

TOWN OF WINDHAM, NEW HAMPSHIRE

Financial Statements

December 31, 2006

and

Independent Auditor's Report

**TOWN OF WINDHAM, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2006**

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S REPORT	
MANAGEMENT'S DISCUSSION AND ANALYSIS	i-ix
BASIC FINANCIAL STATEMENTS	
EXHIBITS:	
A Statement of Net Assets	1
B Statement of Activities	2
C Balance Sheet – Governmental Funds	3
D Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
E Statement of Fiduciary Net Assets – Fiduciary Funds	5
F Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	6
NOTES TO BASIC FINANCIAL STATEMENTS	7-20
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULES:	
1 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund	21
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	22-23
SUPPLEMENTAL SCHEDULES	
SCHEDULES:	
A Combining Balance Sheet – Governmental Funds – All Nonmajor Funds	24
A-1 Combining Balance Sheet – Governmental Funds – All Nonmajor Special Revenue Funds	25
B Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – All Nonmajor Funds	26
B-1 Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – All Nonmajor Special Revenue Funds	27
C Combining Statement of Fiduciary Net Assets – Fiduciary Funds – All Agency Funds	28

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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 and the aggregate remaining fund information of the Town of Windham, New Hampshire (the Town) as of and for the year ended December 31, 2006, 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, and the aggregate remaining fund information of the Town of Windham, New Hampshire as of December 31, 2006 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison information on pages i-ix and 21-23, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Windham, New Hampshire's basic financial statements. The combining nonmajor fund and fiduciary fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund and fiduciary fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Vachon, Clukay & Co., PC

May 29, 2007

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, 2006. We encourage readers to consider the information presented here in conjunction with the Town's financial statements, which follow this section.

Overview of the Financial Statements

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

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

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's net assets totaled \$31.1 million at the end of 2006, which increased \$1.0 million, or 3.5%, 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, 2006 and December 31, 2005:

	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Current & non-current other assets	\$ 15,535,297	\$ 15,549,148	(0.1)%
Capital assets	29,622,497	29,123,354	1.7
Total Assets	<u>45,157,794</u>	<u>44,672,502</u>	1.1
Long-term liabilities outstanding	1,890,978	2,145,087	(11.9)
Other current liabilities	12,164,284	12,462,821	(2.4)
Total Liabilities	<u>14,055,262</u>	<u>14,607,908</u>	(3.8)
Net assets:			
Invested in capital assets, net of related debt	28,747,833	27,579,490	4.2
Restricted	1,735,612	1,956,206	(11.3)
Unrestricted	619,087	528,898	17.1
Total Net Assets	<u>\$ 31,102,532</u>	<u>\$ 30,064,594</u>	3.50%

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 (\$28.7 million) is net of any related debt incurred to acquire those assets, and represents 92% of total net assets. These assets are utilized by the Town of Windham to provide services to its citizenry; therefore they are not available for future spending.

A certain portion (\$1.7 million or 6%) of the net assets is restricted in regard to how they may be used. For the Town of Windham, those restrictions include those related to conservation land trust funds, expendable trust funds, and the balances of governmental funds that are restricted for other uses.

The remaining portion (\$0.6 million or 2%) represents the part of net assets of the Town of Windham that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements (unrestricted).

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

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, 2006 and December 31, 2005:

	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Revenues			
Program Revenues:			
Charges for services	\$ 766,374	\$ 782,577	(0.0)
Operating grants and contributions	439,628	445,803	(1.4)
Capital grants and contributions	163,577	276,785	(40.9)
Total program revenues	<u>1,369,579</u>	<u>1,505,165</u>	<u>(9.0)</u>
General Revenues:			
Property & other taxes	7,161,663	6,851,134	4.5
Licenses & permits	3,023,395	3,041,501	(0.6)
Grants & contributions	547,863	507,575	7.9
Interest & investment earnings	213,374	221,665	(3.7)
Other general revenues	521,716	497,680	4.8
Total general revenues	<u>11,468,011</u>	<u>11,119,555</u>	<u>3.1</u>
Total Revenues	<u>12,837,590</u>	<u>12,624,720</u>	<u>1.7</u>
Program Expenses:			
General government	2,659,391	2,420,262	9.9
Public safety	4,968,568	4,678,433	6.2
Highways and streets	1,631,818	1,717,857	(5.0)
Health and welfare	139,069	123,352	12.7
Sanitation	1,077,064	986,814	9.2
Culture and recreation	1,268,180	1,192,502	6.4
Interest and fiscal charges	55,562	79,808	(30.4)
Total Expenses	<u>11,799,652</u>	<u>11,199,028</u>	<u>5.4</u>
Increase in net assets	1,037,938	1,425,692	
Net Assets, beginning of year	<u>30,064,594</u>	<u>28,638,902</u>	
Net Assets, end of year	<u>\$ 31,102,532</u>	<u>\$ 30,064,594</u>	<u>3.50%</u>

The Town's net assets increased by \$1.0 million, or 3.5% during 2006, as compared to an increase of \$1.4 million, or 4.9% in the previous year. The primary funding source for governmental activities are taxes and permits, which combined account for 79% of all revenues. Total revenue during 2006 of \$12.8 million exceeded expenses of \$11.8 million, for an increase in net assets of \$1.0 million. Revenue in 2006 also exceeded 2005 revenue by \$213 thousand, or 2%. This net increase was comprised of a \$348 thousand increase in general revenues, mainly due to increased taxes, offset by a \$135 thousand decrease in program revenues. This overall decrease of 9% is mainly attributed to a decrease in capital grants and contributions of \$113 thousand, or 41%, primarily due to a \$225 thousand Homeland Security grant received in 2005 for fire equipment, which was not recurring in 2006.

