

**TOWN OF WINDHAM, NEW HAMPSHIRE**

**Financial Statements**

**December 31, 2011**

**and**

**Independent Auditor's Report**

**TOWN OF WINDHAM, NEW HAMPSHIRE  
FINANCIAL STATEMENTS  
December 31, 2011**

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December 31, 2011**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen  
Town of Windham, 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 Windham, New Hampshire (the Town) as of and for the year ended December 31, 2011, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Windham, New Hampshire as of December 31, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress for other post-employment benefit on pages i-x and 26-29, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Windham, New Hampshire's basic financial statements. The combining nonmajor fund and fiduciary fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund and fiduciary fund financial statements are the responsibility of management and were derived from and relate

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

Vachon Clukay & Company PC

August 1, 2012

**Town of Windham, New Hampshire**  
**Management's Discussion and Analysis**

The following is a narrative overview and analysis of the financial activities of the Town of Windham (the Town) for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with the Town's financial statements, which follow this section.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town of Windham's basic financial statements. The basic financial statements of the Town of Windham are comprised of three components:

1. government-wide financial statements
2. fund financial statements
3. notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the finances of the Town of Windham. These statements (Statement of Net Assets and the Statement of Activities) provide both short-term and long-term information about the Town's overall financial position. They are prepared using the accrual basis of accounting, which recognizes all revenues and expenses connected with the fiscal year even if cash has not been received or paid.

The Statement of Net Assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. However, other non-financial factors, such as changes in the Town's property tax base, the Town's overall debt level and the condition of the Town's infrastructure and capital assets, will need to be considered to assess the overall financial health of the Town.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All of the Town's activities are categorized as Governmental Activities. The Town's basic services are reported here, including police, fire, general government, highway, sanitation, recreation and financial administration. Property taxes, state aid, motor vehicle fees, and charges for services finance these activities.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Windham, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-

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related legal requirements. All funds of the Town can be divided into two categories: governmental funds and fiduciary funds.

**Governmental Funds:** *Governmental* funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements, and include most of the basic services provided by the Town. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year.

These funds are reported using the *modified accrual basis of accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps the users of the Town's financial reports to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is described in a reconciliation presented at the bottom of the fund financial statements.

The Town of Windham maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be the Town's only major fund. Data from the other governmental funds are combined into a single, aggregate presentation.

The Town of Windham adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the budget.

**Fiduciary Funds:** *Fiduciary Funds* are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the programs of the Town of Windham. The Town's fiduciary funds consist of private-purpose trust funds and agency funds.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to gaining a full understanding of the data provided in the government-wide and fund financial statements.

### **Required Supplementary Information**

The basic financial statements and accompanying notes are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for each of the Town's major governmental funds, and includes a reconciliation between the statutory fund

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**Management's Discussion and Analysis**

balance for budgetary purposes and the fund balance as presented in the governmental fund financial statements.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's net assets totaled \$37.8 million at the end of 2011, which represents an increase of \$751 thousand, or 2.03%, as compared to the end of the previous year.

*Statement of Net Assets*

The following is a summary of condensed government-wide financial data of net assets as of December 31, 2011 and December 31, 2010 (*as restated*):

	<u>2011</u>	<u>2010</u> <i>(as restated)</i>	<u>% Change</u>
Current & non-current other assets	\$ 18,838,964	\$ 18,642,086	1.1%
Capital assets	36,632,482	35,322,371	3.7
Total Assets	<u>55,471,446</u>	<u>53,964,457</u>	<u>2.8</u>
Long-term liabilities outstanding	2,091,874	1,703,928	22.8
Other current liabilities	15,607,798	15,239,316	2.4
Total Liabilities	<u>17,699,672</u>	<u>16,943,244</u>	<u>4.5</u>
Net assets:			
Invested in capital assets, net of related debt	36,032,933	35,125,650	2.6
Restricted	346,153	326,899	5.9
Unrestricted	1,392,688	1,568,664	(11.2)
Total Net Assets	<u>\$ 37,771,774</u>	<u>\$ 37,021,213</u>	<u>2.03%</u>

Total net assets are presented in three categories: invested in capital assets, net of related debt, restricted, and unrestricted. As discussed in Note 19, the beginning of year net assets of \$37,021,213, reflects a restatement of the December 31, 2010 ending net assets, representing an increase of \$46,204 in total net assets, due to a reclassification between funds.

The majority of net assets are related to capital assets (e.g. land, buildings, machinery and equipment). The figure presented (\$36.0 million) is net of any related debt incurred to acquire those assets, and represents 95% of total net assets. These assets are utilized by the Town of Windham to provide services to its citizenry; therefore they are not available for future spending.

A certain portion (\$346 thousand or 0.9%) of the net assets is restricted in regard to how they may be used. For the Town of Windham, those restrictions include those related to the use of police forfeiture funds, donation funds, and the balances of governmental funds that are restricted for other uses (refer to Note 14 for further details). As discussed in Note 1, the Town of Windham adopted the provisions of GASB Statement 54, *Fund Balance Reporting and*



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*Governmental Fund Type Definitions*, for the year ended December 31, 2011. Statement 54 established new fund balance classifications and changes the definition of governmental fund types. The "Restricted" and "Unrestricted" fund balance categories for December 31, 2010 shown above also reflect a restatement of balances among categories. In total, when comparing December 31, 2011 to December 31, 2010, the reported fund balance on the Statement of Net Assets as of December 31, 2011 was \$1.74 million, as compared to a total of \$1.90 million as of December 31, 2010 (as restated), representing a decrease of \$157 thousand, or 9.0%. This overall decrease reflects the Town of Windham's continued use of general fund unrestricted fund balance to reduce the amount of property taxes raised, offset by increases in other governmental fund balances as a result of normal account activity.

***Statement of Activities***

The following is a summary of condensed government-wide financial data of changes in net assets for the years ending December 31, 2011 and December 31, 2010 (*as restated*):

	<u>2011</u>	<u>2010</u> <i>(as restated)</i>	<u>% Change</u>
<b>Revenues</b>			
Program Revenues:			
Charges for services	\$ 828,787	\$ 765,411	8.3%
Operating grants and contributions	642,438	644,839	(0.4)
Capital grants and contributions	1,443,166	642,297	124.7
Total program revenues	<u>2,914,391</u>	<u>2,052,547</u>	<u>42.0</u>
General Revenues:			
Property & other taxes	7,742,379	8,054,821	(3.09)
Licenses & permits	2,855,470	2,832,846	0.8
Grants & contributions	607,155	576,734	5.3
Interest & investment earnings	28,039	56,288	(50.2)
Other general revenues	986,814	834,563	18.2
Total general revenues	<u>12,219,857</u>	<u>12,355,252</u>	<u>(1.1)</u>
Total Revenues	<u>15,134,248</u>	<u>14,407,799</u>	<u>5.0</u>
<b>Program Expenses:</b>			
General government	3,207,950	3,010,766	6.5
Public safety	6,370,582	6,460,951	(1.4)
Highways and streets	2,129,923	2,317,302	(8.1)
Health and welfare	105,057	152,987	(31.3)
Sanitation	977,757	959,662	1.9
Culture, recreation and conservation	1,590,834	1,638,003	(2.9)
Interest and fiscal charges	1,584	3,605	(56.1)
Total Expenses	<u>14,383,687</u>	<u>14,543,276</u>	<u>(1.1)</u>
Increase (decrease) in net assets	750,561	(135,477)	
Net Assets, beginning of year, <i>restated</i>	37,021,213	37,156,690	
Net Assets, end of year	<u>\$ 37,771,774</u>	<u>\$ 37,021,213</u>	<u>2.03%</u>

**Town of Windham, New Hampshire**  
**Management's Discussion and Analysis**

The Town's net assets increased by \$751 thousand, or 2.03% during 2011, as compared to a decrease of \$135 thousand, or (0.4)% in the previous year. The primary funding source for governmental activities are taxes and permits, which combined account for 70% of all revenues. Total 2011 revenues of \$15.1 million were greater than 2011 expenses of \$14.4 million, representing an increase in net assets of \$751 thousand. Revenue in 2011 was greater than 2010 revenue by \$726 thousand, or 5.0%. This increase was primarily due to higher capital grants and contributions in 2011, as a result of the acceptance of more new town roads in 2011 than 2010, all of which are accounted for as donated contributions and vary from year to year. In addition there was a \$312 thousand decrease in property and other tax revenues in 2011. This was a result of several large commercial property tax abatements that were resolved and refunded in 2011. Other general revenues were higher in 2011 as compared to 2010 by \$152 thousand, primarily as a result of significant one-time proceeds relating to the sale of tax deeded property in 2011. In addition, the Town continues to experience a decrease in investment interest earnings due to the low rates offered for the types of investments the Town is limited to entering into, based on the Town's Investment Policy.

