

**REPORT ON INTERNAL CONTROL BASED ON  
AN AUDIT OF BASIC FINANCIAL STATEMENTS**

To the Board of Selectmen  
Town of Windham, New Hampshire

In planning and performing our audit of the financial statements of the Town of Windham, New Hampshire as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Windham, New Hampshire's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Windham, New Hampshire's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Windham, New Hampshire's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Town's internal control to be a significant deficiency:

**CASH RECONCILIATION**

***Observation***

We noticed that the Treasurer's reports being provided to the Board of Selectmen and the Finance Office did not reflect the accurate balances at the end of each month. The reports provided to management contain balances that are not properly reconciled to the general ledger. We did note that the Finance Director is preparing monthly bank reconciliations to ensure that the general ledger is accurate, but is unable to fully reconcile to the Treasurer's reports. As a result, the Finance Director is unable to rely on the Treasurer as a functioning part of the control process.

*Implication*

Internal controls over cash are weakened when the reconciliation process is not fully completed. Although bank reconciliations are prepared, they are not reconciled to the balance carried on the Town's general ledger. Errors or mispostings can remain undetected if the reconciliation process is not fully completed through to the general ledger balance.

*Recommendation*

We recommend that the Treasurer prepare complete bank reconciliations, which list all outstanding activity at month end. We also recommend that the Treasurer reconcile the completed bank reconciliation to the Town's general ledger on a monthly basis. This will ensure that an accurate financial position of the Town will be available upon which the Selectmen may make sound business decisions.

As an alternative, State statutes permit the Treasurer (RSA 41:29, paragraph VI) to delegate the bank reconciliation responsibility to other town employees provided that such employee is bonded and that written reconciliation procedures are acceptable to the Board of Selectmen. These procedures might include the Treasurer's timely monthly review of the completed bank reconciliations which could be evidenced by his initials and date of review.

*Management Response*

Effective January 2010, the Treasurer, Board of Selectmen and Assistant Town Administrator-Finance have agreed, in writing, to the delegation of these financial functions. Monthly bank reconciliations continue to be completed by Finance and are provided to the Treasurer for his formal review and signature.

This communication is intended solely for the information and use of management, the Board of Selectmen, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

*Vachon, Clukay & Company, PC*

July 9, 2010

**TOWN OF WINDHAM, NEW HAMPSHIRE**

**Financial Statements**

**December 31, 2009**

**and**

**Independent Auditor's Report**

**TOWN OF WINDHAM, NEW HAMPSHIRE  
FINANCIAL STATEMENTS  
December 31, 2009**

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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, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town'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, 2009 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison information and the schedule of funding progress on other post-employment benefits on pages i-x and 25-28, 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 & Company PC*

July 9, 2010

## **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, 2009. 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

## **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, 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 \$37.1 million at the end of 2009, which increased \$2.3 million, or 6.7%, 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, 2009 and December 31, 2008:

	<u>2009</u>	<u>2008</u>	<u>% Change</u>
Current & non-current other assets	\$17,386,351	\$16,760,920	3.7%
Capital assets	35,110,880	33,071,709	6.2
Total Assets	<u>52,497,231</u>	<u>49,832,629</u>	5.3
Long-term liabilities outstanding	1,491,016	1,434,526	3.9
Other current liabilities	13,860,294	13,581,420	2.1
Total Liabilities	<u>15,351,310</u>	<u>15,015,946</u>	2.2
Net assets:			
Invested in capital assets, net of related debt	34,975,363	32,611,987	7.2
Restricted	2,187,717	2,377,647	(8.0)
Unrestricted	(17,159)	(172,951)	90.0
Total Net Assets	<u>\$37,145,921</u>	<u>\$34,816,683</u>	6.69%

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 (\$34.9 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 (\$2.2 million or 5.9%) 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 conservation land

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trust funds, expendable trust and capital reserve funds, and the balances of governmental funds that are restricted for other uses (refer to Note 15 for further details).

***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, 2009 and December 31, 2008:

	<u>2009</u>	<u>2008</u>	<u>% Change</u>
<b>Revenues</b>			
Program Revenues:			
Charges for services	\$860,066	\$926,829	(7.2)%
Operating grants and contributions	694,357	651,138	6.6
Capital grants and contributions	1,713,910	2,757,138	(37.8)
Total program revenues	<u>3,268,333</u>	<u>4,335,105</u>	<u>(24.6)</u>
General Revenues:			
Property & other taxes	7,711,595	8,302,061	(7.1)
Licenses & permits	2,765,448	2,910,811	(5.0)
Grants & contributions	573,334	628,583	(8.8)
Interest & investment earnings	52,344	81,877	(36.1)
Other general revenues	1,706,062	716,962	138.0
Total general revenues	<u>12,808,783</u>	<u>12,640,294</u>	<u>1.3</u>
Total Revenues	<u>16,077,116</u>	<u>16,975,399</u>	<u>(5.3)</u>
<b>Program Expenses:</b>			
General government	2,841,965	2,853,948	(0.4)
Public safety	6,318,912	6,141,002	2.9
Highways and streets	1,750,306	2,076,526	(15.7)
Health and welfare	157,022	155,896	0.7
Sanitation	975,939	1,038,758	(6.0)
Culture and recreation	1,695,443	1,589,260	6.7
Interest and fiscal charges	8,291	26,445	(31.9)
Total Expenses	<u>13,747,878</u>	<u>13,881,835</u>	<u>(1.0)</u>
Increase in net assets	2,329,238	3,093,564	(24.7)
Net Assets, beginning of year	34,816,683	31,723,119	9.75
Net Assets, end of year	<u>\$37,145,921</u>	<u>\$34,816,683</u>	<u>6.69%</u>

The Town's net assets increased by \$2.3 million, or 6.7% during 2009, as compared to an increase of \$3.1 million, or 9.8% in the previous year. The primary funding source for governmental activities are taxes and permits, which combined account for 65% of all revenues. Total revenue during 2009 of \$16.1 million exceeded expenses of \$13.8 million, for an increase in net assets of \$2.3 million. Revenue in 2009 was less than 2008 revenue by \$898 thousand, or (5.3)%. This net decrease was primarily due to higher capital grants and contributions in 2008, as a result of the acceptance of more new town roads in 2008 than 2009, all of which are accounted for as donated contributions and vary from year to year. This is offset by a \$989 thousand increase in other general revenues in 2009, as a result of a one-time donation of \$750

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thousand towards the construction of a new town road and a one-time increase of approximately \$150,000 in cable franchise fees as a result of timing of payments.

