



February 16, 2016

MEMORANDUM TO PROSPECTIVE BIDDERS

**Re: TOWN OF WINDHAM, CONNECTICUT
\$9,150,000 General Obligation Bond Anticipation Notes**

**Dated: March 8, 2016 Date of Sale: Tuesday, February 23, 2016
Due: December 7, 2016 Time of Sale: 11:30 A.M. (Eastern Time)**

*****Phone Number to Place Bid: (203) 283-1110*****

As per the Notice of Telephone Sale, proposals may be submitted by telephone on Tuesday, February 23, 2016. Please note that a representative of Phoenix Advisors, LLC will be available until 11:30 A.M. (Eastern Time) on the day of the sale to assist with telephone bids. We ask that you submit your final bid by telephone at **(203) 283-1110 no later than 11:30 A.M. on Tuesday, February 23, 2016.**

The issue of notes is exempt from the provisions of Rule 15c2-12, as amended, of the Securities and Exchange Commission. No Official Statement has been prepared by or on behalf of the Issuer for this sale.

The General Purpose Financial Statements have been excerpted from the Annual Financial Report of The Town of Windham, Connecticut as of June 30, 2014. These excerpts are included in this package. Copies of the complete reports for June 30th are available upon request from Phoenix Advisors, LLC, Attention: Barry J. Bernabe, Managing Director, 53 River Street, Suite 1, Milford, Connecticut, telephone (203) 283-1110.

We trust we may be of service.

PHOENIX ADVISORS, LLC



Telephone Sale Term Sheet

\$9,150,000

General Obligation Bond Anticipation Notes Town of Windham, Connecticut

Date of Sale:	Tuesday, February 23, 2016 at 11:30 A.M. (Eastern Time).
Location of Sale:	Phoenix Advisors, LLC, 53 River Street, Suite 1, Milford, Connecticut 06460. Telephone: (203) 283-1110
Issuer:	Town of Windham, Connecticut (the "Town").
Issue:	\$9,150,000 General Obligation Bond Anticipation Notes (the "Notes").
Dated Date:	March 8, 2016
Principal and Interest Due:	At maturity on December 7, 2016
Purpose:	The Notes are being issued to renew notes initially issued to finance various general purpose and school projects.
Denominations:	\$100,000, except that one such proposal for a part may include the odd \$50,000 of principal amount.
Redemption:	The Notes are not subject to redemption prior to maturity.
Security:	The Notes will be general obligations of the Town and the Town will pledge its full faith and credit to the payment of principal of and interest on the Notes when due.
Credit Rating:	No application for a rating on this Note issue has been made to any credit rating agency. The Town has outstanding bond ratings from Moody's Investors Service of "Aa3" and Standard & Poor's of "AA"
Basis of Award:	Lowest Net Interest Cost (NIC), as of dated date.
Form of Legal Opinion and Tax Exemption:	See "Form of Legal Opinion" attached.
Bank Qualification:	The Notes shall be designated by the Town as qualified tax-exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Notes.
Registrar, Transfer Agent, Certifying Agent and Paying Agent:	U.S Bank National Association of Hartford, Connecticut, Goodwin Square, 23rd Floor, 225 Asylum Street, Hartford, Connecticut 06103.
Financial Advisor:	Phoenix Advisors, LLC of Milford, Connecticut will act as Financial Advisor. Telephone (203) 283-1110.
Legal Opinion:	Pullman & Comley, LLC of Hartford, Connecticut will act as Bond Counsel.
Delivery and Payment:	It is expected that delivery of the Notes in book-entry-only form will be made to The Depository Trust Company on or about March 8, 2016. Delivery of the Notes will be made against payment in immediately available Federal Funds.
Issuer Official:	Questions concerning the Town should be directed to Christian Johnson, United Finance Director, 979 Main Street, Windham, Connecticut 06226, Telephone: (203) 465-2532 or Mr. Barry J. Bernabe, Managing Director, Phoenix Advisors, LLC, 53 River Street, Milford, Connecticut, Telephone: (203) 283-1110.