Total expenses during 2011 of \$14.4 million were slightly lower than 2010 expenses of \$14.5 million by \$160 thousand, or (1.1)%. The largest decrease was in the highways and streets category, down 8.1% due to capital road improvement projects completed during the year, thereby reducing the amount reported as current year expense, as those projects become reclassified as capital assets. In addition, health and welfare expenses were down 31.3% due to the elimination of certain programs as a cost saving measure for 2011. The most significant area of increase was in the general government category, as a result of the increased cost of employee benefits as well as increased spending on contracted legal and assessing services in 2011 as compared to 2010. Total expenses in 2011 included \$1.90 million of capital asset depreciation expense, as compared to \$1.96 million in 2010.

**Financial Analysis of Town of Windham Funds**

**Governmental Funds.** At the end of 2011 and 2010 as restated, the combined fund balances for all governmental funds were as follows:

	<u>2011</u>	<u>2010</u> <i>(as restated)</i>
General Fund	\$ (921,472)	\$ (514,439)
Other Governmental Funds	1,830,188	1,593,609
Total Governmental Fund Balance	\$ 908,716	\$ 1,079,170

The 2011 total governmental fund balance of \$909 thousand decreased by \$170 thousand from a balance of \$1.1 million in the previous year, or 15.8%. As previously noted, the overall decrease reflects the Town of Windham's continued use of general fund unassigned fund balance to reduce the amount of property taxes raised, offset by increases in other governmental fund balances as a result of normal account activity. The fund balance reflected above for the general fund does not include the property tax revenue accounted for as deferred revenue on the balance sheet. This amount is impacted by the timing of the issuance of the December tax bills, as the balance in uncollected taxes at the end of each year flows through this portion of the fund

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balance, thus causing fluctuation from year to year and the deficit in the general fund portion. The change in fund balance of the general fund during 2011 is analyzed from a budgetary standpoint later in this report.

The fund balance in the other governmental funds category includes many of the Town's special revenue funds, and is detailed in Note 15. The fund balances in all other governmental funds of \$1.8 million increased by approximately \$237 thousand as compared to the 2010 balance. These other governmental funds are restricted for the purposes originally established at the time of appropriation. One of the largest single funds is the Conservation Land Trust, which had a fund balance of \$645 thousand as of December 31, 2011, an increase of \$144 thousand over the 2010 balance. The increase in this fund is a result of current use penalty taxes collected in the current year, with virtually no offsetting expenditures for land purchases during 2011. The most significant activity within the other individual funds was an increase of \$60 thousand in the Health Expendable Trust Fund as a result of income generated from the employee cost share exceeding payments towards benefit claims and premiums.

In regards to the general fund, the Board of Selectmen have formalized a policy that calls for the unassigned fund balance (budgetary basis) to be maintained at \$300,000. This level represents less than 1% of the combined town, school and county revenues committed in 2011. The remainder of the unassigned fund balance in the General Fund is used to reduce the current year tax rate.

The level of unassigned fund balance available to reduce the current year tax rate is reflected in the Schedule of Revenues, Expenditures and Changes in Fund Balances that is done on a budgetary basis in Schedule 1 of the Required Supplementary Information, and is summarized in the following table:

	<u>2011</u>	<u>2010</u>
Total fund balance – budgetary basis	\$ 1,020,417	\$ 862,007
Portion designated for prepaid expenses	(1,500)	
Portion designated for continuing appropriations	(116,606)	(127,318)
Available for tax rate setting	\$ 902,311	\$ 734,689

The amount of the December 31, 2010 fund balance used to reduce the 2011 tax rate was \$434 thousand, as compared to \$280 thousand used in 2010. After this reduction, the net unassigned fund balance as of December 31, 2011 grew to \$902 thousand due to a favorable variance in fiscal 2011 budgeted expenditures and unanticipated revenues, which will be discussed later in this report.

**General Fund Budgetary Highlights**

As shown below, the Town of Windham stayed within its authorized General Fund budget. The final budget for estimated revenues, bond proceeds and operating transfers in, totaling \$12.5 million, was slightly lower than the original budget of \$12.6 million as approved by the State Department of Revenue Administration, by a difference of \$80 thousand. This is adjusted for

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**Management's Discussion and Analysis**

2011 carryforwards, as well as the amount of unanticipated revenues relating to grants and donations accepted by the Board of Selectmen at public hearings throughout the year.

The final budget for expenditures and operating transfers out, totaling \$12.9 million, was lower than the original budget approved by the State Department of Revenue Administration (as adjusted for 2010 carryforwards) of \$13.1 million, by a difference of \$197 thousand. As noted, this is due to the original budget reflecting carryovers from 2010, primarily in the capital outlay category, which totaled approximately \$128 thousand. In addition, similar to the revenue discussed above, the final expenditure budget reflects appropriations relating to grants and donations accepted by the Board of Selectmen at public hearings throughout the year.

In comparing budget to actual amounts, the total revenues, bond proceeds and transfers in were higher than those budgeted, while total expenditures and transfers out were lower than those budgeted, resulting in a positive budgetary variance of \$604 thousand.

	Final Budget	Actual <i>(Budgetary Basis)</i>	Variance
Revenues	\$ 11,991,163	\$ 12,373,772	\$ 382,609
Bond Proceeds	391,135	391,135	-
Transfers In	103,557	103,265	(292)
Expenditures	(12,815,753)	(12,594,259)	221,494
Transfers Out	(115,503)	(115,503)	-
Net	\$ (445,401)	\$ 158,410	\$ 603,811

Actual revenues and transfers in were higher than the final budgeted amounts by a combined \$382 thousand. This was primarily due to various differences in actual amounts collected by the Town's departments, including motor vehicle registrations, building permits and ambulance fees through the end of fiscal 2011, as compared to budgeted amounts set in the fall of 2011. These budgeted amounts were set based on both previous calendar year trends as well as preliminary collections to date through September, and the Town normally takes a conservative approach to projecting revenues for the remainder of the year. In addition, a large increase in miscellaneous revenues was primarily due to revenue received late in the year from the sale of town property, totaling \$80 thousand, details of which were unknown at the time the revenue budget was set.

Actual expenditures were less than the final budget by \$221 thousand, and the majority of the savings was in the general government and culture and recreation categories. The largest component of the budgetary savings was in employee salary and benefit expenditures, as a result of several unforeseen staffing vacancies during 2011 throughout various departments.

Revenues and other sources used to support the General Fund operations for the year ended December 31, 2011 totaled \$12.9 million, as compared to \$13.2 million for the previous year, or a decrease of 2.3%. This was primarily due to higher intergovernmental revenues in 2010, some of which were federal funds which did not reoccur in 2011, slightly offset by higher than usual proceeds from sale of town property in 2011, categorized as miscellaneous. Taxes represent 59% and 60% of those funding needs in 2011 and in 2010, respectively. The variance in property taxes from year to year is impacted by the level of abatements granted, which were

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higher in 2011, as well as additional allowance for uncollectible taxes reflected in 2011, as the Town works through sizable commercial property tax abatement requests. This was offset by slightly higher interest collected on delinquent taxes, which was higher in 2011, all of which reflects a continued slowing trend in the payment of property taxes. The following comparison shows the breakdown of revenues by category and percentage change over the previous year:

<u>Revenues:</u>	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Taxes	\$ 7,583,201	\$ 7,913,029	(4.2)%
Licenses and Permits	2,855,470	2,832,846	0.8
Intergovernmental	1,068,318	1,345,471	(20.06)
Charges for Services	426,928	362,238	17.8
Interest Income	18,683	31,603	(40.9)
Miscellaneous	421,172	337,180	24.9
	<hr/>	<hr/>	
	12,373,772	12,822,367	(3.5)
Bond Proceeds	391,135	-	100.0
Operating transfers in	103,265	351,649	(70.6)
	<hr/>	<hr/>	
Total	\$ 12,868,172	\$ 13,174,016	(2.3)%

The most significant fluctuation in revenues over the previous year, other than those previously discussed, represents the use of special funds to support Town warrant articles, which vary from year to year. In 2010, significant capital reserve funds were expended for the salt shed/highway garage capital project, but a smaller amount of capital reserve funds were expended in 2011 for the purchase of a fire engine. In addition, the Town issued a bond which was also used towards the purchase of the fire engine, while there were no bonds issued in 2010.

