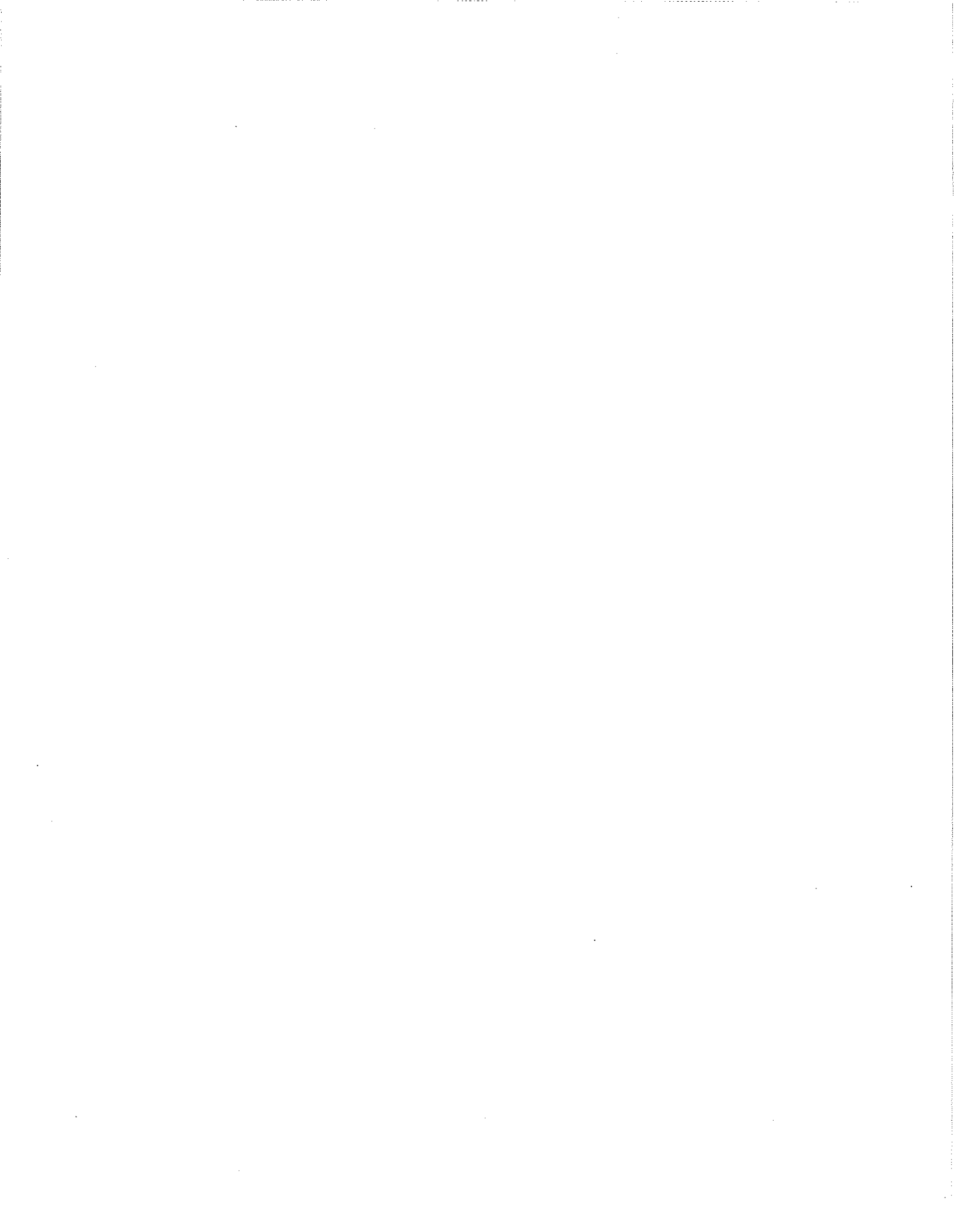


**TOWN OF WINDHAM, MAINE**

**Annual Financial Report**

**For the year ended June 30, 2011**



**TOWN OF WINDHAM, MAINE**  
**Annual Financial Report**  
**Year ended June 30, 2011**

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Certified Public Accountants and Business Consultants

## Independent Auditor's Report

Town Council  
Town of Windham, Maine

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Windham, Maine as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

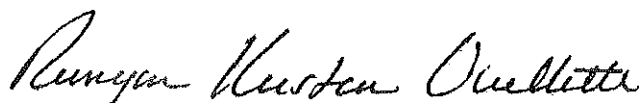
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Windham, Maine as of and for the year ended June 30, 2011, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2011 on our consideration of the Town of Windham, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Modified Approach for Infrastructure Assets and Schedule of Funding Progress as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Windham, Maine's financial statements as a whole. The combining and individual fund financial statements are presented for the purpose of additional analysis and are not a required part of the financial statements. They are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



November 30, 2011  
South Portland, Maine

**TOWN OF WINDHAM, MAINE**  
**Management's Discussion and Analysis**  
**June 30, 2011**

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As management of the Town of Windham, Maine we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented in conjunction with the basic financial statements and the accompanying notes to those financial statements.