**NOTICE OF TELEPHONE SALE
TOWN OF WINDHAM, CONNECTICUT**

**\$9,150,000 GENERAL OBLIGATION BOND ANTICIPATION NOTES
Dated March 8, 2016 : Due December 7, 2016**

Bids by TELEPHONE will be received by the **TOWN OF WINDHAM**, Connecticut (the "Town"), at (203) 283-1110 until **11:30 A.M. (E.T.), Tuesday**

February 23, 2016

(the "Bid Date") for the purchase of the above-captioned **TOWN OF WINDHAM** General Obligation Bond Anticipation Notes (the "Notes") which mature on December 7, 2016.

The Issue

The full faith and credit of the Town will be pledged for the prompt payment of the principal of and the interest on the Notes. The Notes will be general obligations of the Town payable, unless paid from other sources, from ad valorem taxes which may be levied on all taxable property subject to taxation by the Town without limit as to rate or amount except as to classified property such as certified forest land taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts pursuant to Connecticut General Statutes, as amended. The Notes will be dated March 8, 2016 and will be payable to the registered owners on December 7, 2016. They will be issued in minimum denominations of \$100,000 or whole multiples of \$1000 in excess thereof. Denominations of less than \$100,000 will not be made available. The Notes will bear interest (computed on a 360-day year, 30-day month basis) payable at maturity at the rate or rates per annum fixed in the proposal accepted for their purchase, which rates shall be in multiples of 1/100 of 1% per annum.

The Notes are NOT subject to redemption prior to maturity.

Bid Requirements

Telephone bids for the Notes will be received until 11:30 A.M. (E.T.) on behalf of the Town by Phoenix Advisors, LLC, the Town's financial advisor. All telephone bids must be made to Phoenix Advisors, LLC at (203) 283-1110 and be completed by 11:30 A.M. (E.T.) on Tuesday, February 23, 2016. Bidders shall recognize that a bid by telephone means that the bidder accepts the terms and conditions of this Notice of Sale and agrees to be bound by such and, further, such bidder recognizes and accepts the risk that its telephone bid may not be received by the Town through its agent or may be received later than the time specified as the result of a failure in communications including, but not limited to, a failure in telephonic communications, or the inability to reach the Town through its agent by the time required. A bid received after the time specified, as determined in the Town's sole discretion, will not be reviewed or honored by the Town.

A proposal may be for all or any part of the Notes, but any proposal for a part must be for a whole multiple of \$100,000 except that one such proposal for a part may include the odd \$50,000 of principal amount. A separate proposal will be required for each part of the Notes for which a separate stated interest rate is bid.

Award, Delivery and Payment

Unless all bids are rejected, the Notes will be awarded on the basis of the lowest net interest cost, computed as to each interest rate stated by adding the total interest which will be paid at such rate and deducting therefrom any premium offered. As between proposals resulting in the same lowest net interest cost, the award will be made on the basis of the highest principal amount of the Notes specified. In the event that two or more bidders offer bids at the same lowest net interest cost and the same principal amount, the Town will determine by lot which of such bidders will be awarded the Notes. No bid for less than par and accrued interest, if any, will be considered and the Town reserves the right to award to any bidder(s) all or any part of the Notes bid for in its proposal. If a bidder is awarded only a part of the Notes bid for in its proposal, any premium offered in such proposal will be proportionately reduced so that the net interest cost shall be the same as in the bidder's proposal with respect to the amount bid, carried to four places. The purchase price must be paid in Federal funds.

Promptly upon verbal notification that a bidder's proposal may be accepted, the bidder shall confirm to the Town the reoffering prices of the Notes.

Bids will be finally accepted or rejected promptly after opening and not later than 1:00 P.M. (E.T.) on the Bid Date in accordance with the provisions herein.

Simultaneously with or before delivery of the Notes, the purchaser shall furnish to the Town a certificate acceptable to Bond Counsel for the Town to the effect that the purchaser has either purchased the Notes at the prices shown on such certificate for investment and not with a view toward distribution or resale and not in the capacity of a bond house, broker or other intermediary or has made a bona fide public offering of the Notes to the public (i) at initial offering prices not greater than, or yields not lower than, the respective prices or yields shown on the certificate, and (ii) a substantial amount of the Notes was sold to the final purchasers thereof (not including bond houses and brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at prices not greater than or yields not lower than, such offering prices or yields. Bond Counsel advises that (i) such certificates must be made on the best knowledge, information and belief of the purchaser, (ii) the sale to the public of 10% or more of the Notes at prices not greater than or yields not lower than, the initial offering prices or yields would be sufficient for the purpose of certifying as to the sale of a substantial amount of the Notes and (iii) reliance on other facts as a basis for such certification would require evaluation by Bond Counsel to assure compliance with the statutory requirement.

