

TOWN OF WINDHAM, MAINE

Annual Financial Report

June 30, 2005

TOWN OF WINDHAM, MAINE
Annual Financial Report
Year ended June 30, 2005

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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, 2005, 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, 2005, and the respective changes in financial position and the respective 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 August 5, 2005, 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 conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Required Supplemental Information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Windham, Maine's basic financial statements. The combining and individual fund schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



August 5, 2005
South Portland, Maine

TOWN OF WINDHAM
Management's Discussion and Analysis
June 30, 2005

As management of the Town of Windham, Maine we offer readers of the Town of Windham, Maine's financial statements this narrative overview and analysis of the financial activities of the Town of Windham, Maine for the fiscal year ended June 30, 2005. 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 inter-fund 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. The fiduciary activities include agency and trust funds which do not have a measurement focus and only report a balance sheet. Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

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 about 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. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's *net assets* and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the Town's financial health or *financial position*. Over time, increases and decreases in the Town's net assets are one 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 Net Assets and Statement of Activities reports on the Town's *Governmental Activities*, which include administrative services, public works, police, fire and rescue, recreation and libraries, planning and code enforcement, assessing, town clerk, social services, debt and capital expenses. Property taxes, other taxes and user fees, license and permit fees, intergovernmental revenue, investments and other miscellaneous revenues finance these activities.

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, management establishes other funds to help it control and manage money for particular purposes or to show that it is complying with legal requirements regarding the use of certain taxes, grants, or other money. 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 left

TOWN OF WINDHAM
Management's Discussion and Analysis, Continued

at year-end that are available for spending. 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 detailed shorter-term view of the Town's administrative services operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

THE TOWN AS A WHOLE

The Town is providing condensed financial information for the year 2005 and comparative information for 2004.

Statement of Net Assets	2005 Primary Govern- ment Activities	2005 Component Unit Activities (WEDC)	2004 Primary Govern- ment Activities	2004 Component Activities (WEDC)
Current and other assets	\$ 11,143,796	\$ 70,463	\$ 12,841,663	\$ 58,703
Capital assets(net)	58,030,342	3,577	57,696,122	-
Total assets	69,174,138	74,040	70,537,785	58,703
Long-term debt outstanding	40,637,225	-	42,101,685	-
Other liabilities	4,750,818	1,574	4,452,533	-
Total liabilities	45,388,043	1,574	46,554,218	-
Net assets:				
Invested in capital assets	15,059,103	-	15,594,437	-
Restricted	41,874	-	2,645,109	-
Unrestricted	8,685,118	72,466	5,744,021	58,703
Total net assets	\$ 23,786,095	\$ 72,466	\$ 23,983,567	\$ 58,703

The next analysis focuses on changes in the net assets of the Town's governmental activities.

Statement of Activities	Governmental Activities	Component Unit (WEDC)	2005 Primary Government	2004 Primary Government
Revenues				
Program Revenues				
Charges for service	\$ 2,612,380	\$ -	\$ 2,612,380	\$ 2,648,590
Operating grants and contributions	13,495,967	25,000	13,520,967	12,566,337
Capital grants and contributions	90,204	-	90,204	667,125
General Revenues				
Property taxes	20,569,379	-	20,569,379	18,364,720
Motor vehicle excise tax	2,716,235	-	2,716,235	2,568,992
Franchise fees	73,977	-	73,977	61,980
Homestead exemption	352,030	-	352,030	311,457
Other state aid	21,950	-	21,950	14,369
State revenue sharing	1,232,396	-	1,232,396	1,152,899
Investment earnings	206,157	136	206,293	158,233
Sale of land	-	-	-	-
Miscellaneous revenues	1,182,698	-	1,182,698	1,105,668
Total Revenues	\$ 42,553,373	\$ 25,136	\$ 42,578,509	\$ 39,620,370

TOWN OF WINDHAM
Management's Discussion and Analysis, Continued

Expenses				
Program Expenses				
Administrative services	\$ 2,328,119	\$ 11,373	\$2,339,492	\$ 2,360,947
Public safety	1,859,536	-	1,859,536	1,778,347
Fire/rescue services	1,243,407	-	1,243,407	1,288,920
Public works	2,822,154	-	2,822,154	2,646,157
Recreation services	348,078	-	348,078	349,423
County tax	795,099	-	795,099	780,524
Other	1,278,329	-	1,278,329	1,218,642
Education	28,328,083	-	28,328,083	25,590,535
Interest on debt	1,520,711	-	1,520,711	1,576,700
Capital improvements	2,185,329	-	2,185,329	1,132,098
Total Expenses	\$ 42,708,845	\$ 11,373	\$ 42,720,218	\$ 38,722,293
Net assets – beginning,	\$ 23,941,567	\$ 58,703	\$ 24,000,270	\$ 23,144,193
Change in net assets	(\$ 155,472)	\$ 13,763	(\$ 141,709)	(\$ 898,077)
Net assets – ending	\$ 23,786,095	\$ 72,466	\$ 23,858,561	\$ 24,042,270

GOVERNMENTAL ACTIVITIES

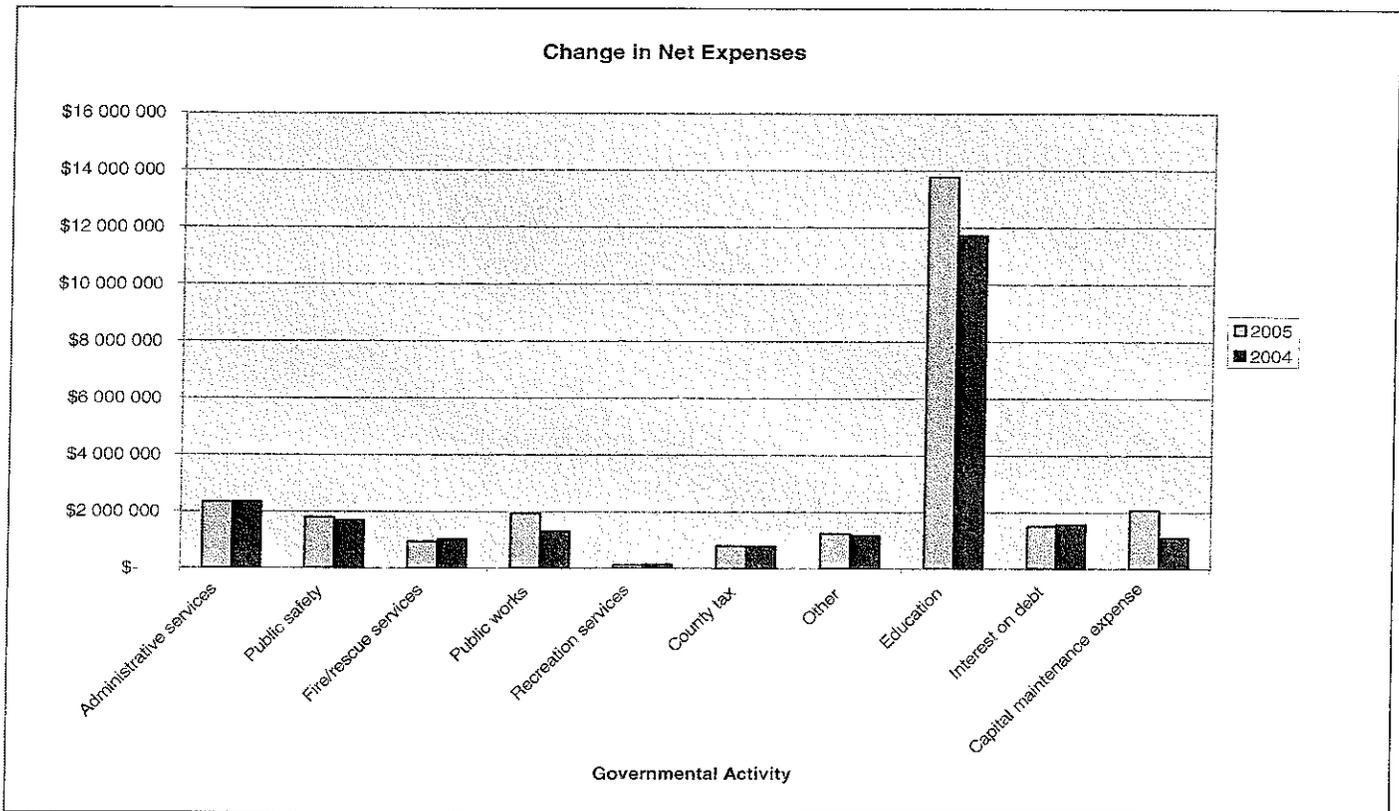
The cost of all governmental activities for 2005 was \$42,708,845. However, as shown in the statement of activities, the amount paid by taxpayers through local property taxes for these activities was \$20,569,379 because some of the cost was paid by those who directly benefited from the programs \$2,612,380. The Town paid for the remaining “public benefit” portion of governmental activities with \$19,527,086 in non-property taxes and other revenues, such as investment earnings, state revenue sharing, excise taxes, homestead exemption reimbursement, and other miscellaneous revenues.

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, debt and capital expenses. Each program’s net cost (total cost less revenues generated by the activities) is presented below for 2005.

The net expense represents that portion of governmental activities expenses that were 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.

Statement of Activities	2005 Expense	2005 Program revenue	2005 Net expense	2004 Net Expense
Governmental activity				
Administrative services	(\$ 2,328,119)	\$ -	(\$ 2,328,119)	(\$ 2,343,633)
Public safety	(1,859,536)	62,243	(1,797,293)	(1,687,784)
Fire/rescue services	(1,243,407)	304,056	(939,351)	(1,018,900)
Public works	(2,822,154)	884,144	(1,938,010)	(1,301,429)
Recreation services	(348,078)	233,368	(114,710)	(133,650)
County tax	(795,099)	-	(795,099)	(780,524)
Other	(1,278,329)	44,928	(1,233,401)	(1,174,376)
Education	(28,328,083)	14,558,808	(13,769,275)	(11,729,867)
Interest on debt	(1,520,711)	-	(1,520,711)	(1,576,700)
Capital maintenance expense	(2,185,329)	111,004	(2,074,325)	(1,101,064)
Total government activities	(\$ 42,708,845)	\$ 16,198,551	(\$ 26,510,294)	(\$ 22,847,927)

TOWN OF WINDHAM
Management's Discussion and Analysis, Continued



Total resources of \$66,494,940 were available during the year to finance governmental activities, consisting of net assets of \$23,941,567 at July 1, 2004, program revenues amounting to \$16,198,551, and general revenues of \$26,354,822.

Total governmental activities expenses were \$42,708,845, resulting in a decrease in net assets by \$155,472 from \$23,941,567 to \$23,786,095

Total governmental activities expenses rose by \$3,997,925, or 10.3%, while net expenses for governmental activities increased by \$3,662,367, or 16% from 2004 to 2005

THE TOWN'S FUNDS

The following is an analysis of balances in the Town and School's general fund for 2005. Comparative information is provided for fiscal years 2004, 2003 and 2003.

Statement of Revenues			
	2005	2004	2003
Revenues by source			
Taxes	\$ 23,031,877	\$ 20,591,442	\$ 18,525,032
Licenses and permits	485,452	473,089	353,656
Intergovernmental revenue	13,579,114	12,555,114	12,620,977
Charges for service	1,241,378	1,036,216	962,189
Interest earned	187,516	135,264	143,948
Other revenues	894,720	661,317	533,929
Total revenues	\$ 39,420,057	\$ 35,452,442	\$ 33,139,731

TOWN OF WINDHAM
Management's Discussion and Analysis, Continued

The following information compares general fund expenditures for 2005, 2004, and 2003.

Statement of Expenditures	2005	2004	2003
Expenditures by function			
Administrative services	\$ 2,302,991	\$ 2,207,687	\$ 2,195,859
Public safety	1,724,516	1,612,473	1,499,575
Fire/rescue services	1,190,112	1,187,745	1,100,401
Public works	2,772,626	2,530,688	2,362,681
Recreation services	193,792	187,805	185,591
County tax	795,099	780,524	742,901
Other	1,093,473	969,377	1,005,886
Education	24,056,224	22,231,858	21,093,780
Debt service	2,682,711	2,488,556	1,151,045
Capital outlay	826,565	716,789	1,182,959
Total expenditures	\$ 37,638,109	\$ 34,913,502	\$ 32,521,038

DEBT ADMINISTRATION

Debt, considered a liability of governmental activities, had a net decrease in 2005 of \$1,464,460 through a combination of new capital leases for equipment (\$167,127) and the retirement of debt principal (\$1,631,587).

Statement of Governmental Activities Debt	
Debt payable at June 30, 2004	\$ 42,101,685
Add: new capital lease purchases	167,127
Total debt before retirement of principal	\$ 42,268,812
Less: debt retired	1,631,587
Debt payable at June 30, 2005	\$ 40,637,225

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, 2005 net capital assets of governmental activities totaled \$58,030,342, an increase of \$334,220 over the year ending June 30, 2004. The most significant changes resulted from continuing work on expansion and renovation of the high school. Depreciation on capital assets is recognized in the government-wide financial statements.