**THE FINANCIAL STATEMENTS**

The financial statements presented herein include all of the activities of the Town of Windham, Maine using the integrated approach prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The Government-wide Financial Statements present the financial picture of the Town from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the Town (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred with regard to interfund activity, payables, and receivables as prescribed by the statement.

The Fund Financial Statements include statements for each of the two categories of activities within the Town – governmental and fiduciary. The governmental activities are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Reconciliation of the Fund Financial Statements to the Government-wide Financial Statements is provided to explain the differences created by the integrated approach.

We are pleased to report that the Town has received an unqualified opinion from its auditors. This means that the Town of Windham's financial statements are fairly presented in all material respects. Furthermore, there were no reported material weaknesses over internal controls.

**REPORTING THE TOWN AS A WHOLE**

**The Statement of Net Assets and the Statement of Activities**

The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and its activities. The statements include all assets and liabilities of the Town using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Under accrual accounting, revenues are recognized when earned and expenses are recorded when incurred, irrespective of the timing of the receipt and disbursement of cash.

The Statement of Net Assets reports the Town's net assets. Net assets are the difference between assets and liabilities, one way to measure the Town's financial health or financial position. Viewed another way, it is what's left over after assets are used to satisfy liabilities. Over time, increases and decreases in the Town's net assets are an indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the Town's property tax base and the condition of the Town's infrastructure.

The Statement of Activities illustrates what it costs to provide public services such as administrative services, public works, police, fire and rescue, recreation and libraries, planning and code enforcement, assessing, town clerk, social services, education, debt and capital expenses. It also identifies the resources necessary to finance those services such as property taxes, other taxes and user fees, license and permit fees, intergovernmental revenue, investments and other miscellaneous revenues.

**TOWN OF WINDHAM, MAINE**  
**Management's Discussion and Analysis, Continued**  
**June 30, 2011**

**REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS**

**Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds – not the Town as a whole. Some funds are required to be established by law and by bond covenants. However, other funds are established to help control and manage funds for particular purposes, or to demonstrate that the Town is in compliance with legal requirements regarding the use of certain taxes, grants, or other monies. The Town's basic activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances that remain at year-end. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a short-term view (approximately one year) of the Town's most readily available assets and current liabilities, along with the resources that flow in and out during the year or shortly thereafter. These statements help to assess the Town's ability to meet its financial obligations over the next twelve months. The difference between the governmental funds financial statement and the government-wide financial statement of activities is reconciled in Statement #5.

**THE TOWN AS A WHOLE**

The Town is providing condensed financial information for the year 2011 and comparative information for 2010.

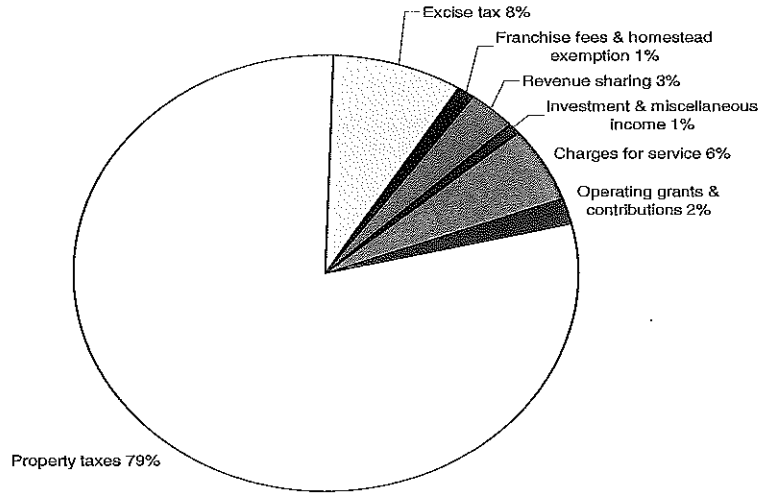
	<u>2011</u>		<u>2010</u>	
	<u>Government Activities</u>	<u>Activities (WEDC)</u>	<u>Government Activities</u>	<u>Activities (WEDC)</u>
<b>Assets:</b>				
Current and other assets	\$ 32,994,003	56,274	33,996,986	47,603
Capital assets (net)	22,980,821	504,781	23,079,100	489,541
Total assets	<u>55,974,824</u>	<u>561,055</u>	<u>57,076,086</u>	<u>537,144</u>
<b>Liabilities:</b>				
Long-term debt outstanding	27,121,594	455,500	26,788,230	455,500
Other liabilities	2,244,002	13,648	4,483,467	5,738
Total liabilities	<u>29,365,596</u>	<u>469,148</u>	<u>31,271,697</u>	<u>461,238</u>
<b>Net assets:</b>				
Invested in capital assets	19,669,602	49,281	19,598,696	34,041
Restricted	594,365	-	41,874	-
Unrestricted	6,345,261	42,626	6,163,819	41,865
Total net assets	<u>\$ 26,609,228</u>	<u>91,907</u>	<u>25,804,389</u>	<u>75,906</u>



