

**TOWN OF WINDHAM,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014**

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Selectmen
Town of Windham
Windham, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, major fund, and aggregate remaining fund information of the Town of Windham as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and aggregate remaining fund information of the Town of Windham as of December 31, 2014, and the respective changes in financial position, and the budgetary comparison information for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information - Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3 through 11) and the Schedule of Funding Progress for Other Postemployment Benefit Plan (page 41) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers them to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with

Town of Windham
Independent Auditor's Report

auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information - Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Windham's basic financial statements. The combining and individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

August 21, 2015

Plodzik & Sanderson
Professional Association

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, 2014. 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 Position and 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 Position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position 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 position 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-related legal requirements. All funds of the Town can be divided into two categories: governmental funds and fiduciary funds.

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

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 Position and the Statement of Activities) and governmental *funds* is described in a reconciliation presented with 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 major general fund and one non-major 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 schedule of funding progress for the Town's Other Postemployment Benefit Plan.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's net position totaled \$40.0 million at the end of 2014, which represents a decrease of \$603 thousand, or 1.5%, as compared to the end of the previous year.

Statement of Net Position

The following is a summary of condensed government-wide financial data showing net position as of December 31, 2014 and December 31, 2013:

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

	<u>2014</u>	<u>2013</u> <i>(restated)</i>	<u>% Change</u>
Cash, receivables & other assets	\$23,817,669	\$23,871,876	(0.2)%
Capital assets, net	39,504,723	38,862,919	1.7
Total Assets	<u>63,322,392</u>	<u>62,734,795</u>	<u>0.9</u>
Accrued liabilities & payables	20,302,690	20,389,602	(0.4)
Bonds, leases & long-term liabilities	3,057,878	1,780,379	71.8
Total Liabilities	<u>23,360,568</u>	<u>22,169,981</u>	<u>5.4</u>
Deferred inflows of resources	<u>0</u>	<u>0</u>	<u>0.0</u>
Net position:			
Net investment in capital assets	38,425,230	38,803,322	(1.0)
Restricted	451,170	465,877	(3.2)
Unrestricted	1,085,424	1,295,615	(16.2)
Total Net Position	<u>\$39,961,824</u>	<u>\$40,564,814</u>	<u>(1.5)%</u>

Total net position is presented in three categories: net investment in capital assets, restricted, and unrestricted.

The largest component of net position is the investment in capital assets (e.g. land, buildings, machinery and equipment). The figure presented (\$38.4 million) is net of any related debt incurred to acquire those assets, and represents 96% of total net position. These assets are utilized by the Town of Windham to provide services to its residents, therefore they are not available for future spending.

A certain portion (\$451 thousand or 1%) of the net position is restricted in regard to how it may be used. For the Town of Windham, those restrictions include those related to the use of police asset forfeiture funds and the balances of governmental funds that are restricted for other uses (refer to Note 16 for further details). The remaining portion (\$1.1 million or 3%) of the net position is unrestricted, and is analyzed later in this report.

Statement of Activities

The following is a summary of condensed government-wide financial data of changes in net position for the years ending December 31, 2014 and December 31, 2013:

	<u>2014</u>	<u>2013</u> <i>(restated)</i>	<u>% Change</u>
Revenues			
Program Revenues:			
Charges for services	\$1,083,074	\$928,170	16.7%
Operating grants and contributions	278,612	272,719	2.2
Capital grants and contributions	0	1,209,171	(100.0)
Total program revenues	<u>1,361,686</u>	<u>2,410,060</u>	<u>(43.5)</u>

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Management's Discussion and Analysis

General Revenues:			
Property & other taxes	8,326,565	8,050,937	3.4
Licenses & permits	3,466,555	3,243,013	6.9
Grants & contributions	701,734	674,619	4.0
Other general revenues	840,287	1,238,685	(32.2)
Total general revenues	<u>13,335,141</u>	<u>13,207,254</u>	<u>1.0</u>
Total Revenues	<u>14,696,827</u>	<u>15,617,314</u>	<u>(5.9)</u>
Program Expenses:			
General government	3,425,066	3,289,053	4.1
Public safety	7,030,637	6,488,518	8.4
Highways and streets	2,134,170	2,185,445	(13.1)
Health and welfare	80,972	93,150	(13.1)
Sanitation	950,366	887,164	7.1
Culture, recreation and conservation	1,662,398	1,693,470	(1.8)
Capital outlay	0	64,651	(100.0)
Interest and fiscal charges	16,208	1,452	1,016.3
Total Expenses	<u>15,299,817</u>	<u>14,702,903</u>	<u>4.1</u>
Increase (decrease) in net position	(602,990)	914,411	
Net Position, beginning of year, <i>restated</i>	<u>40,564,814</u>	<u>39,650,404</u>	
Net Position, end of year	<u>\$39,961,824</u>	<u>40,564,815</u>	<u>(1.5)%</u>

The Town's net position decreased by \$603 thousand, or (1.5%) during 2014, as compared to an increase of \$768 thousand, or 1.9% in the previous year. The primary funding source for governmental activities are taxes and permits, which combined account for 80% of all revenues. Total 2014 revenues of \$14.7 million were less than 2014 expenses of \$15.3 million, representing a decrease in net position of \$603 thousand. Revenue in 2014 was significantly lower than 2013 revenue by \$920 thousand, or (5.9%). This decrease was primarily due to lower capital grants and contributions in 2014, as a result of the acceptance of fewer new town roads in 2014 than 2013, all of which are accounted for as donated contributions and vary from year to year. This was slightly offset by a \$276 thousand increase in property and other tax revenues in 2014 due to increases in support of overall budget expenditures. Outside of tax revenues and capital grant contributions, all other revenues, on a combined basis, increased by a net of \$13 thousand from 2013 to 2014.

Total expenses during 2014 of \$15.3 million were higher than 2013 expenses of \$14.7 million by \$597 thousand, or 4.1%. The largest increase was in the general government and public safety categories, due to increased budgetary needs for additional personnel and equipment.

Financial Analysis of Town of Windham Funds

Governmental Funds. At the end of 2014 and 2013, the combined fund balances for all governmental funds were as follows:

	<u>2014</u>	<u>2013</u> <i>(restated)</i>
General Fund	\$1,604,888	\$1,258,394
Other Governmental Funds	<u>1,478,708</u>	<u>1,827,634</u>
Total Governmental Fund Balance	<u>\$3,083,596</u>	<u>\$3,086,028</u>

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

As discussed in Note 1, the Town of Windham has a Fund Balance policy in accordance with the provisions of GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes the classifications used in the Town's governmental fund financial statements. In total, when comparing December 31, 2014 to December 31, 2013, the total fund balance on the Governmental Funds Balance Sheet as of December 31, 2014 of \$3.1 million, was relatively unchanged as compared to \$3.1 million (restated) as of December 31, 2013. The increase in the general fund portion reflects the positive budgetary variance in the general fund discussed later in this report. There was a net decrease in total other governmental fund balances as a result of normal account activity and land purchases from the Conservation Land fund.

Under the modified accrual basis of accounting, the fund balance reflected above for the general fund is adjusted each year for property tax revenue that is not collected within sixty days of the fiscal year-end. This amount is impacted by the timing of the issuance of the December tax bills, as the balance in uncollected taxes at the end of each year flows through this portion of the fund balance, thus causing fluctuation from year to year. As discussed in Note 18, in 2014 there was a change in the methodology for calculating this adjustment, and the previously reported deficit fund balance for 2013, has been restated as reflected above. The change in fund balance of the general fund during 2014 is analyzed from a budgetary standpoint later in this report.

The fund balance in the other governmental funds category includes many of the Town's special revenue funds, and is detailed in Schedule 4. The fund balances in all other governmental funds of \$1.5 million decreased by approximately \$349 thousand as compared to the 2013 balance. These other governmental funds are restricted for the purposes originally established at the time of appropriation. The largest single fund is the Land Purchase Conservation Fund, however, this has decreased to a fund balance of \$308 thousand as of December 31, 2014, from \$670 thousand in 2013, due to the purchase of land totaling \$505 thousand, offset by current use penalty taxes collected totaling \$304 thousand. The most significant activity within the other individual funds was an increase of \$42 thousand in public safety impact fees collected as a result of increased building activity, while most other fund balances remained the same.