Statement of Capital Assets	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
Governmental assets				
Land, buildings and improvements	\$ 62,331,332	\$ 2,065,870	\$ -	\$ 64,397,202
Vehicles	4,625,574	337,919	11,001	4,952,492
Machinery and equipment	5,315,670	477,750	-	5,793,420
Total capital assets	\$ 72,272,576	\$ 2,881,539	\$ 11,001	\$ 75,143,114
Accumulated depreciation	(14,576,454)	(2,540,719)	4,401	(17,112,772)
Governmental assets, net	\$ 57,696,122	\$ 340,820	\$ 6,600	\$ 58,030,342

TOWN OF WINDHAM
Management's Discussion and Analysis, Continued

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 \$1,140,219 on road and street maintenance and improvements for the fiscal year ended June 30, 2005 through a combination of annual appropriations and bond funds. Both types of activities may contribute to improvements in the overall condition of roads. Based on a pavement condition rating conducted in 2005, the average rating for town roads has improved to 4.15, compared with an average rating of 3.21 when the town's first pavement condition rating survey done in 2001.

Including elements of road maintenance and improvement other than pavement condition, such as drainage systems, pedestrian and other amenities, and traffic safety, 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) through the year 2006 to be at least \$1,000,000, or \$500,000 per year.

Drainage structures (culverts, catch basins, etc.) are expected to be the subject of a condition assessment during fiscal 2005-2006.

BUDGETS AND BUDGETARY ACCOUNTING

General Fund Budget Variances

The 2004-2005 general fund budget increased 11.03 % to \$25,888,911 from 2003-2004, due largely to anticipated debt service and interest costs associated with the renovation and expansion of the high school. Significant increases in state school construction assistance are expected in 2005-2006 to help offset some of the increases resulting from the high school project.

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.

Historical Trend

As the Town enters fiscal 2006 it does so with solid financials, despite a very slight decrease in net assets (0.8%). The Town continues to experience significant tax base growth (approximately 7.8% for 2005), and has achieved

TOWN OF WINDHAM
Management's Discussion and Analysis, Continued

significant improvement in the quality of its roads, which represent the bulk of its public infrastructure. Increased costs due to the debt on the renovated high school will be mitigated to a significant degree as the Town experiences the full effect of state participation in debt service, the debt service "circuit breaker," and share of operating costs in fiscal 2005-2006.

In order to achieve a tax rate acceptable to the community, a series of efforts using reserves and reallocation of carry-over funds has shielded 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 in this direction will increase the strain on the Town's resources, fund balance in particular, and will make it more difficult to maintain adequate levels of fund balance while providing current levels of service and implementing the Town's capital improvements plan.

The Budget

The approved budget for fiscal 2006 is \$39,767,491 and represents an increase of \$ 3,489,856 or 9.62% over the budget for fiscal 2005. Since fiscal 1999, the annual budget has increased by an average of 6.5% per year.

The original budget requests from department heads were based on preservation of the current level of programs and services. 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/Surplus

Amounts budgeted as revenue other than property taxes have increased from \$12,565,663 in 1999 to \$20,920,921 in the approved budget for 2006, an average annual increase of 9.49%. Over this period, other revenues have hovered around 50% of total revenues at the same time that the Town has become more accurate in its revenue forecasting and projection. This results from the Town acting to meet more of its capital equipment and facilities needs, which typically are not offset by other revenues, as well as responding to rising costs and service level expectations and demands in the community. Revenues other than property taxes also fluctuate (i.e. interests earnings, permit fees, etc.) as a result of other factors in the economy which significantly affects the Town's underlying financial condition.

As the Town seeks to maximize use of non-property tax revenues in its budgeting it should remain conservative in its approach and leave an appropriate "safety margin" to guard against revenues failing to meet estimates. This will also contribute to maintaining an adequate level of fund balance. The Town should also be cautious in its use of fund balance as a tool in managing its local tax rate and use only sustainable levels as a normal practice, with higher amounts being used only to offset "one time" or otherwise unusual expenses.

Major Increases

The major increase in the governmental activities budget for 2006 is due to an additional \$2,264,311, an increase of 9.2%, in the education budget. Most of this increase is due to the costs of debt service for the high school renovation and expansion project approved by the voters in December 2000 plus costs associated with staffing and operating the larger building. The remaining \$1,225,545 stems from the increased operating costs necessary to provide essentially the same programs and service levels as in 2005. County taxes, which are not included in the budget figures discussed above, increased \$4,094 or 0.6% to \$799,193 for fiscal 2005-06. County taxes are established through the county's budget approval process and are allocated to cities and towns in the county according to state law. The Town has no control over the amount of, or the amount of increase in, county taxes.

Savings/Increasing Demands

The Town's department heads and senior staff are always looking for ways to use the Town's resources more efficiently, effectively, and economically, as well as to improve the overall quality of service received by citizens. In recent years the Town has implemented a mail-in motor vehicle re-registration service as well as participating in the state's online "Rapid Renewal" program, and has expanded the range of information available to the public on

TOWN OF WINDHAM
Management's Discussion and Analysis, Continued

its website. These are examples of extending the availability of services beyond normal operating hours and locations, of bringing the service to the customer instead of the customer having to come to the service. More online services and access to information can be expected in the future.

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 have been increasing in recent years, along with the use of capital lease purchase agreements to help manage the impact of the costs to replace major equipment. Facilities funding has also increased, but will take longer to make a significant impact on meeting the long-term facilities needs of the Town.

The Future

The Town is in good financial condition. 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. In addition, the Town will have to demonstrate compliance with a new statute governing increases in the property tax levy from one year to the next. The School Department will also be required to demonstrate compliance with new school funding laws. Both of these laws, enacted by the Maine Legislature in early 2005 and in effect for the 2005-2006 fiscal year, contain provisions for voter approval of expenditures or increases in property tax levies over a certain amount.

Summary

The fiscal year 2006 budget will reflect a *decrease* in the tax rate of \$1.20, from \$19.00 per thousand dollars of assessed value to \$17.80, a decrease of 6.4%. This decrease, following two years of significant tax increases, is mainly the result of additional state school funding and state participation on high school project debt service. The decrease resulting from state participation in high school project debt service was anticipated and disclosed to the voters when the project was approved.

The high school project, generally regarded as the largest and most important capital facilities project the Town has ever undertaken, was essentially complete at the end of the fiscal year for which these reports were issued. In fiscal 2006 the Town will see the full effect of state assistance for debt repayment and operations. 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.

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, 2005

	Primary Government Governmental Activities	Component Unit WEDC
ASSETS		
Cash and cash equivalents	\$ 9,903,004	25,026
Investments	147,431	45,437
Receivables:		
Accounts	178,244	-
Taxes receivable - prior years	119,500	-
Taxes receivable - current year	641,899	-
Tax liens	129,946	-
Inventory	23,772	-
Capital assets, not being depreciated	2,334,014	-
Capital assets, being depreciated	55,696,328	3,577
Total assets	69,174,138	74,040
LIABILITIES		
Accounts payable and other current liabilities	1,307,790	1,574
Accrued payroll	1,916,786	-
Compensated absences payable	1,220,532	-
Accrued interest	241,209	-
Taxes paid in advance	64,501	-
Noncurrent liabilities:		
Due within one year	2,832,170	-
Due in more than one year	37,805,055	-
Total liabilities	45,388,043	1,574
NET ASSETS		
Invested in capital assets, net of related debt	17,393,117	3,577
Restricted for:		
Nonexpendable trust principal	41,874	-
Unrestricted	6,351,104	68,889
Total net assets	\$ 23,786,095	\$ 72,466

See accompanying notes to financial statements.

TOWN OF WINDHAM, MAINE
Statement of Activities
For the year ended June 30, 2005

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	\$ 2,328,119	-	-	-	(2,328,119)	-
Public safety	1,859,536	7,107	55,136	-	(1,797,293)	-
Fire/rescue services	1,243,407	304,056	-	-	(939,351)	-
Public works	2,822,154	520,448	363,696	-	(1,938,010)	-
Recreation services	348,078	233,368	-	-	(114,710)	-
County tax	795,099	-	-	-	(795,099)	-
Other	1,278,329	-	44,928	-	(1,233,401)	-
Education	28,328,083	1,547,401	13,011,407	-	(13,769,275)	-
Interest on debt service	1,520,711	-	-	-	(1,520,711)	-
Capital maintenance expenses	2,185,329	-	20,800	90,204	(2,074,325)	-
Total governmental activities	42,708,845	2,612,380	13,495,967	90,204	(26,510,294)	-
Total primary government	\$ 42,708,845	2,612,380	13,495,967	90,204	(26,510,294)	-
Component unit:						
WEDC	11,373	-	25,000	-	-	13,627
General revenues:						
Property taxes, levied for general purposes					20,569,379	-
Excise taxes					2,716,235	-
Supplemental taxes and lien fees					24,163	-
Motor vehicle registration fees					59,904	-
Franchise fees					73,977	-
Licenses and permits					425,548	-
Grants and contributions not restricted to specific programs:						
Homestead exemption					352,030	-
Other State aid					21,950	-
State Revenue Sharing					1,232,396	-
Unrestricted investment earnings					206,157	136
Miscellaneous					673,083	-
Total general revenues					26,354,822	136
					Change in net assets	(155,472) 13,763
					Net assets - beginning	23,941,567 58,703
					Net assets - ending	\$ 23,786,095 72,466

See accompanying notes to financial statements.

TOWN OF WINDHAM, MAINE
Balance Sheet
Governmental Funds
June 30, 2005

	General	School Operations	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 9,691,592	-	211,412	9,903,004
Investments	10,276	-	137,155	147,431
Receivables:				
Accounts	56,951	54,530	66,763	178,244
Taxes receivable - prior years	119,500	-	-	119,500
Taxes receivable - current year	641,899	-	-	641,899
Tax liens	129,946	-	-	129,946
Interfund loans receivable	-	3,427,713	1,694,025	5,121,738
Inventory	-	-	23,772	23,772
Total assets	\$ 10,650,164	3,482,243	2,133,127	16,265,534
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	436,148	240,509	147,583	824,240
Accrued payroll	195,428	1,661,823	59,535	1,916,786
Interfund loans payable	4,644,198	458,429	19,111	5,121,738
Taxes paid in advance	64,501	-	-	64,501
Deferred tax revenue	614,000	-	-	614,000
Unearned income - impact fees	81,461	-	-	81,461
Inspection deposits and miscellaneous liabilities	306,615	95,474	-	402,089
Total liabilities	6,342,351	2,456,235	226,229	9,024,815
Fund balances:				
Reserved for:				
Inventory	-	-	23,772	23,772
Nonexpendable trust principal	-	-	41,874	41,874
Unreserved:				
Designated - subsequent year	1,606,442	-	-	1,606,442
Unreserved, reported in:				
General fund	2,701,371	-	-	2,701,371
Special revenue funds	-	1,026,008	1,625,582	2,651,590
Capital projects funds	-	-	90,678	90,678
Permanent funds	-	-	124,992	124,992
Total fund balances	4,307,813	1,026,008	1,906,898	7,240,719
Total liabilities and fund balances	\$ 10,650,164	3,482,243	2,133,127	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				58,030,342
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.				614,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds:				
Compensated absences payable				(1,220,532)
Accrued interest				(241,209)
Capital leases				(1,403,603)
Bonds payable				(39,233,622)
Net assets of governmental activities				\$ 23,786,095

See accompanying notes to financial statements.