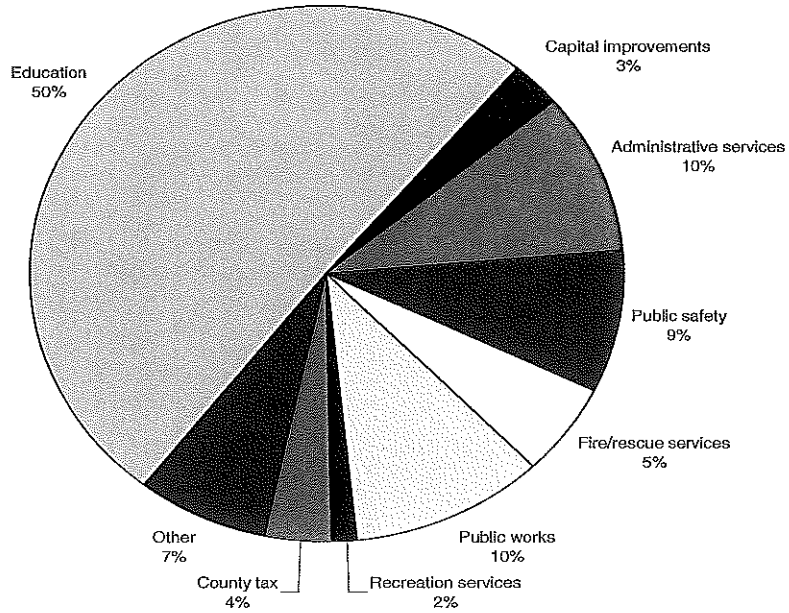
**TOWN OF WINDHAM, MAINE**  
**Management's Discussion and Analysis, Continued**  
**June 30, 2011**

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**Governmental Revenues by Source**



**Governmental Expenditures by Type**



**TOWN OF WINDHAM, MAINE**  
**Management's Discussion and Analysis, Continued**  
**June 30, 2011**

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**GOVERNMENTAL ACTIVITIES**

The cost of all governmental activities for 2011 was \$28,387,481. However, as shown in the statement of activities, the amount paid by taxpayers through local property taxes for these activities was \$23,092,907 because some of the cost (\$1,616,958) was borne by those who directly benefited from the programs.

The Town paid for the remaining "public benefit" portion of governmental activities with \$4,482,455 in non-property taxes and other revenues, such as interest earnings, state revenue sharing, excise taxes, homestead exemption reimbursement, grants, and other miscellaneous revenues.

**Statement of Activities**

Total resources of \$54,996,709 were available during the year to finance governmental activities, consisting of net assets of \$25,804,389 at July 1, 2010, program revenues of \$2,185,460 and general revenues of \$27,006,860.

Total governmental activities expenses were \$28,387,481. Net assets increased by \$804,839, from \$25,804,389 to \$26,609,228, or 3.1%.

Total governmental activities expenses fell by \$177,344, or .6%; net expenses for governmental activities increased by \$1,326,446, or 5.3% from 2010 to 2011.