Expenditures (including principal and interest payments on debt) and other uses totaled \$12.7 million for the year ended December 31, 2011, as compared to \$13.1 million for the previous year, or a decrease of 2.9%. Public safety represented the highest category of spending at 45% of the total spending for General Fund activities in 2011, as compared to 42% in 2010. The following comparison shows the breakdown of expenditures by category and percentage change over the previous year:

<u>Expenditures:</u>	<u>2011</u>	<u>2010</u>	<u>% Change</u>
General Government	\$ 2,514,763	\$ 2,579,476	(2.5)%
Public Safety	5,675,390	5,553,371	2.2
Highways and Streets	1,164,706	1,154,067	0.9
Health and welfare	105,057	152,987	(31.3)
Sanitation	907,097	901,926	0.6
Culture and Recreation	1,103,166	1,140,642	(3.3)
Capital outlay	1,124,080	1,481,189	(24.1)
Debt Service	-	-	-
	<hr/>	<hr/>	
	12,594,259	12,963,658	(2.8)
Operating transfers out	115,503	124,867	(7.5)
	<hr/>	<hr/>	
Total	\$ 12,709,762	\$ 13,088,525	(2.9)

The most significant decrease in expenditures over the previous year was in the capital outlay and health and welfare budgets. Capital outlay expenditures decreased \$357 thousand, or 24%,

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due to the completion of salt shed/highway garage and historic depot renovation projects in 2010 which did not repeat in 2011. In 2011, the Town primarily expended capital funds on the purchase of a fire engine, as well as paving projects. As previously noted, health and welfare expenses were down 31.3% due to the elimination of certain programs as a cost saving measure for 2011. Also, in the debt service category, the Town had no outstanding general obligation debt in 2010, and the debt issued during 2011 does not have a scheduled payment until 2012.

**Capital and Debt Administration**

The Town of Windham considers a capital asset to be land, buildings, equipment or infrastructure (roadways and bridges) whose cost exceeds \$5,000 and has a useful life of greater than one (1) year. Capital assets are depreciated using the straight-line method over the course of their useful lives. The Town's investment in capital assets as of December 31, 2010 amounted to \$35.3 million, net of accumulated depreciation, representing an increase of \$211 thousand over the previous year balance of \$35.1 million. The following summary shows a yearly comparison of net capital assets by category (see Note 7 in the Notes to the Basic Financial Statements for more detailed information):

	<u>2011</u>	<u>2010</u>
Infrastructure	\$ 16,757,818	\$ 15,790,711
Land and land improvements	11,840,673	11,925,947
Buildings and improvements	5,726,784	5,000,468
Vehicles and equipment	2,146,843	1,772,563
Construction in progress	160,364	832,682
Total capital assets, net	<u>\$ 36,632,482</u>	<u>\$ 35,322,371</u>

Highlights of the major capitalized assets, other than roadway infrastructure, recorded in 2011 include:

- The purchase of a 2011 Fire Engine/Pumper for \$570 thousand, funded through the use of capital reserve and other funds, as well as the issuance of a two-year general obligation bond.
- The completion of the new Salt Shed/Highway Garage for a total cost of \$956 thousand. A portion of this cost was recorded as Construction in progress as of December 31, 2010.

**Long-term Debt.** At December 31, 2011, the Town of Windham had total outstanding bonded debt of \$414 thousand, as compared to \$34 thousand as of December 31, 2010. During the course of the year, a new general obligation bond for \$391 thousand was issued, while the reduction in bonds of \$11 thousand was due to payments made on existing bonds. These payments, and this portion of outstanding debt of \$23 thousand, were fully funded out of the Searles Special Revenue Fund. As of December 31, 2011, the remaining portion of outstanding debt of \$391 thousand will be funded through the Town's general fund operating budget.

During 2011, the Town of Windham continued its leasing program by entering into an additional three-year capital lease for the purpose of funding the purchase of replacement vehicles for the

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public safety departments. The total amount financed was \$128 thousand, of which \$85 thousand was remaining due as of December 31, 2011. See Note 11 in the Notes to the Basic Financial Statements for a summary of all outstanding long-term obligations.

**Economic Factors**

- The total assessed value on which the tax rate was computed for the 2011 fiscal year increased 1.4% over the previous year (to \$2,025,025,370 in 2011 from \$1,997,252,270 in 2010) as the Town is continuing to experience some new building development. However, the Town has had a higher level of commercial property tax abatements during the past year.
- The 2011 property taxes that were uncollected as of year-end, including liens, amounted to \$3.0 million or 4.5% of the total warrant(s), as compared to \$2.6 million or 4.3% as of December 31, 2010.

Several factors were taken into consideration as Town officials developed the budget for the 2011 fiscal year. Those factors include overall property tax burden from both a town and school district perspective, continuously increasing demands on municipal services and service levels, and compliance with statutory and other legal requirements. The most significant factors affecting local budgets continue to be the rising cost of employee healthcare and retirement benefits, as the Town continues to be affected by downshifting of costs from the State to the local level.

**Requests for Information**

This financial report is designed to provide a general overview of the finances of the Town of Windham for all those interested in its finances. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Assistant Town Administrator-Finance, P.O. Box 120, 4 North Lowell Rd, Windham, New Hampshire 03087.

EXHIBIT A  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Statement of Net Assets**  
December 31, 2011

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 15,253,979
Investments	53,216
Taxes receivable, net	2,918,887
Accounts receivable	111,413
Due from other governments	55,196
Prepaid expenses	<u>1,500</u>
Total Current Assets	<u>18,394,191</u>
Noncurrent Assets:	
Restricted cash	408,591
Tax deeded property	36,182
Capital assets:	
Non-depreciable capital assets	11,611,956
Depreciable capital assets, net	<u>25,020,526</u>
Total Noncurrent Assets	<u>37,077,255</u>
Total Assets	<u>\$ 55,471,446</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 224,070
Accrued expenses	61,206
Deferred revenue	108,700
Due to other governments	14,900,622
Current portion of bonds payable	206,768
Current portion of capital leases payable	<u>106,432</u>
Total Current Liabilities	<u>15,607,798</u>
Noncurrent Liabilities:	
Payable from restricted assets	408,591
Bonds payable	207,167
Capital leases payable	79,182
Compensated absences payable	969,553
Other post-employment benefits payable	<u>427,381</u>
Total Noncurrent Liabilities	<u>2,091,874</u>
Total Liabilities	<u>17,699,672</u>
NET ASSETS	
Invested in capital assets, net of related debt	36,032,933
Restricted	346,153
Unrestricted	<u>1,392,688</u>
Total Net Assets	<u>37,771,774</u>
Total Liabilities and Net Assets	<u>\$ 55,471,446</u>

*See accompanying notes to the basic financial statements*



EXHIBIT B  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Statement of Activities**  
For the Year Ended December 31, 2011

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
General government	\$ 3,207,950	\$ 3,322	\$ 119,127		\$ (3,085,501)
Public safety	6,370,582	605,037	166,874	\$ 11,000	(5,587,671)
Highways and streets	2,129,923		356,437	1,432,166	(341,320)
Sanitation	977,757	88,162			(889,595)
Health and welfare	105,057				(105,057)
Culture and recreation	1,570,921	132,266			(1,438,655)
Conservation	19,913				(19,913)
Interest and fiscal charges	1,584				(1,584)
Total governmental activities	<u>\$ 14,383,687</u>	<u>\$ 828,787</u>	<u>\$ 642,438</u>	<u>\$ 1,443,166</u>	<u>(11,469,296)</u>
		General revenues:			
		Property and other taxes			7,742,379
		Licenses and permits			2,855,470
		Grants and contributions:			
		Rooms and meals tax distribution			607,155
		Interest and investment income			28,039
		Miscellaneous			981,514
		Contributions to permanent fund principal			5,300
		Total general revenues and contributions to permanent fund principal			<u>12,219,857</u>
		Change in net assets			750,561
		Net assets - beginning, as restated			<u>37,021,213</u>
		Net assets - ending			<u>\$ 37,771,774</u>

See accompanying notes to the basic financial statements

EXHIBIT C  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Balance Sheet**  
**Governmental Funds**  
December 31, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 13,477,538	\$ 1,776,441	\$ 15,253,979
Investments		53,216	53,216
Taxes receivable, net	2,918,887		2,918,887
Accounts receivable	95,880	14,750	110,630
Due from other governments	55,196		55,196
Due from other funds	6,686		6,686
Prepaid expenses	1,500		1,500
Restricted cash	408,591		408,591
Tax dedeed property	36,182		36,182
Total Assets	<u>\$ 17,000,460</u>	<u>\$ 1,844,407</u>	<u>\$ 18,844,867</u>
LIABILITIES			
Accounts payable	\$ 215,754	\$ 8,316	\$ 224,070
Accrued expenses	56,394		56,394
Deferred revenue	2,340,571		2,340,571
Due to other governments	14,900,622		14,900,622
Due to other funds		5,903	5,903
Payable from restricted assets	408,591		408,591
Total Liabilities	<u>17,921,932</u>	<u>14,219</u>	<u>17,936,151</u>
FUND BALANCES			
Nonspendable	1,500	288,407	289,907
Restricted		57,746	57,746
Committed	345,617	1,219,127	1,564,744
Assigned		264,908	264,908
Unassigned	(1,268,589)		(1,268,589)
Total Fund Balances (Deficit)	<u>(921,472)</u>	<u>1,830,188</u>	<u>908,716</u>
Total Liabilities and Fund Balances	<u>\$ 17,000,460</u>	<u>\$ 1,844,407</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 36,632,482

Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis 2,231,871

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:

Bonds payable (413,935)  
Capital leases payable (185,614)  
Accrued interest on long-term obligations (4,812)  
Compensated absences payable (969,553)  
Other post-employment benefits payable (427,381)

Net assets of governmental activities \$ 37,771,774

*See accompanying notes to the basic financial statements*



EXHIBIT E  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
December 31, 2011

	Private- Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	<u>\$ 28,002</u>	<u>\$ 574,638</u>
Total assets	<u>\$ 28,002</u>	<u>\$ 574,638</u>
LIABILITIES		
Accounts payable	\$ 1	
Due to other governments	3	\$ 345,587
Due to other funds		783
Deposits	<u>          </u>	<u>228,268</u>
Total liabilities	<u>4</u>	<u>\$ 574,638</u>
NET ASSETS		
Held in trust	<u>27,998</u>	
Total net assets	<u>27,998</u>	
Total liabilities and net assets	<u>\$ 28,002</u>	

*See accompanying notes to the basic financial statements*

EXHIBIT F  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
For the Year Ended December 31, 2011

	<u>Private- Purpose Trust Funds</u>
ADDITIONS:	
Investment earnings:	
Interest	\$ 18
Total Additions	<u>18</u>
DEDUCTIONS:	
Benefits	<u>4</u>
Total Deductions	<u>4</u>
Change in net assets	14
Net assets - beginning of year	<u>27,984</u>
Net assets - end of year	<u>\$ 27,998</u>

*See accompanying notes to the basic financial statements*

**TOWN OF WINDHAM, NEW HAMPSHIRE  
NOTES TO BASIC FINANCIAL STATEMENTS  
December 31, 2011**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Town of Windham, New Hampshire conform to accounting policies generally accepted in the United States of America for local governmental units, except as indicated hereinafter. The following is a summary of significant accounting policies.

***Financial Reporting Entity***

The Town of Windham, New Hampshire (the Town) was incorporated in 1742. The Town operates under the Town Meeting/Board of Selectmen form of government and performs local governmental functions authorized by State law.

The financial statements include those of the various departments governed by the Board of Selectmen and other officials with financial responsibility. The Town has no other separate organizational units, which meet criteria for inclusion in the financial statements as defined by the Governmental Accounting Standards Board (GASB).

***Basis of Presentation***

The Town's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**1. Government-Wide Financial Statements:**

The statement of net assets and the statement of activities display information about the Town as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the Town at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Town. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Town.

**2. Fund Financial Statements:**

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a

**TOWN OF WINDHAM, NEW HAMPSHIRE  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2011**

separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

***Fund Accounting***

The Town uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Town employs the use of two categories of funds: governmental and fiduciary.

**1. Governmental Funds:**

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Town's major governmental fund:

The *General Fund* is the main operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

**2. Fiduciary Funds:**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Town under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Town's own programs. The Town maintains six private purpose trust funds which account for monies designated to benefit individuals within the Town. The Town's agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The Town's agency funds consist of capital reserve funds of the School District and the Village District, which are held by the Town as required by State law. Other agency funds include subdivision fees and school impact fees.

***Measurement Focus***

**1. Government-Wide Financial Statements:**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the Statement of Net Assets.

**2. Fund Financial Statements:**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2011**

activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust funds are reported using the economic resources measurement focus.

***Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

In the government-wide financial statements, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Town has elected not to follow the FASB pronouncements issued subsequent to November 30, 1989.

**1. Revenues – Exchange and Non-exchange Transactions:**

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. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Town, available means expected to be received within sixty days of year end.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied (see Note 3). 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 specified 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.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes and interest on investments.

Licenses and permits, charges for services, and miscellaneous revenues (except interest on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received.



**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2011**

**2. Deferred Revenue:**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**3. Expenses/Expenditures:**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

***Budgetary Data***

The Town's budget represents functional appropriations as authorized by annual or special Town meetings. The Selectmen may transfer funds between operating categories as they deem necessary. The Town adopts its budget under State regulations, which differ somewhat from accounting principles generally accepted in the United States of America in that the focus is on the entire governmental unit rather than on the basis of fund types.

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended December 31, 2011, the Town applied \$434,689 of its unappropriated fund balance to reduce taxes.

***Encumbrance Accounting***

Encumbrance accounting, under which purchase orders and other commitments for expenditure of monies are recorded in order to reserve a portion of the applicable appropriation, is employed as an extension of formal budgetary integration in Governmental Funds. Encumbrances outstanding at year end are reported as a component of fund balance since they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services.

***Investments***

Investments are stated at their fair value in all funds. Certificates of deposit with a maturity of greater than ninety days from the date of issuance are included in investments.

***Taxes Receivable***

Taxes levied during the current year and prior and uncollected at December 31, 2011 are recorded as receivables net of reserves for estimated uncollectibles of \$200,000.

**TOWN OF WINDHAM, NEW HAMPSHIRE  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2011**

***Prepaid Expenses***

Payments made to vendors for services that will benefit periods beyond December 31, 2011 are recorded as prepaid items.

***Restricted Cash***

Restricted amounts represent performance deposits from developers which are payable upon completion of the project.

***Capital Assets***

General capital assets result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net assets, but are not reported in the governmental fund financial statements.

All capital assets including infrastructure are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their approximate fair values as of the date received. The Town maintains a capitalization threshold of \$5,000. The Town's infrastructure consists of roads, bridges, and similar items. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the Town's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Description</u>	<u>Years</u>
	Infrastructure	20-50
	Land improvements	12-15
	Buildings and improvements	15-40
	Vehicles and equipment	5-20

***Compensated Absences***

Full time employees can accumulate earned time (combined vacation, sick leave and personal time) based on the years of service but must use a minimum number of days per year. Provision is made in the annual budget for earned time. Pursuant to Town personnel policy and collective bargaining agreements, employees may accumulate (subject to certain limitations) unused earned time and, upon retirement, resignation or death will be compensated for such amounts at current rates of pay.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee death or retirement. The entire compensated absence liability is reported on the government-wide financial statements.

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2011**

***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they are due for payment during the current year. General obligation bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

***Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Town's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

***Fund Balance Policy***

During the year ended December 31, 2011, the Town implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 established new fund balance classifications and changes the definition of governmental fund types. Under Statement 54, the Town has segregated fund balance into five classifications; Nonspendable, Restricted, Committed, Assigned, and Unassigned. These components of fund balance are defined as follows:

- *Nonspendable Fund Balance*: Amounts that are not in a spendable form (such as inventory or prepaid expenses) or are required to be maintained intact (such as principal of an endowment fund).
- *Restricted Fund Balance*: Amounts that can only be spent for the specific purposes stipulated by external resource providers (such as grantors) or enabling legislation (federal or state law). Restrictions may be changed or lifted only with the consent of the resource providers or by the enabling legislation.
- *Committed Fund Balance*: Includes amounts that can be used only for the specific purposes determined by a formal action of the Town's highest level of decision making authority (Town meeting). Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally. The action must be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in a subsequent period.
- *Assigned Fund Balance*: Amounts the Town intends to use for specific purposes. For all governmental funds other than the General Fund, any remaining positive amounts are be classified as "Assigned". Items that fall under this classification for the General Fund would be encumbrances properly approved by contract, purchase order, or other such action as required per the purchasing levels prescribed in the Town's Purchasing Policy.

**TOWN OF WINDHAM, NEW HAMPSHIRE  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2011**

- *Unassigned Fund Balance:* Amounts that are not obligated or specifically designated and is available for any purpose. The residual classification of any General Fund balance is to be reported here. Any deficit balance of another fund is also classified as unassigned.

*Spending Prioritizations*

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first. When expenditures are incurred for the purposes for which amounts in any of the unrestricted fund balance classification can be used, committed amounts should be reduced first, followed by assigned amounts and then unassigned amounts.

*Minimum Fund Balance*

The Town's fund balance policy states the Town maintain a minimum level of unassigned fund balance at \$300,000 annually.

*Interfund Activity*

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

*Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. Significant estimates include depreciation expense, the allowance for uncollectible taxes and the liability for other post-employment benefits payable.

**NOTE 2—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

*Deficit Fund Balance*

As of December 31, 2011, the General Fund had a deficit fund balance of \$921,472 due to the "sixty day rule" for property tax recognition. Property taxes billed and uncollected sixty days after year end amount to \$2,231,871, and have been included as deferred revenue on the Balance Sheet – Governmental Funds (Exhibit C).

**NOTE 3—PROPERTY TAXES**

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$2,025,025,370 as of April 1, 2011) and are due in two installments on July 1, 2011 and December 12, 2011. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end).

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2011**

Under State law, the Tax Collector obtains tax liens on properties which have unpaid taxes in the following calendar year after taxes were due for the amount of unpaid taxes, interest and costs. These priority tax liens accrue interest at 18% per annum. If the property is not redeemed within a two year redemption period, the property may be tax deeded to the Town.

