as restated	101,872,140	129,404,731	20,405,865	-	122,278,005	129,404,731
Net position - end of year	98,601,571	126,380,870	20,983,457	-	119,585,028	126,380,870

*Note 2-C identifies a change in accounting principle, the above prior year figures present what was included in the December 31, 2013 Annual Financial Statements. In the current year, the Sewer and Water Funds have been reported as Proprietary Funds after further interpretation of Governmental Accounting Standards Board (GASB) Statement No. 34 and consultation with officials from GASB and our audit firm.

GOVERNMENTAL REVENUES

The Town is heavily reliant on property taxes to support governmental operations and capital. Property taxes provided 54% of the Town's total governmental revenues as compared to 55% in 2013. Motor vehicle permit fees are the second largest revenue source with over \$5.3 million of revenues or 11% of the total as compared to 10% in 2013. The largest portion of net position \$104,493,396 reflects our investment in capital assets (e.g. land, building, machinery, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in 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 net position \$4,109,207 represents resources that are subject to restrictions on how they can be used. The remaining balance of \$10,982,425 may be used to meet the government's ongoing obligations to citizens and creditors.

GOVERNMENTAL FUNCTIONAL EXPENSES

The public safety and the highways and streets functions make up 76% of the total governmental activities expenses. General government totals over \$7.3 million and culture and recreation costs the Town over \$2 million annually.

This table presents the cost of each of the Town's programs, including the net costs (i.e., total cost less revenues generated by the activities). The net costs illustrate the financial burden that was placed on the Town's taxpayers by each of these functions.

Governmental Activities

	Total Cost of Services		Net Cost of Services	
	Amount	%	Amount	%
General government	\$ 7,370,987	15.41%	\$ 7,222,230	17.17%
Public safety	22,158,139	46.33%	18,780,661	44.64%
Highways and streets	14,446,430	30.21%	12,691,764	30.17%
Sanitation	1,017,455	2.13%	729,790	1.73%
Water distribution and treatment	-	0.00%	(8,752)	-0.02%
Health	319,499	0.67%	319,499	0.76%
Welfare	346,311	0.72%	297,165	0.71%
Culture and recreation	2,057,434	4.30%	1,930,153	4.59%
Conservation	25,986	0.05%	25,986	0.06%
Interest on long-term debt	83,308	0.17%	83,308	0.20%
Total Governmental Activities	<u>\$ 47,825,549</u>	<u>100%</u>	<u>\$ 42,071,804</u>	<u>100%</u>

Business-Type Activities

Sewer	2,629,869	47%	80,963	14%
Water	3,020,832	53%	509,423	86%
Total Business-Type Activities	<u>\$ 5,650,701</u>	<u>100%</u>	<u>\$ 590,386</u>	<u>100%</u>

Financial Analysis of the Town's Funds

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$17,304,655, a change of \$1,406,425 in comparison to the prior year.

Governmental Fund – General Fund

The General Fund is the Town's primary operating fund and the largest source of day-to-day service delivery. At the end of the current year, unassigned fund balance of the General Fund was \$7,113,093, a change of \$995,312 from the prior year. As a measure of liquidity, it may be useful to compare unassigned fund balance total General Fund expenditures.

General Fund	12/31/2014	12/31/2013	Change	Percentage of Total General Fund Expenditures
Unassigned Fund Balance	\$ 7,113,093	\$ 8,421,236	\$(1,308,143)	18.91%
Unassigned Fund Balance used to reduce tax rate			\$(3,205,258)	
Revenues in excess of budget			1,303,273	
Expenditures less than budget			1,525,873	
Increase in nonspendable fund balance			(246,057)	
Increase in assigned fund balance			(113,365)	
GAAP - Deferred property taxes not collected within 60 days of year end			(660,562)	
Elimination of allowance for doubtful accounts			87,953	
Total			<u>\$(1,308,143)</u>	

Total taxes, including property taxes increased \$901,038 over that of calendar year 2013. The majority of this increase relates to property taxes. Motor vehicle permit fees increased \$499,348 over calendar year 2013, which may be attributed to more vehicle lease options, lower interest rates and an upward turn in the economy. Building permits decreased by \$9,049. Meals and rooms distribution state aid increased by \$105,375 or 8%. Most other revenue streams were consistent with that of calendar year 2013. Total general fund revenues increased 3.2% over calendar year 2013.

On the expenditure side, total expenditures increased 10.6% over 2013. Most of this increase is due to additional spending for capital assets, some of which had offsetting revenues.

Budgetary Highlights

The General Fund – The operating budget was not amended in total appropriations, however modifications were made to the allocation of appropriations.

Property taxes were consistent with the budget, or one percent over budget. The Town recognized \$471,616 in motor vehicle permit fees over the estimated revenue. This difference relates to the difference referenced above. Miscellaneous revenues were over budget by approximately \$299,701 due to an insurance premium holiday credit and unanticipated revenues generated from town auctions.

Most other revenue streams were consistent with the adopted revenue budget.

The function areas that were overspent were Highway and Streets, Health and Welfare. Highway and Streets were over due to an unanticipated increase in electrical supplier rates. The Health department incurred more than anticipated contracted services related to Septic Reviews. Lastly, Welfare direct assistance demand was higher than past year's.

The General Government expenditures were under budget for the year as a result of fewer employee retirements than previously estimated. The Public Safety expenditures were underspent when compared to the budget; a material cause was the police department budget was under spent by \$74,383 due to vacant positions. Sanitation was underspent by \$43,975 due to a savings in the cost of trash disposal.

Overall, the Town expended 99.6% of the 2014 appropriated budget as compared to 99.3% in 2013.

Capital Assets and Debt Administration

Capital Assets – Governmental activities & Business Type Activities

The Town's investment in capital assets, net of accumulated depreciation, for governmental activities as well as business type activities as of December 31, 2014, was \$113,830,765 a change of \$1,862,403 from the prior year. See Note 8 for additional information about changes in capital assets during the calendar year and outstanding at the end of the year.

At December 31, 2014, the depreciable capital assets for Governmental Activities were 38% depreciated. This compares to 40% as of December 31, 2013. This comparison indicates that the Town is replacing their capital assets at almost the same rate as they are depreciating which is a positive financial indicator.

Capital asset additions during the current year included the following:

Capital Asset Purchases		
	Governmental Activities	Business-Type Activities
Land		
Veteran's Memorial	15,424	-
Building and Building Improvements		
2 Ann Avenue	15,465	-
Machinery, Equipment, and Furnishings		
(2) International 6 wheel dump trucks	285,350	-
(4) Sony remote control cameras	40,380	-
Radio Box	65,000	-
(2) Lifepak Defibrillator	57,561	-
Asphalt Patcher	28,075	-
Exacom G2 Recorder	13,900	-
(2) TRMS Cabelcast	38,390	-
Newtek Tricaster	20,118	-
Dodge Charger	28,609	-
Dodge Ram	2,700	-
Ford F150	-	17,333
	580,083	17,333
Infrastructure		
Road Reconstruction - Pond Street	2,015,624	-
Road Reconstruction - Sandhill	316,579	-
Read Reconstruction - Stiles	1,108,591	-
Read Reconstruction - Theriault	102,077	-
Read Reconstruction - Karen	157,480	-
Read Reconstruction - Crescent	189,626	-
Road Reconstruction - Independence	293,653	-
Road Reconstruction - Field	106,434	-
Road Reconstruction - Lyndale	22,905	-
Bridge Reconstruction - Bluff Street Bridge	549,229	-
Bridge Reconstruction - Providence Hill Bridge	435,618	-
Pond Hill	-	396,107
Sandhill	-	177,961
Stiles	-	105,513
Total Infrastructure	5,297,816	679,581
Construction in Process		
South Policy	1,294,644	-
Shannon Rd	167,165	-
Easy, Griffin Chase	186,584	-
Sutphen Ladder Truck	1,143,170	-
2015 Pierce Rescue	619,825	-
Sprinkler System	14,720	-
Shannon	570,290	-
Teague	312,620	-
Cove	10,975	-
New Holding Tank	-	1,039,011
North Policy 3000 Ft 16' Pipe	-	679,095
Town-wide Fiber	11,029	-
Pleasant St. Add'l ITS	106,057	-
Total Construction in Process	4,437,079	1,718,106
Total Capital Asset Additions	\$ 10,345,867	\$ 2,415,020

Long-term Liabilities

During the year, the Town's long-term liabilities changed as follows:

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 5,252,000	\$ 4,769,909	\$ 3,656,000	\$ 2,327,091	\$ 8,908,000	\$ 7,097,000
Bond premium	65,165	72,406	154,183	42,114	219,348	114,520
Capital leases	210,021	521,764	-	-	210,021	521,764
Landfill closure and postclosure care	560,000	456,000	-	-	560,000	456,000
Compensated absences	3,658,953	3,548,189	104,845	104,845	3,763,798	3,653,034
Other postemployment benefits	5,465,238	4,114,017	84,986	66,142	5,550,224	4,180,159
Total	<u>\$ 15,211,377</u>	<u>\$ 13,482,285</u>	<u>\$ 4,000,014</u>	<u>\$ 2,540,192</u>	<u>\$ 19,211,391</u>	<u>\$ 16,022,477</u>