**TOWN OF WINDHAM, MAINE**  
**Management's Discussion and Analysis, Continued**  
**June 30, 2011**

**Statement of Activities**

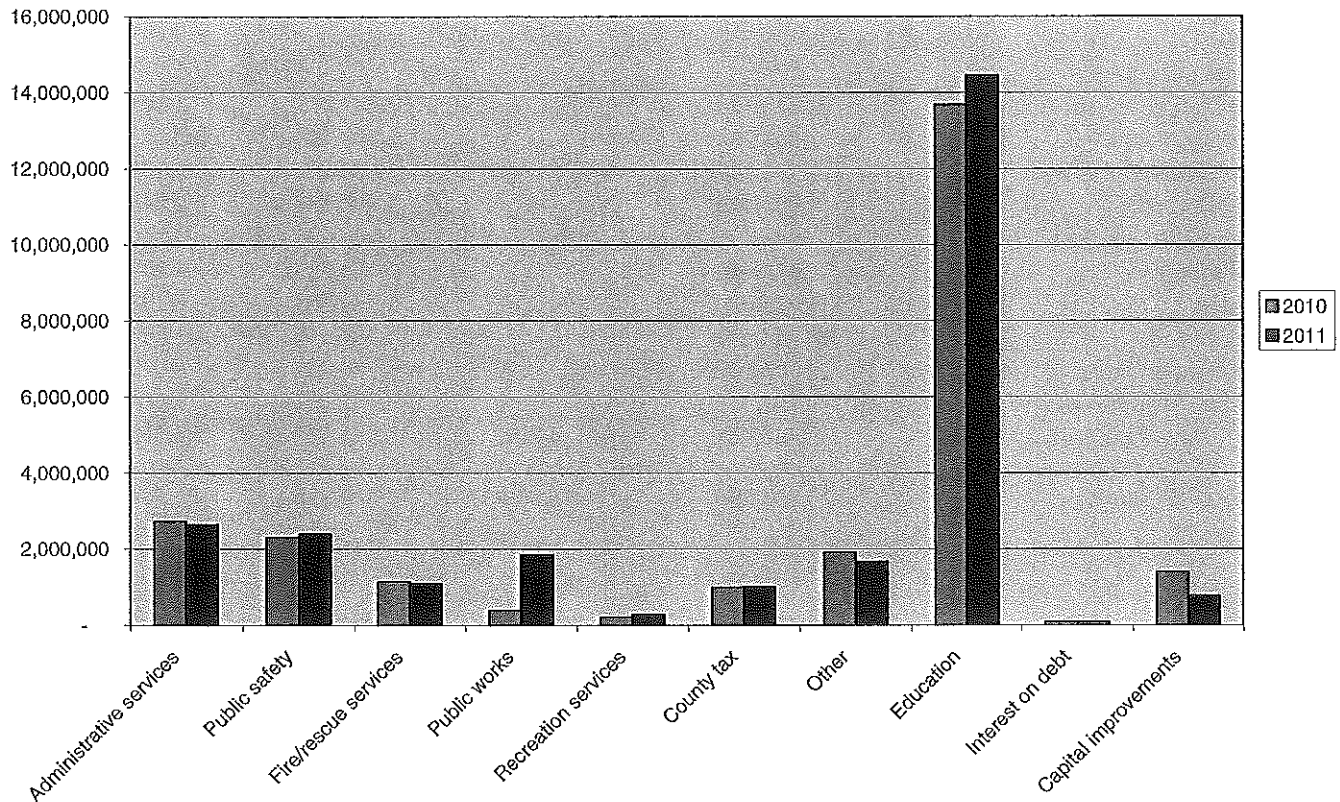
	<u>Primary Government Governmental Activities</u>	<u>Component Unit (WEDC)</u>	<u>2011 Primary Government and Component Unit</u>	<u>2010 Primary Government and Component Unit</u>
<b>Revenues:</b>				
Program Revenues:				
Charges for service	\$ 1,616,958	-	1,616,958	1,720,923
Operating grants and contributions	568,502	20,000	588,502	557,367
Capital grants and contributions	-	-	-	1,410,959
General Revenues:				
Property taxes	23,092,907	-	23,092,907	21,898,293
Excise tax	2,465,351	-	2,465,351	2,482,805
Franchise fees	129,272	-	129,272	119,784
Homestead exemption	200,132	-	200,132	337,730
Other state aid	12,315	-	12,315	11,577
State revenue sharing	843,031	-	843,031	898,351
Investment earnings	142,580	205	142,785	185,038
Miscellaneous revenues	121,272	-	121,272	171,865
Total Revenues	<u>29,192,320</u>	<u>20,205</u>	<u>29,212,525</u>	<u>29,794,692</u>
<b>Expenses:</b>				
Program Expenses:				
Administrative services	2,683,569	-	2,683,569	2,893,362
Public safety	2,443,534	-	2,443,534	2,312,575
Fire/rescue services	1,558,145	-	1,558,145	1,607,673
Public works	2,987,488	-	2,987,488	2,949,641
Recreation services	446,433	-	446,433	390,024
County tax	1,018,613	-	1,018,613	1,005,752
Other	1,925,894	4,204	1,930,098	2,182,133
Education	14,457,442	-	14,457,442	13,684,504
Interest on debt	85,031	-	85,031	79,330
Capital maintenance expenses	781,332	-	781,332	1,464,697
Total Expenses	<u>28,387,481</u>	<u>4,204</u>	<u>28,391,685</u>	<u>28,569,691</u>
Net assets -- beginning	25,804,389	75,906	25,880,295	36,093,771
Change in net assets before special item	<u>804,839</u>	<u>16,001</u>	<u>820,840</u>	<u>1,225,001</u>
Special item:				
Transfer to RSU #14	-	-	-	(11,438,477)
Net assets -- ending	<u>\$ 26,609,228</u>	<u>91,907</u>	<u>26,701,135</u>	<u>25,880,295</u>

**TOWN OF WINDHAM, MAINE**  
**Management's Discussion and Analysis, Continued**  
**June 30, 2011**

The Town's governmental activities include administrative services (including insurance, employee benefits, and other organization-wide expenses), public works, police, fire and rescue, recreation and libraries, planning and code enforcement, assessing, town clerk, social services, education, debt and capital expenses. Each program's net cost (total cost less revenues generated by the activities) is presented below for 2011.

	2011 Expense	2011 Program Revenue	2011 Net Expense	2010 Net Expense
Governmental activities:				
Administrative services	2,683,569	140,532	2,543,037	2,730,007
Public safety	2,443,534	35,419	2,408,115	2,309,561
Fire/rescue services	1,558,145	460,806	1,097,339	1,143,682
Public works	2,987,488	1,131,197	1,856,291	398,821
Recreation services	446,433	165,393	281,040	215,955
County tax	1,018,613	-	1,018,613	1,005,752
Other	1,925,894	252,113	1,673,781	1,909,181
Education	14,457,442	-	14,457,442	13,684,504
Interest on debt	85,031	-	85,031	79,330
Capital maintenance	781,332	-	781,332	1,398,783
<b>Total governmental activities</b>	<b>28,387,481</b>	<b>2,185,460</b>	<b>26,202,021</b>	<b>24,875,576</b>

**Change in Net Expenses**



The net expense represents that portion of governmental activities expenses that was offset by other general revenues or supported by local property taxes. No attempt has been made to apportion general revenues to the various governmental activities as a means of determining the relative degree to which they are supported by local property taxes. The large increase in Public Works' net expenses over 2010 stems from adding \$1.4 million in new roads in 2010, which served to offset expenses that year.