In regards to the general fund, the Board of Selectmen have formalized a policy that calls for the unassigned fund balance (budgetary basis) to be maintained at \$300,000. This level represents less than 1% of the combined town, school and county revenues committed in 2014. The remainder of the unassigned fund balance in the General Fund is used to reduce the current year tax rate. The level of unassigned fund balance available to reduce the current year tax rate is summarized in the following table:

	<u>2014</u>	<u>2013</u>
Total fund balance – budgetary basis	\$1,551,099	\$1,191,968
Portion designated as nonspendable	(18,749)	(28,692)
Portion designated as committed	(208,461)	(206,611)
Portion designated as assigned	(129,757)	(222,639)
Available for tax rate setting (Unassigned)	\$1,194,132	\$734,026

The amount of the December 31, 2013 fund balance used to reduce the 2014 tax rate was \$434 thousand, as compared to \$436 thousand used for the 2013 tax rate. After this reduction, the net unassigned fund balance as of December 31, 2014 grew to \$1.2 million due to a favorable variance in fiscal 2014 budgeted expenditures and unanticipated revenues, which will be discussed later in this report.

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

General Fund Budgetary Highlights

As shown in the chart below, the Town of Windham stayed within its authorized General Fund budget. The final budget for revenues and other financing sources, totaling \$13.9 million, along with the use of \$434 thousand in fund balance, supported the overall budgeted expenditures of \$14.3 million. The actual revenues include the amount of unanticipated revenues received and accepted by the Board of Selectmen throughout the year, and for 2014, reflect \$200 thousand of insurance rebates received. Also shown below, the final budgeted expenditures and transfers out of \$14.3 million, and actual expenditures of \$13.8 million, reflect encumbrances from year to year.

In comparing budget to actual amounts (inclusive of amounts encumbered to the subsequent year), the total revenues and transfers in were higher than those budgeted, while total expenditures were lower than those budgeted, resulting in a positive combined budgetary variance of \$779 thousand.

	Final Budget	Actual <i>(Budgetary Basis)</i>	Variance
Revenues	\$12,997,392	\$13,294,940	\$297,548
Bond Proceeds	700,000	700,000	-
Transfers In	161,895	160,820	(1,075)
Expenditures	(14,124,673)	(13,640,006)	484,667
Transfers Out	(168,638)	(170,591)	(1,953)
Net	(\$434,024)	\$345,163	\$779,187

Actual revenues and transfers in were higher than the final budgeted amounts by a combined \$296 thousand. Other than the insurance rebates discussed earlier, this was primarily due to various differences in actual amounts collected by the Town, including interest and penalties on taxes, motor vehicle and building permit fees, through the end of fiscal 2014, as compared to budgeted amounts set in the fall of 2014. These budgeted amounts were set based on both previous calendar year trends as well as preliminary collections to date through September, and the Town normally takes a conservative approach to projecting revenues for the remainder of the year. The positive variances were offset by \$140,000 in grant funds which were budgeted and not received during 2014, as the project was not completed during the year. As the grant was not expended during 2014, it is reflected in capital outlay encumbrances for the following year.

Actual expenditures and transfers out were less than the final budget by \$485 thousand, resulting in a positive budgetary variance. The majority of the savings was in the highways and streets category (\$128 thousand), primarily due to the timing of completion of road paving projects, as well as in the general government (\$171 thousand) and culture and recreation area (\$63 thousand) due to staffing vacancies in 2014. Also contributing to the positive budgetary variance was the premium holiday from the Town's workers compensation and health insurance programs, with the offsetting revenues reflected above. Other budgetary savings were in the capital outlay area due to capital projects that were not completed in the fiscal year. Offsetting the overall savings, were overexpenditures in the legal budget, due to the level of cases, which vary from year to year, as well as equipment repairs and other items causing increased expenditures in the solid waste and public safety areas. This resulted in some departmental budgets showing a negative variance in expenditures for the year.

Revenues used to support the General Fund operations for the year ended December 31, 2014 totaled \$13.3 million, as compared to \$12.8 million for the previous year, or an increase of \$433 thousand, or

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

3.3%. This was primarily due to an increase in taxes and licenses and permits, which combined represent 85% of the funding sources in both 2014 and 2013. The overall increase in property taxes from 2013 was impacted by the increase in voted appropriations, offset by a decrease in interest and penalties on tax collections, which varies from year to year based on timing of collections. The increase in licenses and permits is due to an overall increase in motor vehicle registration revenue and increased building permit revenue in 2014.

All other revenues on a combined basis decreased \$106 thousand, from \$1.9 million in 2013 to \$1.8 million in 2014. Outside of some fees which were reclassified into different categories to coincide with NH Department of Revenue reporting, overall the Town's collections of charges for services decreased in 2014. The largest charge in this category is ambulance fee revenues, which decreased approximately \$65 thousand as compared to 2013, due to timing of collections. Also, revenues collected from solid waste activities decreased \$18 thousand due to changes in marketability of metals and recyclables. The bond proceeds and operating transfers in for 2014 funded the purchase of conservation land, which will be discussed later in this report. The following comparison shows the breakdown of general fund revenues, from a budgetary basis, by category and percentage change over the previous year:

<u>Revenues:</u>	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Taxes	\$7,970,906	\$7,654,559	4.1%
Licenses and Permits	3,466,555	3,243,013	6.9
Intergovernmental	980,346	947,338	3.5
Charges for Services	615,360	452,543	36.0
Interest Income	5,129	3,097	65.6
Miscellaneous	256,644	560,686	(54.2)
	<u>13,294,940</u>	<u>12,861,236</u>	<u>3.3</u>
Bond Proceeds	700,000	0	
Operating transfers in	160,820	1,972	
Total	<u>\$14,155,760</u>	<u>\$12,863,208</u>	<u>10.0%</u>

Expenditures (including principal and interest payments on debt) and other uses totaled \$13.8 million for the year ended December 31, 2014, as compared to \$12.6 million for the previous year, or an increase of 10.0%. Public safety represented the highest category of spending at 45% of the total spending for General Fund activities in 2014, as compared to 47% in 2013. The following comparison shows the breakdown of expenditures by category and percentage change over the previous year (inclusive of amounts encumbered to the subsequent year):

<u>Expenditures:</u>	<u>2014</u>	<u>2013</u>	<u>% Change</u>
General Government	\$2,766,282	\$2,563,979	7.9%
Public Safety	6,247,745	5,866,313	6.5
Highways and Streets	1,038,982	1,012,364	2.6
Health and welfare	80,972	93,150	(13.1)
Sanitation	848,472	893,311	(5.0)
Culture, Recreation and Conservation	1,340,431	1,184,197	13.2
Capital outlay	1,404,760	620,664	126.3
Debt Service	1,000	198,359	(99.5)
	<u>13,728,644</u>	<u>12,432,337</u>	<u>10.4</u>
Operating transfers out	<u>81,953</u>	<u>134,592</u>	
Total	<u>\$13,810,597</u>	<u>\$12,566,929</u>	<u>10.0%</u>

Town of Windham, New Hampshire
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The most significant increase in expenditures over the previous year was in the capital outlay area. This line item varies from year to year, depending on the extent of new capital asset projects and vehicle/equipment purchases. In 2014, the Town approved \$860,000 for the purchase of conservation land, which represents the majority of the 2014 increase.

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, 2014 amounted to \$39.5 million, net of accumulated depreciation, representing an increase of \$642 thousand over the previous year balance of \$38.9 million. The following summary shows a yearly comparison of net capital assets by category (see Note 8 in the Notes to the Basic Financial Statements for more detailed information):

	<u>2014</u>	<u>2013</u>
Infrastructure	\$17,881,914	\$18,543,135
Land and land improvements	14,023,166	12,720,698
Buildings and improvements	5,043,971	5,274,238
Vehicles and equipment	2,555,672	2,294,848
Construction in progress	0	0
Total capital assets, net	<u>\$39,504,723</u>	<u>\$38,862,919</u>

Infrastructure relates to the Town's roadways and bridges, and additions are recorded each year based on the cost of road improvements, as well as the value of completed subdivision roads accepted by the Town each year, offset by regular depreciation of existing infrastructure. As noted earlier, no new roads were accepted in 2014, thus the decrease is due to regular depreciation, net of improvements. Highlights of the other major capitalized assets recorded in 2014 include:

- The Town acquired public safety equipment including replacement cruisers, a utility truck and an ambulance. In addition, a replacement loader was acquired by both the Solid Waste and Highway departments.
- The Town acquired conservation land, known as the Campbell Farm property for \$860 thousand, which was funded by existing Conservation land funds of \$160 thousand and a \$700 thousand bond as discussed below. Also, during 2014, the Town acquired land abutting previously existing conservation parcels for \$500 thousand, purchased from the Conservation land fund.