Contacting the Town's Financial Management

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

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF SALEM, NEW HAMPSHIRE
Statement of Net Position
December 31, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 31,589,354	\$ 6,444,732	\$ 38,034,086
Investments	406,676	-	406,676
Account receivables (net)	1,148,570	635,227	1,783,797
Taxes receivable (net)	3,020,645	-	3,020,645
Intergovernmental receivable	1,119,367	160,865	1,280,232
Prepaid items	520,903	-	520,903
Capital assets:			
Land and construction in progress	16,568,103	2,068,106	18,636,209
Other capital assets, net of depreciation	79,411,654	15,782,902	95,194,556
Total assets	<u>133,785,272</u>	<u>25,091,832</u>	<u>158,877,104</u>
LIABILITIES			
Accounts payable	573,476	43,445	616,921
Accrued salaries and benefits	362,109	9,238	371,347
Contracts payable	155,029	25,277	180,306
Accrued interest payable	44,073	30,401	74,474
Intergovernmental payable	18,613,307	-	18,613,307
Long-term liabilities:			
Due within one year	1,395,447	609,839	2,005,286
Due in more than one year	13,815,930	3,390,175	17,206,105
Total liabilities	<u>34,959,371</u>	<u>4,108,375</u>	<u>39,067,746</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - Property taxes	25,754	-	25,754
Unavailable revenue - Bond premium received	151,715	-	151,715
Unavailable revenue - Grants	46,861	-	46,861
Total deferred outflows of resources	<u>224,330</u>	<u>-</u>	<u>224,330</u>
NET POSITION			
Net investment in capital assets	90,452,571	14,040,825	104,493,396
Restricted	3,985,552	123,655	4,109,207
Unrestricted	4,163,448	6,818,977	10,982,425
Total net position	<u>\$ 98,601,571</u>	<u>\$ 20,983,457</u>	<u>\$ 119,585,028</u>

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

EXHIBIT B
TOWN OF SALEM, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended December 31, 2014

	Program Revenues				Net (Expense) Revenue and Change in Net Position	
	Charges for Services	Operating Grants and Contributions	Capital Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government	\$ 7,370,987	\$ 148,757	\$ 72,580	\$ (7,222,230)	\$ -	\$ (7,222,230)
Public safety	22,158,139	3,304,898	557,367	(18,780,661)	-	(18,780,661)
Highways and streets	14,446,430	-	-	(12,691,764)	-	(12,691,764)
Sanitation	1,017,455	287,665	-	(729,790)	-	(729,790)
Water distribution and treatment	-	-	8,752	-	8,752	8,752
Health	319,499	-	-	(319,499)	-	(319,499)
Welfare	346,311	49,146	-	(297,165)	-	(297,165)
Culture and recreation	2,057,434	108,399	18,882	(1,930,153)	-	(1,930,153)
Conservation	25,986	-	-	(25,986)	-	(25,986)
Interest on long-term debt	83,308	-	-	(83,308)	-	(83,308)
Total governmental activities	<u>47,825,549</u>	<u>3,898,865</u>	<u>657,581</u>	<u>1,197,299</u>	<u>(42,071,804)</u>	<u>(42,071,804)</u>
Business-type activities:						
Sewer	2,629,869	2,522,478	188,354	-	80,963	80,963
Water	3,020,832	3,530,255	-	-	509,423	509,423
Total business-type activities	<u>5,650,701</u>	<u>6,052,733</u>	<u>188,354</u>	<u>-</u>	<u>590,386</u>	<u>590,386</u>
Total	<u><u>\$ 53,476,250</u></u>	<u><u>\$ 9,951,598</u></u>	<u><u>\$ 845,935</u></u>	<u><u>\$ 1,197,299</u></u>	<u><u>(42,071,804)</u></u>	<u><u>(41,481,418)</u></u>
General revenues:						
Taxes:						
Property				27,394,716		27,394,716
Other				323,775		323,775
Motor vehicle permit fees				5,371,616		5,371,616
Licenses and other fees				1,020,677		1,020,677
Grants and contributions not restricted to specific programs				2,847,896		2,847,896
Unrestricted investment earnings				56,453		56,453
Miscellaneous				1,623,805	149,503	1,773,308
Transfers				<u>162,297</u>	<u>(162,297)</u>	<u>-</u>
Total general revenues and transfers				<u><u>38,801,235</u></u>	<u><u>(12,794)</u></u>	<u><u>38,788,441</u></u>
Change in net position				<u><u>(3,270,569)</u></u>	<u><u>577,592</u></u>	<u><u>(2,692,977)</u></u>
Net position, beginning, as restated (see Note 19)				<u><u>101,872,140</u></u>	<u><u>20,405,865</u></u>	<u><u>122,278,005</u></u>
Net position, ending				<u><u>\$ 98,601,571</u></u>	<u><u>\$ 20,983,457</u></u>	<u><u>\$ 119,585,028</u></u>

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

EXHIBIT C-1
TOWN OF SALEM, NEW HAMPSHIRE
Governmental Funds
Balance Sheet
December 31, 2014

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 25,833,121	\$ 4,378,235	\$ 1,377,998	\$ 31,589,354
Investments	-	-	406,676	406,676
Receivables net of allowance for uncollectible:				
Accounts	571,779	99,910	476,881	1,148,570
Taxes	3,108,598	-	-	3,108,598
Due from other governments	303,584	815,783	-	1,119,367
Interfund receivable	1,274,725	152,166	246,140	1,673,031
Voluntary tax liens	137,135	-	-	137,135
Voluntary tax liens reserved until collected	(137,135)	-	-	(137,135)
Prepaid items	520,903	-	-	520,903
Total assets	<u>\$ 31,612,710</u>	<u>\$ 5,446,094</u>	<u>\$ 2,507,695</u>	<u>\$ 39,566,499</u>
LIABILITIES				
Accounts payable	\$ 363,717	\$ 207,871	\$ 1,888	\$ 573,476
Accrued salaries and benefits	340,999	-	21,110	362,109
Contracts payable	-	155,029	-	155,029
Due to other governments	18,613,307	-	-	18,613,307
Interfund payable	398,306	1,097,642	177,083	1,673,031
Total liabilities	<u>19,716,329</u>	<u>1,460,542</u>	<u>200,081</u>	<u>21,376,952</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - Property taxes	686,316	-	-	686,316
Unavailable revenue - Bond premium received	151,715	-	-	151,715
Unavailable revenue - Grants	46,861	-	-	46,861
Total deferred inflows of resources	<u>884,892</u>	<u>-</u>	<u>-</u>	<u>884,892</u>
FUND BALANCES				
Nonspendable	520,903	-	352,587	873,490
Restricted	-	-	296,447	296,447
Committed	2,293,936	3,985,552	1,658,580	7,938,068
Assigned	1,083,557	-	-	1,083,557
Unassigned	7,113,093	-	-	7,113,093
Total fund balances	<u>11,011,489</u>	<u>3,985,552</u>	<u>2,307,614</u>	<u>17,304,655</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 31,612,710</u>	<u>\$ 5,446,094</u>	<u>\$ 2,507,695</u>	<u>\$ 39,566,499</u>

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

EXHIBIT C-2
TOWN OF SALEM, NEW HAMPSHIRE
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
December 31, 2014

Total fund balances of governmental funds (Exhibit C-1)	\$ 17,304,655
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.	
Cost	\$ 239,444,608
Less accumulated depreciation	<u>(143,464,851)</u>
	95,979,757
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.	
Receivables	\$ (1,673,031)
Payables	<u>1,673,031</u>
Other long-term assets are not available to pay for current period expenditures, and therefore, are reported as unavailable revenue in the funds.	
	572,609
Interest on long-term debt is not accrued in governmental funds.	
	Accrued interest payable (44,073)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.	
Bonds	\$ 5,252,000
Unamortized bond premium	65,165
Capital leases	210,021
Compensated absences	3,658,953
Accrued landfill postclosure care costs	560,000
Other postemployment benefits	<u>5,465,238</u>
	<u>(15,211,377)</u>
Net position of governmental activities (Exhibit A)	<u>\$ 98,601,571</u>

EXHIBIT C-3
TOWN OF SALEM, NEW HAMPSHIRE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2014

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 27,553,163	\$ -	\$ 239,330	\$ 27,792,493
Licenses and permits	6,392,293	-	-	6,392,293
Intergovernmental	3,396,811	922,200	12,640	4,331,651
Charges for services	1,952,039	-	1,958,602	3,910,641
Investment earnings	57,816	-	31,831	89,647
Miscellaneous	1,196,451	229,411	523,981	1,949,843
Total revenues	<u>40,548,573</u>	<u>1,151,611</u>	<u>2,766,384</u>	<u>44,466,568</u>
EXPENDITURES				
Current:				
General government	5,520,414	-	447,030	5,967,444
Public safety	19,847,858	-	2,136,911	21,984,769
Highways and streets	3,485,718	-	-	3,485,718
Sanitation	913,455	-	-	913,455
Health	314,647	-	-	314,647
Welfare	346,311	-	-	346,311
Culture and recreation	1,963,367	-	72,524	2,035,891
Conservation	-	-	10,562	10,562
Debt service:				
Principal	935,909	-	-	935,909
Interest	141,136	-	-	141,136
Capital outlay	<u>3,005,307</u>	<u>5,449,862</u>	<u>49,429</u>	<u>8,504,598</u>
Total expenditures	<u>36,474,122</u>	<u>5,449,862</u>	<u>2,716,456</u>	<u>44,640,440</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,074,451</u>	<u>(4,298,251)</u>	<u>49,928</u>	<u>(173,872)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	209,233	4,767,166	-	4,976,399
Transfers out	(4,788,869)	(25,000)	(233)	(4,814,102)
Bond proceeds	-	1,418,000	-	1,418,000
Total other financing sources (uses)	<u>(4,579,636)</u>	<u>6,160,166</u>	<u>(233)</u>	<u>1,580,297</u>
Net change in fund balances	(505,185)	1,861,915	49,695	1,406,425
Fund balances, beginning, as restated (see Note 19)	<u>11,516,674</u>	<u>2,123,637</u>	<u>2,257,919</u>	<u>15,898,230</u>
Fund balances, ending	<u>\$ 11,011,489</u>	<u>\$ 3,985,552</u>	<u>\$ 2,307,614</u>	<u>\$ 17,304,655</u>