**TOWN OF WINDHAM, MAINE**  
**Management's Discussion and Analysis, Continued**  
**June 30, 2011**

**DEBT ADMINISTRATION**

Debt decreased by \$2,037,962 (7%) in fiscal year 2011. New capital leases amounted to \$396,125; principal payments against lease debt were \$415,310, leaving a lease payable at June 30 of \$1,361,219. Principal payments made on general obligation bonds were \$2,018,777, resulting in a year-end bond payable balance of \$25,760,375.

**Statement of Governmental Activities Debt**

Debt payable at June 30, 2010	\$ 29,159,556
New capital leases	396,125
<u>Debt retired</u>	<u>(2,434,087)</u>
Debt payable at June 30, 2011	\$ 27,121,594

**THE TOWN'S FUNDS**

The following is an analysis of account balances in the Town's general fund for 2011. Comparative information is presented for fiscal years 2010 and 2009. Fiscal year 2009 includes Windham school department data.

Statement of Revenues

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues by source			
Taxes	\$ 25,109,968	24,070,839	23,199,811
Licenses and permits	223,004	242,012	211,938
Intergovernmental revenue	1,531,761	1,739,111	19,426,832
Charges for service	539,824	577,632	2,047,280
Interest earned	141,683	170,263	250,111
Other revenues	690,074	677,878	928,142
	<u>\$ 28,236,314</u>	<u>27,477,735</u>	<u>46,064,114</u>

Statement of Expenditures

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Expenditures by function			
Administrative services	\$ 2,617,080	2,732,814	2,793,266
Public safety	2,270,024	2,235,854	2,241,250
Fire/rescue services	1,372,157	1,410,877	1,400,342
Public works	2,794,379	2,910,798	3,007,327
Recreation services	232,973	237,298	250,909
County tax	1,018,613	1,005,752	959,303
Other	1,572,526	1,821,500	1,657,581
Education	14,457,442	13,684,504	29,170,633
Debt service	235,031	239,625	3,356,276
Capital outlay	1,661,809	555,860	1,041,990
	<u>\$ 28,232,034</u>	<u>26,834,882</u>	<u>45,878,877</u>

**CAPITAL ASSETS**

The capital assets of the Town are those assets used in the performance of the Town's functions, including infrastructure assets. At June 30, 2011, net capital assets of governmental activities totaled \$22,980,821, a decrease of \$98,279 from the year ending June 30, 2010. A detailed breakdown of the activity by asset type is shown below.

**TOWN OF WINDHAM, MAINE**  
**Management's Discussion and Analysis, Continued**  
**June 30, 2011**

	Balance 6/30/10	Increases	Decreases	Balance 6/30/11
Governmental assets				
Land, buildings and improvements	\$ 7,136,115	6,495	-	7,142,610
Infrastructure	16,189,992	-	-	16,189,992
Vehicles	3,753,051	581,603	352,116	3,982,538
Machinery and equipment	4,338,697	75,091		4,413,788
Total capital assets	<u>31,417,855</u>	<u>663,189</u>	<u>352,116</u>	<u>31,728,928</u>
Accumulated depreciation	<u>(8,338,755)</u>	<u>(661,905)</u>	<u>252,553</u>	<u>(8,748,107)</u>
Governmental assets, net	\$ <u>23,079,100</u>	<u>1,284</u>	<u>99,563</u>	<u>22,980,821</u>

**Use of Modified Approach for Certain Infrastructure Assets**

The Town has elected to use the "modified approach" as defined by GASB 34 for infrastructure reporting for roads and drainage structures. Under GASB 34 eligible infrastructure capital assets are not required to be depreciated under the following conditions:

- The Town manages the eligible infrastructure capital assets using an asset management system which provides for (1) an up-to-date inventory, (2) condition assessments and summary according to a measurement scale, and (3) an estimate of the annual amount required to maintain and preserve the infrastructure at the established condition assessment level.
- The Town documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level.

The Town's roads and streets are constantly deteriorating due to the effects of (1) traffic using the roads and streets, (2) ultraviolet solar radiation drying out and breaking down the top layer of pavement, (3) pavement cuts, damage, and trenching operations resulting from utility construction, repairs, and/or development, and (4) water damage from precipitation and drainage runoff. The Town is continuously taking actions to arrest the deterioration through short-term maintenance activities such as patching, sweeping, and repair.

The Town expended \$354,715 on road improvements for the fiscal year ended June 30, 2011. Based on a pavement condition rating conducted in 2010, the average rating for Town roads was 3.91 on a scale of 0 to 5, a decline from the previous assessment in 2007 (4.14), compared with an average rating of 3.21 when the Town's first pavement condition rating survey done in 2001.

The Town estimates that the amount of annual expenditures required to improve and maintain the Town's roads and streets, at an average PCR score of 3.21 (see Required Supplemental Information) for fiscal years 2011 through 2013 to be at least \$1,582,892, or about \$528,000 per year. Including those portions of state highways for which the Town is responsible for maintenance would add \$7,980,122, or about \$2,660,000 per year; however, about \$3,458,000 of the state highway figure is for River Road, which is expected to undergo significant reconstruction by the state beginning within the next two to three years. This amount also includes resurfacing of Route 302 in North Windham, also being done by the state, at an estimated cost of \$3,537,000. Not counting River Road or Route 302 through North Windham, the total estimate to maintain both Town and state roads at an average PCR rating of 3.21 or better is about \$2,568,000, or about \$856,000 per year through 2013.

