

**TOWN OF WINDHAM, NEW HAMPSHIRE**

**Financial Statements**

**December 31, 2008**

**and**

**Independent Auditor's Report**

**TOWN OF WINDHAM, NEW HAMPSHIRE  
FINANCIAL STATEMENTS  
December 31, 2008**

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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, 2008, 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, 2008 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 i-x and 23-25, 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*

July 30, 2009

## **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, 2008. 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

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**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, 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.

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**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 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 \$34.8 million at the end of 2008, which increased \$3.1 million, or 9.8%, 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, 2008 and December 31, 2007:

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Current & non-current other assets	\$ 16,760,920	\$ 14,570,719	15.0%
Capital assets	33,071,709	30,603,086	8.1
Total Assets	<u>49,832,629</u>	<u>45,173,805</u>	<u>10.3</u>
Long-term liabilities outstanding	1,434,526	1,646,242	(12.9)
Other current liabilities	13,581,420	11,804,444	15.1
Total Liabilities	<u>15,015,946</u>	<u>13,450,686</u>	<u>11.6</u>
Net assets:			
Invested in capital assets, net of related debt	32,611,987	30,088,022	8.4
Restricted	2,377,647	1,642,003	44.8
Unrestricted	(172,951)	(6,906)	(2,404.4)
Total Net Assets	<u>\$ 34,816,683</u>	<u>\$ 31,723,119</u>	<u>9.75%</u>

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 (\$32.6 million) is net of any related debt incurred to acquire those assets, and represents 94% 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 (\$2.4 million or 6.8%) 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 and capital reserve funds, and the balances of governmental funds that are restricted for other uses (refer to Note 14 for further details).

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***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, 2008 and December 31, 2007:

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
<b>Revenues</b>			
<b>Program Revenues:</b>			
Charges for services	\$ 926,829	\$ 861,877	7.5%
Operating grants and contributions	651,138	449,713	44.8
Capital grants and contributions	2,757,138	812,575	239.3
Total program revenues	<u>4,335,105</u>	<u>2,124,165</u>	<u>104.1</u>
<b>General Revenues:</b>			
Property & other taxes	8,302,061	6,916,250	20.0
Licenses & permits	2,910,811	2,977,438	(2.2)
Grants & contributions	628,583	592,997	6.0
Interest & investment earnings	81,877	226,792	(63.9)
Other general revenues	716,962	510,824	40.4
Total general revenues	<u>12,640,294</u>	<u>11,224,301</u>	<u>12.6</u>
Total Revenues	<u>16,975,399</u>	<u>13,348,466</u>	<u>27.2</u>
<b>Program Expenses:</b>			
General government	2,853,948	2,643,397	8.0
Public safety	6,141,002	5,568,312	10.3
Highways and streets	2,076,526	1,812,300	14.6
Health and welfare	155,896	154,330	1.0
Sanitation	1,038,758	1,071,093	(3.0)
Culture and recreation	1,589,260	1,439,605	10.4
Interest and fiscal charges	26,445	38,842	(31.9)
Total Expenses	<u>13,881,835</u>	<u>12,727,879</u>	<u>9.1</u>
Increase in net assets	<u>3,093,564</u>	<u>620,587</u>	<u>398.5</u>
Net Assets, beginning of year	<u>31,723,119</u>	<u>31,102,532</u>	<u>2.0</u>
Net Assets, end of year	<u>\$ 34,816,683</u>	<u>\$ 31,723,119</u>	<u>9.75%</u>

The Town's net assets increased by \$3.1 million, or 9.8% during 2008, as compared to an increase of \$621 thousand, or 2.0% in the previous year. The primary funding source for governmental activities are taxes and permits, which combined account for 66% of all revenues. Total revenue during 2008 of \$16.9 million exceeded expenses of \$13.8 million, for an increase in net assets of \$3.1 million. Revenue in 2008 also exceeded 2007 revenue by \$3.6 million, or 27%. This net increase was primarily due to an increase in capital grants and contributions of \$2.6 million, as a result of the acceptance of several new town roads in 2008, which are accounted for as donated contributions. This is in addition to a \$1.4 million increase in general revenues, as a result of the \$1.4 million increase in property & other taxes, raised to fund an increase in town budget appropriations from 2007 to 2008.