In accordance with State law, the Town collects taxes for the Windham School District, Rockingham County and Breezy Gale Village District, all independent governmental units, which are remitted to them as required by law. The Town also collects State of New Hampshire Education taxes, which are remitted directly to the school district. Total taxes appropriated during the year were \$36,892,861, \$2,143,277 and \$14,018, for the Windham School District, Rockingham County and Breezy Gale Village District, respectively. These taxes are not recognized as revenues in these financial statements. The Town bears responsibility for uncollected taxes.

**NOTE 4—RISK MANAGEMENT**

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2011, the Town was a member of the Local Government Center (LGC) and the New Hampshire Public Risk Management Exchange (PRIMEX). The Town currently reports all of its risk management activities in its General Fund. These Trusts are classified as "Risk Pools" in accordance with accounting principles generally accepted in the United States of America.

The Trust agreements permit the Trusts to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trusts foresee no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at December 31, 2011.

***Property and Liability Insurance***

PRIMEX provides certain property and liability insurance coverages to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of PRIMEX, the Town shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000.

***Worker's Compensation***

PRIMEX provides statutory worker's compensation coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. The Trust is self-sustaining through annual member premiums and provides coverage for the statutorily required workers' compensation benefits and employer's liability coverage up to \$2,000,000. The program includes a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

**TOWN OF WINDHAM, NEW HAMPSHIRE  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2011**

**NOTE 5—DEPOSITS AND INVESTMENTS**

Deposits and investments as of December 31, 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and cash equivalents	\$ 15,253,979
Investments	53,216
Restricted cash	408,591
Statement of Fiduciary Net Assets:	
Cash and cash equivalents	602,640
Total deposits and investments	<u>\$ 16,318,426</u>

Deposits and investments at December 31, 2011 consist of the following:

Cash on hand	\$ 1,773,458
Deposits with financial institutions	14,491,752
Investments	53,216
Total deposits and investments	<u>\$ 16,318,426</u>

The Town's investment policy requires that deposits and investments be made in New Hampshire based financial institutions that are participants in one of the federal depository insurance programs. The Town limits its investments to demand deposits, money market accounts, certificates of deposit and repurchase agreements in accordance with New Hampshire State law (RSA 41:29) or the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool, in accordance with New Hampshire State law (RSA 197:23-a). Responsibility for the investments of the Trust Funds is with the Trustees of Trust Funds.

***Credit Risk***

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The Town's policy states that the Town's Treasurer may invest in direct obligations of the U.S. Treasury or any agency or instrumentality of the U.S. government. The Town may invest in other investment instruments that have an investment grade rating issued by Moody's and S&P at a minimum of Aa2 and AA.

***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2011**

The Town's policy states that all investments or deposits shall be made in any institution that at the time of deposit has funds secured by collateral having a market value at least equal to 102% of the amount deposited or invested. Such collateral shall be held by a third party custodian and segregated for the exclusive benefit of the Town. Of the Town's deposits with financial institutions at year end, \$12,858,431 was collateralized by securities held by the bank in the Town's name.

**NOTE 6—DUE FROM OTHER GOVERNMENTS**

Receivables from other governments at December 31, 2011 consist of various federal and state reimbursement receivables. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables is as follows:

FEMA - Disaster Assistance	\$ 45,662
Internal Revenue Service	2,506
State of New Hampshire	7,028
	<u>\$ 55,196</u>

**NOTE 7—CAPITAL ASSETS**

The following is a summary of changes in capital assets in the governmental funds:

	Balance 1/1/2011	Additions	Reductions	Balance 12/31/2011
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 11,443,127	\$ 11,000	\$ (2,535)	\$ 11,451,592
Construction in progress	832,682	160,364	(832,682)	160,364
Total capital assets not being depreciated	<u>12,275,809</u>	<u>171,364</u>	<u>(835,217)</u>	<u>11,611,956</u>
Other capital assets:				
Infrastructure	37,486,479	2,217,417		39,703,896
Land improvements	1,402,337			1,402,337
Buildings and improvements	8,132,134	955,944		9,088,078
Vehicles and equipment	4,096,945	723,764	(482,682)	4,338,027
Total other capital assets at historical cost	<u>51,117,895</u>	<u>3,897,125</u>	<u>(482,682)</u>	<u>54,532,338</u>
Less accumulated depreciation for:				
Infrastructure	(21,695,768)	(1,250,310)		(22,946,078)
Land improvements	(919,517)	(93,739)		(1,013,256)
Buildings and improvements	(3,131,666)	(229,628)		(3,361,294)
Vehicles and equipment	(2,324,382)	(323,652)	456,850	(2,191,184)
Total accumulated depreciation	<u>(28,071,333)</u>	<u>(1,897,329)</u>	<u>456,850</u>	<u>(29,511,812)</u>
Total other capital assets, net	<u>23,046,562</u>	<u>1,999,796</u>	<u>(25,832)</u>	<u>25,020,526</u>
Total capital assets, net	<u>\$ 35,322,371</u>	<u>\$ 2,171,160</u>	<u>\$ (861,049)</u>	<u>\$ 36,632,482</u>

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2011**

Depreciation expense was charged to governmental functions as follows:

General government	\$ 34,538
Public safety	274,670
Highways and streets	1,318,712
Sanitation	99,912
Culture and recreation	<u>169,497</u>
Total governmental activities depreciation expense	<u>\$ 1,897,329</u>

During the year ending December 31, 2011, the Town received capital assets that were donated. These assets have been recorded at their approximate fair value as of the date received and are included in the government-wide financial statements. The total value received and capitalized during the year is as follows:

Land	\$ 11,000
Infrastructure	1,421,166
Vehicles and equipment	<u>11,000</u>
	<u>\$ 1,443,166</u>

The balance of the assets acquired through capital leases as of December 31, 2011 is as follows:

Vehicles and equipment	\$ 432,908
Less accumulated depreciation:	
Vehicles and equipment	<u>(74,482)</u>
	<u>\$ 358,426</u>

**NOTE 8—DUE TO OTHER GOVERNMENTS**

In accordance with State law, the Town collects taxes for the Windham School District, Rockingham County and Breezy Gale Village District, all independent governmental units, which are remitted to them as required by law. At December 31, 2011, intergovernmental payables consist of the following:

Windham School District	\$ 14,892,861
State of New Hampshire	<u>7,761</u>
	<u>\$ 14,900,622</u>

**NOTE 9—DEFINED BENEFIT PLAN**

*Plan Description*

The Town contributes to the New Hampshire Retirement System (NHRS), a cost-sharing multiple-employer defined benefit pension plan administered by the NHRS Board of Trustees. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature. The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.



**TOWN OF WINDHAM, NEW HAMPSHIRE  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2011**

***Funding Policy***

Covered public safety employees are required to contribute 9.3% of their covered salary, whereas general employees are required to contribute 5.0% of their covered salary, through June 30, 2011. Effective July 1, 2011 covered police officers, firefighters, and general employees are required to contribute 11.55%, 11.8% and 7.0%, respectively. The Town is required to contribute at an actuarially determined rate. The Town's contribution rates for the covered payroll of police officers, firefighters, and general employees were 14.63%, 18.52% and 9.16%, respectively, through June 30, 2011, and 25.57%, 30.9% and 11.09%, respectively, in July 2011, and 19.95%, 22.89% and 8.8%, respectively, thereafter. The Town contributed 75% of the employer cost for public safety employees and the State contributed the remaining 25% of the employer cost, through June 30, 2011, and the Town contributed 100% thereafter. The Town contributes 100% of the employer cost for general employees of the Town. In accordance with accounting principles generally accepted in the United States of America (GASB Statement #24), on-behalf fringe benefits contributed by the State of New Hampshire of \$79,649 have been reported as a revenue and expenditure in the General Fund in these financial statements.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The Town's contributions to the NHRS for the years ending December 31, 2011, 2010, and 2009 were \$839,489, \$761,582, and \$687,745, respectively, equal to the required contributions for each year.

***Supplemental Retirement Plan***

The Town has a defined contribution supplemental retirement pension plan that covers full time employees except police and fire department employees. The plan was adopted on October 1, 1987. Employees are eligible for normal retirement after age sixty-five. Each participant will have a 100% vested and non-forfeitable interest upon retiring at the age of sixty-five. If a participant terminates their employment prior to the age of sixty-five, they will be entitled to 100% of their contributions made and a percentage of the contributions made by the Town based on the completed years of credited service.

In order to participate in the plan, an employee must contribute an amount equal to 3% of their earnings. A participant may then make voluntary contributions up to an additional 10% of their earnings. The Town contributes 5% of a participant's earnings to the plan. Covered wages paid under this plan during 2011 were \$2,238,153, 35.7% of total wages of \$6,264,547. Employee contributions, including additional voluntary contributions, to the plan were \$98,209, or 4.4% of covered wages. Employer contributions to the plan were \$111,911, or 5% of covered wages.