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

EXHIBIT C-4
TOWN OF SALEM, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2014

Net change in fund balances of governmental funds (Exhibit C-3)	\$ 1,406,425
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capitalized capital outlay in the current period.	
Capitalized capital outlay	\$ 6,190,362
Depreciation expense	<u>(9,114,966)</u>
	(2,924,604)
Transfers in and out between governmental funds are eliminated on the Statement of Activities.	
Transfers in	\$ (4,814,102)
Transfers out	<u>4,814,102</u>
	(73,885)
Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the governmental funds.	
Change in deferred tax revenue	(73,885)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.	
Proceeds of debt	\$ (1,418,000)
Repayment of bond principal	935,909
Repayment of capital leases	311,743
Amortization of bond premium	<u>7,241</u>
	(163,107)
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.	
Decrease in accrued interest expense	\$ 50,587
Increase in compensated absences payable	(110,764)
Increase in accrued landfill postclosure care costs	(104,000)
Increase in postemployment benefits payable	<u>(1,351,221)</u>
	(1,515,398)
Changes in net position of governmental activities (Exhibit B)	<u><u>\$ (3,270,569)</u></u>

EXHIBIT D
TOWN OF SALEM, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2014

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 27,158,541	\$ 27,158,541	\$ 27,479,278	\$ 320,737
Licenses and permits	5,788,689	5,788,689	6,392,293	603,604
Intergovernmental	3,477,383	3,477,383	3,363,763	(113,620)
Charges for services	1,946,823	1,762,823	1,952,039	189,216
Investment earnings	22,715	22,715	25,681	2,966
Miscellaneous	811,290	811,290	1,108,025	296,735
Total revenues	<u>39,205,441</u>	<u>39,021,441</u>	<u>40,321,079</u>	<u>1,299,638</u>
EXPENDITURES				
Current:				
General government	5,770,262	5,767,714	5,697,866	69,848
Public safety	19,873,666	19,875,430	19,800,959	74,471
Highways and streets	3,038,543	3,039,327	3,247,623	(208,296)
Sanitation	972,570	972,570	928,595	43,975
Health	302,937	302,937	313,150	(10,213)
Welfare	342,573	342,573	346,311	(3,738)
Culture and recreation	1,994,082	1,994,082	1,962,753	31,329
Debt service:				
Principal	935,909	935,909	935,909	-
Interest	148,352	148,352	141,136	7,216
Capital outlay	4,238,403	4,086,237	2,564,956	1,521,281
Total expenditures	<u>37,617,297</u>	<u>37,465,131</u>	<u>35,939,258</u>	<u>1,525,873</u>
Excess of revenues over expenditures	<u>1,588,144</u>	<u>1,556,310</u>	<u>4,381,821</u>	<u>2,825,511</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	21,598	205,598	209,233	3,635
Transfers out	(4,815,000)	(4,967,166)	(4,967,166)	-
Total other financing sources (uses)	<u>(4,793,402)</u>	<u>(4,761,568)</u>	<u>(4,757,933)</u>	<u>3,635</u>
Net change in fund balance	<u>\$ (3,205,258)</u>	<u>\$ (3,205,258)</u>	<u>(376,112)</u>	<u>\$ 2,829,146</u>
Increase in nonspendable fund balance			(246,057)	
Increase in assigned fund balance			(113,365)	
Unassigned fund balance, beginning			8,421,236	
Unassigned fund balance, ending			<u>\$ 7,685,702</u>	

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

EXHIBIT E-1
TOWN OF SALEM, NEW HAMPSHIRE
Proprietary Fund
Statement of Proprietary Net Position
December 31, 2014

	Business-type Activities		
	Enterprise Funds		
	Sewer	Water	Total
ASSETS			
Cash and cash equivalents	\$ 3,754,300	\$ 2,690,432	\$ 6,444,732
Accounts receivables (net)	332,056	303,171	635,227
Due from other governments	147,466	13,399	160,865
Voluntary tax liens	15,340	-	15,340
Voluntary tax liens reserved until collected	(15,340)	-	(15,340)
Total current assets	<u>4,233,822</u>	<u>3,007,002</u>	<u>7,240,824</u>
Capital assets, not being depreciated:			
Land	-	350,000	350,000
Construction in progress	-	1,718,106	1,718,106
Capital assets, net of accumulated depreciation:			
Machinery, equipment, and furnishings	385,916	2,687,918	3,073,834
Infrastructure	<u>4,068,457</u>	<u>8,640,611</u>	<u>12,709,068</u>
Total noncurrent assets	<u>4,454,373</u>	<u>13,396,635</u>	<u>17,851,008</u>
Total assets	<u>8,688,195</u>	<u>16,403,637</u>	<u>25,091,832</u>
LIABILITIES			
Current liabilities:			
Accounts payable	3,608	39,837	43,445
Accrued salaries and benefits	1,423	7,815	9,238
Contracts payable	-	25,277	25,277
Accrued interest payable	<u>4,455</u>	<u>25,946</u>	<u>30,401</u>
Total current liabilities	<u>9,486</u>	<u>98,875</u>	<u>108,361</u>
Noncurrent liabilities:			
Due within one year:			
Bond	54,000	555,839	609,839
Due in more than one year:			
Bond	183,600	3,016,744	3,200,344
Compensated absences	16,810	88,035	104,845
Other postemployment benefits	<u>16,177</u>	<u>68,809</u>	<u>84,986</u>
Total noncurrent liabilities	<u>270,587</u>	<u>3,729,427</u>	<u>4,000,014</u>
Total liabilities	<u>280,073</u>	<u>3,828,302</u>	<u>4,108,375</u>
NET POSITION			
Net investment in capital assets	4,216,773	9,824,052	14,040,825
Restricted	-	123,655	123,655
Unrestricted	<u>4,191,349</u>	<u>2,627,628</u>	<u>6,818,977</u>
Total net position	<u>\$ 8,408,122</u>	<u>\$ 12,575,335</u>	<u>\$ 20,983,457</u>

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

EXHIBIT E-2
TOWN OF SALEM, NEW HAMPSHIRE
Proprietary Fund
Statement of Revenues, Expenses, and Change in Proprietary Net Position
For the Fiscal Year Ended December 31, 2014

	Business-type Activities		
	Enterprise Funds		
	Sewer	Water	Total
Operating revenues:			
User charges	\$ 2,522,478	\$ 3,530,255	\$ 6,052,733
Miscellaneous	-	149,445	149,445
Total operating revenues	<u>2,522,478</u>	<u>3,679,700</u>	<u>6,202,178</u>
Operating expenses:			
Operating expenses	2,385,940	2,486,118	4,872,058
Depreciation	224,894	445,344	670,238
Total operating expenses	<u>2,610,834</u>	<u>2,931,462</u>	<u>5,542,296</u>
Operating gain (loss)	<u>(88,356)</u>	<u>748,238</u>	<u>659,882</u>
Nonoperating revenue (expense):			
Interest income	35	23	58
Interest expense	(19,035)	(89,370)	(108,405)
Intergovernmental	188,354	-	188,354
Total nonoperating revenues (expenses)	<u>169,354</u>	<u>(89,347)</u>	<u>80,007</u>
Other financing sources (uses):			
Transfers in	121,662	9,118	130,780
Transfers out	-	(293,077)	(293,077)
Total other financing sources (uses)	<u>121,662</u>	<u>(283,959)</u>	<u>(162,297)</u>
Change in net position	202,660	374,932	577,592
Net position, beginning, as restated (see Note 19)	8,205,462	12,200,403	20,405,865
Net position, ending	<u>\$ 8,408,122</u>	<u>\$ 12,575,335</u>	<u>\$ 20,983,457</u>

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

EXHIBIT E-3
TOWN OF SALEM, NEW HAMPSHIRE
Proprietary Fund
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2014

	Business-type Activities		
	Enterprise Funds		
	Sewer	Water	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 2,375,679	\$ 3,631,696	\$ 6,007,375
Payments to employees and suppliers	(2,383,153)	(2,517,315)	(4,900,468)
Net cash provided (used) by operating activities	<u>(7,474)</u>	<u>1,114,381</u>	<u>1,106,907</u>
Cash flows from capital and related financing activities:			
Proceeds of long term debt	-	1,900,000	1,900,000
Proceeds of bond premium	-	116,280	116,280
Principal paid on bonds	(54,000)	(517,091)	(571,091)
Acquisition and construction of fixed assets	-	(1,710,470)	(1,710,470)
Payments from the State	246,045	-	246,045
Interest paid	(19,035)	(89,370)	(108,405)
Net cash provided (used) by capital and related financing activities	<u>173,010</u>	<u>(300,651)</u>	<u>(2,143,921)</u>
Cash flows from investing activities:			
Sale of investments	16,686	(49,389)	(32,703)
Interest received	35	23	58
Net cash provided (used) by investing activities	<u>16,721</u>	<u>(49,366)</u>	<u>(32,645)</u>
Cash flows from non-capital financing activities:			
Operating transfers in (out)	121,662	(283,959)	(162,297)
Net increase in cash	303,919	480,405	784,324
Cash, beginning	3,450,381	2,210,027	5,660,408
Cash, ending	<u>\$ 3,754,300</u>	<u>\$ 2,690,432</u>	<u>\$ 6,444,732</u>
<i>Reconciliation of Operating Gain (Loss) to Net Cash Provided (Used) by Operating Activities</i>			
Operating gain (loss)	<u>\$ (88,356)</u>	<u>\$ 748,238</u>	<u>\$ 659,882</u>
Adjustments to reconcile operating gain (loss) to net cash provided (used) by operating activities:			
Depreciation expense	224,894	445,344	670,238
Increase in other receivables	(146,799)	(48,004)	(194,803)
Increase (Decrease) in accounts payable	103	(35,964)	(35,861)
Decrease in accrued salaries and benefits	(2,180)	(9,213)	(11,393)
Increase in other postemployment benefits payable	4,864	13,980	18,844
Total adjustments	<u>80,882</u>	<u>366,143</u>	<u>447,025</u>
Net cash provided (used) by operating activities	<u>\$ (7,474)</u>	<u>\$ 1,114,381</u>	<u>\$ 1,106,907</u>