Long-term Debt. During 2014, the Town of Windham entered into a general obligation bond to fund \$700 thousand towards the purchase of conservation land. It is a ten-year bond with a fixed interest rate of 3.9%. It is expected that the annual payment of \$86 thousand will be funded by current use tax penalties that are collected through the Conservation land fund.

In addition during 2014, the Town of Windham continued its leasing program by entering into new three-year vehicle/equipment leases to fund the purchase of a highway loader, police cruisers, and a utility truck, ambulance and related equipment for the fire department. The total amount of new financing was

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\$530 thousand, while \$379 thousand remains due on all capital leases as of December 31, 2014. See Note 14 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 2014 fiscal year increased 1.3% over the previous year (to \$2,092,047,160 in 2014 from \$2,065,724,410 in 2013) as the Town is continuing to experience new building development.
- The total property taxes that were uncollected as of year-end, including liens and tax deeded property, amounted to \$2.7 million as of December 31, 2014, as compared to \$2.9 million as of December 31, 2013. Current year uncollected as a percentage of the total tax levy was 5.4% as of December 31, 2014, which is consistent with the prior year.

Several factors were taken into consideration as Town officials developed the budget for the 2014 fiscal year. Those factors include overall property tax burden from both a town and school district perspective, continuously increasing demands on municipal services and service levels, and compliance with statutory and other legal requirements. The most significant factors affecting local budgets continue to be the rising cost of employee healthcare and retirement benefits, as well as the need to maintain our existing infrastructure and equipment.

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, 3 North Lowell Rd, Windham, New Hampshire 03087.

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF WINDHAM, NEW HAMPSHIRE
Statement of Net Position
December 31, 2014

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 20,243,076
Investments	95,324
Taxes receivable (net)	2,641,734
Accounts receivable (net)	162,955
Intergovernmental receivable	8,894
Prepaid items	6,661
Tax dedeed property, subject to resale	12,088
Restricted assets:	
Cash and cash equivalents	646,937
Capital assets:	
Land and construction in progress	13,663,933
Other capital assets, net of depreciation	25,840,790
Total assets	63,322,392
LIABILITIES	
Accounts payable	122,026
Accrued interest payable	15,333
Intergovernmental payable	19,815,708
Escrow and performance deposits	349,623
Long-term liabilities:	
Due within one year	282,308
Due in more than one year	2,775,570
Total liabilities	23,360,568
NET POSITION	
Net investment in capital assets	38,425,230
Restricted	451,170
Unrestricted	1,085,424
Total net position	\$ 39,961,824

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT B
TOWN OF WINDHAM, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended December 31, 2014

	Expenses	Program Revenues		Net (Expense) Revenue and Change In Net Position
		Charges for Services	Operating Grants and Contributions	
General government	\$ 3,425,066	\$ 257,571	\$ -	\$ (3,167,495)
Public safety	7,030,637	654,301	-	(6,376,336)
Highways and streets	2,134,170	-	278,612	(1,855,558)
Sanitation	950,366	54,405	-	(895,961)
Health	44,137	-	-	(44,137)
Welfare	36,835	1,800	-	(35,035)
Culture and recreation	1,660,228	114,997	-	(1,545,231)
Conservation	2,170	-	-	(2,170)
Interest on long-term debt	16,208	-	-	(16,208)
Total governmental activities	<u>\$ 15,299,817</u>	<u>\$ 1,083,074</u>	<u>\$ 278,612</u>	<u>(13,938,131)</u>

General revenues:

Taxes:	
Property	7,949,721
Other	376,844
Motor vehicle permit fees	3,174,885
Licenses and other fees	291,670
Grants and contributions not restricted to specific programs	701,734
Miscellaneous	840,287
Total general revenues	<u>13,335,141</u>
Change in net position	(602,990)
Net position, beginning, as restated (see Note 18)	40,564,814
Net position, ending	<u>\$ 39,961,824</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-1
TOWN OF WINDHAM, NEW HAMPSHIRE
Governmental Funds
Balance Sheet
December 31, 2014

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 18,895,405	\$ 1,347,671	\$ 20,243,076
Investments	-	95,324	95,324
Accounts receivable (net)	126,556	36,399	162,955
Taxes receivable	2,736,734	-	2,736,734
Intergovernmental receivable	8,894	-	8,894
Interfund receivable	820	3,905	4,725
Prepaid items	6,661	-	6,661
Tax deeded property, subject to resale	12,088	-	12,088
Restricted assets:			
Cash and cash equivalents	646,937	-	646,937
Total assets	<u>\$ 22,434,095</u>	<u>\$ 1,483,299</u>	<u>\$ 23,917,394</u>
LIABILITIES			
Accounts payable	\$ 118,255	\$ 3,771	\$ 122,026
Intergovernmental payable	19,815,708	-	19,815,708
Interfund payable	3,905	820	4,725
Escrow and performance deposits	349,623	-	349,623
Total liabilities	<u>20,287,491</u>	<u>4,591</u>	<u>20,292,082</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - Property taxes	343,359	-	343,359
Unavailable revenue - Land use change taxes	198,357	-	198,357
Total deferred inflows of resources	<u>541,716</u>	<u>-</u>	<u>541,716</u>
FUND BALANCES			
Nonspendable	18,749	329,173	347,922
Restricted	58,430	63,731	122,161
Committed	439,838	803,039	1,242,877
Assigned	142,098	282,765	424,863
Unassigned	945,773	-	945,773
Total fund balances	<u>1,604,888</u>	<u>1,478,708</u>	<u>3,083,596</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 22,434,095</u>	<u>\$ 1,483,299</u>	<u>\$ 23,917,394</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-2
TOWN OF WINDHAM, NEW HAMPSHIRE
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2014

Total fund balances of governmental funds (Exhibit C-1)		\$ 3,083,596
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.		
Cost	\$ 74,730,551	
Less accumulated depreciation	<u>(35,225,828)</u>	39,504,723
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (4,725)	
Payables	<u>4,725</u>	-
Property taxes are recognized on an accrual basis in the Statement of Net Position and on a modified accrual basis in the governmental funds.		
Deferred inflows of resources - Property taxes	\$ 343,359	
Deferred inflows of resources - Land use change taxes	198,357	
Allowance for uncollectible property taxes	<u>(95,000)</u>	446,716
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(15,333)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bond	\$ 700,000	
Capital leases	379,493	
Compensated absences	1,406,862	
Other postemployment benefits	<u>571,523</u>	<u>(3,057,878)</u>
Net position of governmental activities (Exhibit A)		<u><u>\$ 39,961,824</u></u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-3
TOWN OF WINDHAM, NEW HAMPSHIRE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2014

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 7,972,418	\$ 303,802	\$ 8,276,220
Licenses and permits	3,466,555	-	3,466,555
Intergovernmental	980,346	-	980,346
Charges for services	615,360	467,714	1,083,074
Miscellaneous	303,227	537,060	840,287
Total revenues	<u>13,337,906</u>	<u>1,308,576</u>	<u>14,646,482</u>
EXPENDITURES			
Current:			
General government	2,798,522	467,288	3,265,810
Public safety	6,691,505	388,238	7,079,743
Highways and streets	1,185,913	-	1,185,913
Sanitation	848,472	-	848,472
Health	44,137	-	44,137
Welfare	36,835	-	36,835
Culture and recreation	1,362,315	130,297	1,492,612
Conservation	-	2,170	2,170
Debt service:			
Interest	1,000	-	1,000
Capital outlay	1,411,910	510,642	1,922,552
Total expenditures	<u>14,380,609</u>	<u>1,498,635</u>	<u>15,879,244</u>
Deficiency of revenues under expenditures	<u>(1,042,703)</u>	<u>(190,059)</u>	<u>(1,232,762)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	160,820	1,953	162,773
Transfers out	(1,953)	(160,820)	(162,773)
Bond proceeds	700,000	-	700,000
Capital lease inception	530,330	-	530,330
Total other financing sources (uses)	<u>1,389,197</u>	<u>(158,867)</u>	<u>1,230,330</u>
Net change in fund balances	346,494	(348,926)	(2,432)
Fund balances, beginning, as restated (see Note 18)	<u>1,258,394</u>	<u>1,827,634</u>	<u>3,086,028</u>
Fund balances, ending	<u>\$ 1,604,888</u>	<u>\$ 1,478,708</u>	<u>\$ 3,083,596</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-4
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 Fiscal Year Ended December 31, 2014