The Town's portion of investments is in fixed income funds. Employees may select fixed income or other mutual funds offered by Diversified Investment Advisors.

**NOTE 10—OTHER POST-EMPLOYMENT BENEFITS**

In addition to providing pension benefits, the Town provides medical benefits to its eligible retirees and their spouses. Group I employees are required to reach age 60 with no minimum service to qualify for this benefit. Group II employees are eligible at age 45 with 20 years of service or at age 60 with no service requirements. Retirees pay the full cost of the health care coverage except the Town assumes responsibility as follows:

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2011**

<u>Years of Employment</u>	<u>Length of Coverage</u>
10-20	3 months
15-20	6 months
20-25	9 months
greater than 25	12 months

The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of January 1, 2009, the actuarial valuation date, approximately 12 retirees and 86 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

***Annual OPEB Costs***

The Town's fiscal 2011 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid, on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of thirty years. The Town's annual OPEB cost for the year ending December 31, 2011 including the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2009 is as follows:

Annual Required Contribution (ARC)	\$ 208,427
Interest on net OPEB obligation	11,723
Adjustment to ARC	<u>(12,613)</u>
Annual OPEB cost	207,537
Contributions made	<u>(73,225)</u>
Increase in net OPEB obligation	134,312
Net OPEB obligation - beginning of year	<u>293,069</u>
Net OPEB obligation - end of year	<u>\$ 427,381</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended December 31, 2011 are as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2011	\$207,537	35.3%	\$427,381
12/31/2010	\$197,541	29.4%	\$293,069
12/31/2009	\$187,098	17.9%	\$153,681

The Town's net OPEB obligation as of December 31, 2011 is recognized as a liability in these financial statements.

***Funded Status and Funding Progress for OPEB***

The funded status of the plan as of January 1, 2009, the date of the most recent actuarial valuation is as follows:

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2011**

Actuarial Accrued Liability (AAL)	\$ 1,421,597
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 1,421,597</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 4,525,505
UAAL as a percentage of covered payroll	31.4%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. The total cost of providing post-employment benefits is projected, taking into account assumptions about current claim cost, turnover, mortality, health care trends, and other actuarial assumptions. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information will provide multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, when available.

***Actuarial Methods and Assumptions for OPEB***

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town 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 Town and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the January 1, 2009 actuarial valuation the Entry Age Normal actuarial cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend of 9.0% which decreases to a 5.0% long-term rate for all healthcare benefits after five years. The amortization costs for the initial Unfunded Actuarial Accrued Liability (UAAL) is a level percentage of payroll for a period of thirty years on a closed group basis. This has been calculated assuming the amortization payment increases at a rate of 2.5% per year.

**NOTE 11—LONG-TERM OBLIGATIONS**

***Changes in Long-Term Obligations***

The changes in the Town's long-term obligations for the year ended December 31, 2011 are as follows:

	Balance <u>1/1/2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/2011</u>	Due Within <u>One Year</u>
Bonds payable	\$ 33,600	\$ 391,135	\$ (10,800)	\$ 413,935	\$ 206,768
Capital leases payable	163,121	85,259	(62,766)	185,614	106,432
Compensated absences	890,508	551,184	(472,139)	969,553	
	<u>\$ 1,087,229</u>	<u>\$ 1,027,578</u>	<u>\$ (545,705)</u>	<u>\$ 1,569,102</u>	<u>\$ 313,200</u>

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2011**

Payments on the general obligation bonds are paid out of the General Fund and the Searles Special Revenue Fund, a nonmajor governmental fund. Payments on capital leases are paid out of the General Fund. Compensated absences will generally be paid from the fund where the employee's salary is paid. However, in the case of a significant payout of compensated absences, this may be supplemented by the Town's earned time expendable trust fund.

***General Obligation Bonds***

Bonds payable at December 31, 2011 are comprised of the following individual issues:

\$391,135 Fire Engine Bond due in annual principal installments of \$195,567 through 2013 plus interest at 1.46%	\$ 391,135
\$100,000 Searles Building Renovations Bond due in varying annual installments through 2013; interest at 4.0%	22,800
	<u>\$ 413,935</u>

Debt service requirements to retire general obligation bonds outstanding at December 31, 2011 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 206,768	\$ 6,607	\$ 213,375
2013	<u>207,167</u>	<u>3,319</u>	<u>210,486</u>
	<u>\$ 413,935</u>	<u>\$ 9,926</u>	<u>\$ 423,861</u>

Bonds payable are direct obligations of the Town, for which its full faith and credit are pledged, and are payable from taxes levied on all taxable property located within the Town.

As included on the Statement of Activities (Exhibit B), interest for the year ended December 31, 2011 was \$2,013 on general obligation debt for governmental activities.

***Capital Lease Obligations***

Capital lease obligations represent lease agreements entered into for the financing of equipment acquisitions. These contracts are subject to cancellation should funds not be appropriated to meet payment obligations. Amounts are annually budgeted in the applicable function. Following are the individual capital lease obligations at December 31, 2011:

Equipment, due in annual principal installments of \$36,552 plus interest at 3.305%, through July 2013	\$ 73,105
Vehicles, due in annual principal installments of \$42,629 plus interest at 2.94%, through July 2013	85,259

**TOWN OF WINDHAM, NEW HAMPSHIRE  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2011**

Dump truck, due in annual installments of \$28,326, including interest at 3.950%, through February 2012	<u>27,250</u>
	<u>\$ 185,614</u>

Debt service requirements to retire capital lease obligations outstanding at December 31, 2011 are as follows:

Year Ending December 31,	Principal	Interest	Totals
2012	\$ 106,432	\$ 6,006	\$ 112,438
2013	<u>79,182</u>	<u>2,461</u>	<u>81,643</u>
	<u>\$ 185,614</u>	<u>\$ 8,467</u>	<u>\$ 194,081</u>

**NOTE 12—INTERFUND BALANCES AND TRANSFERS**

The current year's earned income in the Permanent Funds that is to be distributed to the General Fund and expenditures paid on-behalf of the Fiduciary Funds and Nonmajor Governmental Funds are reflected as interfund balances. Interfund balances at December 31, 2011 are as follows:

Due to	Due from		
	Nonmajor Governmental Funds	Fiduciary Funds	Total
	<u>Funds</u>	<u>Funds</u>	<u>Total</u>
General Fund	<u>\$ 5,903</u>	<u>\$ 783</u>	<u>\$ 6,686</u>

During the year, several interfund transactions occurred between funds. The various transfers between the General Fund and the Nonmajor Governmental Funds were made in accordance with budgetary authorizations. Transfers out of the Nonmajor Governmental Funds to the General Fund were to distribute the income earned on investments during the year to support the Town's programs and to reimburse the General Fund for expenditures. Interfund transfers for the year ended December 31, 2011 are as follows:

Transfer to	Transfer from		
	General Fund	Nonmajor Governmental Funds	Totals
	<u>Fund</u>	<u>Funds</u>	<u>Totals</u>
General Fund		\$ 29,511	\$ 29,511
Nonmajor Governmental Funds	<u>\$ 1,839</u>		<u>1,839</u>
	<u>\$ 1,839</u>	<u>\$ 29,511</u>	<u>\$ 31,350</u>

**NOTE 13—PERMANENT FUNDS**

Permanent funds account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the Town's programs. Principal and income balances at December 31, 2011 are as follows:

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2011**

	<u>Principal</u>	<u>Income</u>	<u>Total</u>
Cemetery Funds	\$ 233,164	\$ 44,684	\$ 277,848
Library Funds	4,000		4,000
General Government Building Funds	51,243	994	52,237
	<u>\$ 288,407</u>	<u>\$ 45,678</u>	<u>\$ 334,085</u>

**NOTE 14—RESTRICTED NET ASSETS**

Net assets are restricted for specific purposes at December 31, 2011 as follows:

Permanent Funds - Endowments	\$ 288,407
Permanent Funds - Income	45,678
Police Forfeiture	10,568
Rail Trail Alliance	1,500
	<u>\$ 346,153</u>

**NOTE 15—COMPONENTS OF FUND BALANCE**

The components of the Town's fund balance for its governmental funds at December 31, 2011 are as follows:

<u>Fund Balances</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
Non-spendable:			
Endowments		\$ 288,407	\$ 288,407
Prepaid expenses	\$ 1,500		1,500
Restricted for:			
Permanent funds		45,678	45,678
Police forfeiture		10,568	10,568
Rail trail alliance		1,500	1,500
Committed for:			
Continuing appropriations	116,606		116,606
Capital reserves	37,443		37,443
Expendable trusts	191,568	331,910	523,478
Recreation		32,088	32,088
Searles		4,437	4,437
Public safety details		178,905	178,905
Land purchase conservation		645,312	645,312
Impact fees		26,475	26,475
Assigned for:			
Expendable trusts		264,908	264,908
Unassigned (deficit)	(1,268,589)		(1,268,589)
	<u>\$ (921,472)</u>	<u>\$ 1,830,188</u>	<u>\$ 908,716</u>

**TOWN OF WINDHAM, NEW HAMPSHIRE  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2011**

**NOTE 16—PERFORMANCE DEPOSITS**

The Town holds letters of credit and surety bonds from developers until projects have been completed to Town standards. Due to the nature of these deposits, these letters of credit and surety bonds are not included as part of the financial statements. At December 31, 2011, the Town held performance deposits totaling \$2,616,236.