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

EXHIBIT F-1
TOWN OF SALEM, NEW HAMPSHIRE
Fiduciary Funds
Statement of Fiduciary Net Position
December 31, 2014

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ 47,482	\$ 1,875,501
Investments	<u>1,098,928</u>	-
Total assets	<u>1,146,410</u>	<u>1,875,501</u>
LIABILITIES		
Due to other governmental units	20,216	148,387
Due to others	<u>474</u>	<u>1,727,114</u>
Total liabilities	<u>20,690</u>	<u>1,875,501</u>
NET POSITION		
Held in trust for specific purposes	<u><u>\$ 1,125,720</u></u>	<u><u>\$ -</u></u>

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

EXHIBIT F-2
TOWN OF SALEM, NEW HAMPSHIRE
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended December 31, 2014

	Private Purpose Trust
ADDITIONS	
Interest	\$ 24,634
Change in fair market value	<u>57,166</u>
Total revenue	<u>81,800</u>
DEDUCTIONS	
Scholarships	20,690
Trust distributions	<u>2,416</u>
Total dedications	<u>23,106</u>
Change in net position	58,694
Net position, beginning, as restated (see Note 19)	<u>1,067,026</u>
Net position, ending	<u><u>\$ 1,125,720</u></u>

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

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Salem, New Hampshire (the Town), have been prepared in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

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

1-A Reporting Entity

The Town of Salem is a municipal corporation governed by an elected five member Board of Selectmen. The reporting entity is comprised of the primary government and any other organizations (*component units*) that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the Town is financially accountable. The Town is financially accountable for an organization if the Town appoints a voting majority of the organization's governing board, and (1) the Town is able to significantly influence the programs or services performed or provided by the organizations; or (2) the Town is legally entitled to or can otherwise access the organization's resources; (3) the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Town is obligated for the debt of the organization. Based on the foregoing criteria, no other organizations are included in the Town's financial reporting entity.

1-B 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 primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the financial position of the governmental activities and business-type activities of the Town at year-end. This statement includes all of the Town's assets, liabilities, and net position.

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

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

1-C 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 proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for State shared revenue, reimbursement-based grants and interest which use one year.

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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. Property taxes, licenses and permits, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies, and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlement, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The Town reports the following major governmental funds:

General Fund – all general revenues and other receipts that are not allocated by law or contracted agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other funds.

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

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

The Town reports the following major proprietary funds:

Sewer Fund – accounts for the operation of the sewer treatment plant, pumping station, and sewer lines.

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

Additionally, the Town reports the following fund types:

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

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

Agency Fund - used to account for assets held in a trustee or agency capacity on behalf of outside parties, including other governments.

Private Purpose Trust – used to account for assets held for specific private purposes usually for the benefit of students in the form of scholarship funds.

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1-D Cash and Cash Equivalents

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

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

1-E Statement of Cash Flows

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

1-F Investments

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

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

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

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

Investments for the Town are reported at fair value generally based on quoted market prices.

1-G Receivables

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

1-H Interfund Balances

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term Interfund loans are reported as "Interfund receivables and payables." Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

1-I Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements, and expenses as the items are used.

1-J Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$10,000 and an estimated minimum useful life in excess of two years. As the Town

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constructs or acquires additional capital assets each year, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Capital Asset Classes:	
Buildings	45
Infrastructure	30-75
Vehicles	6-20
Equipment	5-15

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets are not capitalized and related depreciation is not reported in the fund financial statements.

I-K Deferred Inflows of Resources

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.

I-L Property Taxes

Property tax billings occur semi-annually and are based on the assessed inventory values as of April 1 of each year. Billings for the year were on July 1, 2014 and December 3, 2014. Interest accrues at a rate of 12% on bills outstanding after the due date and 18% on tax liens outstanding.

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

The Town net assessed valuation as of April 1, 2014 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 3,829,550,592
For all other taxes	\$ 3,893,788,592

The tax rates and amounts assessed for the year ended December 31, 2014 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$7.12	\$ 27,745,339
School portion:		
State of New Hampshire	\$2.36	9,024,144
Local	\$10.23	39,827,779
County portion	\$1.08	4,203,001
Total		<u><u>\$ 80,800,263</u></u>

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1-M Compensated Absences

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

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

1-N Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities statement of fund net position. Bond premiums are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium.

In the fund financial statements, governmental fund types recognize bond premiums, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

1-O Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. Claims and judgments are recorded in the government-wide financial statements as expense when the related liabilities are incurred. There were no significant claims or judgments at year-end.

1-P Interfund Activities

Interfund activities are reported as follows:

Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as 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). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

Interfund Transfers – Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making the transfers and other financing sources in the funds receiving the transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses. In the government-wide financial statements, all interfund transfers between individual governmental funds have been eliminated, as are internal balances between the governmental and business-type activities.

1-Q Net Position/Fund Balance Reporting

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

- a) ***Net investment in capital assets*** – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.

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- b) *Restricted net position* – Consists of net position with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) *Unrestricted net position* – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Balance Classifications - The fund balance of governmental funds is reported in five categories based on the nature of any limitations requiring the use of resources for specific programs. The Town itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The classifications used in the Town's governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) are legally or contractually required to be maintained intact.

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

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

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

Unassigned – This classification includes the residual fund balance for the general fund.

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

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

General Fund - The Town shall achieve and maintain a minimum undesignated fund balance of 6% of the general fund's annual budget, including Town, School, and County appropriations. The Board of Selectman may appropriate any amount of unassigned fund balance in excess of the designated percentage or use the excess to offset property taxes as part of the final adopted budget for a fiscal year. The Board of Selectman may appropriate unassigned fund balance for emergency purposes as per RSA 32:11. In addition, the Town reserves the right to appropriate the use of fund balance at Annual Town Meeting for capital improvements.

Special Revenue Funds – Non-Grant and Proprietary Water and Sewer - The Town shall achieve and maintain minimum unassigned fund balance of 10% of the total operating budget appropriations (excluding warrant articles) of each such fund budgeted. The Board of Selectman can authorize use of the unassigned fund balance as Water Commissioners for the Town of Salem.

Capital Reserve Funds – Roadway Capital Reserve - The Town shall achieve and maintain minimum unassigned fund balance of 10% of the total Roadway Improvement Program appropriation in that given year. As agents to expend the Board of Selectman can authorize use of the balance for roadway improvements.

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NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

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

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

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

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. For the fiscal year 2014, \$3,205,258 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

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

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

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

Revenues and other financing sources:		
Per Exhibit D (budgetary basis)		\$ 40,530,312
Adjustment:		
Basis difference:		
GASB Statement No. 54:		
To record miscellaneous income of the blended funds	153,609	
Change in deferred tax revenue relating to 60-day revenue recognition	73,885	
Per Exhibit C-3 (GAAP basis)	<u><u>\$ 40,757,806</u></u>	
Expenditures and other financing uses:		
Per Exhibit D (budgetary basis)		\$ 40,906,424
Adjustment:		
Basis differences:		
Encumbrances, beginning	835,395	
Encumbrances, ending	(654,662)	
GASB Statement No. 54:		
To record expendable trust expenditures during the year	354,131	
To eliminate transfers between general and expendable trust funds	(4,815,000)	
To recognize transfer between expendable trust and capital project funds	4,636,703	
Per Exhibit C-3 (GAAP basis)	<u><u>\$ 41,262,991</u></u>	

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2-C Change in Accounting Principle

In 2014 it was determined that based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 that the Town of Salem's sewer and water funds qualify for presentation in the financial statements as business-type activities. This determination is based on the criteria obtained from the GASB pronouncement which states:

Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a) The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b) Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c) The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Based on this information the recognition of both the sewer and water funds as proprietary funds is deemed appropriate and reasonable.

	Governmental Activities	Business-type Activities	Total
Net position as previously reported at December 31, 2013	\$ 126,380,870	\$ -	\$ 126,380,870
Restatement of beginning net position - adoption of GASB Statement No. 34	<u>(5,765,628)</u>	<u>5,765,628</u>	<u>-</u>
Net position as restated at December 31, 2013	<u><u>\$ 120,615,242</u></u>	<u><u>\$ 5,765,628</u></u>	<u><u>\$ 126,380,870</u></u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

The Town's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held by the Town's agent in the Town's name. The FDIC currently insures the first \$250,000 of the Town's deposits at each financial institution, per case custodian. Deposit balances over \$250,000 are insured by the collateral. As of year-end, the carrying amount of the Town's deposits was \$39,957,069 and the bank balances totaled \$43,144,099.

Custodial Credit Risk – Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of December 31, 2014, none of the government's bank balances of \$43,144,099 was exposed to custodial credit risk.