TOWN OF WINDHAM, MAINE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2005

	General	School Operations (Schedule B)	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 23,031,877	-	175,900	23,207,777
Licenses and permits	485,452	-	-	485,452
Intergovernmental	2,015,000	9,274,114	1,613,433	12,902,547
Intergovernmental - on-behalf payments	-	2,290,000	-	2,290,000
Charges for services	537,754	703,624	1,066,946	2,308,324
Interest earned	187,516	-	18,641	206,157
Other	522,373	372,347	162,996	1,057,716
Total revenues	26,779,972	12,640,085	3,037,916	42,457,973
Expenditures:				
Current:				
Administrative services	2,302,991	-	-	2,302,991
Public safety	1,724,516	-	54,693	1,779,209
Fire/rescue services	1,190,112	-	-	1,190,112
Public works	2,772,626	-	-	2,772,626
Recreation services	193,792	-	150,667	344,459
County tax	795,099	-	-	795,099
Other	1,093,473	-	55,306	1,148,779
Education	-	21,766,224	2,664,729	24,430,953
Education - Maine State Retirement on-behalf payments	-	2,290,000	-	2,290,000
Debt service	365,443	2,317,268	-	2,682,711
Capital outlay	659,438	167,127	4,039,634	4,866,199
Total expenditures	11,097,490	26,540,619	6,965,029	44,603,138
Excess (deficiency) of revenues over (under) expenditures	15,682,482	(13,900,534)	(3,927,113)	(2,145,165)
Other financing sources (uses):				
Capital lease proceeds	-	167,127	-	167,127
Operating transfers - in	220,048	14,377,909	900,684	15,498,641
Operating transfers - out	(15,428,741)	(67,100)	(2,800)	(15,498,641)
Total other financing sources (uses)	(15,208,693)	14,477,936	897,884	167,127
Net change in fund balances	473,789	577,402	(3,029,229)	(1,978,038)
Fund balances, beginning of year	3,834,024	448,606	4,936,127	9,218,757
Fund balances, end of year	\$ 4,307,813	1,026,008	1,906,898	7,240,719

See accompanying notes to financial statements

TOWN OF WINDHAM, MAINE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
For the year ended June 30, 2005

	Budgeted amounts		Actual	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Taxes	\$ 22,748,062	22,748,062	23,031,877	283,815
Licenses and permits	365,064	365,064	485,452	120,388
Intergovernmental	1,696,830	1,696,830	2,015,000	318,170
Charges for services	507,900	507,900	537,754	29,854
Interest earned	130,000	130,000	187,516	57,516
Other	441,055	441,055	522,373	81,318
Total revenues	25,888,911	25,888,911	26,779,972	891,061
Expenditures:				
Current:				
Administrative services	2,610,157	2,610,157	2,302,991	307,166
Public safety	1,824,134	1,824,134	1,724,516	99,618
Fire/rescue services	1,284,307	1,284,307	1,190,112	94,195
Public works	2,555,752	2,555,752	2,772,626	(216,874)
Recreation services	206,525	206,525	193,792	12,733
County tax	795,099	795,099	795,099	-
Other	1,309,845	1,309,845	1,093,473	216,372
Debt service	379,006	379,006	365,443	13,563
Capital outlay	1,732,795	1,732,795	659,438	1,073,357
Total expenditures	12,697,620	12,697,620	11,097,490	1,600,130
Excess of revenues over expenditures	13,191,291	13,191,291	15,682,482	2,491,191
Other financing sources (uses):				
Use of undesignated fund balance	2,505,336	2,505,336	-	(2,505,336)
Operating transfers from other funds	220,048	220,048	220,048	-
Operating transfers to other funds	(15,916,675)	(15,916,675)	(15,428,741)	487,934
Total other financing sources (uses)	(13,191,291)	(13,191,291)	(15,208,693)	(2,017,402)
Net change in fund balance	-	-	473,789	473,789
Fund balance, beginning of year			3,834,024	
Fund balance, end of year	\$		4,307,813	

See accompanying notes to financial statements.

TOWN OF WINDHAM, MAINE
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Private-purpose Trust Fund (Scholarships)	Agency Fund (School Activity)
ASSETS		
Cash and cash equivalents	\$ 60,612	227,985
Total assets	\$ 60,612	227,985
LIABILITIES		
Due to student groups	-	227,985
NET ASSETS		
Held in trust	\$ 60,612	-

See accompanying notes to financial statements

TOWN OF WINDHAM, MAINE
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended June 30, 2005

	Private-purpose Trust Fund (Scholarships)
Additions:	
Donations	\$ 60,466
Investment income	1,146
Total additions	61,612
Deductions:	
Scholarships awarded	1,000
Total deductions	1,000
Change in net assets	60,612
Net assets, beginning of year	-
Net assets, end of year	\$ 60,612

See accompanying notes to financial statements.

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Town of Windham, Maine was incorporated in 1762 and operates under a Council-Manager form of Government, adopted by charter in 1975.

In evaluating how to define the reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit was made by applying the criteria set forth by accounting principles generally accepted in the United States of America. The criterion used defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Application of this criterion and determination of type of presentation involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. Based upon the application of these criteria, there is one component unit that should be included as part of this reporting entity.

Discretely Presented Component Unit - The Windham Economic Development Corporation was established to promote economic development in the Town. Its major funding source is the Town of Windham and the majority of its board members are appointed by the Windham Town Council.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Town has elected not to allocate indirect costs among the programs, functions and segments. 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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported 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.

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as certain compensated absences and claims and judgments, are recorded only when the payment is due.

Those revenues susceptible to accrual are property taxes, interest, and charges for services. Other receipts and taxes become measurable and available when cash is received by the Town and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The Town reports the following major governmental funds:

The General Fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The School Operations Fund is used to account for the operations of the Town of Windham School Department, the revenues of which are dedicated by State statute for school purposes.

Additionally, the Town reports the following fund type:

Fiduciary funds account for assets held by the Town in a trustee capacity or as an agent on behalf of others. The Town's fiduciary funds include the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. The funds are used to account for assets that the Town holds for others in an agency capacity.

Private-purpose trust funds are used to account for assets that the Town holds and uses for scholarships.

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

D. Cash and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and time deposits. Investments are stated at fair value.

E. Interfund Loans Receivable/Payable

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund loans or as interfund advances (i.e. the noncurrent portion of interfund loans).

F. Inventories

Inventories are valued at the lower of cost (first-in, first-out basis) or market, and consist of food and supplies, and include the value of government surplus items donated to the School Lunch Program.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than the following thresholds and an estimated useful life in excess of one year:

Land and improvements	\$ 25,000
Buildings and improvements	25,000
Machinery, equipment and vehicles	5,000
Infrastructure	100,000

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Town has elected to use the Modified Approach for reporting certain infrastructure assets.

The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government is depreciated using the straight-line method over the assets' estimated useful lives ranging from 5 to 40 years.

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local government's basic financial statements. In accordance with Statement No. 34, the Town has included the value of, at a minimum, "major" infrastructure assets as defined in GASB Statement No. 34 that were acquired, constructed or significantly reconstructed, or that received significant improvements after June 30, 1980 into the 2004-2005 basic financial statements.

The Town elected to use the Modified Approach as defined by Statement No. 34 only for roads. The Town performed a physical assessment of all road conditions in 2004, since that is the only infrastructure for which the Modified Approach is being used. This condition assessment will be performed every 3 years.

The Town commissioned a physical condition assessment of the streets and roads in 2001 and again, three years later, in 2004. These streets, primarily pavement, were defined as all physical features associated with the operation of motorized vehicles that exist within the limits of right of way. This condition assessment will be performed every 3 years. Each street was assigned a physical condition based on several potential defects. A pavement condition rating (PCR), a nationally recognized rating, was assigned to each street and expressed in a continuous scale from 0 to 5, where 0 is impassable and 5 is perfect. The following conditions were defined: very good condition was assigned to those segments with a rating between 3.61 -- 5.00, good condition was assigned to those segments with a rating between 3.21 -- 3.60, Fair - good condition was assigned to those segments with a rating between 2.81 -- 3.20, fair condition was assigned to those segments with a rating between 2.41 -- 2.80, fair - poor condition was assigned to those segments with a rating between 2.01 -- 2.40, poor condition was assigned to those segments with a rating between 1.61 -- 2.00, and very poor condition was assigned to those segments with a rating between 0.00 -- 1.60. The Town's policy relative to maintaining the street assets is to achieve a minimum rating of 2.81 for all street segments. This acceptable rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds.

In 2001 and again in 2004, the Town subcontracted with an independent engineering firm to inventory and perform a condition assessment on all roads. Other infrastructure assets, catch basins and manholes, storm drainage, sidewalks and bridges are recorded using the Depreciation Approach.

In accordance with GASB Statement No. 34, the Town is required to retroactively report all major general infrastructure assets by June 30, 2007. As of June 30, 2005, the Town has not yet determined the amount to be recorded for storm drainage, catch basins and manholes.

For all other capital assets: buildings, vehicles, and equipment, the Town elects to use the Depreciation Approach as defined by Statement No. 34 for reporting. The Town conducted an inventory of all other capital assets for fiscal year 2003 and performs internal updates annually.

This original and updated process determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Original costs were developed in one of three ways: 1) historical records; 2) standard unit costs appropriate for the construction/acquisition date; or 3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, unrecovered cost method was computed using industry accepted life expectancies for each capital asset. The book value was then computed by deducting the accumulated depreciation from the original cost.

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

H. Vacation and Sick Leave

Under terms of personnel policies and union contracts, vacation and sick leave are granted in varying amounts according to length of service and is accrued ratably over the year. Sick time is not paid unless an employee is ill, or retires in good standing. Amounts of accumulated leave that are not paid by year-end are reported in the government-wide financial statements.

I. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs if material to basic financial statements, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charged and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designated fund balances represent tentative plans for future use of financial resources.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly chargeable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as operating transfers.

L. Use of Estimates

Preparation of the Town's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

M. Comparative Data/Reclassifications

Comparative data for the prior year has been presented only for certain funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budgets are formally adopted for the General Fund, School Operations Fund and Adult Education Fund each year through the passage of a Town warrant, and are prepared on a basis consistent with accounting principles generally accepted in the United States of America as noted below. The Town's other funds do not have legally adopted budgets but have adopted budgets through formal authorizations by the Town Council, School Board and through grant agreements.

In the General Fund, the level of control (level at which expenditures may not exceed budget) is the Department. The Town has adopted the Expenditure Control Budgeting Policy. This policy allows all unexpended departmental budgetary accounts except for salary and benefit lines to be carried over to the succeeding year's budget. Once adopted, the budget can only be amended by the Town Council, and then only to the extent that excess revenues over estimated amounts can be used to increase appropriation accounts.

In the School Operations Fund, the level of control is also the Department. Generally, all unexpended budgetary accounts lapse to the School Operations Fund fund balance at the close of the fiscal year. Once adopted, the budget can be amended by the School Board, but only through transfers between expenditure accounts.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds during the year. At year end, open encumbrances are reviewed and either recorded as a liability, carried forward as a designation of fund balance or voided.

B. Budgetary vs. GAAP Basis of Accounting

As required by accounting principles generally accepted in the United States of America (GAAP), the Town has recorded a revenue and an expenditure for Maine State Retirement contributions made by the State of Maine on behalf of the Windham School Department. These amounts have not been budgeted in the School Operations Fund (a special revenue fund) and result in a difference in reporting on a budgetary basis of accounting vs. reporting under accounting principles generally accepted in the United States of America of \$2,290,000. These amounts have been included as an intergovernmental revenue and an education expenditure on Statement 2 (GAAP basis) and Statement 4. There is no effect on the fund balance at the end of the year.

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

REVISED BUDGET

The revised budget presented for the General Fund in the Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Statement 6), includes various adjustments as follows:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other financing sources (uses)</u>
2005 budget as originally adopted	\$ 36,957,635	(36,957,635)	-
Designated carryforward balance	-	(1,947,286)	1,947,286
Budgeted use of surplus	(558,050)	-	558,050
Transfer to Sewer Fund	-	46,000	(46,000)
Transfer to Equipment Replacement Fund	-	460,000	(460,000)
Transfer to Road Projects	-	483,433	(483,433)
Transfer to School	(10,213,207)	24,647,430	(14,434,223)
Transfer from Cemetery	(2,800)	-	2,800
Transfer from IIF	(217,248)	-	217,248
Transfer to IIF	-	493,019	(493,019)
Budgeted IIF fund variance (\$253,319 - \$175,900)	(77,419)	77,419	-
Totals	\$ 25,888,911	(12,697,620)	(13,191,291)

C. Excess of Expenditures Over Appropriations

For the year ended June 30, 2005, expenditures exceeded appropriations in the following departments:

Public Works	\$ 216,874
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This over-expenditure was partially offset by the receipt of unbudgeted FEMA assistance.

DEPOSITS AND INVESTMENTS

As of June 30, 2005, the Town had the following investments:

	<u>Fair value</u>	<u>Weighted average maturity (years)</u>
Money market	\$ 192,868	N/A

Custodial credit risk- deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. The Town currently does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$7,367,030 of the Town’s bank balance of \$10,372,188 was exposed to custodial credit risk because it was uninsured and uncollateralized and \$2,601,954 was collateralized by underlying securities held by the related bank, which were not in the Town’s name.

Custodial credit risk- investments – For investments, this is the risk that in the event of failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Town currently does not have an investment policy for custodial credit risk.

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

Of the Town's \$192,868 investment in money market, 100% was collateralized by underlying securities held by the related bank, which were not in the Town's name.

Interest rate risk – The Town does not have a deposit policy for interest rate risk

PROPERTY TAX

Property taxes for the current year were committed on July 15, 2004 on the assessed value listed as of the prior April 1, for all real and personal property located in the Town. Payment of taxes was due in two equal installments. Interest was charged at 6.5% on all tax bills unpaid as of October 2, 2004 and April 2, 2005. Assessed values are periodically established by the Town's Assessor at 85% of assumed market value

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$63,801 for the year ended June 30, 2005.