**NOTE 17—HEALTH INSURANCE**

Effective January 1, 1994, the Town elected to provide employee medical/surgical benefits through a reduced premium plan, which is a modified self-insurance plan. The Town established a health insurance expendable trust fund, under RSA 31:19a to account for and finance its periodic insurance premiums and uninsured risk (the difference between prior coverage and current coverage levels). Effective January 1, 2003, the Town began augmenting the health insurance expendable trust fund with the general operating budget to fund health insurance costs. Employees were required to co-pay 20% of the monthly premium. Expenditures during 2011 were \$1,558,451 for health insurance premiums, \$287,323 for non-covered employee claims as a result of higher deductibles, \$6,963 for administrative expenses, and \$500 for renewal fees. Claims are reviewed by an outside claims administrator and then paid by the Town. At December 31, 2011, the unexpended balance of the Health Trust Expendable Trust Fund is \$345,218. Outstanding claims payable at December 31, 2011 totaled \$13,308.

**NOTE 18—COMMITMENTS AND CONTINGENCIES**

*Solid Waste Contract*

Through December 31, 2011, the Town had contracted with an independent company to provide a facility that accepts municipal solid waste collected and transported from the Town's transfer/recycling station. During 2011, the Town operated under a multi-year contract for solid waste disposal with a tipping fee of \$69 per ton for the calendar year. During 2011, the Town expended \$306,524 under the terms of the agreement.

During 2011, the Town also operated under a multi-year contract with an independent company that accepts single stream recyclables, for which the Town received a rebate of \$22.50 per ton for the contract period.

*Litigation*

The Town's general counsel estimates that any potential claims against the Town, which are not covered by insurance, are immaterial and would not affect the financial position of the Town.

**NOTE 19—RESTATEMENT OF EQUITY**

*Government-Wide Statements*

During the year ended December 31, 2011, it was determined that Agency Funds reported as Fiduciary Funds in the previous year should have been classified as Special Revenue Funds.

Net Assets of the governmental activities as of January 1, 2011 have been restated as follows:

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2011**

	Governmental <u>Activities</u>
Net Assets - January 1, 2011 (as previously reported)	\$ 36,975,009
Amount of restatement due to:	
Reclassification from Fiduciary Funds to Special Revenue Funds	<u>46,204</u>
Net Assets - January 1, 2011, as restated	<u>\$ 37,021,213</u>

***Governmental Fund Financial Statements***

Effective January 1, 2011, the Town retroactively changed its method of financial reporting to conform to a recent pronouncement of the Governmental Accounting Standards Board (Statement No. 54). This new standard changes how fund balance is reported and changes the definition of the governmental fund types. As a result, several special revenue funds, previously reported as nonmajor governmental funds of the Town, have been reclassified into the General Fund for reporting purposes. Also, as noted above, Agency Funds were reclassified as Special Revenue Funds.

The impact of the restatement on the governmental funds is as follows:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>
Fund balance (Deficit) - January 1, 2011 (as previously reported)	\$ (941,291)	\$ 1,974,257
Amount of restatement due to:		
Reclassification of Special Revenue Funds	426,852	(426,852)
Reclassification from Fiduciary Funds to Special Revenue Funds		<u>46,204</u>
Fund balance (Deficit) - January 1, 2011, as restated	<u>\$ (514,439)</u>	<u>\$ 1,593,609</u>

**NOTE 20—SUBSEQUENT EVENT**

***Tax Anticipation Note***

During May 2012, the Town secured a line of credit up to \$2,000,000 with an interest rate of 1.14%. The Town has not borrowed against this line of credit, which expires on December 28, 2012.



SCHEDULE 1  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis) - General Fund**  
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 7,486,187	\$ 7,486,187	\$ 7,583,201	\$ 97,014
Licenses and permits	2,813,565	2,813,565	2,855,470	41,905
Intergovernmental	1,112,358	1,026,956	1,068,318	41,362
Charges for services	326,252	326,252	426,928	100,676
Interest income	20,000	20,000	18,683	(1,317)
Miscellaneous	313,538	318,203	421,172	102,969
Total Revenues	<u>12,071,900</u>	<u>11,991,163</u>	<u>12,373,772</u>	<u>382,609</u>
Expenditures:				
Current operations:				
General government	2,580,215	2,582,065	2,514,763	67,302
Public safety	5,695,625	5,703,539	5,675,390	28,149
Highways and streets	1,157,480	1,157,480	1,164,706	(7,226)
Sanitation	919,990	919,990	907,097	12,893
Health and welfare	114,150	114,150	105,057	9,093
Culture and recreation	1,166,712	1,167,662	1,103,166	64,496
Capital outlay	1,378,424	1,170,367	1,124,080	46,287
Debt service:				
Interest and fiscal charges	500	500	-	500
Total Expenditures	<u>13,013,096</u>	<u>12,815,753</u>	<u>12,594,259</u>	<u>221,494</u>
Excess revenues over (under) expenditures	<u>(941,196)</u>	<u>(824,590)</u>	<u>(220,487)</u>	<u>604,103</u>
Other financing sources (uses):				
Proceeds from bond issuance	391,135	391,135	391,135	-
Transfers in	103,557	103,557	103,265	(292)
Transfers out	(115,503)	(115,503)	(115,503)	-
Total other financing sources (uses)	<u>379,189</u>	<u>379,189</u>	<u>378,897</u>	<u>(292)</u>
Net change in fund balance	(562,007)	(445,401)	158,410	603,811
Fund balance at beginning of year				
- Budgetary Basis	<u>862,007</u>	<u>862,007</u>	<u>862,007</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 300,000</u>	<u>\$ 416,606</u>	<u>\$ 1,020,417</u>	<u>\$ 603,811</u>

See accompanying notes to the required supplementary information

SCHEDULE 2

**TOWN OF WINDHAM, NEW HAMPSHIRE**

**Schedule of Funding Progress for Other Post-Employment Benefits**

For the Year Ended December 31, 2011

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age Cost</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/2009	\$ -	\$ 1,421,597	\$ 1,421,597	0%	\$ 4,525,505	31.4%

*See accompanying notes to the required supplementary information*

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2011**

**NOTE 1—BUDGET TO ACTUAL RECONCILIATION**

Amounts recorded as budgetary amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund (Schedule 1) are reported on the basis budgeted by the Town under state regulations. Those amounts differ from those reported in conformity with accounting principles generally accepted in the United States of America in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit D). Property tax budgetary revenues are recognized when levied rather than when susceptible to accrual. General Fund budgetary revenues expenditures were adjusted for non-budgetary revenues and expenditures, non-budgetary other financing sources, budgetary transfers, capital lease proceeds, accrued payroll, encumbrances and on-behalf payments for fringe benefits as follows:

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Per Exhibit D	\$ 12,772,800	\$ 13,179,833
Difference in property taxes meeting susceptible to accrual criteria	227,329	
Non-budgetary revenues and expenditures	(40,803)	(37,121)
Non-budgetary other financing sources	(3)	
Budgetary transfers	73,757	113,664
Accrued payroll - December 31, 2011		(56,394)
Accrued payroll - December 31, 2010		48,549
Encumbrances - December 31, 2011		16,309
Encumbrances - December 31, 2010		(249,793)
Capital lease proceeds	(85,259)	(85,259)
On-behalf fringe benefits	(79,649)	(79,649)
Per Schedule 1	<u>\$ 12,868,172</u>	<u>\$ 12,850,139</u>

**NOTE 2—BUDGETARY FUND BALANCE**

The components of the budgetary fund balance for the Town's General Fund are as follows:

Nonspendable:	
Prepaid expenses	\$ 1,500
Committed:	
Continuing appropriations	116,606
Unassigned	<u>902,311</u>
	<u>\$ 1,020,417</u>

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)**  
**December 31, 2011**

**NOTE 3—SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS**

In accordance with GASB Statement #45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, the Town is required to disclose the schedule of funding progress for each of the three most recent actuarial valuations. The Town implemented the provisions of GASB Statement #45 during the year ended December 31, 2009. Accordingly, the funding progress has only been presented for the most recent actuarial valuation report. Additional disclosures will be made as the information becomes available.