Net change in fund balances of governmental funds (Exhibit C-3)	\$	(2,432)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. 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 capitalized capital outlay exceeded depreciation expense and capital asset disposals in the current period.		
Capitalized capital outlay	\$	2,769,904
Capital asset disposals		(32,000)
Depreciation expense		<u>(2,096,100)</u>
		641,804
Transfers in and out between governmental funds are eliminated on the Statement of Activities.		
Transfers in	\$	(162,773)
Transfers out		<u>162,773</u>
		-
Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the governmental funds.		
Change in deferred inflows of resources relating to property taxes	\$	(1,512)
Change in deferred inflows of resources relating to land use change taxes		<u>51,857</u>
		50,345
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Capital lease inception	\$	(530,330)
Bond proceeds		(700,000)
Repayment of capital leases		<u>210,434</u>
		(1,019,896)
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Increase in accrued interest expense	\$	(15,208)
Increase in compensated absences payable		(206,904)
Increase in other postemployment benefits payable		<u>(50,699)</u>
		(272,811)
Change in net position of governmental activities (Exhibit B)	\$	<u><u>(602,990)</u></u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT D
TOWN OF WINDHAM, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 7,983,920	\$ 7,983,920	\$ 7,970,906	\$ (13,014)
Licenses and permits	3,231,500	3,231,500	3,466,555	235,055
Intergovernmental	1,116,639	1,116,739	980,346	(136,393)
Charges for services	604,083	604,083	615,360	11,277
Miscellaneous	61,250	261,562	261,773	211
Total revenues	<u>12,997,392</u>	<u>13,197,804</u>	<u>13,294,940</u>	<u>97,136</u>
EXPENDITURES				
Current:				
General government	2,737,300	2,937,712	2,766,282	171,430
Public safety	6,263,200	6,263,200	6,247,745	15,455
Highways and streets	1,167,060	1,167,060	1,038,982	128,078
Sanitation	833,875	833,875	848,472	(14,597)
Health	51,255	51,255	44,137	7,118
Welfare	57,040	57,040	36,835	20,205
Culture and recreation	1,403,210	1,403,210	1,340,431	62,779
Debt service:				
Interest	500	500	1,000	(500)
Capital outlay	1,699,871	1,699,871	1,404,760	295,111
Total expenditures	<u>14,213,311</u>	<u>14,413,723</u>	<u>13,728,644</u>	<u>685,079</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,215,919)</u>	<u>(1,215,919)</u>	<u>(433,704)</u>	<u>782,215</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	161,895	161,895	160,820	(1,075)
Transfers out	(80,000)	(80,000)	(81,953)	(1,953)
Bond proceeds	700,000	700,000	700,000	-
Total other financing sources (uses)	<u>781,895</u>	<u>781,895</u>	<u>778,867</u>	<u>(3,028)</u>
Net change in fund balance	<u>\$ (434,024)</u>	<u>\$ (434,024)</u>	345,163	<u>\$ 779,187</u>
Decrease in nonspendable fund balance			9,943	
Decrease in assigned (nonencumbrance) fund balance			105,000	
Unassigned fund balance, beginning			734,026	
Unassigned fund balance, ending			<u>\$ 1,194,132</u>	

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-1
TOWN OF WINDHAM, NEW HAMPSHIRE
Fiduciary Funds
Statement of Fiduciary Net Position
December 31, 2014

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ 28,012	\$ 441,331
LIABILITIES		
Due to other governmental units	-	340,151
Due to others	-	101,180
Total liabilities	-	441,331
NET POSITION		
Held in trust for specific purposes	\$ 28,012	\$ -

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-2
TOWN OF WINDHAM, NEW HAMPSHIRE
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended December 31, 2014

	Private Purpose Trust
ADDITIONS	
Interest	\$ 3
DEDUCTIONS	
Expenses	1
Change in net position	2
Net position, beginning	28,010
Net position, ending	\$ 28,012

The notes to the basic financial statements are an integral part of this statement.

TOWN OF WINDHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

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TOWN OF WINDHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

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TOWN OF WINDHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Windham, New Hampshire (the Town), have been prepared in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

The more significant of the Town's accounting policies are described below.

1-A Reporting Entity

The Town of Windham is a municipal corporation governed by an elected 5-member Board of Selectmen. The reporting entity is comprised of the primary government and any other organizations (*component units*) that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the Town is financially accountable. The Town is financially accountable for an organization if the Town appoints a voting majority of the organization's governing board, and (1) the Town is able to significantly influence the programs or services performed or provided by the organizations; or (2) the Town is legally entitled to or can otherwise access the organization's resources; (3) the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Town is obligated for the debt of the organization. Based on the foregoing criteria, no other organizations are included in the Town's financial reporting entity.

1-B Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Position presents the financial position of the governmental activities of the Town at year-end. This statement includes all of the Town's assets, liabilities, and net position. Net position is reported as one of these categories: net investment in capital assets; restricted; or unrestricted.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

1-C Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for State shared revenue, reimbursement-based grants and interest which use one year.

TOWN OF WINDHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, licenses and permits, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlement, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. 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 specific 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.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The Town reports the following major governmental fund:

General Fund – all general revenues and other receipts that are not allocated by law or contracted agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other funds.

All the governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

Additionally, the Town reports the following fund types:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Permanent Fund - is used to record activity of legal trusts for which the interest on the corpus provides funds for the Town's cemetery operations.

Fiduciary Fund Types – These funds account for assets held by the Town as a trustee or agent for individuals, private organizations, and other units of governments. Fiduciary fund types are not part of the reporting entity in the government-wide financial statements, but are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. These funds are as follows:

Agency Fund - used to account for assets held in a trustee or agency capacity on behalf of outside parties, including other governments.

Private Purpose Trust Funds - used to account for trust arrangements under which principal and income benefit individuals, private organizations, and/or other governmental units.

1-D Cash and Cash Equivalents

The Town considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts.

The treasurer is required to deposit such moneys in solvent banks in state or the Public Deposit Investment Pool pursuant to New Hampshire RSA 383:22. Funds may be deposited in banks outside of the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations to the State of New Hampshire in value at least equal to the amount of the deposit in each case.

TOWN OF WINDHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

1-E Restricted Assets

Cash received for developer's performance bond deposits and certain cash balances blended within the general fund are classified as restricted assets on the balance sheet, because their use is designated for a specific purpose and therefore not available for immediate and general use by the Town.

1-F Investments

State statutes place certain limitations on the nature of deposits and investments available as follows:

New Hampshire law authorizes the Town to invest in the following type of obligations:

- Obligations of the United States government,
- The public deposit investment pool established pursuant to RSA 383:22,
- Savings bank deposits,
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the State treasurer.

Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the Town. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

Investments for the Town are reported at fair value generally based on quoted market prices.

1-G Receivables

Receivables recorded in the financial statements represent amounts due to the Town at December 31. They are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. They consist primarily of taxes, billing for charges, and other user fees.

1-H Interfund Balances

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term Interfund loans are reported as "interfund receivables and payables." Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

1-I Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements, and expenses as the items are used.

1-J Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements.

Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated minimum useful life in excess of one year. As the Town constructs or acquires additional capital assets each year, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

TOWN OF WINDHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

Land and construction in progress are not depreciated. The other property, plant, and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives:

Capital Asset Classes:	<u>Years</u>
Infrastructure	20-50
Land improvements	12-15
Buildings and improvements	15-40
Vehicles and equipment	5-20

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets are not capitalized and related depreciation is not reported in the fund financial statements.

1-K Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

1-L Property Taxes

Property tax billings occur semi-annually and are based on the assessed inventory values as of April 1 of each year. Billings for the year were on May 30, 2014 and October 28, 2014. Interest accrues at a rate of 12% on bills outstanding after the due date and 18% on tax liens outstanding.

In connection with the setting of the tax rate, Town officials with the approval of the Department of Revenue Administration, establish and raise through taxation an amount for tax abatement and refunds, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any reserve for uncollectable at year end. The property taxes collected by the Town include taxes levied for the State of New Hampshire, Windham School District, Breezy Gale Village District, Moeckel Pond Village District, and Rockingham County, which are remitted to these entities as required by law.