Total expenses during 2009 of \$13.8 million were slightly lower than 2008 expenses of \$13.9 million, or a decrease of (1)%. The largest percentage decrease was in the highways and streets category, which was down 15.7%. This was primarily due to a higher amount of capital road improvement projects completed during 2009, thereby reducing the amount reported as current year expense, as those projects become reclassified as capital assets. The next largest decrease was in Sanitation, as the Town continues to recognize savings in both staffing costs and waste removal costs as a result of the change to single stream recycling in 2008. These decreases were offset by normal increases in the public safety category, as this category includes a majority of the Town's personnel and the associated employee benefit increases each year. Total expenses in 2009 included \$1.77 million of depreciation expense as compared to \$1.64 million in 2008.

**Financial Analysis of Town of Windham Funds**

**Governmental Funds.** At the end of 2009, the combined unreserved fund balance for all governmental funds was \$1.2 million as follows:

	<u>2009</u>	<u>2008</u>
General Fund	\$(787,105)	\$(396,444)
Other Governmental Funds	1,986,805	1,906,012
Total Governmental Unreserved Fund Balance	<u>\$1,199,700</u>	<u>\$1,509,568</u>

The 2009 total governmental unreserved fund balance of \$1.2 million decreased by \$309 thousand from a balance of \$1.5 million in the previous year, or 21%. 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 2009 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 single fund being the Conservation Land Trust. This fund had an unreserved fund balance of \$405 thousand as of December 31, 2009, which was consistent with the balance in the prior year. The fund balances in all other governmental funds of \$1.5 million increased also remained consistent with 2008. These funds are restricted for the purposes originally established at the time of appropriation. The most significant activity within individual funds was an increase of \$115 thousand in the Health Expendable Trust fund representing the differential between income from employee co-pays and payments out for employee health claims, offset by a decrease of \$112 thousand of exaction fees utilized to fund a portion of a Town road construction project.

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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 \$300,000. This level represents less than 1% of the combined town, school and county revenues committed in 2009. 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>2009</u>	<u>2008</u>
Total fund balance – budgetary basis	\$776,516	\$888,627
Portion designated for continuing appropriations	<u>(196,152)</u>	<u>(250,012)</u>
Available for tax rate setting	\$580,364	\$638,615

The amount of the December 31, 2008 fund balance used to reduce the 2009 tax rate was \$338 thousand, as compared to \$83 thousand used in 2008. After this reduction, the net undesignated unreserved fund balance as of December 31, 2009 grew to \$580 thousand due to a favorable variance in fiscal 2009 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 \$13.5 million, was slightly higher than the original budget of \$12.8 million as approved by the State Department of Revenue Administration. This is due to 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 appropriations and operating transfers out, totaling \$13.9 million, was higher than the original budget approved by the State Department of Revenue Administration (as adjusted for 2008 carryforwards) of \$13.4 million, by a difference of \$493 thousand. This is due to the budget being adjusted for the amount of appropriations approved by the Board of Selectmen to be carried over into 2010, which totaled \$334 thousand, offset by the increased budgeted expenditure of grants and donations accepted by the Board of Selectmen at public hearings throughout the year, which totaled approximately \$827 thousand.

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 \$280 thousand.

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	Final Budget	Actual <i>(Budgetary Basis)</i>	Variance
Revenues	\$13,514,780	\$13,586,610	\$71,830
Transfers In	10,747	112,678	101,931
Expenditures	(13,791,486)	(13,684,883)	106,603
Transfers Out	(126,516)	(126,516)	-
Net	\$(392,475)	\$(112,111)	\$280,364

Actual revenues and transfers in were higher than the final budgeted amounts by a combined \$174 thousand, \$102 thousand of which was related to the road improvement project previously discussed. The net increase in revenues of \$72 thousand was comprised of an increase in licenses and permits of \$35 thousand, and increase in charges for services of \$47 thousand, offset by a decrease in intergovernmental income of \$23 thousand. These differences were primarily due to various minor differences in actual amounts collected through the end of 2009, as compared to budgeted amounts set in the fall.

Actual expenditures were less than the final budget by \$106 thousand, and the majority of the savings was in the public safety and general government categories of \$125 thousand and \$83 thousand, respectively. In both areas, savings were primarily a result of savings in salaries and benefits related to delays in hiring new personnel as well as positions that remained unfilled for a majority of the year. These decreases were offset by an increase in the capital outlay category of \$106 thousand, primarily due to the timing of completion of several road and bridge construction projects.

Revenues and other sources used to support the General Fund operations for the year ended December 31, 2009 totaled \$13.7 million, as compared to \$12.6 million for the previous year, or an increase of 9%, primarily due to the one-time donations and revenue items discussed earlier in this report. Taxes represent 56% and 61% of those funding needs in 2009 and in 2008, respectively. The following comparison shows the breakdown of revenues by category and percentage change over the previous year:

<u>Revenues:</u>	<u>2009</u>	<u>2008</u>	<u>% Change</u>
Taxes	\$7,656,024	\$7,711,899	(0.7)%
Licenses and Permits	2,765,448	2,910,811	(5.0)
Intergovernmental	1,499,181	1,098,912	36.4
Charges for Services	339,035	391,548	(13.4)
Interest Income	36,834	87,794	(58.0)
Miscellaneous	1,290,088	357,120	261.2
	13,586,610	12,558,084	8.2
Operating transfers in	112,678	6,287	169.2
Total	\$13,699,288	\$12,564,371	9.0%

The most significant fluctuation in revenues over the previous year, other than miscellaneous which was discussed earlier in this report, was the decrease in interest income. This was mainly due to the continued shrinkage in deposit interest rates in 2009. In addition, intergovernmental

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revenues increased in 2009, as compared to 2008, by 36%. This was primarily a result of reimbursements from the State relating to the reconstruction of the Castle Hill Bridge.