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Town has the authority to foreclose on property eighteen months after the filing of the lien if the tax liens and associated costs remain unpaid

The following summarizes the 2005 and 2004 levies:

	<u>2005</u>	<u>2004</u>
Assessed value	\$ 1,073,409,600	1,038,780,300
<u>Tax rate (per \$1,000)</u>	<u>19.00</u>	<u>17.30</u>
Commitment	20,394,782	17,970,917
<u>Supplemental taxes assessed</u>	<u>13,784</u>	<u>21,110</u>
	20,408,566	17,992,027
Less:		
Abatements	17,352	23,786
<u> Collections</u>	<u>19,749,315</u>	<u>17,402,248</u>
<u>Receivable at June 30</u>	<u>\$ 641,899</u>	<u>565,993</u>
Due date(s)	(1/2) October 1, 2004 (1/2) April 1, 2005	(1/2) October 1, 2003 (1/2) April 1, 2004
Interest rate on delinquent taxes	6.5%	7%
Collection rate	96.85%	96.85%

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance June 30, <u>2004</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2005</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,741,734	-	-	1,741,734
School land	592,280	-	-	592,280
Total capital assets, not being depreciated	2,334,014	-	-	2,334,014
Capital assets, being depreciated:				
Buildings	4,233,555	-	-	4,233,555
Equipment	3,024,217	58,215	-	3,082,432
Vehicles	3,245,317	142,454	-	3,387,771
School vehicles	1,380,257	195,465	11,001	1,564,721
School equipment	1,856,517	256,164	-	2,112,681
School buildings	47,331,878	2,065,870	-	49,397,748
School furniture	434,936	163,371	-	598,307
Infrastructure	8,431,885	-	-	8,431,885
Total capital assets, being depreciated	69,938,562	2,881,539	11,001	72,809,100
Less accumulated depreciation for:				
Buildings	1,639,218	101,717	-	1,740,935
Equipment	1,704,167	346,322	-	2,050,489
Vehicles	1,230,652	286,634	-	1,517,286
School vehicles	811,950	145,304	4,401	952,853
School equipment	1,072,180	155,779	-	1,227,959
School buildings	7,640,446	1,375,476	-	9,015,922
School furniture	-	93,794	-	93,794
Infrastructure	477,841	35,693	-	513,534
Total accumulated depreciation	14,576,454	2,540,719	4,401	17,112,772
Total capital assets being depreciated, net	55,362,108	340,820	6,600	55,696,328
Governmental capital assets, net	\$ 57,696,122	340,820	6,600	58,030,342

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Administrative services	\$ 51,368
Public safety	163,874
Fire/rescue services	190,763
Public works	224,094
Recreation	3,619
Other (Town Clerk, Library, and Cemetery)	136,648
Education	1,770,353
Total depreciation expense – governmental activities	\$ 2,540,719

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

INTERFUND BALANCES

Individual interfund receivable and payable balances at June 30, 2005, were as follows:

	<u>Interfund receivables</u>	<u>Interfund payables</u>
General Fund	\$ -	4,644,198
Special revenue funds:		
Town special revenue funds	1,252,574	-
School operations	3,427,713	458,429
Sweetser fund	160	-
School special revenue funds	76,233	-
R.E.A.L. School	25,558	-
Adult education	138,421	-
School lunch program	-	13,511
Capital project funds:		
High School construction (local)	110,401	-
Locally funded school projects	90,678	-
Permanent funds:		
Perpetual care fund	-	5,600
Totals	\$ 5,121,738	5,121,738

ACCRUED PAYROLL

The Town records the liability for teachers' and certain other contracted employees' summer salaries and for wages and related expenditures of hourly employees. At June 30, 2005, accrued wages amounted to \$1,916,786, of which \$1,721,358 applies to the School Funds and the remaining \$195,428 applies to the Town's General Fund.

STATUTORY DEBT LIMIT

In accordance with 30 MRSA, Section 5061, as amended, no municipality shall incur debt for specified purposes in excess of certain percentages of state valuation of such municipality. As of June 30, 2005, the Town has not exceeded these percentages.

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
General obligation bonds	\$ 40,388,993	-	1,155,371	39,233,622	2,449,997
Capital leases	1,712,692	167,127	476,216	1,403,603	382,173
Totals	\$ 42,101,685	167,127	1,631,587	40,637,225	2,832,170

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

LONG-TERM DEBT

General obligation bonds, notes, and capital leases payable at June 30, 2005 are comprised of the following:

Primary government:

	<u>Original amount</u>	<u>Interest rate</u>	<u>Final maturity date</u>	<u>Balance end of year</u>
<u>General obligation bonds and promissory notes</u>				
1988 Elementary school construction	\$ 7,765,000	Var.	2008	1,155,000
1989 Public safety building construction	1,600,000	Var.	2009	320,000
1999 Windham School	2,820,000	Var.	2015	2,074,432
2001 Windham School	710,475	Var.	2007	284,190
2003 General Obligation Bonds	35,787,000	Var.	2025	35,400,000
Total general obligation bonds and promissory notes				39,233,622
<u>Capital leases</u>				
Town:				
2002 Squad Truck		3.49%	2006	74,890
2002 Loader and sweeper		3.49%	2007	98,292
2003 Dump Truck		3.585%	2008	65,036
2004 Aerial Platform & Ladder Truck		3.55%	2014	673,244
School:				
2003 Passenger Freightliner bus (1)		4.50%	2007	21,590
2004 Passenger Freightliner bus (1)		4.78%	2008	32,500
2001 Copiers		3.50%	2009	138,637
2002 Passenger Freightliner bus		4.25%	2006	10,270
2003 Climate Control		4.00%	2007	158,050
2005 Passenger Freightliner bus		3.90%	2009	43,698
2005 Passenger Freightliner bus		3.90%	2009	43,698
2005 Passenger Freightliner bus		3.90%	2009	43,698
Total capital leases				1,403,603
Total primary government general obligation bonds, promissory notes and capital leases				\$ 40,637,225

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

LONG-TERM DEBT, CONTINUED

The annual requirements to amortize all debt outstanding as of June 30, 2005 on primary government general obligation bonds and notes with interest ranging from 4.00% to 7.50% are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,449,997	1,457,246	3,907,243
2007	2,452,072	1,400,372	3,852,444
2008	2,462,576	1,340,899	3,803,475
2009	2,080,648	1,275,590	3,356,238
2010	2,009,177	1,209,686	3,218,863
2011-2015	10,209,152	4,938,157	15,147,309
2016-2020	9,050,000	2,975,044	12,025,044
2021-2025	8,520,000	992,769	9,512,769
Totals	\$ 39,233,622	15,589,763	54,823,385

The following is a schedule of future minimum lease payments under the capital lease and the present value of the minimum lease payment at June 30, 2005:

<u>Fiscal year ending</u>	<u>Town</u>	<u>School</u>	<u>Total capital leases</u>
2006	\$ 242,031	191,797	433,828
2007	162,812	181,078	343,890
2008	111,951	85,663	197,614
2009	88,699	73,777	162,476
2010	88,699	-	88,699
2011-2014	354,797	-	354,797
Total minimum lease payments	1,048,989	532,315	1,581,304
Less amount representing interest	137,527	40,174	177,701
Present value of future minimum lease payments	\$ 911,462	492,141	1,403,603

DIRECT AND OVERLAPPING DEBT

The Town's proportionate share of debt of all local government units which provide services within the Town's boundaries, and which must be borne by properties in the Town, is summarized as follows:

<u>Units</u>	<u>Net debt outstanding</u>	<u>Percentage applicable to the Town</u>	<u>Town's proportionate share of debt</u>
Town of Windham	\$ 39,233,622	100%	39,233,622
Cumberland County	12,590,000	4.23%	532,101
Portland Water District	22,940,000	6.26%	1,435,540
Town of Gorham - Little Falls sewer project	44,800	84.23%	37,736

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which the Town either carries commercial insurance or participates in a public entity risk pool. Currently, the Town participates in a public entity risk pool sponsored by the Maine Municipal Association and the School Department participates in a public entity risk pool sponsored by the Maine School Management Association for workers' compensation coverage. Based on the coverage provided by the pools described above, as well as coverage provided by commercial insurance purchased, the Town is not aware of any material actual or potential claim liabilities which should be recorded at June 30, 2005.

CONTINGENT OBLIGATIONS

Regional Waste Systems

Regional Waste Systems, Inc. (RWS), a Maine corporation with twenty participating municipalities including the Town of Windham, has issued bonds to fund the design, construction and start-up of a resource recovery system. The bonds are special revenue obligations of RWS, payable from and secured by a pledge of RWS revenues. The bonds do not constitute a debt or liability within the meaning of any constitutional or statutory provision of the State of Maine, or a pledge of the full faith and credit of any political subdivision of the State of Maine. RWS has no taxing power. Notwithstanding the foregoing, pursuant to the Waste Handling Agreements, the participating municipalities are obligated severally to deliver certain of the solid waste produced within each such participating municipality to RWS for processing, to make service payments and pay tipping fees for such processing in amounts which, when added to other available monies, will at least equal required debt service of the bonds. The obligations of the participating municipalities under the Waste Handling Agreements are secured by the full faith and credit of the participating municipalities subject to certain limitations. On June 30, 2005, outstanding bonds of RWS totaled \$55,685,000 of which the Windham share, based on estimated tonnage to be delivered, amounted to 4.71% or \$2,622,537.

RWS operates a licensed balefill and ashfill site for which projected landfill closure and postclosure care costs approximate \$19,953,270 at June 30, 2004, the most recent date available. The Town's proportionate share of these estimated landfill closure and postclosure care costs is 4.83% or \$964,430.

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

DESIGNATED FUND BALANCE

At June 30, 2005 and 2004, portions of the General Fund and special revenue fund balance were appropriated to future periods as follows:

	<u>2005</u>	<u>2004</u>
General Fund:		
Expenditure control budgeting - department carryovers	\$ 71,412	79,332
Other:		
Road resurfacing	337,748	602,108
Cemetery	2,554	2,554
300th anniversary	10,276	9,963
Town land/building improvements	670,646	736,334
Town management	27,945	23,976
Assessor's office	16,956	-
Unappropriated IIF	468,905	493,019
Total General Fund	\$ 1,606,442	1,947,286
Special revenue fund:		
Carry over for future years - education	-	490,606
Total special revenue fund	\$ -	490,606

STATE REIMBURSEMENT FOR DEBT SERVICE EXPENDITURES

The State of Maine currently reimburses the Town for a portion of financing costs of School building and School bus purchases. Continuation of such reimbursements is dependent upon continued appropriation by the State Legislature.

EMPLOYEE'S RETIREMENT SYSTEM

A. Maine State Retirement - Teachers Group

Teacher Group - All teachers, plus other qualified educators, participate in the Maine State Retirement System's teacher group. The teacher's group is a cost-sharing plan with a special funding situation, established by the Maine State legislature. The Maine State Retirement System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the State Legislature. The Maine State Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Teacher's Group. That report may be obtained by writing to Maine State Retirement System, 46 State House Station, Augusta, Maine 04333-0046 or by calling 1-800-451-9800.

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

EMPLOYEE'S RETIREMENT SYSTEM, CONTINUED

Funding Policy - Plan members are required to contribute 6.5% of their compensation to the retirement system. The State of Maine Department of Education is required, by the same statute, to contribute the employer contribution which amounts to \$2,290,000 (17.77%) for the fiscal year 2005. This amount has been reported as an intergovernmental revenue and education expenditure in the GAAP basis financial statements (Statements 2 and 4). There is no contribution required by the School except for federally funded teachers, for which the School contributed 17.77% of their compensation. This cost is charged to the applicable grant.

B. Deferred Compensation Plan

Town Plan - The Town of Windham offers all its employees a deferred compensation plan created in accordance with Internal Revenue (IRC) Section 457. The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Assets of the plan are placed in trust for the exclusive benefit of participants and their beneficiaries.

School Department Plan - The Windham School Department offers its entire support staff employees a deferred compensation plan created in accordance with Internal Revenue (IRC) Section 457. The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Assets of the plan are placed in trust for the exclusive benefit of participants and their beneficiaries.

ARBITRAGE REBATE

Pursuant to the Tax Reform Act of 1986, municipalities issuing tax-exempt bonds or entering into note or lease obligations are required to perform an arbitrage rebate calculation upon the fifth anniversary of the obligation and to remit such rebate to the federal government, subject to certain exceptions. One such exception applies to small issuers and provides that no arbitrage rebate will be due if the municipality issues less than \$5 million in a calendar year. Since August 15, 1986, the effective date of these rules, the Town has not issued more than \$5 million in any calendar year except for the 1988 elementary school construction issue for which rebatable arbitration has been calculated and reported and the 2003 High School Addition for which a calculation is not yet due.

LANDFILL CLOSURE COSTS AND POSTCLOSURE CARE COSTS

The Town of Windham presently has one landfill, closure of which is substantially complete. Some monitoring costs will be required in the future, however these costs are not deemed to be material.

PURCHASE COMMITMENT

At June 30, 2005 the Town was committed to a contract for the purchase of 23 acres of land for the price of \$400,000.

TOWN OF WINDHAM, MAINE
Notes to Basic Financial Statements, Continued

TAX INCREMENT FINANCING DISTRICT

The Town has established the Windham Municipal Development District - North tax increment financing district (TIF). The District retains the tax increment on 80% on the new captured assessed value of the property in this TIF District to finance certain eligible projects for a period of five years. The Town accounts for the activity of the TIF in the special revenue fund. Revenues will be used specifically for conducting a multi-year environmental assessment to measure the impact of expanded development on Windham's natural resource base and to undertake the implementation of aspects of Windham's comprehensive plan. The maximum tax revenues collected over the five years were \$650,000 and were captured as of June 30, 1999. The Town has reauthorized the District for another five years, with a physical expansion of approximately one acre, and increased the maximum revenues to \$2,000,000 over its ten year life. Funds were appropriated to the District on an annual basis by the Council and budgetary town meeting. As of June 30, 2005, all of tax revenues were captured; however, the general fund still had \$481,595 that needs to be transferred into the TIF fund. This amount has been designated in the general fund and is anticipated to be transferred in future years.