The Town net assessed valuation as of April 31, 2014 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 2,075,387,160
For all other taxes	\$ 2,091,975,160

The tax rates and amounts assessed for the year ended December 31, 2014 were as follows:

	<u>Per \$1,000 of Assessed Valuation</u>	<u>Property Taxes Assessed</u>
Municipal portion	\$3.87	\$ 8,084,433
School portion:		
State of New Hampshire	\$2.44	5,066,196
Local	\$16.60	34,736,985
County portion	\$1.09	2,279,316
Precinct portions:		
Breezy Gale	\$1.08	14,012
Moeckel Pond Village	\$0.39	2,134
Total		<u>\$ 50,183,076</u>

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1-M Compensated Absences

Full time employees can accumulate earned time (combined vacation, sick leave, and personal time) based on 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.

The liability for such earned time is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

1-N Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position.

1-O Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. Claims and judgments are recorded in the government-wide financial statements as expense when the related liabilities are incurred. There were no significant claims or judgments at year-end.

1-P Interfund Activities

Interfund activities are reported as follows:

Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

Interfund Transfers – Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making the transfers and other financing sources in the funds receiving the transfers. In the government-wide financial statements, all interfund transfers between individual governmental funds have been eliminated.

1-Q Net Position/Fund Balance Reporting

Government-wide Statements – Equity is classified as net position and displayed in three components:

- a) *Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or capital leases that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.
- b) *Restricted net position* – Consists of net position with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) *Unrestricted net position* – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Balance Classifications - The fund balance of governmental funds is reported in five categories based on the nature of any limitations requiring the use of resources for specific programs. The Town itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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The classifications used in the Town's governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) are legally or contractually required to be maintained intact.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the legislative body (Town Meeting). These amounts cannot be used for any other purpose unless the legislative body removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Selectmen through the budgetary process.

Unassigned – This classification includes the residual fund balance for the general fund.

When multiple net position/fund balance classifications are available for use, it is the government's policy to utilize the most restricted balances first, then the next most restricted balance as needed. When components of unrestricted fund balance are used, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last. The Town's fund balance policy requires the maintenance of a minimum level of unassigned fund balance at \$300,000 annually.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Town's operations. At its annual meeting, the Town adopts a budget for the current year for the general fund, as well as the nonmajor Searles fund. Except as reconciled below, the budget was adopted on a basis consistent with US generally accepted accounting principles.

Management may transfer appropriations between operating categories as deemed necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at year-end unless encumbered.

Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects and specific items not fully expended at year-end) are recognized, is employed in the governmental funds. Encumbrances are not the equivalent of expenditures, and are therefore, reported as part of the assigned fund balance at year-end, and are carried forward to supplement appropriations of the subsequent year.

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. For the fiscal year 2014, \$434,024 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

The Town employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis presents the actual results to provide a comparison with the budget. The major difference between the budgetary basis and GAAP basis is as follows:

Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities, but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and commitments (encumbrances) for goods or services not received at year-end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no liability exists.

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The following reconciles the general fund budgetary basis to the GAAP basis:

Revenues and other financing sources:	
Per Exhibit D (budgetary basis)	\$ 14,155,760
Adjustment:	
Basis difference:	
Inception of capital leases	530,330
GASB Statement No. 54:	
To record revenue of the blended funds	41,454
Change in property tax revenue relating to 60-day revenue recognition	1,512
Per Exhibit C-3 (GAAP basis)	<u>\$ 14,729,056</u>
Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 13,810,597
Adjustment:	
Basis differences:	
Encumbrances, beginning	324,250
Encumbrances, ending	(338,218)
Inception of capital leases	530,330
GASB Statement No. 54:	
To record expenditures of the blended funds	135,603
To eliminate transfers between general and expendable trust funds	(80,000)
Per Exhibit C-3 (GAAP basis)	<u>\$ 14,382,562</u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

At December 31, 2014, the reported amount of the Town's deposits was \$21,258,459 and the bank balance was \$21,531,543. Of the bank balance \$21,531,485 was covered by federal depository insurance or by collateral held by the Town's agent in the Town's name, and \$58 was uninsured and uncollateralized.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 20,890,013
Cash per Statement of Fiduciary Net Position (Exhibit E-1)	469,343
Total cash and cash equivalents	<u>\$ 21,359,356</u>

NOTE 4 – INVESTMENTS

Note 1-F describes statutory requirements covering the investment of the Town funds. The Town also maintains a portfolio consisting of original common stock certificates of that are reported at fair value, based on quoted market prices. As of December 31, 2014 the Town had \$95,324 invested in original common stock certificates.

Interest Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

Concentration of Credit Risk – The Town places no limit on the amount it may invest in any one issuer. More than 5% of the Town's investments are in Honeywell. This investment is 94% of the Town's total investments.

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NOTE 5 – RESTRICTED CASH AND INVESTMENTS

Certain cash balances in the general fund belong to funds which have been blended with the general fund in accordance with the requirements of GASB Statement No. 54. Additionally, certain cash deposits held for developers are classified as restricted because of the statutory limitations placed on their use as they are earmarked for a specific purpose. Restricted cash balances as of December 31, 2014 are as follows:

Cash and cash equivalents:	
General fund:	
Library	\$ 58,266
Expendable trust	231,377
Law enforcement	971
Exaction fee	11,370
Searles donation fund	164
Escrow and performance deposits	<u>344,789</u>
Total restricted cash	<u>\$ 646,937</u>

NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of December 31, 2014. The amount has been reduced by an allowance for an estimated uncollectible amount of \$95,000.

Taxes receivable by year are as follows:

	<u>Full Accrual Basis of Accounting (Exhibit A)</u>	<u>Modified Accrual Basis of Accounting (Exhibit C-1)</u>
Property:		
Levy of 2014	\$ 1,599,090	\$ 1,599,090
Unredeemed (under tax lien):		
Levy of 2013	579,113	579,113
Levy of 2012	330,256	330,256
Levies of 2011 and prior	120,775	120,775
Land use change	107,500	107,500
Less: allowance for estimated uncollectible taxes *	<u>(95,000)</u>	<u>-</u>
Net taxes receivable	<u>\$ 2,641,734</u>	<u>\$ 2,736,734</u>

*The allowance for estimated uncollectible taxes is eliminated on Exhibit C-1 due to deferral of taxes not collected within 60 days of the fiscal year-end.

NOTE 7 – OTHER RECEIVABLES

Receivables at December 31, 2014, consisted of accounts (billings for police details, ambulance, and other user charges) and intergovernmental amounts arising from grants. Receivables are recorded on the Town's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

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Receivables as of December 31, 2014 for the Town's individual major fund and nonmajor funds in the aggregate including applicable allowances for uncollectible accounts are as follows:

	General Fund	Nonmajor Funds	Total
Receivables:			
Accounts	\$ 170,556	\$ 36,399	\$ 206,955
Intergovernmental	8,894	-	8,894
Gross receivables	179,450	36,399	215,849
Less: allowance for uncollectibles	(44,000)	-	(44,000)
Net total receivables	<u>\$ 135,450</u>	<u>\$ 36,399</u>	<u>\$ 171,849</u>

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 consisted of the following:

	Balance, beginning	Additions	Disposals	Balance, ending
At cost:				
Not being depreciated:				
Land	\$ 12,300,292	\$ 1,365,641	\$ (2,000)	\$ 13,663,933
Construction in progress	30,000	-	(30,000)	-
Total capital assets not being depreciated	<u>12,330,292</u>	<u>1,365,641</u>	<u>(32,000)</u>	<u>13,663,933</u>
Being depreciated:				
Land improvements	1,639,337	26,413	-	1,665,750
Buildings and building improvements	9,096,028	-	-	9,096,028
Vehicles and equipment	5,094,047	658,520	(205,313)	5,547,254
Infrastructure	44,038,256	719,330	-	44,757,586
Total capital assets being depreciated	<u>59,867,668</u>	<u>1,404,263</u>	<u>(205,313)</u>	<u>61,066,618</u>
Total all capital assets	<u>72,197,960</u>	<u>2,769,904</u>	<u>(237,313)</u>	<u>74,730,551</u>
Less accumulated depreciation:				
Land improvements	(1,218,931)	(87,586)	-	(1,306,517)
Buildings and building improvements	(3,821,790)	(230,267)	-	(4,052,057)
Vehicles and equipment	(2,799,199)	(397,696)	205,313	(2,991,582)
Infrastructure	(25,495,121)	(1,380,551)	-	(26,875,672)
Total accumulated depreciation	<u>(33,335,041)</u>	<u>(2,096,100)</u>	<u>205,313</u>	<u>(35,225,828)</u>
Net book value, capital assets being depreciated	<u>26,532,627</u>	<u>(691,837)</u>	<u>-</u>	<u>25,840,790</u>
Net book value, all capital assets	<u>\$ 38,862,919</u>	<u>\$ 673,804</u>	<u>\$ (32,000)</u>	<u>\$ 39,504,723</u>

Depreciation expense was charged to functions of the Town based on their usage of the related assets. The amounts allocated to each function are as follows:

General government	\$ 38,106
Public safety	297,027
Highways and streets	1,503,414
Sanitation	96,866
Culture and recreation	160,687
Total depreciation expense	<u>\$ 2,096,100</u>

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NOTE 9 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of December 31, 2014 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor	\$ 820
Nonmajor	General	3,905
		\$ 4,725

The outstanding balances among funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers - The composition of interfund transfers for the year ended December 31, 2014 is as follows:

	Transfers In:		
	General Fund	Nonmajor Fund	Total
Transfers out:			
General fund	\$ -	\$ 1,953	\$ 1,953
Nonmajor funds	160,820	-	160,820
Total	\$ 160,820	\$ 1,953	\$ 162,773

During the year, transfers are used to (1) move revenues from the fund with collection authority to the fund responsible for expenditure and (2) move general fund resources to provide an annual subsidy.