Expenditures (including principal and interest payments on debt) and other uses totaled \$13.8 million for the year ended December 31, 2009, as compared to \$12.4 million for the previous year, or an increase of 11%. Public safety represented the highest category of spending at 39% of the total spending for General Fund activities in 2009, as compared to 43% in 2008. The following comparison shows the breakdown of expenditures by category and percentage change over the previous year:

<u>Expenditures:</u>	<u>2009</u>	<u>2008</u>	<u>% Change</u>
General Government	\$2,559,780	\$2,549,650	0.4%
Public Safety	5,377,980	5,290,269	1.7
Highways and Streets	1,270,499	1,118,553	13.6
Health and welfare	157,022	155,896	0.7
Sanitation	984,153	1,002,877	(1.9)
Culture and Recreation	1,127,173	1,096,478	2.8
Capital outlay	1,970,131	709,233	177.8
Debt Service	238,145	249,728	(4.6)
	<hr/>	<hr/>	
	13,684,883	12,172,684	12.4
Operating transfers out	126,516	245,946	(48.6)
Total	<hr/>	<hr/>	
	\$13,811,399	\$12,418,630	11.2%

The most significant increase in expenditures over the previous year was in the capital outlay and highways and streets budget, primarily due to the completion of several large road and bridge construction projects during 2009. The most significant decrease in expenditures was in debt service, as the Town made the final payment on the master bond during 2009. Also, operating transfers out decreased in 2009 as a result of \$90,000 in contributions to the Salt Shed capital reserve fund in 2008, as well as \$30 thousand in funding for the Earned Time Trust fund in 2008, both of which were not repeated in 2009.

**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, 2009 amounted to \$35.1 million, net of accumulated depreciation, representing an increase of approximately \$2 million over the previous year balance of \$33.1 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):

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	<u>2009</u>	<u>2008</u>
Infrastructure	\$16,392,802	\$13,905,467
Land and land improvements	11,873,564	11,964,981
Buildings and improvements	5,079,172	5,281,286
Vehicles and equipment	1,765,342	1,804,428
Construction in progress	0	115,547
Total capital assets, net	<u>\$35,110,880</u>	<u>\$33,071,709</u>

Highlights of the major capitalized assets, other than roadway infrastructure, recorded in 2009 include:

- The purchase of 2009 Ambulance for \$165,363.
- The purchase of a 2007 Mack Tractor Trailer truck for use at the Transfer & Recycling Station for a total of \$93,000.

**Long-term Debt.** At December 31, 2009, the Town of Windham had total outstanding bonded debt of \$44 thousand, as compared to \$280 thousand as of December 31, 2008. During the course of the year, no new general obligation bonds were issued, while the reduction in bonds of \$236 thousand was due to payments made on existing bonds. The remaining debt of \$44 thousand is fully funded out of the Searles Special Revenue Fund. As of December 31, 2009, the Town has no general fund outstanding bond obligations.

During 2008 the Town of Windham entered into a three-year capital lease for the purpose of funding the purchase of ten replacement vehicles for the Public Safety and Highway departments. The total amount funded was \$274,680, of which \$91,517 was remaining due as of December 31, 2009. See Note 12 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 2009 fiscal year increased 1.0% over the previous year (from \$2,262,055,370 in 2009 to \$2,239,396,970 in 2008).
- The percentage of 2009 taxes that remained unpaid, and went to lien status, was slightly higher at 1.85% of the total warrant(s) as compared to 1.6% in 2008.

Several factors were taken into consideration as Town officials developed the budget for the 2009 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, compliance with statutory and other legal requirements (e.g. budget for debt service costs, employee benefits and collective bargaining agreements), and the fair and adequate compensation of its employees. In addition, the Town continues to adjust for changes at the

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

State level including a reduction in State Shared Revenues and the continued shifting of retirement 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, 2009

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 13,992,413
Investments	103,628
Taxes receivable, net	2,353,332
Accounts receivable	150,783
Due from other governments	308,993
Total Current Assets	<u>16,909,149</u>
Noncurrent Assets:	
Restricted cash	477,202
Capital assets:	
Non-depreciable capital assets	11,413,181
Depreciable capital assets, net	<u>23,697,699</u>
Total Noncurrent Assets	<u>35,588,082</u>
Total Assets	<u>\$ 52,497,231</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 136,116
Accrued expenses	2,727
Due to other governments	13,585,500
Deferred revenue	34,034
Current portion of capital leases payable	91,517
Current portion of bonds payable	10,400
Total Current Liabilities	<u>13,860,294</u>
Noncurrent Liabilities:	
Payable from restricted assets	477,202
Bonds payable	33,600
Compensated absences	826,533
Other post-employment benefits payable	153,681
Total Noncurrent Liabilities	<u>1,491,016</u>
Total Liabilities	<u>15,351,310</u>
NET ASSETS	
Invested in capital assets, net of related debt	34,975,363
Restricted	2,187,717
Unrestricted (Deficit)	<u>(17,159)</u>
Total Net Assets	<u>37,145,921</u>
Total Liabilities and Net Assets	<u>\$ 52,497,231</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, 2009

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	\$ 2,841,965	\$ 2,345		\$ 35,403	\$ (2,804,217)
Public safety	6,318,912	669,087	\$ 381,131	5,000	(5,263,694)
Highways and streets	1,750,306		313,226	1,663,507	226,427
Health and welfare	157,022	981			(156,041)
Sanitation	975,939	52,108		10,000	(913,831)
Culture and recreation	1,695,443	135,545			(1,559,898)
Interest and fiscal charges	8,291				(8,291)
Total governmental activities	<u>\$ 13,747,878</u>	<u>\$ 860,066</u>	<u>\$ 694,357</u>	<u>\$ 1,713,910</u>	<u>(10,479,545)</u>
General revenues:					
Property and other taxes					7,711,595
Licenses and permits					2,765,448
Grants and contributions:					
Rooms and meals tax distribution					573,334
Interest and investment earnings					52,344
Miscellaneous					1,703,862
Contributions to permanent fund principal					2,200
Total general revenues and contributions to permanent fund principal					<u>12,808,783</u>
Change in net assets					2,329,238
Net assets - beginning					<u>34,816,683</u>
Net assets - ending					<u>\$ 37,145,921</u>