The creation of a Pipeline Development District is to address specific concerns and issues that have been identified by the Town's staff, elected leaders, and citizenry over the past year during forums and other forms of direct communication. Public comments have been directed towards a reactionary environment, lack of capital expenditures and the continuing need to ration resources and proactively seek out economic opportunity before crisis and concern are established. The development within this District will produce approximately \$16,352,800 of new tax base for the Town. The District will produce new taxable revenues, beginning with 80% and declining by 5% annually, over a ten year period. These revenues will be used to make payments into the Pipeline Development Fund specifically for: the purchase of a Geographic Information System (GIS) that would integrate automated data and provide a tool for planning economic and community development, a formal study and long range plan to mitigate environmental issues related to pollutants within the northern section of Town, the development of a business and tourism center within the commercial hub, a mechanism to leverage private funding for rehabilitation and new construction of desirable commercial facilities throughout the community and the continuance of the Town's economic development program. For the year ended June 30, 2005, \$175,900 of tax revenues were captured and reported as TIF district revenues. The general fund has over transferred \$12,690 into the TIF fund. This amount has been designated in the general fund and will offset future required transfers.

TOWN OF WINDHAM, MAINE
Required Supplementary Information
June 30, 2005

MODIFIED APPROACH FOR TOWN INFRASTRUCTURE ASSETS

In accordance with GASB Statement No. 34 the Town is required to account for and report infrastructure capital assets. The Town defines infrastructure as the basic physical assets including streets and roads, storm water conveyance system, parks and recreation land and improvements, buildings and associated amenities such as parking used by the Town in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example, streets and roads can be divided into pavement, curbing, sidewalks, streetlights, traffic control devices (signs, signals, and pavement markings), landscaping, and land. Subsystem detail is not presented in these basic financial statements; however, the Town maintains detailed information on these subsystems.

The Town has elected to use the "modified approach" as defined by GASB 34 for infrastructure reporting for roads and drainage structures only. 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.

In 2004 the Town completed a physical condition assessment of roads and streets. For the purposes of this assessment, roads and streets were defined as all public roadways within Windham that the Town has some responsibility for maintenance and improvement. The condition assessment will need to be performed every three years.

The pavement condition rating survey was conducted according to procedures outlined in "Visual Condition Survey for Flexible Pavements, Instruction Manual for Community Level Pavement Management," Maine Department of Transportation, March 1986. The approach is based on upon systematic sampling to locate each rating site. Each rating site is one hundred feet in length and one travel lane wide, with a maximum travel lane width of twelve feet. The survey records the extent and severity of distresses that commonly occur on Maine roads. The distresses include several types of cracking, distortion, and patching.

A one-quarter mile rating frequency was used, with a minimum of two ratings on each homogeneous road segment. The rating sites were located with a calibrated distance measuring instrument (DMI), a piece of equipment similar to an odometer, but more precise. This allows the same rating sites to be relocated in subsequent distress surveys.

The raw field data was reduced to an individual pavement condition rating (PCR) score for each rating site. The PCR was based upon a 0 to 5 scale, with 0 being impassable and 5 being perfect. The scale reflects the structural integrity of the pavement and, as a result, is useful in determining appropriate treatment strategies for each condition range.

TOWN OF WINDHAM, MAINE
Required Supplementary Information, Continued

A description of the PCR scale is as follows:

Pavement Condition Rating Scale	
PCR Range	Condition
0.00 – 1.60	Very Poor
1.61 – 2.00	Poor
2.01 – 2.40	Fair – Poor
2.41 – 2.80	Fair
2.81 – 3.20	Fair – Good
3.21 – 3.60	Good
3.61 – 5.00	Very Good

Generally, roads with ratings of 2.40 or lower are considered poor and in obvious need of improvement. Roads with ratings of 3.21 or higher are considered good and are not usually considered eligible for improvement, except for routine maintenance.

Approximately 563 sites were rated on 95.73 miles of roadway, resulting in an average of greater than six rating sites per mile. The overall existing condition rating of Windham's road network was determined by calculating the total roadway length in each of the condition ranges. In 2001 the overall condition rating of the entire roadway network was "good" with an average rating of 3.21. At the time the PCR survey was conducted in 2004 the average condition rating had improved to 4.15. As of October 2001, 29.76% of the public roadway mileage in Windham was rated below 2.81, while only 5.17% of all public roads fell into this category in 2004, with 3.08% of town roads and 10.56% of state roads.

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.

As of 2004, the estimated cost to treat all eligible roadways (with condition ratings of less than 3.21) was estimated (in 2004 dollars) at \$510,000. The estimated cost to treat all eligible roads, allowing for deterioration through 2009, is estimated at \$825,000. Since 2001 the Town has appropriated and/or expended \$5,500,000 for roadway maintenance and improvements other than routine maintenance. The Town expended \$1,140,219 on road and street maintenance and improvements for the fiscal year ended June 30, 2005 through a combination of annual appropriations and bond funds. Both types of activities may contribute to improvements in the overall condition of roads.

Pavement condition rating (PCR) surveys only look one element of a road's condition, but one which can communicate a great deal about underlying problems. Overlay alone may be enough to improve a road's rating for the short term, but more extensive work may be needed to address other issues. Including elements of road maintenance and improvement other than pavement condition, such as drainage systems, pedestrian and other amenities, and traffic safety, 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) through the year 2006 to be at least \$1,000,000, or \$500,000 per year.

Drainage structures (culverts, catch basins, etc.) are expected to be the subject of a condition assessment during fiscal 2005-2006.

GENERAL FUND

The General Fund is the general operating fund of the Town. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid through other funds.

TOWN OF WINDHAM, MAINE
General Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	2005	2004
ASSETS		
Cash and cash equivalents	\$ 9,691,592	10,430,540
Investments	10,276	581,577
Receivables:		
Taxes receivable - current year	641,899	565,993
Taxes receivable - prior years	119,500	90,717
Tax liens - prior years	129,946	119,236
Accounts receivable	56,951	72,937
Total assets	\$ 10,650,164	11,861,000
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	436,148	268,363
Accrued wages	195,428	162,689
Interfund loans payable	4,644,198	6,823,743
Taxes paid in advance	64,501	50,551
Deferred tax revenue	614,000	512,000
Unearned income - impact fees	81,461	77,176
Inspection deposits and miscellaneous liabilities	306,615	132,454
Total liabilities	6,342,351	8,026,976
Fund balance:		
Unreserved:		
Designated	1,606,442	1,947,286
Undesignated - Town	2,701,371	1,886,738
Total fund balance	4,307,813	3,834,024
Total liabilities and fund balance	\$ 10,650,164	11,861,000

TOWN OF WINDHAM, MAINE
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Year ended June 30, 2005
(with comparative actual amounts for the year ended June 30, 2004)

	2005				Variance positive (negative)	2004 Actual
	2004 carryforward	Budget	Total available	Actual		
Revenues:						
Taxes:						
Property taxes	-	20,253,562	20,253,562	20,189,479	(64,083)	17,973,260
Change in deferred property tax revenue	-	-	-	102,000	102,000	18,000
Excise taxes	-	2,480,000	2,480,000	2,716,235	236,235	2,568,992
Supplemental taxes and lien fees	-	14,500	14,500	24,163	9,663	31,190
Total taxes	-	22,748,062	22,748,062	23,031,877	283,815	20,591,442
Licenses and permits:						
Plumbing fees	-	27,500	27,500	35,047	7,547	36,791
Town Clerk fees	-	40,000	40,000	57,507	17,507	50,260
Building permits	-	150,000	150,000	196,224	46,224	171,370
Planning fees	-	19,500	19,500	87,782	68,282	115,306
License and other fees	-	73,064	73,064	48,988	(24,076)	41,274
Motor vehicle registration fees	-	55,000	55,000	59,904	4,904	58,088
Total licenses and permits	-	365,064	365,064	485,452	120,388	473,089
Intergovernmental:						
State Revenue Sharing	-	1,100,000	1,100,000	1,232,396	132,396	1,152,899
State highway block grant	-	201,300	201,300	240,864	39,564	201,300
Homestead exemption	-	352,030	352,030	352,030	-	311,457
General assistance reimbursement	-	30,000	30,000	44,928	14,928	44,266
FEMA assistance	-	-	-	122,832	122,832	32,133
Other state assistance	-	13,500	13,500	21,950	8,450	14,369
Total intergovernmental	-	1,696,830	1,696,830	2,015,000	318,170	1,756,424
Charges for services:						
Solid waste disposal fees	-	472,500	472,500	499,845	27,345	423,832
False alarm fees/police fines and fees	-	5,000	5,000	7,107	2,107	10,618
Park fees	-	30,400	30,400	30,802	402	21,987
Total charges for services	-	507,900	507,900	537,754	29,854	456,437

TOWN OF WINDHAM, MAINE
General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual, Continued

	2005				Variance positive (negative)	2004 Actual
	2004 carryforward	Budget	Total available	Actual		
Revenues, continued:						
Interest earned:						
Interest on delinquent taxes	-	80,000	80,000	64,334	(15,666)	67,011
Interest earned on investments	-	50,000	50,000	123,182	73,182	68,253
Total interest earned	-	130,000	130,000	187,516	57,516	135,264
Other revenues:						
Cable television franchise	-	60,000	60,000	73,977	13,977	61,980
Court fees	-	5,000	5,000	2,062	(2,938)	3,152
Rent	-	20,466	20,466	20,516	50	20,466
Rescue reimbursement	-	326,000	326,000	304,056	(21,944)	270,020
Miscellaneous	-	18,589	18,589	109,993	91,404	37,928
Library fines and state funds	-	11,000	11,000	11,769	769	9,953
Total other revenues	-	441,055	441,055	522,373	81,318	403,499
Total revenues	-	25,888,911	25,888,911	26,779,972	891,061	23,816,155
Expenditures:						
Current:						
Administrative services:						
Town Council	-	105,432	105,432	93,984	11,448	92,227
Town planning	-	117,643	117,643	109,551	8,092	113,340
Community participation	-	19,378	19,378	8,506	10,872	8,601
Windham Community Cable Group	-	28,491	28,491	16,443	12,048	27,029
Human service agencies	-	42,704	42,704	40,309	2,395	41,020
Municipal insurance	-	139,695	139,695	135,909	3,786	119,302
Employee benefits	-	1,509,177	1,509,177	1,325,479	183,698	1,259,049
Money management fees	-	10,500	10,500	183	10,317	875
Program management	23,976	287,823	311,799	271,011	40,788	276,781
Collect/account Town funds	-	204,319	204,319	196,630	7,689	182,420
Data processing	-	121,019	121,019	104,986	16,033	87,043
Total administrative services	23,976	2,586,181	2,610,157	2,302,991	307,166	2,207,687

TOWN OF WINDHAM, MAINE
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual, Continued

	2005			Variance positive (negative)	2004 Actual
	2004 carryforward	Budget	Total available		
Expenditures, continued					
Current, continued:					
Public safety:					
Police safety	\$ -	1,382,837	1,382,837	50,497	1,249,040
Canine control	-	46,803	46,803	3,838	46,605
Public safety dispatching	-	323,079	323,079	51,094	259,198
Police vehicle maintenance	-	71,415	71,415	(5,811)	57,630
Total public safety	-	1,824,134	1,824,134	99,618	1,612,473
Fire/rescue services:					
Fire safety	-	606,123	606,123	49,739	548,866
Emergency safety (rescue)	-	241,415	241,415	4,136	215,158
Paramedics	-	270,547	270,547	33,200	273,913
Civil emergency preparedness	-	500	500	500	-
Water main charges	-	71,750	71,750	1,066	71,484
Fire and rescue vehicle maintenance	-	93,972	93,972	5,554	78,324
Total fire/rescue services	-	1,284,307	1,284,307	94,195	1,187,745
Public works:					
Public works administration	-	113,214	113,214	11,952	98,304
Road maintenance/patching	-	475,085	475,085	25,871	425,259
Traffic signals, road markings/drainage	-	79,865	79,865	19,573	92,729
Snow plowing	-	190,483	190,483	(80,524)	192,297
Highway vehicle maintenance	-	302,515	302,515	(37,899)	311,564
Street lighting	-	54,325	54,325	2,166	48,408
Solid waste disposal	-	935,523	935,523	(123,444)	957,980
Building maintenance	-	350,322	350,322	(45,306)	367,788
Grounds maintenance	-	54,420	54,420	10,737	36,359
Total public works	-	2,555,752	2,555,752	(216,874)	2,530,688

TOWN OF WINDHAM, MAINE
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual, Continued