NOTE 10 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments at December 31, 2014 consist of the following:

General fund:	
Balance of the 2014-2015 district assessment due to Windham School District	\$ 19,803,181
Fees due to the State of New Hampshire	12,527
Total general fund	19,815,708
Agency funds:	
Windham School District trust funds	89,613
Village District trust funds	13,796
Windham School District impact fees	236,742
Total agency funds	340,151
Total intergovernmental payables	\$ 20,155,859

NOTE 11 – DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources of \$541,716 reported in the governmental funds as unavailable revenue are as follows:

Property taxes not collected within 60 days of the fiscal year-end	\$ 343,359
Land use change taxes not collected within 60 days of the fiscal year-end	198,357
Total deferred inflows of resources	\$ 541,716

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NOTE 12 – CAPITAL LEASES

The Town has entered into certain capital lease agreements under which the related equipment will become the property of the Town when all the terms of the lease agreements are met.

	Standard Interest Rate	Present Value of Remaining Payments as of December 31, 2014
Capital lease obligations:		
Fire equipment	0.00%	\$ 25,939
Highway loader	2.24%	59,847
Ford Interceptors	2.47%	147,039
Ambulance	2.47%	146,668
Total capital lease obligations		\$ 379,493

Leased equipment under capital leases, included in capital assets, is as follows:

	Governmental Activities
Equipment:	
Fire equipment	\$ 48,709
Highway loader	142,900
Police vehicles	181,182
Ambulance	208,451
Total equipment	581,242
Less: accumulated depreciation	(59,825)
Total capital leased equipment	\$ 521,417

The annual requirements to amortize the capital leases payable as of December 31, 2014, including interest payments, are as follows:

Fiscal Year Ending December 31,	Governmental Activities
2015	\$ 207,321
2016	181,382
Total requirements	388,703
Less: interest	(9,210)
Present value of remaining payments	\$ 379,493

Amortization of lease equipment under capital assets is included with depreciation expense.

NOTE 13 – LINE OF CREDIT

The Town had an outstanding line of credit of \$2,000,000, authorized in anticipation of taxes at an interest rate of 1.25%. The Town did not draw on this line of credit in 2014.

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NOTE 14 – LONG-TERM LIABILITIES

Changes in the Town’s long-term liabilities consisted of the following for the year ended December 31, 2014:

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014	Due Within One Year
General obligation bond payable	\$ -	\$ 700,000	\$ -	\$ 700,000	\$ 59,684
Capital leases	59,597	530,330	(210,434)	379,493	202,385
Compensated absences	1,199,958	674,084	(467,180)	1,406,862	20,239
Net other postemployment benefits	520,824	50,699	-	571,523	-
Total long-term liabilities	<u>\$ 1,780,379</u>	<u>\$ 1,955,113</u>	<u>\$ (677,614)</u>	<u>\$ 3,057,878</u>	<u>\$ 282,308</u>

The long-term bond is comprised of the following:

	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2014	Current Portion
General obligation bond payable: Campbell Farm property	2014	2024	3.9	<u>\$ 700,000</u>	<u>\$ 59,684</u>

The annual requirements to amortize the general obligation bond outstanding as December 31, 2014, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2015	\$ 59,684	\$ 26,095	\$ 85,779
2016	60,674	25,105	85,779
2017	63,115	22,664	85,779
2018	65,583	20,196	85,779
2019	68,148	17,632	85,780
2020-2024	382,796	46,102	428,898
Totals	<u>\$ 700,000</u>	<u>\$ 157,794</u>	<u>\$ 857,794</u>

All debt is general obligation debt of the Town, which is backed by its full faith and credit. It is the intention of management to repay the Campbell Farm property general obligation debt with revenues from the Conservation Land Fund.

NOTE 15 – ENCUMBRANCES

Encumbrances outstanding at December 31, 2014 are as follows:

General fund:	
General government	\$ 87,384
Highways and streets	34,413
Culture and recreation	7,960
Capital outlay	208,461
Total encumbrances	<u>\$ 338,218</u>

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NOTE 16 – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net position reported on the government-wide Statement of Net Position at December 31, 2014 include the following:

Net investment in capital assets:	
Net property, buildings, and equipment	\$ 39,504,723
Less:	
Capital leases payable	(379,493)
Total net investment in capital assets	<u>38,425,230</u>
Restricted for:	
Library	58,266
Nonexpendable permanent funds	329,173
Expendable permanent funds	61,484
Police forfeitures	2,247
Total restricted net position	<u>451,170</u>
Unrestricted	<u>1,085,424</u>
Total net position	<u>\$ 39,961,824</u>

NOTE 17 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2014 include the following:

Nonspendable:	
Major fund:	
General:	
Prepaid items	\$ 6,661
Tax deeded property subject to resale	12,088
	<u>18,749</u>
Nonmajor fund:	
Permanent funds - principal balance	<u>329,173</u>
Total nonspendable fund balance	\$ 347,922
Restricted:	
Major fund:	
General:	
Nesmith Library	\$ 58,266
Searles donation	164
	<u>58,430</u>
Nonmajor fund:	
Public safety - asset forfeiture	2,247
Permanent - income balance	61,484
	<u>63,731</u>
Total restricted fund balance	122,161

(continued)

TOWN OF WINDHAM, NEW HAMPSHIRE
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Governmental fund balances continued:

Committed:		
Major fund:		
General:		
Expendable trust	\$ 231,377	
Non-lapsing appropriations	208,461	
	439,838	
Nonmajor funds:		
Public safety - details	143,931	
Recreation revolving	31,507	
Conservation	308,511	
Health expendable trust	146,520	
Public safety - impact fees	157,981	
Culture and recreation - Searles fund	14,589	
	803,039	
Total committed fund balance		1,242,877
Assigned:		
Major fund:		
General:		
Encumbrances	\$ 129,757	
Public safety	12,341	
	142,098	
Nonmajor fund:		
Cable expendable trust	282,765	
Total assigned fund balance		424,863
Unassigned:		
Major fund:		
General		945,773
Total governmental fund balances		\$ 3,083,596

NOTE 18 – PRIOR PERIOD ADJUSTMENTS

Net position/fund balance at January 1, 2014 was restated to give retroactive effect to the following prior period adjustments:

	Government-wide Statements	General Fund Exhibit C-3 (Modified Accrual)
To record change in calculation relating to property taxes, not collected within 60 days of the fiscal year-end	\$ -	\$ 1,851,300
To remove deferred inflows for land use change taxes, not collected within 60 days of the fiscal year-end, previously reported on full accrual basis	146,500	-
Net position/fund balance, as previously reported	40,418,315	(592,906)
Net position/fund balance, as restated	\$ 40,564,815	\$ 1,258,394

NOTE 19 – 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. As of December 31, 2014, the Town held performance deposits totaling \$4,173,714.

TOWN OF WINDHAM, NEW HAMPSHIRE
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NOTE 20 – HEALTH INSURANCE

Effective January 1, 1994, the Town provided 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 fund operating budget to fund health insurance costs. Employees were required to co-pay between 20-25% of the monthly premium. Expenditures during 2014 were \$1,410,024 for health insurance premiums, \$149,681 for non-covered employee claims as a result of higher deductibles and \$3,962 for administrative expenses. Claims are reviewed by an outside claims administrator and then paid by the Town. At December 31, 2014 the unexpended balance of the health insurance expendable trust is \$149,290. Outstanding claims payable at December 31, 2014 totaled \$2,771.