See accompanying notes to the basic financial statements

EXHIBIT C  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Balance Sheet**  
**Governmental Funds**  
December 31, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,990,105	\$ 2,002,308	\$ 13,992,413
Investments		103,628	103,628
Taxes receivable, net	2,353,332		2,353,332
Accounts receivable	92,365	57,667	150,032
Due from other governments	308,993		308,993
Due from other funds	3,418	16	3,434
Restricted cash	477,202		477,202
Total Assets	<u>\$ 15,225,415</u>	<u>\$ 2,163,619</u>	<u>\$ 17,389,034</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 136,096	\$ 20	\$ 136,116
Due to other governments	13,585,500		13,585,500
Due to other funds		2,683	2,683
Deferred revenue	1,813,722		1,813,722
Payable from restricted assets	477,202		477,202
Total Liabilities	<u>16,012,520</u>	<u>2,703</u>	<u>16,015,223</u>
<b>FUND BALANCES</b>			
Reserved for endowments		174,111	174,111
Unreserved, reported in:			
General fund (Deficit)	(787,105)		(787,105)
Special revenue funds		1,951,713	1,951,713
Permanent funds		35,092	35,092
Total Fund Balances	<u>(787,105)</u>	<u>2,160,916</u>	<u>1,373,811</u>
Total Liabilities and Fund Balances	<u>\$ 15,225,415</u>	<u>\$ 2,163,619</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 35,110,880

Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis 1,779,688

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:

Capital leases payable	(91,517)
Bonds payable	(44,000)
Accrued interest on long-term obligations	(2,727)
Compensated absences	(826,533)
Other post-employment benefits	<u>(153,681)</u>

Net assets of governmental activities \$ 37,145,921

See accompanying notes to the basic financial statements

EXHIBIT D

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**

For the Year Ended December 31, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 7,204,599	\$ 55,571	\$ 7,260,170
Licenses and permits	2,765,448		2,765,448
Intergovernmental	1,720,865		1,720,865
Charges for services	339,035	518,025	857,060
Interest and investment income	36,834	15,510	52,344
Miscellaneous	1,290,088	422,099	1,712,187
Total Revenues	<u>13,356,869</u>	<u>1,011,205</u>	<u>14,368,074</u>
Expenditures:			
Current operations:			
General government	2,546,184	276,062	2,822,246
Public safety	5,535,888	367,298	5,903,186
Highways and streets	1,177,505		1,177,505
Health and welfare	157,022		157,022
Sanitation	982,144		982,144
Culture and recreation	1,126,673	280,814	1,407,487
Capital outlay	1,970,131		1,970,131
Debt service:			
Principal retirement	226,064	10,000	236,064
Interest and fiscal charges	12,081	2,160	14,241
Total Expenditures	<u>13,733,692</u>	<u>936,334</u>	<u>14,670,026</u>
Excess revenues over (under) expenditures	<u>(376,823)</u>	<u>74,871</u>	<u>(301,952)</u>
Other financing sources (uses):			
Transfers in	112,678	126,532	239,210
Transfers out	(126,516)	(112,694)	(239,210)
Total other financing sources (uses)	<u>(13,838)</u>	<u>13,838</u>	<u>-</u>
Net change in fund balances	<u>(390,661)</u>	<u>88,709</u>	<u>(301,952)</u>
Fund balances (deficit) at beginning of year	<u>(396,444)</u>	<u>2,072,207</u>	<u>1,675,763</u>
Fund balances (deficit) at end of year	<u>\$ (787,105)</u>	<u>\$ 2,160,916</u>	<u>\$ 1,373,811</u>

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**

For the Year Ended December 31, 2009

Net Change in Fund Balances--Total Governmental Funds	\$ (301,952)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	781,554
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	466,425
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the gain on disposed capital assets reduced by the actual proceeds received from the sale of capital assets.	(4,100)
Donations of capital assets are not reported in the funds, but the in-kind donations increase net assets.	1,246,717
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	236,064
Repayment of principal on capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	88,141
In the statement of activities, interest is accrued on bonds outstanding and capital leases, whereas in governmental funds, an interest expenditure is reported when due.	5,950
Some expenses reported in the statement of activities, such as compensated absences and other post-employment benefits do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(189,561)
Change in Net Assets of Governmental Activities	<u>\$ 2,329,238</u>

EXHIBIT E  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
December 31, 2009

	Private- Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ 27,983	\$ 432,662
Total Assets	<u>\$ 27,983</u>	<u>\$ 432,662</u>
LIABILITIES		
Accounts payable	\$ 8	
Due to other governments	20	\$ 201,480
Due to other funds		751
Deposits		<u>230,431</u>
Total Liabilities	<u>28</u>	<u>\$ 432,662</u>
NET ASSETS		
Held in trust	<u>27,955</u>	
Total Net Assets	<u>27,955</u>	
Total Liabilities and Net Assets	<u>\$ 27,983</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, 2009

	<u>Private- Purpose Trust Funds</u>
ADDITIONS:	
Investment earnings:	
Interest and investment income	\$ 112
Total Additions	<u>112</u>
DEDUCTIONS:	
Benefits	<u>28</u>
Total Deductions	<u>28</u>
Change in Net Assets	84
Net assets - beginning of year	<u>27,871</u>
Net assets - end of year	<u>\$ 27,955</u>

*See accompanying notes to the basic financial statements*

**TOWN OF WINDHAM, NEW HAMPSHIRE  
NOTES TO BASIC FINANCIAL STATEMENTS  
December 31, 2009**

**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, 2009**

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, 2009**

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, 2009**

**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, 2009, the Town applied \$338,615 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, 2009 are recorded as receivables net of reserves for estimated uncollectibles of \$100,000.

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2009**

***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 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.

***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

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2009**

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 Reserves***

The Town reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods.