Continued increases in the cost of asphalt will put pressure on this estimate, leading to the need for increases in paving expenditures to maintain quality. From 2001 to 2010 the Town appropriated \$500,000 annually for road improvement activities; it was increased to \$542,500 in 2011. It should be noted, however, that this amount relates mainly to the maintenance of current pavement infrastructure and does not contemplate more extensive improvements as might be required in the future for storm water management, improved safety, added capacity, or additional amenities such as sidewalks.

**TOWN OF WINDHAM, MAINE**  
**Management's Discussion and Analysis, Continued**  
**June 30, 2011**

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During 2007, the Town conducted its first condition assessment of its storm water drainage system. The storm water drainage system consists of drainage structures, pipes, and pipe openings. Stormwater drainage structures include catch basins, leaching catch basins, manholes, and dry wells. Pipes and pipe openings are identified as drain inlets, drain outlets, and pipe outfalls. Elements of the storm water drainage system were rated for structural and hydraulic condition according to the following criteria:

**Good**

Items examined and found to be "like new" or without apparent defects, is functioning well and reliably per design intent, and without flow restrictions; does not requiring attention, correction, or repair.

**Fair**

Items examined and found to have apparent defects or slight flow restrictions, are minimally functioning and/or may be at or near its useful life; near term replacement or rehabilitation may be necessary, however does not require immediate corrective action.

**Poor/Needs Repair/Cleaning**

Items examined and found to have a deficiency or deficiencies which affect performance, potential for failure exists, or has ceased to function as designed; requires immediate service, repair, or replacement.

**Blocked**

Items examined and found to have flow obstructions that require immediate service, rehabilitation, or replacement.

With regard to structural condition, 99.9% of drainage structures, pipes, and pipe openings were found to be in good (97.7%) or fair (2.2%) condition. The remaining 0.1% assessed as poor/needs repair consists of one (1) leaching catch basin. 84.4% of structures, pipes, and pipe openings were in good (81.3%) or fair (3.1%) hydraulic condition. Structures, pipes, or pipe openings requiring service or repair to correct flow deficiencies accounted for the remaining 15.6%. The Town conducted a complete cleaning of drainage structures in the fall of 2007, subsequent to the condition assessment, and expects to continue its program of maintenance, and regular cleaning along with inspection and condition assessment required for compliance with both GASB 34 and NPDES Phase II stormwater management rules.

Condition assessments for roads and drainage structures were completed in late 2010.

**BUDGETS AND BUDGETARY ACCOUNTING**

**General Fund Budget Variances**

The 2010-2011 general fund budget decreased \$73,412, or .5% from the previous year.

There were no supplemental appropriations during the fiscal year.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The annual budget seeks the efficient, effective and economical use of the Town's resources as well as establishing direction for the accomplishment of policy priorities and objectives. The budget, through its adoption by the Town Council and Town meeting, establishes the direction of the Town, allocates its resources, and establishes its priorities.

**Trends**

After two years of falling state revenues, management is cautiously optimistic the trend will reverse in fiscal year 2011-2012. Based on estimates received from the State, the town budgeted for an increase in state revenue

**TOWN OF WINDHAM, MAINE**  
**Management's Discussion and Analysis, Continued**  
**June 30, 2011**

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sharing next year, though still at a level lower than the "best-case scenario" projected during the state's budget process. Revenue sharing represents about 15% of non-property tax receipts.

The largest source of non-property tax revenues is excise taxes, comprising 37% of the total. These have dropped slightly each of the last three years; the town's budget continues to reflect that trend for FY 2012. Based on recent reports however, U.S. auto sales are likely to grow in the next two years. The rationale is after several years of deferred purchases, the highways are filled with older, high mileage vehicles whose average age is 10 years. These will need to be replaced. In that case, the town could realize a favorable budget variance in this revenue category.

In order to achieve a tax rate acceptable to the community, the Town used reserves and reallocated carry-over funds over several years to help shield taxpayers from the full effect of the additional debt costs of the high school expansion and renovation project as well as operating cost increases for both school and municipal operations. Continuing to use reserves, particularly fund balance, to keep property taxes low would be detrimental to the Town's long-term financial health, especially with declines in several key revenues as a result of the recession. Consequently, the Town embarked on a three year effort to eliminate the use of fund balance as an offset in its general fund budget beginning with fiscal year 2010.

#### **Budget Overview**

The Town budget for 2011-2012 is \$13,783,652, an increase of \$7,444 or .05% over last year, essentially a flat budget. This resulted in a reduction of \$154 in the municipal portion of property taxes from the year before. Windham's fiscal discipline is further demonstrated by its continued compliance with the state property tax levy limit. The town will be under the limit by \$406,549 for 2011-2012.