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Total expenses during 2008 of \$13.9 million exceeded 2007 expenses by \$1.1 million, or 9%. The largest percentage increases were in the highways and streets, culture and recreation and public safety categories, which were up 14.6%, 10.4% and 10.3%, respectively. For highways and streets, as well as culture and recreation, the increase was primarily costs relating to the acquisition and maintenance of conservation land, as well as construction costs relating to the Lowell Road Bike Path project. For public safety, the increase was primarily a result of increased personnel related costs in 2008 due to the mid-year hiring of four new firefighters as well as the retroactive portion of a new Police Union contract taking effect during 2008. Total expenses in 2008 included \$1.64 million of depreciation expense as compared to \$1.69 million in 2007.

**Financial Analysis of Town of Windham Funds**

**Governmental Funds.** At the end of 2008, the combined unreserved fund balance for all governmental funds was \$1.5 million as follows:

	<u>2008</u>	<u>2007</u>
General Fund	\$ (396,444)	\$ (454,332)
Other Governmental Funds	1,906,012	1,439,657
Total Governmental Unreserved Fund Balance	\$ 1,509,568	\$ 985,325

The 2008 total governmental unreserved fund balance of \$1.5 million increased by \$0.5 million from a balance of \$985 thousand in the previous year, or 53%. The general fund undesignated unreserved fund balance reflected above 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 unreserved fund balance, thus causing fluctuation from year to year. The change in fund balance of the general fund during 2008 is analyzed from a budgetary standpoint later in this report.

The fund balance in the other governmental funds category includes all special revenue funds, one of the largest being the Conservation Land Trust. This fund had an unreserved fund balance of \$406 thousand as of December 31, 2008, as compared to \$232 thousand in the prior year, or an increase of 75%. This was due to the amount of current use penalties collected in 2008, net of land purchases funded during the year. The fund balances in all other governmental funds of \$1.5 million increased collectively by \$292 thousand, or 25%, from the 2007 balance. These funds are restricted for the purposes originally established at the time of appropriation. The majority of this increase was a \$127 thousand increase in expendable trust funds due to less expended from the Property and Earned Time trust accounts versus the prior year, as well as additional Health Trust income generated from employee retroactive health co-pays relating to the Police Union contract taking effect during 2008. In addition, an \$89 thousand net increase in the capital reserve funds was due to an additional \$90,000 to further fund the Salt Shed capital reserve fund established in 2005.

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In regards to the general fund, the Board of Selectmen have generally followed a guideline that calls for the undesignated unreserved fund balance (budgetary basis) to be maintained at a minimum of \$250,000, which was increased to \$300,000 during 2008. This level represents less than 1% of the combined town, school and county revenues committed in 2008. 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>2008</u>	<u>2007</u>
Total fund balance - budgetary basis	\$ 888,627	\$ 742,886
Portion designated for continuing appropriations	<u>(250,012)</u>	<u>(360,050)</u>
Available for tax rate setting	<u>\$ 638,615</u>	<u>\$ 382,836</u>

The amount of the December 31, 2007 fund balance used to reduce the 2008 tax rate was \$83 thousand, as compared to \$550 thousand used in 2007. After this reduction, the net undesignated unreserved fund balance as of December 31, 2007 grew to \$639 thousand due to a favorable variance in fiscal 2008 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 and operating transfers in, totaling \$12.5 million, was slightly lower than the original budget of \$13 million as approved by the State Department of Revenue Administration. This is the result of a difference in the timing of recognized grant and donation revenues from the State of New Hampshire and other sources, relating to the Castle Hill Bridge and Depot Renovation projects.

The final budget for appropriations and operating transfers out, totaling \$12.7 million, was less than the original budget as approved by the State Department of Revenue Administration of \$13.4 million, by a difference of \$739 thousand. This is due to the final budget being reduced by the amount of appropriations approved by the Board of Selectmen to be carried over into 2009, which totaled \$759 thousand, offset by the increased budgeted expenditure of grants and donations accepted by the Board of Selectmen at public hearings.

In comparing budget to actual amounts, the total revenues and transfers in were slightly higher than those budgeted, while total expenditures and transfers out were lower than those budgeted, resulting in a positive budgetary variance of \$339 thousand.