***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 and the allowance for uncollectible taxes.

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

***Deficit Fund Balance***

As of December 31, 2009, the General Fund had a deficit fund balance of \$787,105 due to the "sixty day rule" for property tax recognition. Property taxes billed and uncollected sixty days after year end amount to \$1,779,688, and have been included as deferred revenue on the Balance Sheet – Governmental Funds (Exhibit C).

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2009**

**NOTE 3—PROPERTY TAXES**

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$2,275,366,370 as of April 1, 2009) and are due in two installments on July 1, 2009 and December 9, 2009. 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).

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 dedeed to the Town.

In accordance with State law, the Town collects taxes for the Windham School District, Rockingham County and two Village Districts, 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 \$33,085,500, \$2,098,713 and \$92,006, for the Windham School District, Rockingham County and Village Districts, 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, 2009, 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, 2009.

***Property and Liability Insurance***

The LGC provides certain property and liability insurance coverages to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the LGC, 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.

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2009**

***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.

**NOTE 5—DEPOSITS AND INVESTMENTS**

Deposits and investments as of December 31, 2009 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and cash equivalents	\$ 13,992,413
Investments	103,628
Restricted cash	477,202
Statement of Fiduciary Net Assets:	
Cash and cash equivalents	460,645
Total deposits and investments	<u>\$ 15,033,888</u>

Deposits and investments at December 31, 2009 consist of the following:

Cash on hand	\$ 950
Deposits with financial institutions	14,993,860
Investments	<u>39,078</u>
Total deposits and investments	<u>\$ 15,033,888</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.

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2009**

***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.

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, \$2,751,415 was collateralized by securities held by the bank in the Town’s name. The Town’s financial institution that holds a majority of the Town’s deposits is a participant in the Transaction Account Guarantee Program from the FDIC which temporarily increases the insurance coverage of certain accounts. These accounts are now fully insured through June 30, 2010.

**NOTE 6—DUE FROM OTHER GOVERNMENTS**

Receivables from other governments at December 31, 2009 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:

State of New Hampshire - Bridge Betterment Program	\$ 239,665
State of New Hampshire - Transportation Enhancement	26,722
Federal Government - JAG	23,489
FEMA - SAFER Grant	7,291
Federal Government - Disaster Assistance	5,776
Internal Revenue Service	2,260
State of New Hampshire - Gas Tax, grants	3,790
	<u>\$ 308,993</u>

**NOTE 7—CAPITAL ASSETS**

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

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2009**

	Balance <u>1/1/2009</u>	Additions	Reductions	Balance <u>12/31/2009</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 11,417,281		\$ (4,100)	\$ 11,413,181
Construction in progress	<u>115,547</u>		<u>(115,547)</u>	<u>-</u>
Total capital assets not being depreciated	<u>11,532,828</u>	<u>\$ -</u>	<u>(119,647)</u>	<u>11,413,181</u>
Other capital assets:				
Infrastructure	33,127,451	3,648,094		36,775,545
Land improvements	1,289,012			1,289,012
Buildings and improvements	8,006,021			8,006,021
Vehicles and equipment	<u>3,708,933</u>	<u>281,707</u>	<u>(163,775)</u>	<u>3,826,865</u>
Total other capital assets at historical cost	<u>46,131,417</u>	<u>3,929,801</u>	<u>(163,775)</u>	<u>49,897,443</u>
Less accumulated depreciation for:				
Infrastructure	(19,221,984)	(1,160,759)		(20,382,743)
Land improvements	(741,312)	(87,317)		(828,629)
Buildings and improvements	(2,724,735)	(202,114)		(2,926,849)
Vehicles and equipment	<u>(1,904,505)</u>	<u>(320,793)</u>	<u>163,775</u>	<u>(2,061,523)</u>
Total accumulated depreciation	<u>(24,592,536)</u>	<u>(1,770,983)</u>	<u>163,775</u>	<u>(26,199,744)</u>
Total other capital assets, net	<u>21,538,881</u>	<u>2,158,818</u>	<u>-</u>	<u>23,697,699</u>
Total capital assets, net	<u>\$ 33,071,709</u>	<u>\$ 2,158,818</u>	<u>\$ (119,647)</u>	<u>\$ 35,110,880</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 34,308
Public safety	300,712
Highways and streets	1,198,816
Sanitation	84,206
Culture and recreation	<u>152,941</u>
Total governmental activities depreciation expense	<u>\$ 1,770,983</u>

During the year ending December 31, 2009, 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:

Infrastructure	<u>\$ 1,246,717</u>
----------------	---------------------

The balance of the assets acquired through capital leases as of December 31, 2009 is as follows:

Vehicles and equipment	\$ 276,081
Less accumulated depreciation:	
Vehicles and equipment	<u>(60,884)</u>
	<u>\$ 215,197</u>

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2009**

**NOTE 8—DUE TO OTHER GOVERNMENTS**

In accordance with State law, the Town collects taxes for the Windham School District, Rockingham County and two Village Districts, all independent governmental units, which are remitted to them as required by law. At December 31, 2009, the balance of the property tax appropriation due to the Windham School District is \$13,585,500.

**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.

*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. The Town is required to contribute at an actuarially determined rate. The Town's contribution rates for the covered payroll of police officers, fire employees, and general employees were 11.84%, 15.92% and 8.74%, respectively through June 30, 2009 and 13.66%, 17.28% and 9.16%, respectively, thereafter. The Town contributes 65% of the employer cost for police officers and fire employees, and the State contributes the remaining 35% of the employer cost, through June 30, 2009 and 70% and 30%, respectively, 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 \$221,684 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, 2009, 2008, and 2007 were \$687,745, \$664,513, and \$564,045, 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.