Following are some highlights from budget deliberations:

- Wages were frozen for all non-union staff. This is the third year of the freeze for most of the staff.
- The town's unions agreed to wage freezes similar to that imposed on non-union staff or to contract concessions that were the equivalent.
- Police overtime was reduced 23% from last year's budget.
- Funding for the code enforcement director's position was restored, while one CEO position was eliminated.
- Added a 36 hour/week general assistance administrator. By bringing this function in-house, the expectation is that we might significantly reduce general assistance payments. As a result, funding for a contracted social service professional through PROP was removed, saving \$40,300.
- Road improvement funding increased significantly as paving costs continue to rise
- A reduced reliance on fund balance as a revenue source, from \$350,000 last year to \$200,000.

Due to the global economic meltdown and subsequent recession, the aim for the 2010-2011 budget was to continue to deliver municipal services as effectively as possible. Some programs were eliminated; department heads were asked to reduce spending whenever possible while maintaining the approximate level of services. Revenues were budgeted even more conservatively than in the past. A lesser reliance on the use of fund balance is also reflected in this year's budget. Other service or program needs were listed in the department's budget narrative but not included in their requests. The Town Council reviews and adjusts the budget as it sees fit and adopts a budget for recommendation to Town meeting.

#### **Revenues/Fund Balance**

The Town has historically used fund balance and other carry-over funds to moderate tax increases. This practice, although well-intentioned, is not sustainable. With the uncertain state of the national and global economies, prudent management dictates that cash reserves be built up rather than depleted. With that in mind, the town



**TOWN OF WINDHAM, MAINE**  
**Management's Discussion and Analysis, Continued**  
**June 30, 2011**

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has reduced its reliance on fund balance from \$650,000 in FY 2008-2009 to \$200,000 for budget year 2011-2012. This represents a 69% decrease over four budget cycles. The only remaining use of fund balance is to offset two contingency funds and not the operating budget in general.

During the year, the Town Council adopted a new fund balance policy. It establishes a target level of fund balance for the general fund and certain special revenue funds. This coincided nicely with the introduction of Government Accounting Standards Board (GASB) Statement No. 54, a new rule intended to make fund balance reporting more consistent and transparent. It classifies fund balances in five categories based on the purposes for which funds can be spent. The policy states that the town maintains an unrestricted fund balance at 16.67% of the ensuing year's budget. Unrestricted fund balance is defined as the sum of committed, assigned, and unassigned fund balance categories.

Bond rating agencies consider an adequate level of fund balance to be a credit strength.

Excise taxes, the largest source of non-property tax revenues, appear to have stabilized; the town has budgeted \$2.3 million from this source for FY 2012, the same as the last two years.

Though the Town seeks to maximize use of non-property tax revenues in its budgeting, it remains conservative in its approach. This is done to maintain an appropriate "safety margin," guarding against revenues failing to meet estimates. This contributes to maintaining an adequate level of fund balance. As noted earlier, the Town significantly reduced its use of fund balance as a tool in managing the local tax rate for fiscal 2011. Use of fund balance as a budget balancing tool is being phased out. Once the target level of 16.67% is reached, any portion of the unassigned fund balance above the target may be used to fund capital needs or reduce property taxes as directed by the Town Council.

#### **Savings/Increasing Demands**

The Town participates with numerous regional and inter-municipal cooperatives for joint purchasing and resource-sharing. These include the Greater Portland Council of Governments and its collective bid process, fire chiefs in Cumberland County jointly bidding supplies and equipment, and participating in the Interlocal Storm Water Working Group to share costs of complying with federal storm water management rules.

Like many communities which have experienced, and continue to experience rapid rates of growth, Windham has sought to balance the need to provide services in response to growth, and growing expectations with a reasonable level of local property taxation. Capital equipment replacement and facilities funding increased this year, and will again next year. The use of capital lease purchase agreements allows us to replace major equipment with a relatively small impact on cash flows.

#### **The Future**

The Town continues to maintain its strong financial position. The tendency to budget conservatively continues to stand it in good stead.

Unrestricted fund balance as a percentage of the FY 2012 budget is nearly 20%. This means that the Town has approximately two and one half months of funds available during periods of limited liquidity. Town policy recommends a target of 16.67%, equaling two months of expenses. Looking ahead, with the reduced reliance on fund balance to meet operating needs, the ratio should remain strong.

There has been increased interest in establishing performance measures throughout the town. Performance measurement and management will play an ever larger role in the future.

**TOWN OF WINDHAM, MAINE**  
**Management's Discussion and Analysis, Continued**  
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With interest rates at historic lows, management is looking into the possibility of advance refunding some of the 2003 general obligation bonds. This has the potential to save several hundred thousands of dollars in interest expense over the remaining life of the bonds.

In order to maintain its fiscal health it will be necessary to evaluate the sustainability of any expansion in programs and services relative to the ability to generate revenue other than taxes and keep local property taxes from rising beyond what has been Windham's typically lower rates than many surrounding full-service communities.

In order to achieve stability in its local property tax rates and sustainability in its programs and services, the Town will need to work diligently to implement its comprehensive master plan and develop associated multi-year strategic and financial plans under the policy guidance and direction of the Town Council with appropriate and substantial input and involvement from citizens and other stakeholders. This becomes particularly important when considering future tax base growth potential, the cost of providing services to this growth, and providing infrastructure to enable and support growth in designated areas and not others. The Town will have to decide whether it can continue to comply with the statute governing increases in the property tax levy and still provide the level of services it desires. This law, enacted by the Maine Legislature in early 2005, contains provisions for voter approval of expenditures or increases in property tax levies over a certain amount.