	2005			Variance positive (negative)	2004 Actual
	2004 carryforward	Budget	Total available		
Expenditures, continued					
Current, continued:					
Recreation services:					
Recreation	-	164,266	164,266	18,660	151,911
Dundee Park	-	42,259	42,259	(5,927)	35,894
Total recreation services	-	206,525	206,525	12,733	187,805
County tax	-	795,099	795,099	-	780,524
Other:					
Municipal welfare	-	130,865	130,865	(43,684)	135,997
Assessing	-	222,638	222,638	28,732	133,519
Contingency	-	200,000	200,000	200,000	815
Town Clerk/elections	-	107,108	107,108	6,191	95,467
Community development	-	364,247	364,247	17,715	323,237
Library services	-	275,024	275,024	14,573	256,556
300th anniversary	9,963	-	9,963	9,963	-
Abatements	-	-	-	(17,118)	23,786
Total other	9,963	1,299,882	1,309,845	216,372	969,377
Debt service (excluding education):					
Principal	-	230,000	230,000	-	225,000
Interest	-	149,006	149,006	13,563	146,085
Total debt service (excluding education)	-	379,006	379,006	13,563	371,085

TOWN OF WINDHAM, MAINE
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual, Continued

	2005				Variance
	2004	Total	Actual	2004	Actual
	carryforward	available	Actual	positive	Actual
		(negative)			
Expenditures, continued:					
Capital outlay:					
Town road resurfacing	\$ 602,108	16,567	280,927	337,748	275,114
ECB capital expenditures	79,332	-	16,923	62,409	12,289
Town building/land improvements	738,888	295,900	361,588	673,200	429,386
Total capital outlay	1,420,328	1,732,795	659,438	1,073,357	716,789
Total expenditures	1,454,267	11,243,353	11,097,490	1,600,130	10,564,173
Excess (deficiency) of revenues over (under) expenditures	(1,454,267)	14,645,558	15,682,482	2,491,191	13,251,982
Other financing sources (uses):					
Operating transfers - in	-	220,048	220,048	-	304,326
Operating transfers - out - Development District North T.I.F.	(493,019)	-	-	493,019	-
Operating transfers - out - Sewer	-	(46,000)	(51,085)	(5,085)	(46,000)
Operating transfers - out - Equipment replacement	-	(460,000)	(460,000)	-	(385,000)
Operating transfers - out - School appropriation	-	(14,434,223)	(14,434,223)	-	(12,530,558)
Operating transfers - out - Road Projects	-	(483,433)	(483,433)	-	-
Utilization of prior year surplus and carried forward balances	1,947,286	558,050	-	(2,505,336)	-
Total other financing sources (uses)	1,454,267	(14,645,558)	(15,208,693)	(2,017,402)	(12,657,232)
Net change in fund balance	-	-	473,789	473,789	594,750
Fund balance, beginning of year			3,834,024		3,239,274
Fund balance, end of year	\$	4,307,813	4,307,813	3,834,024	3,834,024

ALL OTHER GOVERNMENTAL FUNDS

TOWN OF WINDHAM
Combining Balance Sheet
All Other Governmental Funds
June 30, 2005

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Other Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 38,946	-	172,466	211,412
Investments	137,155	-	-	137,155
Accounts receivable	66,763	-	-	66,763
Interfund loans	1,492,946	201,079	-	1,694,025
Inventory	23,772	-	-	23,772
Total assets	\$ 1,759,582	201,079	172,466	2,133,127
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	37,182	110,401	-	147,583
Accrued wages and related liabilities	59,535	-	-	59,535
Interfund loans payable	13,511	-	5,600	19,111
Total liabilities	110,228	110,401	5,600	226,229
Fund balances:				
Reserved for inventory	23,772	-	-	23,772
Nonexpendable trust principal	-	-	41,874	41,874
Unreserved:				
Undesignated	1,625,582	90,678	124,992	1,841,252
Total fund balances	1,649,354	90,678	166,866	1,906,898
Total liabilities and fund balances	\$ 1,759,582	201,079	172,466	2,133,127

TOWN OF WINDHAM, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
All Other Governmental Funds
For the year ended June 30, 2005

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Other Governmental Funds
Revenues:				
Property taxes revenue	\$ 175,900	-	-	175,900
Intergovernmental	1,613,433	-	-	1,613,433
Charges for services	1,066,946	-	-	1,066,946
Other revenue	145,692	10,524	6,780	162,996
Interest revenue	15,435	-	3,206	18,641
Total revenues	3,017,406	10,524	9,986	3,037,916
Expenditures:				
Current:				
Education	2,664,729	-	-	2,664,729
Public safety	54,693	-	-	54,693
Recreation	150,667	-	-	150,667
Capital outlay	1,516,553	2,523,081	-	4,039,634
Fees	55,306	-	-	55,306
Total expenditures	4,441,948	2,523,081	-	6,965,029
Excess (deficiency) of revenues over (under) expenditures	(1,424,542)	(2,512,557)	9,986	(3,927,113)
Other financing sources (uses):				
Transfer from other funds	900,684	-	-	900,684
Transfer to other funds	-	-	(2,800)	(2,800)
Total other financing sources (uses)	900,684	-	(2,800)	897,884
Net change in fund balances	(523,858)	(2,512,557)	7,186	(3,029,229)
Fund balances, beginning of year	2,173,212	2,603,235	159,680	4,936,127
Fund balances, end of year	\$ 1,649,354	90,678	166,866	1,906,898

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are established to account for resources obtained and expended for specified purposes that are restricted by law or administrative action.

Special revenue funds are established for the following purposes:

Town Special Revenue Funds:

Equipment Replacement

To account for the financial activity of a reserve established for the acquisition of major equipment.

Little Falls Sewer Operations

To account for the revenues and expenditures of the Little Falls Sewer operations.

BIDE Grant

To account for monies received specifically to sponsor a drug enforcement program within the Town.

Recreation Program

To account for non-budgeted self-funded recreation programs and activities.

Road Projects

To account for revenue and expenditures related to future bonded road projects.

T.I.F

To account for the revenues and related expenditures for the Municipal Development District - North T.I.F. and Pipeline Development T.I.F.

Cooperative Services

To account for revenues and expenditures relating to the cooperative program.

Homeland Security

To account for a federal grant to assist with Homeland Security.

CDBG Agricultural

To account for a federal grant.

Highland Lake Youth Conservation Corp.

To account for a County grant for the conservation of soil and water.

School Special Revenue Funds

To account for various federal and state grants for special programs administered by the School Department.

Adult Education

To account for the activity of the Town of Windham adult education program.

R.E.A.L. School

To account for the operations of the Windham School Department's R.E.A.L. School.

Sweetser Day Treatment Program

To account for the operations of the regional Windham - Sweetser Children's Day Treatment Program.

School Lunch Program

To account for the activity of the School lunch operations.

Thomas Varney School Fund

Annie Bremon Trust Fund

The Town was appointed as successor trustee to administer the trust assets. The income is to be used to award scholarships to worthy students graduating from Windham High School. The trust shall terminate on October

TOWN OF WINDHAM, MAINE
 Nonmajor Special Revenue Funds
 Combining Balance Sheet
 June 30, 2005

	Town Special Revenue Funds	School Special Revenue Funds	Adult Education	R.E.A.L. School	Sweetser Day Treatment Center	School Lunch Program	Thomas Varney School Fund	Annie Bremont Fund	Totals 2005
ASSETS									
Cash and cash equivalents	\$ 201	-	50	-	-	-	38,695	-	38,946
Investments	-	-	-	-	-	500	-	136,655	137,155
Receivables:									
Accounts receivable	2,093	30,262	-	20,680	-	13,728	-	-	66,763
Due from State of Maine	-	-	-	-	-	-	-	-	-
Interfund loans receivable	1,252,574	76,233	138,421	25,558	160	-	-	-	1,492,946
Inventory	-	-	-	-	-	23,772	-	-	23,772
Total assets	\$ 1,254,868	106,495	138,471	46,238	160	38,000	38,695	136,655	1,759,582
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	-	33,050	2,804	1,283	-	45	-	-	37,182
Accrued wages and related liabilities	-	7,071	7,608	44,696	160	-	-	-	59,535
Interfund loans payable	-	-	-	-	-	13,511	-	-	13,511
Total liabilities	-	40,121	10,412	45,979	160	13,556	-	-	110,228
Fund balances:									
Reserved for inventory	-	-	-	-	-	23,772	-	-	23,772
Unreserved:									
Undesignated	1,254,868	66,374	128,059	259	-	672	38,695	136,655	1,625,582
Total fund balances	1,254,868	66,374	128,059	259	-	24,444	38,695	136,655	1,649,354
Total liabilities and fund balances	\$ 1,254,868	106,495	138,471	46,238	160	38,000	38,695	136,655	1,759,582

TOWN OF WINDHAM, MAINE
Nonmajor Special Revenue Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2005

	Town		School		Adult Education		R.E.A.L. School		Sweetser Day Treatment		Thomas Varney School		Annie Bremon Fund		Totals 2005
	Special Revenue Funds	Special Revenue Funds	Adult Education Program	Adult Education Program	School Fund	School Fund	School Fund	School Fund	Day Treatment Program	Day Treatment Program	Varney School Fund	Varney School Fund	Bremon Fund	Bremon Fund	
	(Schedule A) (Schedule C) (Schedule D) (Schedule E) (Schedule F) (Schedule G)														
Revenues:															
Property taxes revenue	\$ 175,900	-	-	-	-	-	-	-	-	-	-	-	-	-	175,900
Intergovernmental revenues:															
Federal subsidies	-	1,007,957	32,667	-	-	-	-	-	-	-	-	-	-	-	1,207,301
State subsidies	166,140	123,830	67,337	48,825	-	-	-	-	-	-	-	-	-	-	406,132
Total intergovernmental revenues	166,140	1,131,787	100,004	48,825	-	-	-	-	-	-	-	-	-	-	1,613,433
Charges for services:															
Tuition and fees	-	-	40,577	171,543	-	-	-	-	-	-	-	-	-	-	212,120
Recreation revenues	202,566	-	-	-	-	-	-	-	-	-	-	-	-	-	202,566
Sale of school lunches	-	-	-	-	631,657	-	-	-	-	-	-	-	-	-	631,657
Sewer user fees	20,603	-	-	-	-	-	-	-	-	-	-	-	-	-	20,603
Total charges for services	223,169	-	40,577	171,543	-	-	-	-	-	-	-	-	-	-	1,066,946
Interest and dividends	11,162	-	-	-	-	-	-	-	-	-	762	3,511	-	-	15,435
Other revenues	21,900	117,425	4,351	-	-	-	-	-	-	-	-	-	2,016	-	145,692
Total revenues	598,271	1,249,212	144,932	220,368	-	-	-	-	-	-	762	5,527	-	-	3,017,406

TOWN OF WINDHAM, MAINE
Nonmajor Special Revenue Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances, Continued

	Town Special Revenue Funds (Schedule A)	School Special Revenue Funds (Schedule C)	Adult Education Program (Schedule D)	R.E.A.L. School Fund (Schedule E)	Sweetser Day Treatment Program (Schedule F)	School Lunch Program (Schedule G)	Thomas Varney School Fund	Annie Bremon Fund	Totals 2005
Expenditures:									
Education:									
Adult education	\$ -	-	300,054	-	-	-	-	-	300,054
Education	-	1,278,975	-	220,369	-	-	-	-	1,499,344
School lunch	-	-	-	-	-	865,331	-	-	865,331
Total education	-	1,278,975	300,054	220,369	-	865,331	-	-	2,664,729
Recreation	150,667	-	-	-	-	-	-	-	150,667
Public safety	54,693	-	-	-	-	-	-	-	54,693
Capital expenditures	1,516,553	-	-	-	-	-	-	-	1,516,553
Fees	54,719	-	-	-	-	-	-	587	55,306
Total expenditures	1,776,632	1,278,975	300,054	220,369	-	865,331	-	587	4,441,948
Excess (deficiency) of revenues over (under) expenditures	(1,178,361)	(29,763)	(155,122)	(1)	-	(66,997)	762	4,940	(1,424,542)
Other financing sources:									
Operating transfers - in (out)	777,270	-	159,899	-	(103,585)	67,100	-	-	900,684
Total other financing sources	777,270	-	159,899	-	(103,585)	67,100	-	-	900,684
Net change in fund balance	(401,091)	(29,763)	4,777	(1)	(103,585)	103	762	4,940	(523,858)
Fund balances, beginning of year	1,655,959	96,137	123,282	260	103,585	24,341	37,933	131,715	2,173,212
Fund balances, end of year	\$ 1,254,868	66,374	128,059	259	-	24,444	38,695	136,655	1,649,354

NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECT FUNDS

Capital project funds are established to account for resources obtained and expended for the acquisition of major capital facilities other than those employed in the delivery of services accounted for in enterprise funds.

The Town's individual capital project funds were established for the following purposes:

Local School Projects

To account for various School renovation projects.

State High School Construction

To account for the expansion of the High School.

