

TOWN OF WINDHAM, NEW HAMPSHIRE

Financial Statements

December 31, 2005

and

Independent Auditor's Report

**TOWN OF WINDHAM, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2005**

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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, 2005, 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, 2005 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.

The management's discussion and analysis and the budgetary comparison information on pages 2-10 and 32-34, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Vachon, Clukay & Co. PC

April 28, 2006

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, 2005. 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 and the condition of the Town's roads, 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

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

local governments, uses fund accounting to ensure and demonstrate compliance with finance-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 and the land purchase conservation fund, which are considered to be the Town's only major funds. 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

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Management's Discussion and Analysis

the Town's major governmental funds, and includes a reconciliation between the statutory fund 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 \$30.1 million at the end of 2005, which increased \$1.4 million, or 4.9%, when 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, 2005 and December 31, 2004:

	<u>2005</u>	<u>2004</u> <i>(as restated)</i>	<u>% Change</u>
Current & non-current other assets	\$15,549,148	\$13,958,849	11.4%
Capital assets	29,123,354	27,409,961	6.3
Total Assets	<hr/> 44,672,502	<hr/> 41,368,810	<hr/> 8.0
Long-term liabilities outstanding	2,145,087	2,412,649	(11.1)
Other current liabilities	12,462,821	10,317,259	20.8
Total Liabilities	<hr/> 14,607,908	<hr/> 12,729,908	<hr/> 14.8
Net assets:			
Invested in capital assets, net of related debt	27,579,490	25,547,297	8.0
Restricted	1,956,206	2,184,525	(10.5)
Unrestricted	528,898	907,080	(41.7)
Total Net Assets	<hr/> \$30,064,594	<hr/> \$28,638,902	<hr/> 4.9%

Total net assets are presented in three categories: invested in capital assets, net of related debt, restricted, and unrestricted.

The majority of net assets are related to capital assets (e.g. land, buildings, machinery and equipment). The figure presented (\$27.6 million) is net of any related debt incurred to acquire those assets, and represents 92% 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 (\$1.9 million or 6%) 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 conservation land trust funds, expendable trust funds, and the balances of governmental funds that are restricted for other uses.

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The remaining portion (\$0.5 million or 2%) represents the part of net assets of the Town of Windham that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements (unrestricted).

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, 2005 and December 31, 2004:

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Revenues		<i>(as restated)</i>	
Program Revenues:			
Charges for services	\$782,577	\$491,721	59.2%
Operating grants and contributions	445,803	424,752	5.0
Capital grants and contributions	276,785	249,838	10.8
Total program revenues	<u>1,505,165</u>	<u>1,166,311</u>	<u>29.1</u>
General Revenues:			
Property & other taxes	6,851,134	5,696,300	20.3
Licenses & permits	3,041,501	2,940,475	3.4
Grants & contributions	507,575	462,653	9.7
Interest & investment earnings	221,665	79,336	179.4
Other general revenues	497,680	414,687	20.0
Total general revenues	<u>11,119,555</u>	<u>9,593,451</u>	<u>15.9</u>
Total Revenues	<u>12,624,720</u>	<u>10,759,762</u>	<u>17.3</u>
Program Expenses:			
General government	2,420,262	2,279,414	6.2
Public safety	4,678,433	4,420,078	5.9
Highways and streets	1,717,857	1,775,844	(3.3)
Health and welfare	123,352	124,617	(1.0)
Sanitation	986,814	867,693	13.7
Culture and recreation	1,192,502	1,112,392	7.2
Interest and fiscal charges	79,808	99,021	(19.4)
Total Expenses	<u>11,199,028</u>	<u>10,679,059</u>	<u>4.9</u>
Increase in net assets	1,425,692	80,703	
Net Assets, beginning of year (as restated)	28,638,902	28,558,199	
Net Assets, end of year	<u>\$30,064,594</u>	<u>\$28,638,902</u>	<u>4.9%</u>

The Town's net assets increased by \$1.4 million, or 5% during 2005, as compared to an increase of \$80 thousand, or 0.28% in the previous year. The primary funding source for governmental activities are taxes and permits, which combined account for 78% of all revenues. Total revenue during 2005 of \$12.6 million exceeded expenses of \$11.2 million, for an increase in net assets of \$1.4 million. Revenue in 2005 also exceeded 2004 revenue by \$1.9 million, or 17%. The most significant increase in revenue was in interest and investment earnings, which increased by \$142 thousand, or 179% over the previous year. This was due to a significant increase in average balances invested throughout the year, as well the favorable interest rate market in which the Town's interest on investments averaged 2.9% in 2005 versus 1.4% in 2004.