Cash and cash equivalents reconciliation:

Cash and cash equivalents per Statement of Net Position (Exhibit A)	\$ 38,034,086
Cash and cash equivalents per Statement of Fiduciary Net Position (Exhibit F-1)	1,922,983
Total cash and cash equivalents	<u><u>\$ 39,957,069</u></u>

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NOTE 4 – INVESTMENTS

Note 1-F describes statutory requirements covering the investment of the Town funds. The Town also maintains a portfolio of intermediate maturity investments that are reported at fair value, based on quoted market prices. The Town's fiscal agent or custodian provides the fair value of all intermediate maturity investments.

At December 31, 2014, the Town had the following investments and maturities:

	Fair Value	Less Than 1 Year	1-5 Years	5-10 Years
Investments type:				
U.S. Government Agencies	\$ 37,243	\$ 37,243	\$ -	\$ -
Corporate bonds	130,639	-	105,546	25,093
Corporate equities	1,009,717	-	-	-
Mutual funds	328,005	-	-	-
Total fair value	<u>\$ 1,505,604</u>	<u>\$ 37,243</u>	<u>\$ 105,546</u>	<u>\$ 25,093</u>

Interest Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Town's formal investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Town has no formal policy on managing credit risk; however, state law limits investments as explained in Note 1-F. Presented below is the actual rating as of the year-end for each investment of the Town:

	Fair Value	Exempt from Disclosure	Aaa	Aa thru Aa3	A thru A3	Baa thru Baa3
Investments type:						
U.S. Government Agencies	\$ 37,243	\$ -	\$ 37,243	\$ -	\$ -	\$ -
Corporate bonds	130,639	-	-	25,869	76,550	28,220
Corporate equities	1,009,717	1,009,717	-	-	-	-
Mutual funds	328,005	328,005	-	-	-	-
Total fair value	<u>\$ 1,505,604</u>	<u>\$ 1,337,722</u>	<u>\$ 37,243</u>	<u>\$ 25,869</u>	<u>\$ 76,550</u>	<u>\$ 28,220</u>

Concentration of Credit Risk – The Town places no limit on the amount it may invest in any one issuer. More than 5% of the Town's investments are in the following investments:

	Holdings	Market Value
Corporate bonds:		
Vanguard intermediate term bond		\$ 116,901
Corporate equities:		
iShare core S&P 500 ETF CUSIP: 464287200		93,092
SPDR S&P Midcap 400 ETF TR Utser1		<u>98,989</u>
Total holdings individually in excess of 5% of total investments		<u>\$ 308,982</u>

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 406,676
Investments per Statement of Fiduciary Net Position (Exhibit F-1)	1,098,928
Total investments	<u>\$ 1,505,604</u>

TOWN OF SALEM, NEW HAMPSHIRE
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NOTE 5 – TAXES RECEIVABLE

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of December 31, 2014. The amount has been reduced by an allowance for an estimated uncollectible amount of \$87,953. Taxes receivable by year are as follows:

	As reported on:	
	Exhibit A	Exhibit C-1
Property:		
Levy of 2014	\$ 2,210,616	2,210,616
Unredeemed (under tax lien):		
Levy of 2013	483,787	483,787
Levy of 2012	219,858	219,858
Levies of 2011 and prior	17,501	17,501
Yield	196	196
Land use change	176,640	176,640
Less: allowance for estimated uncollectible taxes	(87,953)	-
Net taxes receivable	<u><u>\$ 3,020,645</u></u>	<u><u>\$ 3,108,598</u></u>

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

NOTE 6 – OTHER RECEIVABLES

Receivables at December 31, 2014, consisted of accounts (billings for police details, water, sewer, ambulance, and other user charges) and intergovernmental amounts arising from grants. Receivables are recorded on the Town's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

Receivables as of December 31, 2014 for the Town's individual major governmental funds, proprietary funds, and nonmajor governmental funds in the aggregate including applicable allowances for uncollectible accounts are as follows:

	Governmental Funds			Total
	General			Governmental
	Capital	Projects	Nonmajor	Funds
Receivables:				
Accounts	\$ 1,279,161	\$ 99,910	\$ 477,505	\$ 1,856,576
Intergovernmental	303,584	815,783	-	1,119,367
Voluntary tax liens	137,135	-	-	137,135
Gross receivables	1,719,880	915,693	477,505	3,113,078
Less: allowance for uncollectibles	<u>(844,517)</u>	<u>-</u>	<u>(624)</u>	<u>(845,141)</u>
Net total receivables	<u><u>\$ 875,363</u></u>	<u><u>\$ 915,693</u></u>	<u><u>\$ 476,881</u></u>	<u><u>\$ 2,267,937</u></u>
	Proprietary Funds			Total
	Sewer			Proprietary
	Water		Funds	
Receivables:				
Accounts	\$ 352,542	\$ 334,757	\$ 687,299	
Intergovernmental	147,466	13,399	160,865	
Voluntary tax liens	15,340	-	15,340	
Gross receivables	515,348	348,156	863,504	
Less: allowance for uncollectibles	<u>(35,826)</u>	<u>(31,586)</u>	<u>(67,412)</u>	
Net total receivables	<u><u>\$ 479,522</u></u>	<u><u>\$ 316,570</u></u>	<u><u>\$ 796,092</u></u>	

TOWN OF SALEM, NEW HAMPSHIRE
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NOTE 7 – PREPAID ITEMS

Prepaid items at December 31, 2014 consisted of the following:

Health insurance contributions	\$ 270,000
Property and liability insurance	234,746
Disability insurance contributions	9,775
Life insurance contributions	2,930
Pitney Bowes meter rental	2,708
EMS certifications	525
2015 membership	219
Total	<u><u>\$ 520,903</u></u>

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 consisted of the following:

	<u>Balance, beginning</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance, ending</u>
Governmental activities:				
At cost:				
Not being depreciated:				
Land	\$ 9,893,406	\$ 15,424	\$ -	\$ 9,908,830
Construction in progress	6,362,843	4,437,079	(4,140,649)	6,659,273
Total capital assets not being depreciated	<u>16,256,249</u>	<u>4,452,503</u>	<u>(4,140,649)</u>	<u>16,568,103</u>
Being depreciated:				
Buildings and building improvements	7,655,861	15,465	-	7,671,326
Machinery, equipment, and furnishings	10,098,479	580,083	(14,856)	10,663,706
Infrastructure	199,243,657	5,297,816	-	204,541,473
Total capital assets being depreciated	<u>216,997,997</u>	<u>5,893,364</u>	<u>(14,856)</u>	<u>222,876,505</u>
Total all capital assets	<u>233,254,246</u>	<u>10,345,867</u>	<u>(4,155,505)</u>	<u>239,444,608</u>
Less accumulated depreciation:				
Buildings and building improvements	(3,832,357)	(157,115)	-	(3,989,472)
Machinery, equipment, and furnishings	(7,406,314)	(646,124)	9,195	(8,043,243)
Infrastructure	(123,111,214)	(8,320,922)	-	(131,432,136)
Total accumulated depreciation	<u>(134,349,885)</u>	<u>(9,124,161)</u>	<u>9,195</u>	<u>(143,464,851)</u>
Net book value, capital assets being depreciated	<u>82,648,112</u>	<u>(3,230,797)</u>	<u>(5,661)</u>	<u>79,411,654</u>
Net book value, all governmental activities capital assets	<u><u>\$ 98,904,361</u></u>	<u><u>\$ 1,221,706</u></u>	<u><u>\$ (4,146,310)</u></u>	<u><u>\$ 95,979,757</u></u>

Business-type activities:

At cost:				
Not being depreciated:				
Land	\$ 350,000	\$ -	\$ -	\$ 350,000
Construction in progress	682,581	1,718,106	(682,581)	1,718,106
Total capital assets not being depreciated	<u>1,032,581</u>	<u>1,718,106</u>	<u>(682,581)</u>	<u>2,068,106</u>
Being depreciated:				
Machinery, equipment, and furnishings	5,456,588	17,333	(21,969)	5,451,952
Infrastructure	22,135,079	679,581	-	22,814,660
Total capital assets being depreciated	<u>27,591,667</u>	<u>696,914</u>	<u>(21,969)</u>	<u>28,266,612</u>
Total all capital assets	<u>28,624,248</u>	<u>2,415,020</u>	<u>(704,550)</u>	<u>30,334,718</u>

(continued)

TOWN OF SALEM, NEW HAMPSHIRE
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Business-type activities capital assets continued:

	Balance, beginning	Additions	Disposals	Balance, ending
Less accumulated depreciation:				
Machinery, equipment, and furnishings	(2,186,142)	(213,945)	21,969	(2,378,118)
Infrastructure	(9,649,299)	(456,293)	-	(10,105,592)
Total accumulated depreciation	<u>(11,835,441)</u>	<u>(670,238)</u>	<u>21,969</u>	<u>(12,483,710)</u>
Net book value, capital assets being depreciated	15,756,226	26,676	-	15,782,902
Net book value, all business-type activities capital assets	<u>\$ 16,788,807</u>	<u>\$ 1,744,782</u>	<u>\$ (682,581)</u>	<u>\$ 17,851,008</u>

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

Governmental activities:	
General government	\$ 52,322
Public safety	374,349
Highways and streets	8,671,095
Health	4,852
Culture and recreation	21,543
Total depreciation expense	<u>\$ 9,124,161</u>
Business-type activities:	
Water	\$ 445,344
Sewer	224,894
Total depreciation expense	<u>\$ 670,238</u>

NOTE 9 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of December 31, 2014 is as follows:

Receivable Fund	Payable Fund	Amount
General	Capital project	\$ 1,097,642
Nonmajor	General	246,140
Capital project	General	152,166
General	Nonmajor funds	177,083
		<u>\$ 1,673,031</u>