During the fiscal year the Town received a return of surplus from the Healthtrust. Checks received totaled \$168,997. Of this, \$55,158 was returned to active and retired employees. The remaining \$113,839 is shown as insurance reimbursement revenue in the general fund.

NOTE 21 – EMPLOYEE RETIREMENT PLAN

State Retirement Plan – The Town participates in the New Hampshire Retirement System (the System) which is the administrator of a cost-sharing multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Provision for benefits and contributions are established and can be amended by the New Hampshire Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. For fiscal year 2014, all employees except police officers and firefighters were required to contribute 7% of earnable compensation. The contribution rates were 11.55% for police officers and 11.80% for firefighters. The Town's contribution rates for 2014 for pension and medical subsidy were 25.30% for police officers, 27.74% for firefighters, and 10.77% for all other employees.

The contribution requirements for the Town of Windham for the fiscal years 2012, 2013, and 2014 were \$887,473, \$1,040,447, and \$1,225,587, respectively, which were paid in full in each year. Participants have a 100% vested and non-forfeitable interest upon retiring at the age of 65.

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 65. Each participant will have 100% vested and non-forfeitable interest upon retiring at the age of 65. If a participant terminates their employment prior to the age of 65, they will be entitled to 100% of their contributions made and a percentage of the contributions made by the Town based on completed years of service.

In order to participate in the plan, an employee must contribute an amount equal to 3% of their earnings. A participant may then make voluntary contributions up to an additional 10% of their earnings. The Town contributes 5% of the participant's total earnings to the plan. Covered wages paid under this plan during 2014, were \$2,215,811 or 32.4% of total wages of \$6,836,207. Employee contributions including additional voluntary contributions, to the plan were \$98,062, or 4.4% of covered wages. Employer contributions to the plan were \$110,792, 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 Transamerica Retirement Solutions.

TOWN OF WINDHAM, NEW HAMPSHIRE
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NOTE 22 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in the preceding note, the Town provides postemployment benefit options for health care to eligible retirees, terminated employees, and their dependents. The benefits are provided in accordance with the Town’s personnel policy, collective bargaining agreements, and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). Group I employees are required to reach age 60 with no minimum service to quality 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 health insurance except the Town assumes responsibility as follows:

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

There are 109 participants currently eligible. Expenses for the postretirement health care benefits are recognized as eligible employee claims paid.

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45, which was effective for the Town on January 1, 2009, requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported on the financial statements.

Plan Description – The Plan is a single-employer defined benefit health care plan administered by the Town which provides medical insurance to eligible retirees and their beneficiaries.

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45, was implemented by the Town during fiscal year 2014, and requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported similar to pension plans. GASB Statement No. 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements.

The Town has only partially funded (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2014:

Annual required contribution/OPEB cost	\$ 114,761
Contributions made (pay-as-you-go)	<u>(64,062)</u>
Increase in net OPEB obligation	50,699
Net OPEB obligation, beginning	520,824
Net OPEB obligation, ending	<u>\$ 571,523</u>

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Contribution Cost</u>	<u>Actual Contributions (pay-as-you-go)</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2012	\$ 98,590	\$ 69,241	70.23%	\$ 466,159
December 31, 2013	\$ 99,836	\$ 110,815	111.00%	\$ 520,824
December 31, 2014	\$ 114,761	\$ 64,062	55.82%	\$ 571,523

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For the fiscal year ended December 31, 2014 the actuarial accrued liability (AAL) for benefits was \$1,582,467, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,582,467. The covered payroll (annual payroll of active employees covered by the plan) was \$4,797,510 during fiscal year 2014, and the ratio of the UAAL to the covered payroll was 32.99%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for Other Postemployment Benefits Plan, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer 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 employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4% investment rate of return per annum. The projected annual healthcare cost trend is 9% initially, reduced by decrements to an ultimate rate of 5% after 8 years. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at December 31, 2014 was 30 years.

NOTE 23 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 4, the Town was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pools, currently operating as common risk management and insurance programs for member Towns and cities.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from January 1, 2014 to December 31, 2014 by Primex³, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated net contribution from the Town of Windham for the year ended December 31, 2014 was \$152,425 for workers' compensation and \$124,358 for property/liability. The Town was also issued a premium holiday of \$86,574, which reduced the amount paid for workers' compensation coverage, during the 2014 fiscal year.

NOTE 24 – CONTINGENCIES

There are various legal claims and suits pending against the Town which arose in the normal course of the governments activities. In the opinion of management, the ultimate disposition of these various claims and suits will not have a material effect on the financial position of the Town.

NOTE 25 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date.

TOWN OF WINDHAM, NEW HAMPSHIRE
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Management has evaluated subsequent events through August 21, 2015, the date the December 31, 2014 financial statements were available to be issued, and the following items were noted:

Return of Surplus – During the subsequent fiscal year, the Town received a return of surplus from the Local Government Center. A check for \$156,247 was received, of which, \$51,189 was paid back to active and retired employees. The remaining \$105,058 will be shown as an insurance reimbursement revenue in the general fund for the 2015 fiscal year.

Premium Holiday – In June 2014, the Town was advised that we will receive a premium holiday of \$93,108 from Primex for our workers' and unemployment compensation programs, of which \$36,256 will be applied to 2015 premiums and \$56,852 will be applied to 2016 premiums.

Capital Lease – In June 2015, the Board of Selectmen authorized a capital lease agreement to fund the purchase of several police and fire vehicles, as well as a new 15 passenger bus, totaling \$180,494. The lease is for a three-year term at an interest rate of 2.49%.

Line of Credit – In January 2015, the Town renewed a tax anticipation line of credit, with an authorized credit line of \$2,000,000, under the same terms as prior lines of credit.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT F
TOWN OF WINDHAM, NEW HAMPSHIRE
Schedule of Funding Progress for Other Postemployment Benefit Plan
For the Fiscal Year Ended December 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([(b-a)/c])
January 1, 2009	\$ -	\$ 1,421,597	\$ 1,421,597	0.00%	\$ 4,525,505	31.41%
January 1, 2012	\$ -	\$ 1,495,793	\$ 1,495,793	0.00%	\$ 4,688,407	31.90%
January 1, 2012	\$ -	\$ 1,531,735	\$ 1,531,735	0.00%	\$ 5,519,785	27.75%
January 1, 2012	\$ -	\$ 1,582,467	\$ 1,582,467	0.00%	\$ 4,797,510	32.99%

The note to the required supplementary information is an integral part of this schedule.

TOWN OF WINDHAM, NEW HAMPSHIRE
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

Schedule of Funding Progress for Other Postemployment Benefits (OPEB)

As required by GASB Statement No. 45, Exhibit F represents the actuarial determined costs associated with the Town's other postemployment benefits for the fiscal year ended December 31, 2014.

COMBINING AND INDIVIDUAL FUND SCHEDULES

SCHEDULE 1
TOWN OF WINDHAM, NEW HAMPSHIRE
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2014

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 7,745,430	\$ 7,692,678	\$ (52,752)
Timber	1,990	2,839	849
Boat	16,500	17,001	501
Interest and penalties on taxes	220,000	258,388	38,388
Total from taxes	<u>7,983,920</u>	<u>7,970,906</u>	<u>(13,014)</u>
Licenses, permits, and fees:			
Motor vehicle permit fees	3,000,000	3,174,885	174,885
Building permits	180,000	234,368	54,368
Other	51,500	57,302	5,802
Total from licenses, permits, and fees	<u>3,231,500</u>	<u>3,466,555</u>	<u>235,055</u>
Intergovernmental:			
State:			
Meals and rooms distribution	673,023	673,023	-
Highway block grant	277,616	278,612	996
Other	166,100	28,711	(137,389)
Total from intergovernmental	<u>1,116,739</u>	<u>980,346</u>	<u>(136,393)</u>
Charges for services:			
Income from departments	<u>604,083</u>	<u>615,360</u>	<u>11,277</u>
Miscellaneous:			
Sale of municipal property	41,500	34,846	(6,654)
Interest on investments	3,800	5,129	1,329
Rent of property	2,600	2,975	375
Fines and forfeits	750	1,185	435
Insurance dividends and reimbursements	205,412	205,535	123
Other	7,500	12,103	4,603
Total from miscellaneous	<u>261,562</u>	<u>261,773</u>	<u>211</u>
Other financing sources:			
Transfers in	161,895	160,820	(1,075)
Bonds proceeds	700,000	700,000	-
Total other financing sources	<u>861,895</u>	<u>860,820</u>	<u>(1,075)</u>
Total revenues and other financing sources	14,059,699	<u>\$ 14,155,760</u>	<u>\$ 96,061</u>
Unassigned fund balance used to reduce tax rate	434,024		
Total revenues, other financing sources, and use of fund balance	<u>\$ 14,493,723</u>		