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2009**

In order to participate in the plan, an employee must contribute an amount equal to 3% of his earnings. A participant may then make voluntary contributions up to an additional 10% of his earnings. The Town contributes 5% of a participant's earnings to the plan. Covered wages paid under this plan during 2009 were \$2,391,059, 38.1% of total wages of \$6,271,786. Employee contributions, including additional voluntary contributions, to the plan were \$104,218, or 4.4% of covered wages. Employer contributions to the plan were \$119,555, 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:

<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

During the year, the Town prospectively implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

***Annual OPEB Costs***

The Town's fiscal 2009 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, 2009 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:

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2009**

Annual Required Contribution (ARC)	\$ 187,098
Interest on net OPEB obligation	-
Annual OPEB cost	<u>187,098</u>
Contributions made	<u>(33,417)</u>
Increase in net OPEB obligation	153,681
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u>\$ 153,681</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, 2009 are as follows:

Year <u>Ended</u>	Annual <u>OPEB Cost</u>	Percentage of OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>
12/31/2009	\$187,098	17.9%	\$153,681

The Town's net OPEB obligation as of December 31, 2009 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:

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

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2009**

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 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. 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—SHORT-TERM OBLIGATIONS**

The Town issues tax anticipation notes during the year. These borrowings are to assist in the payment of operating expenses during the year and are guaranteed to be repaid from the property tax revenue received in July from the various taxpayers within the Town.

The changes in short-term debt obligations for the year ended December 31, 2009 are as follows:

Balance - January 1, 2009	\$ -
Additions	1,400,000
Reductions	<u>(1,400,000)</u>
Balance - December 31, 2009	<u>\$ -</u>

**NOTE 12—LONG-TERM OBLIGATIONS**

*Changes in Long-Term Obligations*

The changes in the Town's long-term obligations for the year ended December 31, 2009 are as follows:

	Balance <u>1/1/2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/2009</u>	Due Within <u>One Year</u>
Bonds payable	\$ 280,064		\$ (236,064)	\$ 44,000	\$ 10,400
Capital leases payable	179,658		(88,141)	91,517	91,517
Other post-employment benefits		\$ 153,681		153,681	
Compensated absences	<u>790,653</u>	<u>541,684</u>	<u>(505,804)</u>	<u>826,533</u>	
	<u>\$ 1,250,375</u>	<u>\$ 695,365</u>	<u>\$ (830,009)</u>	<u>\$ 1,115,731</u>	<u>\$ 101,917</u>

Payments on the Searles Building Renovations Bond are paid out of the Searles Special Revenue Fund, a nonmajor governmental fund. The balance of the payments on the general obligation bonds are paid out of the General Fund. Payments on capital leases are paid out of the General Fund. Compensated absences and other post-employment benefits 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, 2009 is comprised of the following individual issue:

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2009**

\$100,000 Searles Building Renovations Bond due in  
 varying annual installments through 2013; interest at 4.0%      \$ 44,000

Debt service requirements to retire general obligation bonds outstanding at December 31, 2009 are as follows:

Year Ending <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2010	\$ 10,400	\$ 1,760	\$ 12,160
2011	10,800	1,344	12,144
2012	11,200	912	12,112
2013	<u>11,600</u>	<u>464</u>	<u>12,064</u>
	<u>\$ 44,000</u>	<u>\$ 4,480</u>	<u>\$ 48,480</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, 2009 was \$8,291 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 is the individual capital lease obligation at December 31, 2009:

Equipment, due in annual installments of \$95,022  
 including interest at 3.827%, through July 2010      \$ 91,517

Debt service requirements to retire capital lease obligations outstanding at December 31, 2009 are as follows:

Year Ending <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2010	<u>\$ 91,517</u>	<u>\$ 3,505</u>	<u>\$ 95,022</u>

**NOTE 13—INTERFUND BALANCES AND TRANSFERS**

The current year's earned income in the Permanent Funds that is to be distributed to the General Fund and other Nonmajor Governmental Funds and expenditures paid on-behalf of the Fiduciary Funds are reflected as interfund balances. Interfund balances at December 31, 2009 are as follows:

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2009**

	Due from		
	Nonmajor Governmental Funds	Fiduciary Funds	Total
	Due to:		
General Fund	\$ 2,667	\$ 751	\$ 3,418
Nonmajor Governmental Funds	16		16
	<u>\$ 2,683</u>	<u>\$ 751</u>	<u>\$ 3,434</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, 2009 are as follows:

	Transfer from		
	General Fund	Nonmajor Governmental Funds	Totals
	Transfer to:		
General Fund		\$ 112,678	\$ 112,678
Nonmajor Governmental Funds	\$ 126,516	16	126,532
	<u>\$ 126,516</u>	<u>\$ 112,694</u>	<u>\$ 239,210</u>

**NOTE 14—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, 2009 are as follows:

	Principal	Income	Total
Cemetery Funds	\$ 132,560	\$ 34,101	\$ 166,661
Library Funds	4,000		4,000
General Government Building Funds	37,551	991	38,542
	<u>\$ 174,111</u>	<u>\$ 35,092</u>	<u>\$ 209,203</u>

**NOTE 15—RESTRICTED NET ASSETS**

Net assets are restricted for specific purposes at December 31, 2009 as follows:

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2009**

Endowments	\$ 174,111
Public safety	173,806
Conservation	405,178
Recreation	27,477
Searles	13,440
Capital reserve	460,877
Expendable trusts	660,778
Library renovations	32,800
Depot improvements	163,421
Searles school	7,725
Lowell Road bike path study	68,104
	<u>\$ 2,187,717</u>

**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, 2009, the Town held performance deposits totaling \$4,309,323.

**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 2009 were \$1,306,143 for health insurance premiums, \$227,036 for non-covered employee claims as a result of higher deductibles, \$6,567 for administrative expenses, and \$650 for renewal fees. Claims are reviewed by an outside claims administrator and then paid by the Town. At December 31, 2009, the unexpended balance of the Health Trust Expendable Trust Fund is \$170,480. Outstanding claims payable at December 31, 2009 totaled \$5,451.

**NOTE 18—COMMITMENTS AND CONTINGENCIES**

***Solid Waste Contract***

Through December 31, 2009, 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 2009, the Town operated under a multi-year contract for solid waste disposal with a tipping fee of \$69 per ton for the contract period. During 2009, the Town expended \$291,800 under the terms of the agreement.

During 2009, the Town also operated under a multi-year contract with an independent company that accepts single stream recyclables, for which the Town receives a rebate of \$22.50 per ton for the contract period.