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

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Interfund Transfers - The composition of interfund transfers for the year ended December 31, 2014 is as follows:

	Transfers In:			
	Governmental Funds		Total Governmental Funds	
	General Fund	Capital Projects Fund		
Transfers out:				
Governmental activities:				
General fund	\$ -	\$ 4,767,166	\$ 4,767,166	
Capital project fund	25,000	-	25,000	
Nonmajor fund	233	-	233	
Proprietary funds:				
Sewer	-	-	-	
Water	184,000	-	184,000	
Total	<u>\$ 209,233</u>	<u>\$ 4,767,166</u>	<u>\$ 4,976,399</u>	
Transfers In:				
	Proprietary Funds		Total	
	Sewer Fund	Water Fund	Proprietary Funds	
			Total	
Transfers out:				
Governmental activities:				
General fund	\$ 21,703	\$ -	\$ 21,703	
Capital project fund	-	-	-	
Nonmajor fund	-	-	-	
Proprietary funds:				
Sewer	-	9,118	9,118	
Water	99,959	-	99,959	
Total	<u>\$ 121,662</u>	<u>\$ 9,118</u>	<u>\$ 130,780</u>	

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

NOTE 10 - ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at December 31, 2014, were as follows:

	Governmental Funds		Total Governmental Funds
	General Fund	Nonmajor Governmental Funds	
Salary and employee benefits	\$ 282,416	\$ 21,110	\$ 303,526
Other	58,583	-	58,583
Total accrued liabilities	\$ 340,999	\$ 21,110	\$ 362,109
Proprietary Funds			
	Sewer Fund	Water Fund	Proprietary Funds
			Total
Salary and employee benefits	\$ 1,423	\$ 7,815	\$ 9,238
Other	-	-	-
Total accrued liabilities	\$ 1,423	\$ 7,815	\$ 9,238

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NOTE 11 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments of \$18,782,384 at December 31, 2014 consist of:

General fund:	
Balance due to the Salem School District	\$ 18,601,923
Amounts due to the State of New Hampshire	11,384
Total general fund	<u>18,613,307</u>
Fiduciary funds:	
Balances held on behalf of the Salem School District	<u>168,603</u>
Total intergovernmental payables due	<u><u>\$ 18,781,910</u></u>

NOTE 12 – DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources reported in the governmental funds as unavailable revenue are as follows:

	General Fund	
Deferred property taxes not collected within 60 days of fiscal year-end	\$ 686,316	*
Bond premiums amortized over life of bond	151,715	
Grant revenue collected in advance of eligible expenditure being made	46,861	
Total deferred inflows of resources	<u>884,892</u>	

*Balance is not recognized on the full accrual basis of accounting as presented on Exhibits A and B of the Town's basic financial statements.

NOTE 13 – CAPITAL LEASE OBLIGATIONS

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

	Standard Interest Rate	Present Value of Remaining Payments as of December 31, 2014
Capital lease obligations:		
Police radio equipment	3.149%	\$ 63,386
Police cruisers	2.350%	<u>146,635</u>
Total capital lease obligations		<u><u>\$ 210,021</u></u>

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

	Governmental Activities
Equipment:	
Police radio equipment	\$ 176,791
Police cruisers	<u>312,276</u>
Total equipment	<u>489,067</u>
Less: accumulated depreciation	<u>(90,688)</u>
Total capital lease equipment	<u><u>\$ 398,379</u></u>

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The annual requirements to amortize the capital leases payable as of December 31, 2014, including interest payments, are as follows:

Fiscal Year Ending December 31,	Governmental Activities
2015	\$ 183,279
2016	<u>33,197</u>
Total requirements	216,476
Less: interest	<u>(6,455)</u>
Present value of remaining payments	<u><u>\$ 210,021</u></u>

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

NOTE 14 – LONG-TERM LIABILITIES

Changes in the Town's long-term liabilities consisted of the following for the year ended December 31, 2014:

	Balance December 31, 2013	Additions	Reductions	Balance December 31, 2014	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 4,769,909	\$ 1,418,000	\$ 935,909	\$ 5,252,000	\$ 1,039,000
Premium	<u>72,406</u>	-	<u>7,241</u>	<u>65,165</u>	<u>7,241</u>
Total bonds payable	<u>4,842,315</u>	<u>1,418,000</u>	<u>943,150</u>	<u>5,317,165</u>	<u>1,046,241</u>
Capital leases	521,764	-	311,743	210,021	177,837
Compensated absences	3,548,189	-	110,764	3,658,953	141,369
Accrued landfill postclosure care costs	456,000	104,000	-	560,000	30,000
Net other postemployment benefits	<u>4,114,017</u>	<u>1,351,221</u>	-	<u>5,465,238</u>	-
Total governmental activities long-term liabilities	<u><u>\$ 13,482,285</u></u>	<u><u>\$ 2,873,221</u></u>	<u><u>\$ 1,365,657</u></u>	<u><u>\$ 15,211,377</u></u>	<u><u>\$ 1,395,447</u></u>
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 2,327,091	\$ 1,900,000	\$ 571,091	\$ 3,656,000	\$ 594,000
Premium	<u>42,114</u>	<u>116,280</u>	<u>4,211</u>	<u>154,183</u>	<u>15,839</u>
Total bonds payable	<u>2,369,205</u>	<u>2,016,280</u>	<u>575,302</u>	<u>3,810,183</u>	<u>609,839</u>
Compensated absences	104,845	-	-	104,845	-
Net other postemployment benefits	66,142	18,844	-	84,986	-
Total business-type activities long-term liabilities	<u><u>\$ 2,540,192</u></u>	<u><u>\$ 2,035,124</u></u>	<u><u>\$ 575,302</u></u>	<u><u>\$ 4,000,014</u></u>	<u><u>\$ 609,839</u></u>

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Long term bonds are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2014	Current Portion
Governmental activities:						
General obligation bonds payable:						
Arterial Road	\$ 4,000,000	2006	2016	3.75-4.00	\$ 800,000	\$ 400,000
Bridge reconstruction	\$ 2,394,500	2009	2019	2.00-3.00	1,190,000	240,000
Bridges reconstruction	\$ 1,297,000	2010	2020	2.00-4.00	775,000	130,000
Bridge construction/water improvements	\$ 1,189,909	2013	2023	3.00	1,069,000	121,000
Bridge construction/water improvements	\$ 1,418,000	2014	2024	2.00-3.00	1,418,000	148,000
					5,252,000	1,039,000
Bond premium					65,165	7,241
Total					5,317,165	1,046,241
Business-type activities:						
General obligation bonds payable:						
Canobie sewer/water	\$ 1,170,354	1998	2018	3.90-5.00	330,000	75,000
Pipeline construction	\$ 2,900,000	1996	2016	5.63-5.75	455,000	220,000
Blake Road project	\$ 695,900	2004	2024	3.00-5.00	350,000	35,000
Bridge construction/water improvements	\$ 692,091	2013	2023	3.00	621,000	69,000
Bridge construction/water improvements	\$ 1,900,000	2014	2024	2.00-3.00	1,900,000	195,000
					3,656,000	594,000
Bond premium					154,183	15,839
Total					3,810,183	609,839
					\$ 9,127,348	\$ 1,656,080

The annual requirements to amortize all *governmental activities* general obligation bonds outstanding as of December 31, 2014, including interest payments, are as follows:

Year Ending December 31,	Principal	Interest	Total
2015	\$ 1,039,000	\$ 159,748	\$ 1,198,748
2016	1,036,000	127,140	1,163,140
2017	636,000	95,310	731,310
2018	626,000	78,280	704,280
2019	626,000	59,375	685,375
2020-2024	1,289,000	101,575	1,390,575
Totals	\$ 5,252,000	\$ 621,428	\$ 5,873,428

The annual requirements to amortize all *business-type activities* general obligation bonds outstanding as of December 31, 2014, including interest payments, are as follows:

Year Ending December 31,	Principal	Interest	Total
2015	\$ 594,000	\$ 132,382	\$ 726,382
2016	614,000	105,035	719,035
2017	384,000	79,558	463,558
2018	389,000	67,588	456,588
2019	299,000	53,418	352,418
2020-2024	1,376,000	126,332	1,502,332
Totals	\$ 3,656,000	\$ 564,313	\$ 4,220,313

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Bond premiums are being amortized on a straight-line basis over the life of the bonds.

All debt is general obligation debt of the Town, which is backed by its full faith and credit, and will be repaid from general governmental revenues.

Accrued Landfill Postclosure Care Costs – Previously a 30 year period after closure was presented in the Town's engineer's estimates based on New Hampshire Department of Environmental Safety (NHDES) requirements for financial assurance for landfills. The financial assurance rules were modified in 2014 to provide for financial assurance for 30 years on an on-going basis. The necessary effort and costs for postclosure care will vary with a range of issues, including water quality, NHDES requirements, cap condition and gas production, all of which will vary over time. Requirements for monitoring and reporting, including groundwater testing and gas testing are anticipated to reduce over time. Requirements for maintenance of the cap itself will occur for an indefinite amount of time. The Town's engineer anticipates post closure costs will potentially decrease, on average, by approximately half after the first 30 years of closure (18 years from now) and continue at the reduced level for an indefinite time frame. The Town's engineer believes a 30 year period from today is a reasonable evaluation period for accounting purposes. The resulting estimate of total costs is \$560,000 as of December 31, 2014.