SCHEDULE 2
TOWN OF WINDHAM, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2014

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 3,240	\$ 3,176	\$ -	\$ 64
Election and registration	-	23,930	20,661	-	3,269
Financial administration	17,825	903,975	874,596	4,798	42,406
Revaluation of property	-	311,730	251,633	56,484	3,613
Legal	-	52,400	89,590	-	(37,190)
Information technology	-	219,900	216,109	9,002	(5,211)
Community development	-	499,510	475,151	2,000	22,359
General government buildings	-	438,845	427,389	6,850	4,606
Cemeteries	3,200	41,200	30,298	8,250	5,852
Insurance, not otherwise allocated	-	425,732	289,225	-	136,507
Searles buildings	-	13,250	13,022	-	228
Other	-	4,000	9,073	-	(5,073)
Total general government	<u>21,025</u>	<u>2,937,712</u>	<u>2,699,923</u>	<u>87,384</u>	<u>171,430</u>
Public safety:					
Police	1,600	2,699,970	2,681,539	-	20,031
Fire	1,600	3,105,275	3,121,130	-	(14,255)
Emergency management	-	40,370	36,154	-	4,216
Dispatching	-	417,585	412,122	-	5,463
Total public safety	<u>3,200</u>	<u>6,263,200</u>	<u>6,250,945</u>	<u>-</u>	<u>15,455</u>
Highways and streets:					
Highways and streets	91,574	1,152,120	1,079,830	34,413	129,451
Street lighting	-	14,940	16,313	-	(1,373)
Total highways and streets	<u>91,574</u>	<u>1,167,060</u>	<u>1,096,143</u>	<u>34,413</u>	<u>128,078</u>
Sanitation:					
Solid waste disposal	-	833,875	848,472	-	(14,597)
Health:					
Pest control	-	18,065	14,195	-	3,870
Health agencies	-	33,190	29,942	-	3,248
Total health	<u>-</u>	<u>51,255</u>	<u>44,137</u>	<u>-</u>	<u>7,118</u>
Welfare:					
Direct assistance	-	57,040	36,835	-	20,205
Culture and recreation:					
Parks and recreation	-	210,435	189,850	5,650	14,935
Library	-	1,066,615	1,026,333	-	40,282
Other	1,840	126,160	118,128	2,310	7,562
Total culture and recreation	<u>1,840</u>	<u>1,403,210</u>	<u>1,334,311</u>	<u>7,960</u>	<u>62,779</u>
Debt service:					
Interest on tax anticipation notes	-	500	1,000	-	(500)
Capital outlay	206,611	1,699,871	1,402,910	208,461	295,111
Other financing uses:					
Transfers out	-	80,000	81,953	-	(1,953)
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 324,250</u>	<u>\$ 14,493,723</u>	<u>\$ 13,796,629</u>	<u>\$ 338,218</u>	<u>\$ 683,126</u>

SCHEDULE 3
TOWN OF WINDHAM, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unassigned Fund Balance
For the Fiscal Year Ended December 31, 2014

Unassigned fund balance, beginning (non-GAAP budgetary basis)		\$ 734,026
Changes:		
Unassigned fund balance used to reduce 2014 tax rate		(434,024)
2014 Budget summary:		
Revenue surplus (Schedule 1)	\$ 96,061	
Unexpended balance of appropriations (Schedule 2)	683,126	
2014 Budget surplus		779,187
Decrease in nonspendable fund balance		9,943
Decrease in assigned fund balance (abatements)		105,000
Unassigned fund balance, ending (non-GAAP budgetary basis)		1,194,132
Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis:		
To record deferred inflows of resources for property taxes not collected within 60 days of the fiscal year-end, not recognized on a budgetary basis		(343,359)
To remove the allowance for uncollectible property taxes, recognized on a budgetary basis, but not on a GAAP basis		95,000
Unassigned fund balance, ending GAAP basis (Exhibit C-1)		<u>\$ 945,773</u>

SCHEDULE 4
TOWN OF WINDHAM, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2014

	Special Revenue Funds										Total
	Public Safety Detail	Recreation Revolving	Police Forfeiture	Land Purchase Conservation	Cable and Health Expendable Trusts	Public Safety Impact Fees	Searles Fund	Permanent Fund			
ASSETS											
Cash and cash equivalents	\$ 107,532	\$ 31,507	\$ 2,247	\$ 304,606	\$ 432,056	\$ 157,981	\$ 15,589	\$ 296,153		\$ 1,347,671	
Investments	-	-	-	-	-	-	-	95,324		95,324	
Accounts receivable	36,399	-	-	-	-	-	-	-		36,399	
Interfund receivable	-	-	-	3,905	-	-	-	-		3,905	
Total assets	\$ 143,931	\$ 31,507	\$ 2,247	\$ 308,511	\$ 432,056	\$ 157,981	\$ 15,589	\$ 391,477		\$ 1,483,299	
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 2,771	\$ -	\$ 1,000	\$ -		\$ 3,771	
Interfund payable	-	-	-	-	-	-	-	820		820	
Total liabilities	-	-	-	-	2,771	-	1,000	820		4,591	
Fund balances:											
Nonspendable	-	-	-	-	-	-	-	329,173		329,173	
Restricted	-	-	2,247	-	-	-	-	61,484		63,731	
Committed	143,931	31,507	-	308,511	146,520	157,981	14,589	-		803,039	
Assigned	-	-	-	-	282,765	-	-	-		282,765	
Total fund balances	143,931	31,507	2,247	308,511	429,285	157,981	14,589	390,657		1,478,708	
Total liabilities and fund balances	\$ 143,931	\$ 31,507	\$ 2,247	\$ 308,511	\$ 432,056	\$ 157,981	\$ 15,589	\$ 391,477		\$ 1,483,299	

SCHEDULE 5
TOWN OF WINDHAM, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2014

	Special Revenue Funds										Total
	Public Safety Detail	Recreation Revolving	Police Forfeiture	Land Purchase Conservation	Cable and Health Expendable Trusts	Public Safety Impact Fees	Searies Fund	Permanent Fund			
REVENUES											
Taxes	\$ -	\$ -	\$ -	\$ 303,802	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 303,802
Charges for services	356,200	111,514	-	-	-	-	-	-	-	-	467,714
Miscellaneous	154	18	6	528	456,228	42,406	27,109	10,611			537,060
Total revenues	356,354	111,532	6	304,330	456,228	42,406	27,109	10,611			1,308,576
EXPENDITURES											
Current:											
General government	-	-	-	-	451,830	-	15,458	-	-	-	467,288
Public safety	366,413	-	21,306	-	-	519	-	-	-	-	388,238
Culture and recreation	-	110,832	-	-	19,465	-	-	-	-	-	130,297
Conservation	-	-	-	2,170	-	-	-	-	-	-	2,170
Capital outlay	-	-	-	505,642	-	-	5,000	-	-	-	510,642
Total expenditures	366,413	110,832	21,306	507,812	471,295	519	20,458	-	-	-	1,498,635
Excess (deficiency) of revenues over (under) expenditures	(10,059)	700	(21,300)	(203,482)	(15,067)	41,887	6,651	10,611			(190,059)
OTHER FINANCING SOURCES (USES)											
Transfers in	-	-	-	1,953	-	-	-	-	-	-	1,953
Transfers out	-	-	-	(160,000)	-	-	-	(820)			(160,820)
Total other financing sources (uses)	-	-	-	(158,047)	-	-	-	(820)			(158,867)
Net change in fund balances	(10,059)	700	(21,300)	(361,529)	(15,067)	41,887	6,651	9,791			(348,926)
Fund balances, beginning	153,990	30,807	23,547	670,040	444,352	116,094	7,938	380,866			1,827,634
Fund balances, ending	\$ 143,931	\$ 31,507	\$ 2,247	\$ 308,511	\$ 429,285	\$ 157,981	\$ 14,589	\$ 390,657			\$ 1,478,708