Total expenses during 2006 of \$11.8 million exceeded 2005 expenses by \$0.6 million, or 5%. The largest percentage increase was in the Health and Welfare category, which was up 12.7%.

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

primarily due to \$35 thousand in mosquito control expenses which were new in 2006. Expenses in 2006 included \$1.6 million of depreciation expense as compared to \$1.5 million in 2005.

Financial Analysis of Town of Windham Funds

Governmental Funds. At the end of 2006, the combined unreserved fund balance for all governmental funds was \$1.7 million as follows:

	<u>2006</u>	<u>2005</u>
General Fund	\$ (105,274)	\$ 422,104
Land Purchase Conservation Fund	748,026	886,402
Other Governmental Funds	<u>1,044,739</u>	<u>1,109,035</u>
Total Governmental Unreserved Fund Balance	<u>\$ 1,687,491</u>	<u>\$ 2,417,541</u>

The 2006 total governmental unreserved fund balance of \$1.7 million decreased by \$0.7 million from a balance of \$2.4 million in the previous year, or 30%. The general fund undesignated unreserved fund balance reflected above does not include the property taxes 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 2006 is analyzed from a budgetary standpoint later in this report.

The fund balance in the Conservation Land Trust of \$748 thousand decreased by \$138 thousand, or 16%, from the 2005 balance. This was due to funding of land purchases during 2006, net of current use penalties collected. The fund balances in the other governmental funds of \$1.0 million decreased by \$64 thousand, or 6%, from the 2005 balance. These funds are restricted for the purposes originally established at the time of appropriation. The majority of this decrease is due to the rescinding of the Police Contracted Details Special Revenue Fund, in which \$123 thousand of the fund balance was appropriated and expended on other items, with the remaining \$87 thousand transferred to the general fund unreserved fund balance. Offsetting this decrease was an increase in the capital reserve fund of \$50,000 to further fund the Salt Shed capital reserve fund established in 2005, as well as the addition of \$38 thousand in Police Federal Asset Forfeiture funds which were new in 2006.

In regards to the general fund, the Board of Selectmen have generally followed a guideline that calls for the undesignated unreserved fund balance to be maintained at a minimum of \$250,000, which represents less than 1% of the combined town, school and county revenues committed in 2006. 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:

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

	<u>2006</u>	<u>2005</u>
Total fund balance – budgetary basis	\$ 965,871	\$ 985,491
Portion designated for continuing appropriations	(165,393)	(395,803)
Available for tax rate setting	\$ 800,478	\$ 589,688

The amount of the December 31, 2005 fund balance used to reduce the 2006 tax rate was \$325 thousand, as compared to \$484 thousand used in 2005. After this reduction, the net undesignated unreserved fund balance as of December 31, 2006 grew to \$800 thousand due to a favorable variance in fiscal 2006 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 \$11.0 million, was essentially equivalent to the original budget as approved by the State Department of Revenue Administration. However, this is the net result of an increase in revenues due to unanticipated revenue from grants and donations, which were voted and accepted at public hearings, offset by a decrease in transfers in of funds from other sources which were not utilized in 2006 and carried forward to 2007, totaling \$12 thousand.

The final budget for appropriations and operating transfers out, totaling \$11.5 million, was less than the original budget as approved by the State Department of Revenue Administration by a difference of \$165 thousand. This is also due to unanticipated revenue from grants and donations, which were voted and accepted at public hearings, with matching appropriations. Also, the final budget is reduced by the amount of appropriations approved by the Board of Selectmen to be carried over into 2007, which totaled \$177 thousand.

In comparing budget to actual amounts, the total revenues and transfers in were higher than those budgeted, while total expenditures and transfers out were lower than those budgeted, resulting in a positive budgetary variance of \$535 thousand.

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
	<u>(Budgetary Basis)</u>		
Revenues	\$ 10,831,665	\$ 11,025,483	\$ 193,818
Transfers In	140,666	218,963	78,297
Expenditures	(11,337,259)	(11,073,984)	263,275
Transfers Out	(190,082)	(190,082)	-
Net	\$ (555,010)	\$ (19,620)	\$ 535,390

Actual revenues exceeded the final budget by \$194 thousand. The increase was due to a \$104 thousand increase in the actual tax revenues received, as compared to budget, due in part to actual overlay being less than what was originally budgeted. The overlay budget, which reduces budgeted tax revenues, was expected to be higher due to the Town's property revaluation during 2006, however, only a portion of this was utilized during 2006. In addition, there was as a \$68