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2009**

*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—SUBSEQUENT EVENTS**

*Capital Lease Obligation*

During February 2010, the Town entered into a capital lease agreement for \$81,790 for the purpose of acquiring a dump truck. The capital lease obligation is due in annual installments of \$28,326 including interest at 3.95% through February 2012. This contract is subject to cancellation should funds not be appropriated to meet payment obligations.

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, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 7,651,530	\$ 7,651,530	\$ 7,656,024	\$ 4,494
Licenses and permits	2,730,950	2,730,950	2,765,448	34,498
Intergovernmental	1,579,305	1,522,737	1,499,181	(23,556)
Charges for services	292,123	292,123	339,035	46,912
Interest income	40,000	40,000	36,834	(3,166)
Miscellaneous	531,340	1,277,440	1,290,088	12,648
Total Revenues	<u>12,825,248</u>	<u>13,514,780</u>	<u>13,586,610</u>	<u>71,830</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	2,646,910	2,641,710	2,559,780	81,930
Public safety	5,479,495	5,502,984	5,377,980	125,004
Highways and streets	1,219,890	1,219,890	1,270,499	(50,609)
Health and welfare	161,790	161,790	157,022	4,768
Sanitation	994,010	994,010	984,153	9,857
Culture and recreation	1,168,559	1,169,859	1,127,173	42,686
Capital outlay	1,390,263	1,864,054	1,970,131	(106,077)
<b>Debt service:</b>				
Principal retirement	226,064	226,064	226,064	-
Interest and fiscal charges	11,125	11,125	12,081	(956)
Total Expenditures	<u>13,298,106</u>	<u>13,791,486</u>	<u>13,684,883</u>	<u>106,603</u>
Excess revenues over (under) expenditures	<u>(472,858)</u>	<u>(276,706)</u>	<u>(98,273)</u>	<u>178,433</u>
<b>Other financing sources (uses):</b>				
Transfers in	10,747	10,747	112,678	101,931
Transfers out	(126,516)	(126,516)	(126,516)	-
Total other financing sources (uses)	<u>(115,769)</u>	<u>(115,769)</u>	<u>(13,838)</u>	<u>101,931</u>
Net change in fund balance	(588,627)	(392,475)	(112,111)	280,364
<b>Fund balance at beginning of year</b>				
- Budgetary Basis	<u>888,627</u>	<u>888,627</u>	<u>888,627</u>	<u>-</u>
<b>Fund balance at end of year</b>				
- Budgetary Basis	<u>\$ 300,000</u>	<u>\$ 496,152</u>	<u>\$ 776,516</u>	<u>\$ 280,364</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, 2009

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</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, 2009**

**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 are reported on the basis budgeted by the Town. 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. Budgetary expenditures were adjusted for encumbrances and on-behalf payments for fringe benefits as follows:

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 13,469,547	\$ 13,860,208
Difference in property taxes meeting susceptible to accrual criteria	451,425	
Encumbrances - December 31, 2009		216,067
Encumbrances - December 31, 2008		(43,192)
On-behalf fringe benefits	<u>(221,684)</u>	<u>(221,684)</u>
Per Schedule 1	<u>\$ 13,699,288</u>	<u>\$ 13,811,399</u>

**NOTE 2—BUDGETARY FUND BALANCES**

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

Unreserved:	
Designated for subsequent years' expenditures	\$ 196,153
Undesignated	<u>580,363</u>
	<u>\$ 776,516</u>

**NOTE 3—UNRESERVED DESIGNATED FUND BALANCES**

Appropriations for certain projects and specific items not fully expended at year end are carried forward as continuing appropriations to the next year in which they supplement the appropriations of that year. At year end, continuing appropriations are reported as a component of the General Fund’s unreserved fund balance and are detailed as follows:

**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)**  
**December 31, 2009**

Road improvements	\$ 56,700
Searles school	7,725
Lowell Road bike path study	68,104
Library renovations	32,800
Depot improvements	163,421
Searles building window replacement	<u>5,200</u>
	333,950
Less: revenues not susceptible to accrual	<u>(137,797)</u>
	<u>\$ 196,153</u>

**NOTE 4—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, 2009

	Special Revenue Funds	Permanent Funds	Combining Totals
ASSETS			
Cash and cash equivalents	\$ 1,831,607	\$ 170,701	\$ 2,002,308
Investments	64,550	39,078	103,628
Accounts receivable	57,667		57,667
Due from other funds	16		16
Total Assets	<u>\$ 1,953,840</u>	<u>\$ 209,779</u>	<u>\$ 2,163,619</u>
LIABILITIES			
Accounts payable	\$ 20		\$ 20
Due to other funds	2,107	\$ 576	2,683
Total Liabilities	<u>2,127</u>	<u>576</u>	<u>2,703</u>
FUND BALANCES			
Reserved for endowments		174,111	174,111
Unreserved, reported in:			
Special revenue funds	1,951,713		1,951,713
Permanent funds		35,092	35,092
Total Fund Balances	<u>1,951,713</u>	<u>209,203</u>	<u>2,160,916</u>
Total Liabilities and Fund Balances	<u>\$ 1,953,840</u>	<u>\$ 209,779</u>	<u>\$ 2,163,619</u>

SCHEDULE A-1  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Combining Balance Sheet**  
**Governmental Funds - All Nonmajor Special Revenue Funds**  
December 31, 2009