SCHEDULE A  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Combining Balance Sheet**  
**Governmental Funds - All Nonmajor Funds**  
December 31, 2011

	Special Revenue Funds	Permanent Funds	Combining Totals
ASSETS			
Cash and cash equivalents	\$ 1,494,661	\$ 281,780	\$ 1,776,441
Investments		53,216	53,216
Accounts receivable	14,750		14,750
Total Assets	<u>\$ 1,509,411</u>	<u>\$ 334,996</u>	<u>\$ 1,844,407</u>
LIABILITIES			
Accounts payable	\$ 8,316		\$ 8,316
Due to other funds	4,992	\$ 911	5,903
Total Liabilities	<u>13,308</u>	<u>911</u>	<u>14,219</u>
FUND BALANCES			
Nonspendable		288,407	288,407
Restricted	12,068	45,678	57,746
Committed	1,219,127		1,219,127
Assigned	264,908		264,908
Total Fund Balances	<u>1,496,103</u>	<u>334,085</u>	<u>1,830,188</u>
Total Liabilities and Fund Balances	<u>\$ 1,509,411</u>	<u>\$ 334,996</u>	<u>\$ 1,844,407</u>

SCHEDULE A-1  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
 Combining Balance Sheet  
 Governmental Funds - All Nonmajor Special Revenue Funds  
 December 31, 2011

	Recreation Fund	Searles Fund	Police Forfeiture Fund	Public Safety Details Fund	Land Purchase Conservation Fund	Expendable Trust Fund	Impact Fees Fund	Rail Trail Alliance Fund	Total Nonmajor Special Revenue Funds
<b>ASSETS</b>									
Cash and cash equivalents	\$ 32,088	\$ 4,437	\$ 10,568	\$ 164,155	\$ 645,312	\$ 610,126	\$ 26,475	\$ 1,500	\$ 1,494,661
Accounts receivable	<u>32,088</u>	<u>4,437</u>	<u>10,568</u>	<u>14,750</u>	<u>645,312</u>	<u>610,126</u>	<u>26,475</u>	<u>1,500</u>	<u>14,750</u>
Total Assets	\$ <u>32,088</u>	\$ <u>4,437</u>	\$ <u>10,568</u>	\$ <u>178,905</u>	\$ <u>645,312</u>	\$ <u>610,126</u>	\$ <u>26,475</u>	\$ <u>1,500</u>	\$ <u>1,509,411</u>
<b>LIABILITIES</b>									
Accounts payable						\$ 8,316			\$ 8,316
Due to other funds						4,992			4,992
Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	<u>13,308</u>	\$ -	\$ -	<u>13,308</u>
<b>FUND BALANCES</b>									
Restricted			10,568	178,905	645,312	331,910	26,475	1,500	12,068
Committed	32,088	4,437				264,908			1,219,127
Assigned	<u>32,088</u>	<u>4,437</u>	<u>10,568</u>	<u>178,905</u>	<u>645,312</u>	<u>596,818</u>	<u>26,475</u>	<u>1,500</u>	<u>264,908</u>
Total Fund Balances	\$ <u>32,088</u>	\$ <u>4,437</u>	\$ <u>10,568</u>	\$ <u>178,905</u>	\$ <u>645,312</u>	\$ <u>610,126</u>	\$ <u>26,475</u>	\$ <u>1,500</u>	\$ <u>1,496,103</u>
Total Liabilities and Fund Balances	\$ <u>32,088</u>	\$ <u>4,437</u>	\$ <u>10,568</u>	\$ <u>178,905</u>	\$ <u>645,312</u>	\$ <u>610,126</u>	\$ <u>26,475</u>	\$ <u>1,500</u>	\$ <u>1,509,411</u>

SCHEDULE B  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds - All Nonmajor Funds**  
For the Year Ended December 31, 2011

	Special Revenue <u>Funds</u>	Permanent <u>Funds</u>	Combining <u>Totals</u>
Revenues:			
Taxes	\$ 159,178		\$ 159,178
Intergovernmental	101,626		101,626
Charges for services	401,859		401,859
Interest and investment income	5,979	\$ 3,080	9,059
Miscellaneous	<u>531,371</u>	<u>5,300</u>	<u>536,671</u>
Total Revenues	<u>1,200,013</u>	<u>8,380</u>	<u>1,208,393</u>
Expenditures:			
Current operations:			
General government	522,039		522,039
Public safety	262,375		262,375
Culture and recreation	127,671		127,671
Conservation	19,913		19,913
Debt service:			
Principal retirement	10,800		10,800
Interest and fiscal charges	<u>1,344</u>		<u>1,344</u>
Total Expenditures	<u>944,142</u>	<u>-</u>	<u>944,142</u>
Excess revenues over expenditures	<u>255,871</u>	<u>8,380</u>	<u>264,251</u>
Other financing sources (uses):			
Transfers in	1,839		1,839
Transfers out	<u>(28,600)</u>	<u>(911)</u>	<u>(29,511)</u>
Total other financing sources (uses)	<u>(26,761)</u>	<u>(911)</u>	<u>(27,672)</u>
Net change in fund balances	229,110	7,469	236,579
Fund balances at beginning of year, as restated	<u>1,266,993</u>	<u>326,616</u>	<u>1,593,609</u>
Fund balances at end of year	<u>\$ 1,496,103</u>	<u>\$ 334,085</u>	<u>\$ 1,830,188</u>

SCHEDULE B-1  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds - All Nonmajor Special Revenue Funds**  
For the Year Ended December 31, 2011

	Recreation Fund	Searies Fund	Police Forfeiture Fund	Public Safety Details Fund	Land Purchase Conservation Fund	Expendable Trust Fund	Impact Fees Fund	Rail Trail Alliance Fund	Total Nonmajor Special Revenue Funds
Revenues:									
Taxes			\$ 10,281		\$ 159,178	\$ 91,345			\$ 159,178
Intergovernmental				\$ 274,045					101,626
Charges for services	\$ 127,814		4	123	2,837	2,974	\$ 20		401,859
Interest and investment income	17	\$ 4				502,333	8,851	\$ 1,500	5,979
Miscellaneous		18,687				596,652	8,871		531,371
Total Revenues	<u>127,831</u>	<u>18,691</u>	<u>10,285</u>	<u>274,168</u>	<u>162,015</u>		<u>8,871</u>	<u>1,500</u>	<u>1,200,013</u>
Expenditures:									
Current operations:									
General government		9,360		262,375		512,679			522,039
Public safety									262,375
Culture and recreation	127,671				19,913				127,671
Conservation									19,913
Debt Service:									
Principal retirement		10,800							10,800
Interest and fiscal charges		1,344							1,344
Total Expenditures	<u>127,671</u>	<u>21,504</u>	<u>-</u>	<u>262,375</u>	<u>19,913</u>	<u>512,679</u>	<u>-</u>	<u>-</u>	<u>944,142</u>
Excess revenues over (under) expenditures	<u>160</u>	<u>(2,813)</u>	<u>10,285</u>	<u>11,793</u>	<u>142,102</u>	<u>83,973</u>	<u>8,871</u>	<u>1,500</u>	<u>255,871</u>
Other financing sources (uses):									
Transfers in					1,839				1,839
Transfers out							(28,600)		(28,600)
Total other financing sources (uses)							(28,600)		(26,761)
Net change in fund balances	160	(2,813)	10,285	11,793	143,941	83,973	(19,729)	1,500	229,110
Fund balances at beginning of year, as restated	<u>31,928</u>	<u>7,250</u>	<u>283</u>	<u>167,112</u>	<u>501,371</u>	<u>512,845</u>	<u>46,204</u>	<u>-</u>	<u>1,266,993</u>
Fund balances at end of year	<u>\$ 32,088</u>	<u>\$ 4,437</u>	<u>\$ 10,568</u>	<u>\$ 178,905</u>	<u>\$ 645,312</u>	<u>\$ 596,818</u>	<u>\$ 26,475</u>	<u>\$ 1,500</u>	<u>\$ 1,496,103</u>



SCHEDULE C  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Combining Statement of Fiduciary Net Assets**  
**Fiduciary Funds - All Agency Funds**  
December 31, 2011

	School District Agency <u>Fund</u>	Village District Agency <u>Fund</u>	Subdivision Fees Agency <u>Fund</u>	Impact Fees Agency <u>Fund</u>	Combining <u>Totals</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 331,800	\$ 13,787	\$ 72,334	\$ 156,717	\$ 574,638
Total Assets	<u>\$ 331,800</u>	<u>\$ 13,787</u>	<u>\$ 72,334</u>	<u>\$ 156,717</u>	<u>\$ 574,638</u>
<b>LIABILITIES</b>					
Due to other governments	\$ 331,800	\$ 13,787			\$ 345,587
Due to others funds			\$ 783		783
Deposits			71,551	\$ 156,717	228,268
Total Liabilities	<u>\$ 331,800</u>	<u>\$ 13,787</u>	<u>\$ 72,334</u>	<u>\$ 156,717</u>	<u>\$ 574,638</u>