**Summary**

Fiscal year 2011-2012 will reflect a tax rate of \$13.90 per thousand dollars of assessed value. For every tax dollar raised, 31 cents goes to the Town, 65 cents to schools, and 4 cents for the tax assessment levied by the County on the Town. This is an increase of 13.9% over last year. There are two reasons for the increase: 1) assessed values were reduced to be more reflective of real estate values, and as assessed values are reduced, the tax rate must increase in order to raise the necessary budget dollars. 2) the school district assessment increased by 6.83%.

The Town continues to meet its debt obligations, reducing debt by nearly \$2.04 million in 2011. Windham carries a relatively light debt load. Bond rating agencies prefer a "debt per capita" of \$2,000 or less. Windham's ratio is \$1,515. As debt for the high school and previous capital facilities projects is retired, the Town will be in a position to consider meeting other capital facilities needs as it carefully examines the costs of programs and services relative to the costs they incur. The timing of the Town's debt repayment schedule is important because of the growth-related infrastructure, facilities, and operational needs, and other investments needed to meet the needs of the community and realize the goals in its comprehensive master plan that the Town will face in the future.

**CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to demonstrate its accountability for the funds entrusted to it. If you have any questions about this report or need any financial information, contact the Office of the Finance Director, 8 School Road, Windham, Maine, 04062, telephone 207-892-1907.

## **BASIC FINANCIAL STATEMENTS**



**TOWN OF WINDHAM, MAINE**  
**Statement of Net Assets**  
**June 30, 2011**

	<b>Primary Governmental Governmental Activities</b>	<b>Component Unit WEDC</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 713,816	56,274
Investments	6,611,480	-
Receivables:		
Accounts, net of allowance of \$21,238	312,587	-
Taxes receivable - current year	848,120	-
Taxes receivable - prior years	231,112	-
Tax liens	453,302	-
Inventory	13,212	-
Receivable from RSU #14 for debt service payments	23,810,374	-
Capital assets, not being depreciated	16,716,192	504,781
Capital assets, being depreciated	6,264,629	-
<b>Total assets</b>	<b>55,974,824</b>	<b>561,055</b>
<b>LIABILITIES</b>		
Accounts payable and other current liabilities	893,583	-
Accrued wages	160,729	-
Compensated absences payable	700,838	-
Accrued interest	181,147	13,648
Taxes paid in advance	64,051	-
Other postemployment benefits liability	243,654	-
Noncurrent liabilities:		
Due within one year	2,449,911	-
Due in more than one year	24,671,683	455,500
<b>Total liabilities</b>	<b>29,365,596</b>	<b>469,148</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	19,669,602	49,281
Restricted	594,365	-
Unrestricted	6,345,261	42,626
<b>Total net assets</b>	<b>\$ 26,609,228</b>	<b>91,907</b>

*See accompanying notes to financial statements.*

**TOWN OF WINDHAM, MAINE**  
**Statement of Activities**  
**For the year ended June 30, 2011**

Functions/programs	Expenses	Program Revenues			Net (expense) revenue and changes in net assets	
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government	Component Unit
					Governmental activities	WEDC
Primary government:						
Governmental activities:						
Administrative services	\$ 2,683,569	140,532	-	-	(2,543,037)	-
Public safety	2,443,534	2,860	32,559	-	(2,408,115)	-
Fire/rescue services	1,558,145	460,806	-	-	(1,097,339)	-
Public works	2,987,488	814,237	316,960	-	(1,856,291)	-
Recreation services	446,433	165,393	-	-	(281,040)	-
County tax	1,018,613	-	-	-	(1,018,613)	-
Other	1,925,894	33,130	218,983	-	(1,673,781)	-
Education	14,457,442	-	-	-	(14,457,442)	-
Interest on debt service	85,031	-	-	-	(85,031)	-
Capital maintenance expenses	781,332	-	-	-	(781,332)	-
Total governmental activities	28,387,481	1,616,958	568,502	-	(26,202,021)	-
<b>Total primary government</b>	<b>\$ 28,387,481</b>	<b>1,616,958</b>	<b>568,502</b>	<b>-</b>	<b>(26,202,021)</b>	<b>-</b>
Component unit:						
WEDC	\$ 4,204	-	20,000	-	-	15,796
General revenues:						
Property taxes, levied for general purposes				\$ 23,092,907		-
Excise taxes				2,465,351		-
Supplemental taxes and lien fees				25,710		-
Motor vehicle registration fees				49,342		-
Franchise fees				129,272		-
Grants and contributions not restricted to specific programs:						
Homestead exemption				200,132		-
Other State aid				12,315		-
State Revenue Sharing				843,031		-
Unrestricted investment earnings				142,580		205
Loss on disposal				(99,563)		-
Miscellaneous				145,783		-
Total general revenues				27,006,860		205
				Change in net assets	804,839	16,001
				Net assets - beginning	25,804,389	75,906
				<b>Net assets - ending</b>	<b>\$ 26,609,228</b>	<b>91,907</b>

*See accompanying notes to financial statements.*