	Library Fund	Recreation Fund	Cemetery Fund	Law Enforcement Fund	Sealties Fund	Police Forfeiture Fund	Public Safety Details Fund	Exaction Fees Fund	Land Purchase Conservation Fund	Capital Reserve Fund	Expendable Trust Fund	Combining Total
<b>ASSETS</b>												
Cash and cash equivalents	\$ 29,002	\$ 27,477	\$ 95,715	\$ 967	\$ 13,440	\$ 4,507	\$ 116,261	\$ 15,298	\$ 405,178	\$ 460,877	\$ 662,885	\$ 1,831,607
Investments	64,550											64,550
Accounts receivable	122						57,545					57,667
Due from other funds	16											16
Total Assets	<u>\$ 93,690</u>	<u>\$ 27,477</u>	<u>\$ 95,715</u>	<u>\$ 967</u>	<u>\$ 13,440</u>	<u>\$ 4,507</u>	<u>\$ 173,806</u>	<u>\$ 15,298</u>	<u>\$ 405,178</u>	<u>\$ 460,877</u>	<u>\$ 662,885</u>	<u>\$ 1,953,840</u>
<b>LIABILITIES</b>												
Accounts payable	\$ 20											\$ 20
Due to other funds												2,107
Total Liabilities	<u>20</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,107</u>	<u>2,127</u>
<b>FUND BALANCES</b>												
Unreserved, reported in:												
Special revenue funds	93,670	27,477	95,715	967	13,440	4,507	173,806	15,298	405,178	460,877	660,778	1,951,713
Total Fund Balances	<u>93,670</u>	<u>27,477</u>	<u>95,715</u>	<u>967</u>	<u>13,440</u>	<u>4,507</u>	<u>173,806</u>	<u>15,298</u>	<u>405,178</u>	<u>460,877</u>	<u>660,778</u>	<u>1,951,713</u>
Total Liabilities and Fund Balances	<u>\$ 93,690</u>	<u>\$ 27,477</u>	<u>\$ 95,715</u>	<u>\$ 967</u>	<u>\$ 13,440</u>	<u>\$ 4,507</u>	<u>\$ 173,806</u>	<u>\$ 15,298</u>	<u>\$ 405,178</u>	<u>\$ 460,877</u>	<u>\$ 662,885</u>	<u>\$ 1,953,840</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, 2009

	Special Revenue <u>Funds</u>	Permanent <u>Funds</u>	Combining <u>Totals</u>
Revenues:			
Taxes	\$ 55,571		\$ 55,571
Charges for services	518,025		518,025
Interest and investment income	8,431	\$ 7,079	15,510
Miscellaneous	419,899	2,200	422,099
Total Revenues	<u>1,001,926</u>	<u>9,279</u>	<u>1,011,205</u>
Expenditures:			
Current operations:			
General government	276,062		276,062
Public safety	367,298		367,298
Culture and recreation	280,814		280,814
Debt service:			
Principal retirement	10,000		10,000
Interest and fiscal charges	2,160		2,160
Total Expenditures	<u>936,334</u>	<u>-</u>	<u>936,334</u>
Excess of revenues over expenditures	<u>65,592</u>	<u>9,279</u>	<u>74,871</u>
Other financing sources (uses):			
Transfers in	126,532		126,532
Transfers out	(112,118)	(576)	(112,694)
Total other financing sources (uses)	<u>14,414</u>	<u>(576)</u>	<u>13,838</u>
Net change in fund balances	80,006	8,703	88,709
Fund balances at beginning of year	<u>1,871,707</u>	<u>200,500</u>	<u>2,072,207</u>
Fund balances at end of year	<u>\$ 1,951,713</u>	<u>\$ 209,203</u>	<u>\$ 2,160,916</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, 2009

	Library Fund	Recreation Fund	Cemetery Fund	Law Enforcement Fund	Searles Fund	Police Forfeiture Fund	Public Safety Details Fund	Exaction Fees Fund	Land Purchase Conservation Fund	Capital Reserve Fund	Expendable Trust Fund	Combining Total
Revenues:												
Taxes							\$ 386,753		\$ 55,571			\$ 55,571
Charges for service	\$ 930	\$ 131,272	\$ 379	\$ 3	\$ 82	\$ 101	\$ 804	\$ 466	1,370	\$ 1,844	\$ 2,328	518,025
Interest and investment income	16,577	124	2,300		19,350			11,200			370,472	8,431
Miscellaneous	17,507	131,396	2,679	3	19,432	101	387,557	11,666	56,941	1,844	372,800	419,899
Total Revenues												1,001,926
Expenditures:												
Current operations:												
General government					13,874		344,480	1,979	60,102		262,188	276,062
Public safety	98,336	120,397				22,818						367,298
Culture and recreation												280,814
Debt service:												
Principal retirement					10,000							10,000
Interest and fiscal charges					2,160							2,160
Total Expenditures	98,336	120,397	-	-	26,034	22,818	344,480	1,979	60,102	-	262,188	936,334
Excess of revenues over (under) expenditures	(80,829)	10,999	2,679	3	(6,602)	(22,717)	43,077	9,687	(3,161)	1,844	110,612	65,592
Other financing sources (uses):												
Transfers in	94,719								1,813		30,000	126,532
Transfers out								(112,118)				(112,118)
Total other financing sources (uses)	94,719	-	-	-	-	-	-	(112,118)	1,813	-	30,000	14,414
Net change in fund balances	13,890	10,999	2,679	3	(6,602)	(22,717)	43,077	(102,431)	(1,348)	1,844	140,612	80,006
Fund balances at beginning of year	79,780	16,478	93,036	964	20,042	27,224	130,729	117,729	406,526	459,033	520,166	1,871,707
Fund balances at end of year	\$ 93,670	\$ 27,477	\$ 95,715	\$ 967	\$ 13,440	\$ 4,507	\$ 173,806	\$ 15,298	\$ 405,178	\$ 460,877	\$ 660,778	\$ 1,951,713

SCHEDULE C  
**TOWN OF WINDHAM, NEW HAMPSHIRE**  
**Combining Statement of Fiduciary Net Assets**  
**Fiduciary Funds - All Agency Funds**  
December 31, 2009

	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	\$ 187,721	\$ 13,759	\$ 76,673	\$ 154,509	\$ 432,662
Total Assets	<u>\$ 187,721</u>	<u>\$ 13,759</u>	<u>\$ 76,673</u>	<u>\$ 154,509</u>	<u>\$ 432,662</u>
<b>LIABILITIES</b>					
Due to other governments	\$ 187,721	\$ 13,759			\$ 201,480
Due to other funds			\$ 751		751
Deposits			75,922	\$ 154,509	230,431
Total Liabilities	<u>\$ 187,721</u>	<u>\$ 13,759</u>	<u>\$ 76,673</u>	<u>\$ 154,509</u>	<u>\$ 432,662</u>