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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Salem, New Hampshire

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Salem, New Hampshire, as of and for the year ended December 31, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Salem, New Hampshire's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The government-wide financial statements do not include any of the Town's infrastructure capital assets, accumulated depreciation, nor depreciation expenses related to those assets. These amounts have not been determined. Therefore, in our opinion, the financial statements referred to above do not present fairly the financial position of the governmental activities of the Salem, New Hampshire, as of December 31, 2009, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Additional Offices:

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Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the each major fund and the aggregate remaining fund information of the Town of Salem, New Hampshire as of December 31, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 24, 2010 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, appearing on the following pages, and the supplementary information on page 38, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Melanson, Heath + Company P. C.

Nashua, New Hampshire
May 24, 2010

TOWN OF SALEM, NEW HAMPSHIRE
STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	<u>Governmental Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 29,716,608
Investments	908,786
Receivables, net of allowance for uncollectibles:	
Property taxes	3,229,080
User fees	419,848
Departmental and other	576,079
Intergovernmental	683,455
Special assessments	362,361
Other assets	167,951
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	114,296
Special assessments	3,675,467
Capital Assets:	
Land and construction in progress	9,744,797
Other assets, net of accumulated depreciation	<u>11,530,915</u>
TOTAL ASSETS	61,129,643
LIABILITIES	
Current:	
Accounts payable	441,691
Accrued liabilities	463,334
Tax refunds payable	282,732
Retainage payable	265,635
Due to other governments	15,436,257
Other current liabilities	176,093
Current portion of long-term liabilities:	
Bonds payable	1,214,500
Other liabilities	488,554
Noncurrent:	
Bonds payable, net of current portion	8,050,000
Other liabilities, net of current portion	<u>3,977,838</u>
TOTAL LIABILITIES	30,796,634
NET ASSETS	
Invested in capital assets, net of related debt	13,812,403
Restricted for:	
Grants and other statutory restrictions	7,144,310
Permanent funds:	
Nonexpendable	844,827
Expendable	64,085
Unrestricted	<u>8,467,384</u>
TOTAL NET ASSETS	\$ 30,333,009

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Expenses</u>	Program Revenues			<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 5,748,661	\$ 508,894	\$ -	\$ -	\$ (5,239,767)
Public safety	18,279,923	2,788,025	-	-	(15,491,898)
Highway and streets	8,529,893	-	-	21,837	(8,508,056)
Sanitation	1,144,926	137,244	-	-	(1,007,682)
Water distribution and treatment	1,909,203	3,960,706	-	-	2,051,503
Sewer distribution and treatment	1,614,816	3,582,533	-	-	1,967,717
Health	335,602	81,318	-	-	(254,284)
Welfare	286,564	(776)	-	-	(287,340)
Culture and recreation	2,155,357	112,464	-	-	(2,042,893)
Interest	378,273	-	-	-	(378,273)
Miscellaneous	17,534	-	-	-	(17,534)
Total Governmental Activities	<u>\$ 40,400,752</u>	<u>\$ 11,170,408</u>	<u>\$ -</u>	<u>\$ 21,837</u>	<u>(29,208,507)</u>
General Revenues and Contributions:					
Property taxes					21,991,381
Licenses and permits					4,583,585
Penalties, interest and other taxes					377,502
Grants and contributions not restricted to specific programs					3,680,689
Investment income					295,939
Miscellaneous					923,979
Permanent fund contributions					<u>230,384</u>
Total general revenues and contributions					<u>32,083,459</u>
Change in Net Assets					2,874,952
Net Assets:					
Beginning of year, as restated					<u>27,458,057</u>
End of year					<u>\$ 30,333,009</u>