Bonds Authorized and Unissued – Bonds and notes authorized and unissued as of December 31, 2014 were as follows:

Per Town Meeting Vote of	Purpose	Unissued Amount
Warrant Article No. 8 - March 2014	Replacement of bridges and one culvert at Shannon Road	\$ 24

NOTE 15 – ENCUMBRANCES

Encumbrances outstanding at December 31, 2014 are as follows:

General fund:	
General government	\$ 266,124
Public safety	75,124
Highways and streets	75,470
Sanitation	37,777
Culture and recreation	3,750
Capital outlay	196,417
Total general fund	<u><u>\$ 654,662</u></u>

NOTE 16 – STATE AID GRANTS

The Town is due to receive from the State of New Hampshire the following amounts in the form of State aid grants:

	Amount
Elmwood & Marsh Area Sewer Extension	\$ 113,013
Canobie Lake Sewer Improvements	47,852
Total	<u><u>\$ 160,865</u></u>

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Under New Hampshire RSA Chapter 486, the Town receives from the State of New Hampshire a percentage of annual amortization charges on the original costs resulting from the acquisition and construction of water and sewage disposal facilities. At December 31, 2014, the Town is due to receive the following annual amounts to offset debt payments (note no payment is anticipated in fiscal year 2015):

Year Ending December 31,	Sewer Fund		Water Fund		Total
	Principal	Interest	Principal	Interest	
2016	\$ 44,608	\$ 1,526	\$ 2,698	\$ 594	\$ 49,426
2017	45,070	1,179	2,878	459	49,586
2018	45,533	809	3,057	315	49,714
2019	8,324	416	3,237	162	12,139
Totals	<u>\$ 143,535</u>	<u>\$ 3,930</u>	<u>\$ 11,870</u>	<u>\$ 1,530</u>	<u>\$ 160,865</u>

NOTE 17 – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net position reported on the government-wide Statement of Net Position at December 31, 2014 include the following:

	Governmental Activities	Business-type Activities
Net investment in capital assets:		
Net property, buildings, and equipment	\$ 95,979,757	\$ 17,851,008
Less:		
General obligation bonds payable	(5,252,000)	(3,656,000)
Unamortized bond premiums	(65,165)	(154,183)
Capital leases payable	(210,021)	-
Total net investment in capital assets	90,452,571	14,040,825
Restricted net position for capital projects	3,985,552	123,655
Unrestricted	4,163,448	6,818,977
Total net position	<u>\$ 98,601,571</u>	<u>\$ 20,983,457</u>

NOTE 18 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2014 include the following:

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Prepaid items	\$ 520,903	\$ -	\$ -	\$ 520,903
Nonexpendable portion of permanent funds	-	-	352,587	352,587
Total nonspendable	<u>520,903</u>	<u>-</u>	<u>352,587</u>	<u>873,490</u>
Restricted:				
CDBG fund	-	-	550	550
Police forfeiture	-	-	171,422	171,422
Library	-	-	60,968	60,968
Expendable portion of permanent funds	-	-	63,507	63,507
Total restricted	<u>-</u>	<u>-</u>	<u>296,447</u>	<u>296,447</u>

(continued)

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Governmental fund balances continued:

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Committed:				
Capital projects	-	3,985,552	-	3,985,552
Police outside detail	-	-	178,291	178,291
Fire outside details	-	-	16,098	16,098
Other special revenue fund	-	-	563,895	563,895
Cable television	-	-	801,178	801,178
Recreation	-	-	99,118	99,118
Expendable trust funds	2,293,936	-	-	2,293,936
Total committed	<u>2,293,936</u>	<u>3,985,552</u>	<u>1,658,580</u>	<u>7,938,068</u>
Assigned:				
Encumbrances	654,662	-	-	654,662
Contingency	428,895	-	-	428,895
Total assigned	<u>1,083,557</u>	<u>-</u>	<u>-</u>	<u>1,083,557</u>
Unassigned				
	7,113,093	-	-	7,113,093
Total fund balance	<u><u>\$ 11,011,489</u></u>	<u><u>\$ 3,985,552</u></u>	<u><u>\$ 2,307,614</u></u>	<u><u>\$ 17,304,655</u></u>

NOTE 19 – PRIOR PERIOD ADJUSTMENTS

Net position/fund balance at January 1, 2014 was restated to give retroactive effect to the following prior period adjustments:

	Government-wide Statements	Proprietary Funds	General Fund
To recategorize sewer and water funds as proprietary funds (see Note 2-C Change in Accounting Principle)	\$ (24,436,582)	\$ 20,405,865	\$ -
To adjust beginning trust fund balances	-	-	1,431,972
To adjust beginning balance to reflect changes in calculation of 60 day rule	-	-	1,972,492
Net position/fund balance, as previously reported	126,380,870	-	8,184,358
Net position/fund balance, as restated	<u><u>\$ 101,872,140</u></u>	<u><u>\$ 20,405,865</u></u>	<u><u>\$ 11,516,674</u></u>
	Capital Projects Funds	Fiduciary Funds	Other Governmental Funds
To recategorize capital projects fund as major	\$ 2,065,397	\$ -	\$ (2,065,397)
To reclassify capital project deficit fund balance to proprietary funds	58,240	-	-
To adjust beginning trust fund balances	-	865,390	(2,313,792)
Net position/fund balance, as previously reported	-	201,636	6,637,108
Net position/fund balance, as restated	<u><u>\$ 2,123,637</u></u>	<u><u>\$ 1,067,026</u></u>	<u><u>\$ 2,257,919</u></u>

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NOTE 20 – EMPLOYEE RETIREMENT PLAN

The Town participates in the New Hampshire Retirement System (the System) which is the administrator of a cost-sharing multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Provision for benefits and contributions are established and can be amended by the New Hampshire Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. For fiscal year 2014, all employees except police officers and firefighters were required to contribute 7% of earnable compensation. The contribution rates were 11.55% for police officers and 11.80% for firefighters. The Town's contribution rates for 2014 for pension and medical subsidy were 25.30% for police officers, 27.74% for firefighters, and 10.77% for all other employees.

The contribution requirements for the Town of Salem for the fiscal years 2012, 2013, and 2014 were \$2,800,998, \$2,612,824, and \$3,831,632, respectively, which were paid in full in each year.

NOTE 21 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45, was implemented by the Town during fiscal year 2014, and requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported similar to pension plans. GASB Statement No. 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements.

The Town has only partially funded (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2014:

Annual required contribution	\$ 2,382,038
Interest on net OPEB obligation	167,206
Adjustment to annual required contribution	<u>(241,767)</u>
Annual OPEB cost (expense)	2,307,477
Contributions made	<u>(937,412)</u>
Increase in net OPEB obligation	1,370,065
Net OPEB obligation - beginning of year	4,180,159
Net OPEB Obligation - end of year	<u><u>\$ 5,550,224</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 and the three preceding years were as follows:

Fiscal Year Ended	Annual OPEB		Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
	Contribution Cost				
December 31, 2014	\$ 2,382,038		\$ 937,412	39.35%	\$ 5,550,224
December 31, 2013	\$ 2,265,013		\$ 810,395	35.77%	\$ 4,180,159
December 31, 2012	\$ 2,127,541		\$ 821,559	38.61%	\$ 2,725,541
December 31, 2011	\$ 2,127,541		\$ 821,559	38.61%	\$ 1,419,559

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

As of January 1, 2013, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$32,922,106, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$32,922,106. The covered payroll (annual payroll of active employees covered by the plan) was \$17,169,619 during fiscal year 2013, and the ratio of the UAAL to the covered payroll was 191.80%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for Other Postemployment Benefits Plan, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2013 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.0% investment rate of return per annum. The projected annual healthcare cost trend is 10% initially, reduced by decrements to an ultimate rate of 5.0% after 10 years. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at December 31, 2014 was 28 years.

NOTE 22 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2014, the Town was a member of New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pools, currently operating as common risk management and insurance programs for member Towns and cities.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from January 1, 2014 to December 31, 2014 by Primex³, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated net contribution from the Town of Salem billed and paid for the year ended December 31, 2014 was \$639,158 for workers' compensation and \$469,492 for property/liability.

NOTE 23 – CONTINGENCIES

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

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

TOWN OF SALEM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

NOTE 24 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

The following GASB pronouncements were implemented by the Town for the fiscal year ended December 31, 2014, none of which impacted these financial statements:

GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued in June 2012. The guidance contained in this Statement will change how governments calculate and report the costs and obligations associated with pensions in important ways. They replace the requirements of Statements No. 27 and 50.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued in January 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations that have been transferred or sold.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued in April 2013. The objective of this Statement is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees.

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued in June 2012, will be effective for the Town beginning with its fiscal year ending December 31, 2015. The guidance contained in this Statement will change how governments calculate and report the costs and obligations associated with pensions in important ways. This replaces the requirements of Statements No. 27 and 50.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, issued in November 2013, should be implemented simultaneously with the provision of Statement No. 68, beginning with the fiscal year ending December 31, 2015. This statement addresses an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

GASB Statement No. 72, *Fair Value Measurement and Application*, issued in February 2015, will be effective for the Town beginning with the fiscal year ending December 31, 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements.

NOTE 25 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through June 10, 2015, the date the December 31, 2014 financial statements were available to be issued, and no events occurred that require recognition or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT G
TOWN OF SALEM, NEW HAMPSHIRE
Schedule of Funding Progress for Other Postemployment Benefit Plan
For the Fiscal Year Ended December 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
January 1, 2013	\$ -	\$ 32,922,106	\$ 32,922,106	0.00%	\$ 17,169,619	191.80%
January 1, 2011	\$ -	\$ 26,807,576	\$ 26,807,576	0.00%	\$ 17,834,523	150.30%
January 1, 2008	\$ -	\$ 2,297,442	\$ 2,297,442	0.00%	\$ 16,743,573	13.70%

The note to the required supplementary information is an integral part of this schedule.