Town of Windham, New Hampshire
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Total expenses during 2005 of \$11.2 million exceeded 2004 expenses by \$.50 million, or 5%. Expenses in 2005 included \$1.5 million of depreciation expense.

Financial Analysis of Town of Windham Funds

Governmental Funds. At the end of 2005, the combined unreserved fund balance for all governmental funds was \$2.4 million as follows:

	<u>2005</u>	<u>2004*</u>
General Fund	\$422,104	\$624,310
Land Purchase Conservation Fund	886,402	1,143,395
Other Governmental Funds	1,109,035	984,374
Total Governmental Unreserved Fund Balance	\$2,417,541	\$2,752,079

* as restated

The 2005 total governmental unreserved fund balance of \$2.4 million decreased by \$0.3 million from a balance of \$2.7 million in the previous year, or 12.2%. The general fund undesignated unreserved fund balance reflected above does not include the property taxes accounted for as deferred revenue on the balance sheet. The change in fund balance of the general fund during 2005 is analyzed from a budgetary standpoint later in this report.

The fund balance in the Conservation Land Trust of \$886 thousand decreased by \$257 thousand, or 22%, from the 2004 balance. This was due to funding of land purchases during 2005, net of current use penalties collected. The fund balances in the other governmental funds of \$1.1 million increased by \$125 thousand, or 13%, from the 2004 balance. These funds are restricted for the purposes originally established at the time of appropriation. The majority of this increase was in the capital reserve fund due to the establishment of a new Salt Shed capital reserve fund, as well as a surplus in the Police Contracted Details special revenue fund as a result of revenues coming in higher than the annual appropriation amount.

In regards to the general fund, the Board of Selectmen have generally followed a guideline that calls for the undesignated unreserved fund balance to be maintained at a minimum of \$250,000, which represents just less than 1% of the combined town, school and county revenues committed in 2005. The remainder of the undesignated unreserved fund balance in the General Fund is used to reduce the current year tax rate.

The level of undesignated unreserved 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>2005</u>	<u>2004</u>
Total fund balance – budgetary basis	\$985,491	\$1,395,935
Portion designated for continuing appropriations	(395,803)	(662,113)
Available for tax rate setting	\$589,688	\$733,822

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The amount of fund balance used to reduce the 2005 tax rate was \$484 thousand. After this reduction, the net undesignated unreserved fund balance grew to \$589 thousand due to a favorable variance in budgeted expenditures, 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, long-term debt proceeds and transfers in, totaling \$10.5 million, was slightly less than the original budget as approved by the State Department of Revenue Administration, by \$4 thousand. This is the net result of an increase in revenues due to unanticipated revenue from grants and donations, which were voted and accepted at public hearings, offset by a decrease in transfers in of funds from other sources which were not utilized in 2005 and carried forward to 2006, totaling \$25 thousand.

The final budget for appropriations and transfers out, totaling \$11.2 million, was less than the original budget as approved by the State Department of Revenue Administration by a difference of \$400 thousand. This is also due to unanticipated revenue from grants and donations, which were voted and accepted at public hearings, with matching appropriations. Also, the final budget is reduced by the amount of appropriations approved by the Board of Selectmen to be carried over into 2006, which totaled \$421 thousand.

In comparing budget to actual amounts, the total revenues, long-term debt 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 \$327 thousand.

	Final Budget	Actual	Variance
	<i>(Budgetary Basis)</i>		
Revenues	\$10,232,982	\$10,270,585	\$37,603
Long-term Debt Proceeds	190,000	175,000	(15,000)
Transfers In	42,874	42,944	70
Expenditures	(10,970,336)	(10,665,785)	304,551
Transfers Out	(233,188)	(233,188)	0
Net	(\$737,668)	(\$410,444)	\$327,224

Actual revenues exceeded the final budget by \$38 thousand. The net increase was due to a \$99 thousand decrease in the actual intergovernmental revenues received, as compared to budget, due in part to a \$77 thousand anticipated grant from the Department of Homeland Security that ultimately was not awarded to the Town. Offsetting this decrease was an \$51 thousand increase in actual interest income as compared to budget, as well as a \$44 thousand increase in actual charges for service, as compared to budget, due to general increases in departmental income.

Actual expenditures were less than the final budget by \$305 thousand and the majority of the savings was in the capital outlay, general government and culture and recreation categories. In capital outlay, approximately \$186 thousand lapsed to the general fund as a result of both cost