**TOWN OF WINDHAM, MAINE
Nonmajor Capital Project Funds
Balance Sheet
June 30, 2005**

		School Capital Projects
ASSETS		
Interfund loans receivable	\$	201,079
Total assets	\$	201,079
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable		110,401
Total liabilities		110,401
Fund balance:		
Unreserved:		
Undesignated		90,678
Total fund balance		90,678
Total liabilities and fund balance	\$	201,079

TOWN OF WINDHAM, MAINE
Nonmajor Capital Project Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2005

	School Capital Projects
Revenues:	
Other revenues	\$ 10,524
Total revenues	10,524
Expenditures:	
State repayment	110,401
Construction costs	2,412,680
Total expenditures	2,523,081
Deficiency of revenues under expenditures	(2,512,557)
Other financing sources (uses):	
Transfers from other funds	-
Total other financing sources (uses)	-
Net change in fund balance	(2,512,557)
Fund balance, beginning of year	2,603,235
Fund balance, end of year	\$ 90,678

NONMAJOR GOVERNMENTAL FUNDS

PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Cemetery Acquisition Fund

Funds restricted for the acquisition of a Town cemetery.

Perpetual Care Trust Funds

Consisting of numerous trust funds restricted for the perpetual care of specific lots or cemeteries.

Library Trust Fund

Consisting of a single fund established to assist the library.

TOWN OF WINDHAM, MAINE
Permanent Funds
Combining Balance Sheet
June 30, 2005

		Cemetery Acquisition Fund	Perpetual Care Trust Funds	Library Trust Fund	Totals 2005
ASSETS					
Cash	\$	112,641	53,875	5,950	172,466
Total assets	\$	112,641	53,875	5,950	172,466
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund loans payable		-	5,600	-	5,600
Total liabilities		-	5,600	-	5,600
Fund balances:					
Nonexpendable trust principal		-	41,074	800	41,874
Unexpended income		112,641	7,201	5,150	124,992
Total fund balances		112,641	48,275	5,950	166,866
Total liabilities and fund balances	\$	112,641	53,875	5,950	172,466

TOWN OF WINDHAM, MAINE
Permanent Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2005

	Cemetery Acquisition Fund	Perpetual Care Trust Funds	Library Trust Fund	Totals 2005
Revenues:				
Interest and dividends	\$ 2,084	1,005	117	3,206
Lot sales	6,780	-	-	6,780
Total revenues	8,864	1,005	117	9,986
Expenditures:				
Fees	-	-	-	-
Scholarships	-	-	-	-
Total expenditures	-	-	-	-
Other financing uses:				
Operating transfers	-	(2,800)	-	(2,800)
Total other financing uses	-	(2,800)	-	(2,800)
Net change in fund balance	8,864	(1,795)	117	7,186
Fund balances, beginning of year	103,777	50,070	5,833	159,680
Fund balances, end of year	\$ 112,641	48,275	5,950	166,866

FIDUCIARY FUNDS

School Student Activity Funds

Student activity funds are maintained by the High School, Middle School and other schools. Each School's fund accounts for the financial activity of numerous student clubs and activities, as well as several scholarship funds.

TOWN OF WINDHAM, MAINE
Fiduciary Funds - Agency Funds
Combining Statement of Fiduciary Net Assets
June 30, 2005

	School Student Activity			Totals
	High School	Middle School	Other Schools	
ASSETS				
Cash	\$ 160,222	40,248	27,515	227,985
Total assets	\$ 160,222	40,248	27,515	227,985
LIABILITIES				
Due to student groups	160,222	40,248	27,515	227,985
Total liabilities	\$ 160,222	40,248	27,515	227,985

**CAPITAL ASSETS USED IN THE OPERATION OF
GOVERNMENTAL FUNDS**

TOWN OF WINDHAM, MAINE
Capital Assets Used in the Operation of Governmental Funds - By Source
June 30, 2005

Capital assets:	
Land and buildings	\$ 55,965,317
Equipment	5,793,420
Vehicles	4,952,492
Infrastructure	8,431,885
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Total capital assets	\$ 75,143,114
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Investments in capital assets by source:	
General Fund	20,877,377
School operations	54,265,737
<hr/>	
Total investments in capital assets by source	\$ 75,143,114
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TOWN OF WINDHAM, MAINE
Schedule of Capital Assets Used in the Operation of Governmental Funds by Function and Activity
June 30, 2005

Function and Activity	Land and buildings	Equipment	Vehicles	Infrastructure	Total
Administrative services	\$ 1,101,998	155,113	39,400	-	1,296,511
Public safety	1,364,850	358,277	324,749	-	2,047,876
Fire/rescue services	1,755,905	645,980	2,140,026	-	4,541,911
Public works	670,965	1,164,400	817,609	8,431,885	11,084,859
Recreation services	382,616	16,450	33,550	-	432,616
Other	698,955	742,212	32,437	-	1,473,604
Education	49,990,028	2,710,988	1,564,721	-	54,265,737
Total governmental fund capital assets	\$ 55,965,317	5,793,420	4,952,492	8,431,885	75,143,114

Exhibit G-3

Schedule of Changes in Governmental Funds Capital Assets - By Function and Activity
For the year ended June 30, 2005

Function and Activity	Balance 2004	Additions	Deletions	Balance 2005
Administrative services	\$ 1,254,270	42,241	-	1,296,511
Public safety	1,964,329	83,547	-	2,047,876
Fire/rescue services	4,541,911	-	-	4,541,911
Public works	11,017,073	67,786	-	11,084,859
Recreation services	432,616	-	-	432,616
Other	1,466,509	7,095	-	1,473,604
Education	51,595,868	2,680,870	11,001	54,265,737
Totals	\$ 72,272,576	2,881,539	11,001	75,143,114

SCHEDULES

The following schedules provide more detailed information on the financial activity of the following Special Revenue, Capital Projects and Fiduciary funds:

Special Revenue Funds:

- Town Special Revenue Funds
- School Operations Fund
- School Special Revenue Funds
- Adult Education Program
- R.E.A.L. School Fund
- Sweetser Day Treatment Program
- School Lunch Program
- School Capital Project Funds

Fiduciary Funds:

- High School Student Activity Funds
- Middle School Student Activity Funds
- Primary and Other School Activity Accounts

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TOWN OF WINDHAM, MAINE
Town Special Revenue Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Year ended June 30, 2005
 (with comparative totals for the year ended June 30, 2004)

	Little		Development		Pipeline		Cooperative Services	Homeland Security	CDBG Agricultural	Highland Lake		Totals
	Equipment Replacement	Falls Sewer Operations	BIDE Grant	Recreation Program	Road Projects	District North T.I.F.				Development T.I.F.	Youth Conservation Corp	
Revenues:												
Property tax revenues	-	-	-	-	-	-	175,900	-	-	-	-	175,900
State/federal grants	-	-	55,136	-	-	-	-	82,091	8,113	20,800	-	166,140
Sewer user fees	-	20,603	-	-	-	-	-	-	-	-	-	20,603
Recreation	-	-	-	202,566	-	-	-	-	-	-	-	202,566
Interest	7,021	-	-	-	4,141	-	-	-	-	-	-	11,162
Miscellaneous	18,600	-	-	-	-	-	3,300	-	-	-	-	21,900
Total revenues	25,621	20,603	55,136	202,566	4,141	175,900	3,300	82,091	8,113	20,800	-	598,271
Expenditures:												
Public safety	-	-	54,693	-	-	-	-	-	-	-	-	54,693
Sewer assessments	-	54,719	-	-	-	-	-	-	-	-	-	54,719
Recreation	-	-	-	150,667	-	-	-	-	-	-	-	150,667
Capital expenditures	517,997	-	-	-	859,292	10,500	-	82,041	8,113	17,707	-	1,516,553
Total expenditures	517,997	54,719	54,693	150,667	859,292	20,903	-	82,041	8,113	17,707	-	1,776,632
Other financing sources (uses):												
Capital lease proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Transfers (to) from General Fund	460,000	51,085	-	-	483,433	(217,248)	-	-	-	-	-	777,270
Total other financing sources (uses)	460,000	51,085	-	-	483,433	(217,248)	-	-	-	-	-	777,270
Net change in fund balance	(32,376)	16,969	443	51,899	(371,718)	(10,500)	3,300	50	-	3,093	(401,091)	(642,153)
Fund balances, beginning of year	359,857	80,772	312	190,843	371,718	86,026	-	-	-	14,309	-	1,655,959
Fund balances (deficit), end of year	\$ 327,481	\$ 97,741	\$ 755	\$ 242,742	\$ -	\$ 75,526	\$ 3,300	\$ 50	\$ -	\$ 17,402	\$ 1,254,868	\$ 1,655,959

TOWN OF WINDHAM, MAINE
School Operations Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Basis
Year ended June 30, 2005
(with comparative actual amounts for the year ended June 30, 2004)

	2005			2004 Actual
	Adjusted Budget	Actual	Variance positive (negative)	
Revenues:				
State subsidies	\$ 7,658,992	7,706,414	47,422	7,913,730
State reimbursement - debt service	903,320	903,320	-	248,046
State agency client and other special education funds	243,546	323,861	80,315	276,338
Tuition and fees	768,000	697,844	(70,156)	539,544
Rental income	109,000	5,780	(103,220)	40,235
Medicaid reimbursements	300,000	340,519	40,519	219,576
Sale of School property/ State reimbursements - renovation	-	252,944	252,944	178,080
Other revenues	30,000	119,403	89,403	79,738
Total revenues	10,012,858	10,350,085	337,227	9,495,287
Expenditures:				
Instruction	13,767,909	13,477,057	290,852	12,541,087
Student support	1,406,934	1,407,717	(783)	1,470,515
Staff support	1,166,169	1,164,413	1,756	862,943
General administration	955,467	958,190	(2,723)	897,846
School administration	966,924	968,817	(1,893)	908,641
Operation and maintenance	2,447,301	2,447,281	20	2,187,593
Student transportation	1,342,110	1,342,749	(639)	1,222,233
Debt service	2,317,268	2,317,268	-	2,117,471
Total expenditures	24,370,082	24,083,492	286,590	22,208,329
Other financing sources (uses):				
Budgeted utilization of surplus	150,000	-	(150,000)	-
Transfers from other funds	-	103,585	103,585	-
Transfers to other funds				
Transfer to Capital Project - High School Construction (state)	-	-	-	(73,277)
Transfer to Capital Project - High School Construction (local)	-	-	-	(54,331)
Transfer to Capital Project - Other local projects	-	-	-	(120,000)
Transfer to School lunch fund	(67,100)	(67,100)	-	(36,600)
General Fund transfer - property taxes	14,274,324	14,274,324	-	12,386,862
Total other financing sources (uses)	14,357,224	14,310,809	(46,415)	12,102,654
Net change in fund balance	-	577,402	577,402	(610,388)
Fund balance, beginning of year		448,606		1,100,994
Fund balance, end of year	\$	1,026,008		490,606

TOWN OF WINDHAM, MAINE
School Special Revenue Funds - Federal, State, and Local Programs
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Year ended June 30, 2005

	June 30, 2004	Federal subsidiaries	State subsidiaries	Other revenues	Total revenues	Expenditures	June 30, 2005
Federal Programs:							
PL94 - Local Entitlement	\$ 10,065	495,998	-	-	495,998	493,990	12,073
Local Entitlement Preschool Grant	2,479	3,170	-	-	3,170	5,393	256
Teamwork for Kids	271	-	-	-	-	-	271
Title IVA Reconnecting Youth (Drug Free)	7,837	13,497	-	-	13,497	18,115	3,219
Title III	-	2,544	-	-	2,544	449	2,095
Title I, Part A	-	227,483	-	-	227,483	227,483	-
Title V/Reap	12,432	13,266	-	-	13,266	22,825	2,873
Title II - Teacher Quality	20,863	83,235	-	-	83,235	102,789	1,309
Title II - Technology	-	8,029	-	-	8,029	4,719	3,310
J Jag Grant - Maine Dept. of Corrections	-	13,747	-	-	13,747	13,747	-
SMARRRT	-	146,988	-	-	146,988	146,988	-
State Programs:							
Distinguished Educator	-	-	99,605	-	99,605	98,745	860
Learning Results	3,684	-	22,600	-	22,600	25,931	353
Maine Arts Commission	6,021	-	-	-	-	1,488	4,533
Maine Math and Science	-	-	1,625	-	1,625	1,625	-
Local Programs:							
PTA Grants							
Primary School Media Fund	1,123	-	-	3,055	3,055	1,910	2,268
Administrative Certification	4,304	-	-	2,650	2,650	4,360	2,594
National Semiconductor Grant	6,103	-	-	2,600	2,600	-	8,703
Manchester National Semiconductor Gift	1,797	-	-	7,690	7,690	7,875	1,612
Direct Billings, Special Education	510	-	-	850	850	1,150	210
Maine Community Foundation	8,943	-	-	76,110	76,110	78,334	6,719
Wellness	4,952	-	-	2,570	2,570	-	7,522
Wal-Mart Grant	688	-	-	-	-	581	107
Maine Youth Voices	3,500	-	-	500	500	-	500
Ski Team	-	-	-	50	50	1,767	1,783
Windham Football Boosters	-	-	-	5,228	5,228	5,228	-
Windham Swim Team	-	-	-	8,279	8,279	6,113	2,166
Windham Lacrosse Team	-	-	-	2,531	2,531	2,531	-
Cumberland Cty Supers Association	-	-	-	3,569	3,569	3,569	-
Total	\$ 96,137	1,007,957	123,830	117,425	1,249,212	1,278,975	66,374