TOWN OF SALEM, NEW HAMPSHIRE
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

Schedule of Funding Progress for Other Postemployment Benefits (OPEB)

As required by GASB Statement No. 45, Exhibit G represents the actuarial determined costs associated with the Town's other postemployment benefits for the fiscal year ended December 31, 2014, and the preceding two valuations performed.

COMBINING AND INDIVIDUAL FUND SCHEDULES

SCHEDULE 1
TOWN OF SALEM, NEW HAMPSHIRE
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2014

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 26,730,138	\$ 27,046,404	\$ 316,266
Land use change	1,567	1,763	196
Payment in lieu of taxes	70,000	71,219	1,219
Interest and penalties on taxes	346,646	349,495	2,849
Boat taxes	10,190	10,397	207
Total from taxes	<u>27,158,541</u>	<u>27,479,278</u>	<u>320,737</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	176,555	180,155	3,600
Motor vehicle permit fees	4,900,000	5,371,616	471,616
Building permits	513,020	612,166	99,146
Other	199,114	228,356	29,242
Total from licenses, permits, and fees	<u>5,788,689</u>	<u>6,392,293</u>	<u>603,604</u>
Intergovernmental:			
State:			
Meals and rooms distribution	1,383,072	1,383,072	-
Highway block grant	555,369	557,367	1,998
Other	1,538,942	1,423,324	(115,618)
Total from intergovernmental	<u>3,477,383</u>	<u>3,363,763</u>	<u>(113,620)</u>
Charges for services:			
Income from departments	1,762,823	1,952,039	189,216
Miscellaneous:			
Sale of municipal property	44,328	50,299	5,971
Interest on investments	22,715	25,681	2,966
Insurance premium holiday	-	242,891	242,891
Other	766,962	814,835	47,873
Total from miscellaneous	<u>834,005</u>	<u>1,133,706</u>	<u>299,701</u>
Other financing sources:			
Transfers in	205,598	209,233	3,635
Total revenues and other financing sources	39,227,039	\$ 40,530,312	\$ 1,303,273
Unassigned fund balance used to reduce tax rate	3,205,258		
Total revenues, other financing sources, and use of fund balance	<u>\$ 42,432,297</u>		

SCHEDULE 2
TOWN OF SALEM, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2014

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 321,359	\$ 330,861	\$ 3,554	\$ (13,056)
Election and registration	-	268,747	262,181	-	6,566
Financial administration	17,475	1,778,676	1,802,482	5,287	(11,618)
Legal	6,080	96,900	127,285	6,080	(30,385)
Personnel administration	640	1,230,797	1,001,379	-	230,058
Planning and zoning	-	543,330	547,348	59	(4,077)
General government buildings	-	200,930	201,583	15,874	(16,527)
Cemeteries	16,963	329,887	350,144	3,140	(6,434)
Insurance, not otherwise allocated	16,725	232,884	306,614	27,975	(84,980)
Other	14,978	764,204	574,726	204,155	301
Total general government	<u>72,861</u>	<u>5,767,714</u>	<u>5,504,603</u>	<u>266,124</u>	<u>69,848</u>
Public safety:					
Police	25,764	9,462,319	9,386,958	26,742	74,383
Fire	96,259	10,174,818	10,204,725	48,382	17,970
Building inspection	-	238,293	256,175	-	(17,882)
Total public safety	<u>122,023</u>	<u>19,875,430</u>	<u>19,847,858</u>	<u>75,124</u>	<u>74,471</u>
Highways and streets:					
Public works garage	3,500	423,727	415,267	9,742	2,218
Highways and streets	12,675	2,232,514	2,204,067	65,728	(24,606)
Street lighting	-	383,086	568,994	-	(185,908)
Total highways and streets	<u>16,175</u>	<u>3,039,327</u>	<u>3,188,328</u>	<u>75,470</u>	<u>(208,296)</u>
Sanitation:					
Solid waste disposal	<u>22,637</u>	<u>972,570</u>	<u>913,455</u>	<u>37,777</u>	<u>43,975</u>
Health:					
Administration	1,497	212,871	219,826	-	(5,458)
Pest control	-	90,066	94,821	-	(4,755)
Total health	<u>1,497</u>	<u>302,937</u>	<u>314,647</u>	<u>-</u>	<u>(10,213)</u>
Welfare:					
Administration	-	173,220	170,583	-	2,637
Direct assistance	-	65,200	71,575	-	(6,375)
Other	-	104,153	104,153	-	-
Total welfare	<u>-</u>	<u>342,573</u>	<u>346,311</u>	<u>-</u>	<u>(3,738)</u>
Culture and recreation:					
Parks and recreation	2,816	231,846	231,989	800	1,873
Library	-	1,390,159	1,354,745	-	35,414
Patriotic purposes	-	25,081	27,012	-	(1,931)
Other	-	346,996	348,073	2,950	(4,027)
Total culture and recreation	<u>2,816</u>	<u>1,994,082</u>	<u>1,961,819</u>	<u>3,750</u>	<u>31,329</u>
Debt service:					
Principal of long-term debt	-	935,909	935,909	-	-
Interest on long-term debt	-	148,351	141,136	-	7,215
Interest on tax anticipation notes	-	1	-	-	1
Total debt service	<u>-</u>	<u>1,084,261</u>	<u>1,077,045</u>	<u>-</u>	<u>7,216</u>

(Continued)

SCHEDULE 2 (Continued)
TOWN OF SALEM, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2014

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance (Positive (Negative)
Capital outlay	597,386	4,086,237	2,965,925	196,417	1,521,281
Other financing uses:					
Transfers out	-	4,967,166	4,967,166	-	-
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 835,395</u>	<u>\$ 42,432,297</u>	<u>\$ 41,087,157</u>	<u>\$ 654,662</u>	<u>\$ 1,525,873</u>

SCHEDULE 3
TOWN OF SALEM, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unassigned Fund Balance
For the Fiscal Year Ended December 31, 2014

Unassigned fund balance, beginning (Non-GAAP Budgetary Basis)	\$ 8,421,236
Changes:	
Unassigned fund balance used to reduce 2014 tax rate	(3,205,258)
2014 Budget summary:	
Revenue surplus (Schedule 1)	\$ 1,303,273
Unexpended balance of appropriations (Schedule 2)	1,525,873
Budget surplus	<hr/> 2,829,146
Increase in nonspendable fund balance	(246,057)
Increase in assigned fund balance	<hr/> (113,365)
Unassigned fund balance, ending (Non-GAAP Budgetary Basis)	<hr/> 7,685,702

Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis:

To comply with generally accepted accounting principles by deferring property taxes not collected within 60 days of fiscal year-end	(660,562)
Elimination of allowance for doubtful accounts	87,953
Unassigned fund balance, ending (GAAP basis Exhibit C-1)	<hr/> \$ 7,113,093
<hr/>	

Special Revenue Funds						
Conservation Commission	Police Forfeiture	Police			Permanent	
		Outside Details	Recreation	Library	Fund	Total
\$ 317,755	\$ 171,422	\$ -	\$ 99,222	\$ 60,968	\$ 17,571	\$ 1,377,998
-	-	-	-	-	406,676	406,676
-	-	365,795	-	-	-	476,881
246,140	-	-	-	-	-	246,140
\$ 563,895	\$ 171,422	\$ 365,795	\$ 99,222	\$ 60,968	\$ 424,247	\$ 2,507,695
\$ -	\$ -	\$ -	\$ 104	\$ -	\$ -	\$ 1,888
-	-	18,574	-	-	-	21,110
-	-	168,930	-	-	8,153	177,083
-	-	187,504	104	-	8,153	200,081
-	-	-	-	-	352,587	352,587
-	171,422	-	-	60,968	63,507	296,447
563,895	-	178,291	99,118	-	-	1,658,580
563,895	171,422	178,291	99,118	60,968	416,094	2,307,614
\$ 563,895	\$ 171,422	\$ 365,795	\$ 99,222	\$ 60,968	\$ 424,247	\$ 2,507,695

Special Revenue Funds						
Conservation Commission	Police Forfeiture	Police Outside Details	Recreation	Library	Permanent Fund	Total
\$ 239,330	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 239,330
-	-	-	-	-	-	12,640
-	-	1,860,112	66,651	-	-	1,958,602
1,279	18	-	-	-	30,527	31,831
-	72,562	-	1	18,881	3,575	523,981
<u>240,609</u>	<u>72,580</u>	<u>1,860,112</u>	<u>66,652</u>	<u>18,881</u>	<u>34,102</u>	<u>2,766,384</u>
-	-	-	-	-	9,040	447,030
-	132,178	1,973,307	-	-	-	2,136,911
-	-	-	48,817	23,707	-	72,524
10,562	-	-	-	-	-	10,562
15,424	-	-	-	-	-	49,429
<u>25,986</u>	<u>132,178</u>	<u>1,973,307</u>	<u>48,817</u>	<u>23,707</u>	<u>9,040</u>	<u>2,716,456</u>
214,623	(59,598)	(113,195)	17,835	(4,826)	25,062	49,928
<u>(233)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(233)</u>
214,390	(59,598)	(113,195)	17,835	(4,826)	25,062	49,695
349,505	231,020	291,486	81,283	65,794	391,032	2,257,919
<u>\$ 563,895</u>	<u>\$ 171,422</u>	<u>\$ 178,291</u>	<u>\$ 99,118</u>	<u>\$ 60,968</u>	<u>\$ 416,094</u>	<u>\$ 2,307,614</u>