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 31, 2009

	<u>General</u>	Water Fund	Sewer Fund	Capital Project Fund	Expendable Trust Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and short-term investments	\$ 18,984,092	\$ 1,453,877	\$ 2,233,624	\$ 3,605,861	\$ 2,585,941	\$ 853,213	\$ 29,716,608
Investments	-	-	-	-	-	908,786	908,786
Receivables:							
Property taxes	3,417,151	-	-	-	-	-	3,417,151
User fees	-	245,085	222,000	-	-	-	467,085
Departmental and other	1,033,344	-	-	-	-	217,122	1,250,466
Intergovernmental	543,011	-	140,444	-	-	-	683,455
Special assessment	-	10,695	20,210	-	-	-	30,905
Due from other funds	21,684	-	-	15,000	-	50,500	87,184
Other assets	167,951	-	-	-	-	-	167,951
TOTAL ASSETS	\$ 24,167,233	\$ 1,709,657	\$ 2,616,278	\$ 3,620,861	\$ 2,585,941	\$ 2,029,621	\$ 36,729,591
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 393,105	\$ 40,635	\$ 5,779	\$ -	\$ -	\$ 2,172	\$ 441,691
Accrued liabilities	225,756	8,673	1,783	-	101,040	11,745	348,997
Deferred revenues	3,435,697	255,780	242,210	-	-	13,099	3,946,786
Tax refunds payable	282,732	-	-	-	-	-	282,732
Retainage payable	4,914	-	-	40,557	220,164	-	265,635
Due to other governments	15,436,257	-	-	-	-	-	15,436,257
Due to other funds	65,500	-	-	-	-	21,684	87,184
Other liabilities	173,694	1,737	444	-	-	218	176,093
TOTAL LIABILITIES	20,017,655	306,825	250,216	40,557	321,204	48,918	20,985,375
Fund Balances:							
Reserved for:							
Encumbrances and continuing appropriations	1,219,127	279,084	122,968	1,444,850	-	44,822	3,110,851
Prepaid expenditures	167,951	-	-	-	-	-	167,951
Expenditures	-	257,147	398,818	-	-	-	655,965
Perpetual (unexpendable) permanent funds	-	-	-	-	-	844,827	844,827
Unreserved:							
Undesignated, reported in:							
General fund	2,762,500	-	-	-	-	-	2,762,500
Special revenue funds	-	866,601	1,844,276	-	2,264,737	1,026,969	6,002,583
Capital project funds	-	-	-	2,135,454	-	-	2,135,454
Permanent funds	-	-	-	-	-	64,085	64,085
TOTAL FUND BALANCES	4,149,578	1,402,832	2,366,062	3,580,304	2,264,737	1,980,703	15,744,216
TOTAL LIABILITIES AND FUND BALANCES	\$ 24,167,233	\$ 1,709,657	\$ 2,616,278	\$ 3,620,861	\$ 2,585,941	\$ 2,029,621	\$ 36,729,591

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>General</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Capital Project Fund</u>	<u>Expendable Trust Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:							
Property taxes	\$ 21,742,055	\$ -	\$ -	\$ -	\$ -	\$ 64,750	\$ 21,806,805
Penalties, interest, and other taxes	350,981	12,630	14,264	-	-	-	377,875
Charges for services	1,417,374	3,032,746	2,426,182	-	-	1,654,028	8,530,330
Intergovernmental	3,557,017	-	123,672	21,837	-	-	3,702,526
Licenses and permits	5,027,368	3,466	-	-	-	-	5,030,834
Investment income	42,045	27,466	262	2,645	3,348	175,264	251,030
Contributions	-	-	-	-	220,555	9,829	230,384
Miscellaneous	775,699	-	36,868	15,000	47,328	85,259	960,154
Total Revenues	32,912,539	3,076,308	2,601,248	39,482	271,231	1,989,130	40,889,938
Expenditures:							
Current:							
General government	5,046,611	-	-	-	186,544	641,845	5,875,000
Public safety	16,985,621	-	-	-	-	1,230,946	18,216,567
Highway and streets	4,369,143	-	-	1,468,353	2,750,175	-	8,587,671
Sanitation	1,179,342	-	-	-	-	-	1,179,342
Water distribution and treatment	-	1,715,549	-	-	-	-	1,715,549
Sewer distribution and treatment	-	-	1,614,816	-	-	-	1,614,816
Health	307,346	-	-	-	-	-	307,346
Welfare	285,913	-	-	-	-	-	285,913
Culture and recreation	1,944,522	-	-	-	88,049	88,474	2,121,045
Debt service	582,403	681,134	69,372	-	-	-	1,332,909
Capital outlay	-	16,534	1,000	-	-	-	17,534
Total Expenditures	30,700,901	2,413,217	1,685,188	1,468,353	3,024,768	1,961,265	41,253,692
Excess (deficiency) of revenues over expenditures	2,211,638	663,091	916,060	(1,428,871)	(2,753,537)	27,865	(363,754)
Other Financing Sources (Uses):							
Proceeds of bonds	-	-	-	2,394,500	-	-	2,394,500
Transfers in	1,108,989	4,261	70,906	600,000	1,728,091	485,012	3,997,259
Transfers out	(2,031,430)	(212,906)	(115,000)	(334,871)	(1,085,061)	(217,991)	(3,997,259)
Total Other Financing Sources (Uses)	(922,441)	(208,645)	(44,094)	2,659,629	643,030	267,021	2,394,500
Change in fund balance	1,289,197	454,446	871,966	1,230,758	(2,110,507)	294,886	2,030,746
Fund Equity, at Beginning of Year	2,860,381	948,386	1,494,096	2,349,546	4,375,244	1,685,817	13,713,470
Fund Equity, at End of Year	\$ 4,149,578	\$ 1,402,832	\$ 2,366,062	\$ 3,580,304	\$ 2,264,737	\$ 1,980,703	\$ 15,744,216

See notes to financial statements.