TOWN OF WINDHAM, MAINE
Adult Education Program
Schedules of Revenues, Expenditures, and Changes in Fund Balance
Years ended June 30, 2005 and 2004

	2005	2004
Revenues:		
State subsidies	\$ 67,337	64,984
Tuition and fees	40,577	36,076
Federal - Carl Perkins	13,990	10,004
Entrepreneur program	3,525	-
Federal - ABE	18,677	18,767
Other	826	414
Total revenues	144,932	130,245
Expenditures:		
Current:		
General adult education	171,487	146,401
High school completion	19,406	19,967
Literacy	37,010	23,987
Entrepreneur program	2,295	-
Vocational courses	9,491	15,433
Adult basic education	24,924	21,216
Carl Perkins project	6,391	2,095
Carl Perkins prevocational	7,922	7,639
AEFLA grant	21,128	17,814
Total expenditures	300,054	254,552
Other financing sources:		
Transfers from General Fund	159,899	143,696
Net change in fund balance	4,777	19,389
Fund balance, beginning of year	123,282	103,893
Fund balance, end of year	\$ 128,059	123,282

TOWN OF WINDHAM, MAINE
R.E.A.L. School Fund
Schedules of Revenues, Expenditures, and Changes in Fund Balance
Years ended June 30, 2005 and 2004

	2005	2004
Revenues:		
State agency client subsidies	\$ 48,825	89,234
Tuitions/transportation charges	171,543	278,034
Total revenues	220,368	367,268
Expenditures:		
Instruction	189,400	264,098
Student support	745	374
Operations and maintenance of plant and equipment	28,659	32,160
General administration	951	1,106
Technology program	614	7,885
Student transportation	-	62,066
Total expenditures	220,369	367,689
Net change in fund balance	(1)	(421)
Fund balance, beginning of year	260	681
Fund balance, end of year	\$ 259	260

Note: Student transportation costs funded by general fund in 2005.

TOWN OF WINDHAM, MAINE
Sweetser Day Treatment Program
Schedules of Revenues, Expenditures, and Changes in Fund Balance
Years ended June 30, 2005 and 2004

	2005	2004
Revenues:		
Medicaid reimbursements	\$ -	160,957
Tuition	-	277,035
Total revenues	-	437,992
Expenditures:		
Salaries and benefits	-	31,206
Contracted services	-	429,862
Rent	-	40,000
Student activities	-	140
Utilities	-	12,887
Total expenditures	-	514,095
Deficiency of revenues under expenditures	-	(76,103)
Transfers to other funds:		
Transfer to general fund	(103,585)	-
Net change in fund balance	(103,585)	(76,103)
Fund balance, beginning of year	103,585	179,688
Fund balance, end of year	\$ -	103,585

Note: Sweetser program not run in 2005.

TOWN OF WINDHAM, MAINE
School Lunch Program
Schedules of Revenues, Expenditures, and Changes in Fund Balance
Years ended June 30, 2005 and 2004

	2005	2004
Revenues:		
Sales	\$ 631,657	537,085
U.S. Department of Agriculture:		
Food and milk subsidy	155,428	144,720
Contributed commodities	11,249	10,839
Total revenues	798,334	692,644
Expenditures:		
Food	477,077	385,688
Payroll - staff	349,216	304,821
Supplies and other expenses	39,038	37,414
Total expenditures	865,331	727,923
Deficiency of revenues under expenditures	(66,997)	(35,279)
Transfers from other funds:		
Transfer from general fund	67,100	36,600
Net change in fund balance	103	1,321
Fund balance, beginning of year	24,341	23,020
Fund balance, end of year	\$ 24,444	24,341

TOWN OF WINDHAM, MAINE
School Capital Project Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance
Year ended June 30, 2005
 (with comparative totals for year ended June 30, 2004)

	High School Construction (State)	High School Construction (Local)	Other Locally Funded School Projects	Totals
	2005	2004	2005	2004
Revenues:				
Other revenues	-	10,524	-	10,524
Total revenues	-	10,524	-	10,524
Expenditures:				
State repayment	-	110,401	-	110,401
Construction costs	2,287,500	-	125,180	2,412,680
Total expenditures	2,287,500	110,401	125,180	2,523,081
Excess (deficiency) of revenues over (under) expenditures	(2,287,500)	(99,877)	(125,180)	(2,512,557)
Other financing sources (uses):				
Transfers from other funds	-	(65,678)	65,678	-
Total other financing sources (uses)	-	(65,678)	65,678	-
Net change in fund balance	(2,287,500)	(165,555)	(59,502)	(2,512,557)
Fund balances, beginning of year	2,287,500	165,555	150,180	2,603,235
Fund balances, end of year	-	-	90,678	90,678
				2,603,235

TOWN OF WINDHAM, MAINE
High School Student Activity Funds
Schedule of Cash Receipts, Disbursements, and Changes in Balances
Year ended June 30, 2005

	June 30, 2004	Cash receipts	Cash disbursements	June 30, 2005
Checking Account				
Art Club	\$ 441	-	-	441
Athletic Association	7,225	13,573	17,373	3,425
Baseball	100	-	85	15
Boys Soccer	-	2,909	2,614	295
Boys Tennis	763	5,755	2,402	4,116
Boys Basketball	819	15,081	10,846	5,054
Band	545	-	295	250
Business	1,041	33	33	1,041
BUSSIM	8	9,099	8,720	387
Caps and Gowns	-	6,066	6,066	-
Chamber Singers	538	7,900	6,461	1,977
Cheerleaders	525	915	401	1,039
Chorus	37	209	246	-
Civil rights team	553	619	585	587
Class of 1995	968	-	968	-
Class of 1997	1,256	-	-	1,256
Class of 1998	2,303	-	-	2,303
Class of 2000	1,024	-	-	1,024
Class of 2001	806	-	-	806
Class of 2004	7,870	219	713	7,376
Class of 2005	7,292	7,815	14,881	226
Class of 2006	734	12,959	10,198	3,495
Class of 2007	1,587	1,826	1,036	2,377
Class of 2008	-	1,378	1,254	124
Class of '77 scholarship	100	-	-	100
Coffee account	190	274	369	95
Co-op student	42	-	-	42
Cross-Country	1	279	-	280
Diane Webber Mem. Scholarship	-	400	-	400
Eagle Eyes	15	-	-	15
Eagle Pride	341	-	-	341
English Club	3,266	3,723	3,675	3,314
Exemplar	74	53	127	-
Football	1,049	2,120	1,827	1,342
Foreign language	97	1,028	900	225
Field Hockey	202	1,400	810	792
French Club	1,628	4,977	5,492	1,113
Gate receipts	-	21,405	21,400	5
General Fund	5	11,561	11,051	515
Girls Basketball	1,085	1,375	2,460	-
Girls Lacrosse	-	4,864	4,644	220
Girls tennis	1,069	2,252	2,540	781
Girls Soccer	1,291	3,165	2,399	2,057
Golf	2,273	250	565	1,958
Gordan Scholarship	2,795	450	500	2,745
Health	241	-	6	235
Incentive Scholarship Fund	351	-	-	351
Instrument rental	215	-	-	215
Interact/Youthland	1,294	693	1,665	322
Key Club	689	3,069	3,135	623
Latin Club	600	600	600	600
Leo Club	228	25	131	122
Library	323	55	178	200
Lost books	-	2,981	-	2,981
Math Club	3,222	91	1,533	1,780
Mu Alpha Theta	16	-	-	16
National Honor Society	869	1,460	905	1,424
Subtotals	60,006	154,906	152,089	62,823

TOWN OF WINDHAM, MAINE
High School Student Activity Funds
Schedule of Cash Receipts, Disbursements, and Changes in Balances, Continued

	June 30, 2004	Cash receipts	Cash disbursements	June 30, 2005
Orchestra	\$ 306	-	-	306
Outdoor track	552	1,825	1,983	394
Outing Club	152	2,970	3,122	-
Parking	2,012	2,846	3,654	1,204
Rock Wall	-	27,928	16,699	11,229
Scholarship Fund	2,440	2,100	1,600	2,940
School Pop	393	101	71	423
School Store	-	905	905	-
Science Club	737	3,109	3,512	334
Science Scholarship	600	365	500	465
Senior awareness	500	-	500	-
Ski Club	411	11,750	8,480	3,681
Social studies	391	1,212	1,603	-
Social worker	25	-	25	-
Softball	215	480	480	215
Spanish Club	896	11,764	12,388	272
Speech & Debate	-	55	-	55
Sportsmanship foundation	-	618	16	602
Student Outreach	41	2,881	1,160	1,762
Student Council	4,079	21,723	21,282	4,520
Student services	1,275	8,694	8,114	1,855
Student services scholarship	279	721	1,000	-
Sunshine Club	497	204	676	25
Technology Club	239	-	-	239
Theatre Club	-	354	106	248
Theatre/musical	206	27,402	23,433	4,175
United Nation class	746	-	-	746
Video	160	-	-	160
Windham Comm. Scholarship	5,671	4,329	5,500	4,500
Wrestling	573	-	-	573
Yearbook	5,036	12,906	12,245	5,697
Subtotals	28,432	147,242	129,054	46,620
Total checking account	88,438	302,148	281,143	109,443
Savings and CD's				
Co-op Education Scholarship (Savings)	100	2,559	300	2,359
Project Graduation/Molly Call (CD)	1,608	17	13	1,612
Governor Andrew Prize (Savings)	447	2	-	449
Edith Pride Elliot Award (Savings)	301	1	-	302
Merribeth Gaudet Mem. School (Savings)	178	-	-	178
Johnna C. Bell Mem. Music (CD)	1,587	15	14	1,588
Co-op Education Scholarship (CD)	2,536	18	2,554	-
Crane Scholarship Fund (CD)	21,361	264	2,000	19,625
Paul Folan Scholarship Fund (CD)	4,353	83	300	4,136
Student Council (CD)	8,296	112	-	8,408
H.S. Project Graduation - class of 2005 (Savings)	521	1	522	-
WHS Scho. (Manchester) - (CD)	12,963	159	1,000	12,122
Total savings and CD's	54,251	3,231	6,703	50,779
Activity fund totals	\$ 142,689	305,379	287,846	160,222

TOWN OF WINDHAM, MAINE
Middle School Student Activity Funds
Schedule of Cash Receipts, Disbursements, and Changes in Balances
Year ended June 30, 2005

	June 30, 2004	Cash receipts	Cash disbursements	June 30, 2005
Art Department	\$ 877	-	-	877
Bates Team	319	5,262	3,265	2,316
Bowdoin Team	731	3,254	2,734	1,251
Bentley Team	-	3,490	4,035	(545)
Brown Team	64	3,612	3,676	-
Civil Rights	-	295	46	249
Coffee Fund	145	1,230	1,105	270
Colby Team	684	4,231	4,916	(1)
DARE	170	-	-	170
Dartmouth Team	2,489	3,136	4,411	1,214
Emerson (SAIL)	-	1,530	374	1,156
Emerson (School Store)	-	888	888	-
General Fund	1,433	5,170	4,880	1,723
Grants	349	-	-	349
Harvard Team	42	3,365	2,514	893
Helping hands	2,296	1,714	2,472	1,538
Industrial arts	128	-	53	75
Ithaca	-	671	618	53
Library	1,408	4,312	4,330	1,390
Life skills	214	1,516	-	1,730
Maine	(1)	4,047	4,047	(1)
Middle school athletics	-	500	-	500
MIT	9	-	-	9
Music Department	1,457	15,365	15,068	1,754
Norwich Team	4,461	3,995	6,044	2,412
Physical Education	-	2,559	2,518	41
Princeton	96	2,099	2,194	1
Recycling	4,784	1,150	4,176	1,758
Sharing Closet	364	-	-	364
Student activity	4,403	311	2,506	2,208
Student Council	7,564	9,438	8,819	8,183
Sunshine Fund	367	-	257	110
Swim Team	-	9,872	4,596	5,276
Technology	-	439	-	439
U.S.M.	474	658	1,036	96
Unity	-	1,105	863	242
Yale	1,546	5,179	5,032	1,693
Yearbook	-	10,130	9,675	455
Total	\$ 36,873	110,523	107,148	40,248

TOWN OF WINDHAM, MAINE
Primary and Other School Activity Accounts
Schedule of Cash Receipts, Disbursements, and Changes in Balances
Year ended June 30, 2005

	June 30, 2004	Cash receipts	Cash disbursements	June 30, 2005
Manchester	\$ 19,127	63,018	64,214	17,931
Primary	3,988	38,528	38,861	3,655
Primary - Administrators	874	1,290	1,097	1,067
Primary - Main E Vent	1,084	66	125	1,025
Real School	4,620	20,123	20,906	3,837
Total	\$ 29,693	123,025	125,203	27,515