At or prior to the delivery of the Notes the successful bidder shall be furnished, without cost, with the approving opinion of Pullman & Comley, LLC, of Hartford, Connecticut, Bond Counsel. The successful bidder will also be furnished with a receipt of payment for the Notes, a Signature and No Litigation Certificate, dated as of the date of delivery of the Notes, stating that there is no litigation pending, or to the knowledge of the signers thereof, threatened, affecting the validity of the Notes or the power of the Town to levy and collect taxes to pay them.

The Notes will be designated by the Town as qualified tax exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Notes.

The Town will have no responsibility to pay for any expenses of the purchaser except to the extent specifically stated in this Notice of Sale. The purchaser will have no responsibility to pay for any of the Town's costs of issuance except to the extent specifically stated in this Notice of Sale.

The purchaser will be responsible for the clearance or exemption with respect to the status of the Notes for sale under securities or "Blue Sky" laws and the preparation of any surveys or memoranda in connection with such sale. The Town shall have no responsibility for such clearance, exemption or preparation.

It is expected that the Notes will be delivered to DTC in New York City on or about March 8, 2016 against payment in immediately available Federal Funds. The deposit of the Notes with DTC under a book-entry system requires the assignment of CUSIP numbers prior to delivery. It shall be the responsibility of the winning purchaser to obtain CUSIP numbers for the Notes prior to delivery and the Town will not be responsible for any delay occasioned by the inability to deposit the Notes with DTC due to the failure of the winning purchaser to obtain such numbers and to supply them to the Town in a timely manner. Neither the failure to print such CUSIP number on any note, nor any error with respect thereto, shall constitute a cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Notes.

Right to Reject Bids; Waiver

The right is reserved to reject any and all proposals and to reject any proposal not complying with this Notice of Sale and to waive any irregularity or informality with respect to any proposal.

Postponement; Change of Terms

The Town reserves the right to alter any terms of the Notes or this Notice of Sale and to postpone, from time to time, the date or time established for the receipt of the bids.

Book-Entry

Subject to the paragraph below, the Notes will be issued by means of a book-entry system with no physical distribution of certificates made to the public. The Notes will be issued in registered form and one note certificate for each interest rate will be issued to The Depository Trust Company, New York, New York (DTC), registered in the name of its nominee, Cede & Co., and immobilized in their custody. A book-entry system will be employed, evidencing ownership of the Notes in principal amounts of \$100,000 or whole multiples of \$1000 in excess thereof, with transfers of ownership effected on the records of DTC and its Participants pursuant to rules and procedures adopted by DTC and its Participants. The successful bidder or bidders, as a condition to delivery of the Notes, will be required to deposit the note certificates with DTC, registered in the name of Cede & Co. Principal of and interest on the Notes will be payable by the Town or its agent in Federal funds to DTC or its nominee as registered owner of the Notes. Principal and interest payments to Participants of DTC will be the responsibility of DTC. Principal and interest payments to Beneficial Owners by Participants of DTC will be the responsibility of such Participants and other nominees of Beneficial Owners. The Town will not be responsible or liable for payments by DTC to its Participants or by DTC Participants to Beneficial Owners or for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Notes and the Town fails to identify another qualified securities depository to replace DTC, or (b) the Town determines to discontinue the book-entry system of evidence and transfer of ownership of the Notes, the Town will authenticate and deliver replacement Notes in the form of fully registered Note certificates directly to the Beneficial Owners of the Notes or their nominees.

The successful bidder for the Notes may request that the Notes be issued in the form of one fully registered physical certificate in the par amount of the Notes, rather than in book-entry form through the facilities of DTC. The successful bidder seeking the issuance of the Notes in this manner, and any subsequent registered owner of the Notes, shall bear any and all costs, including counsel fees, of any re-registration or transfer of Notes from time to time, including any costs to convert the Notes to book-entry only form. Any bidder seeking to have the Notes issued in the form of a fully registered physical certificate, rather than in book-entry form, shall indicate this preference to the Town at the time of the submission of the bid. The Town reserves the right to decline any request to issue the Notes in non-book entry form if it should determine, in its sole discretion, that issuing the Notes in this manner is not in its best interests.

No Continuing Disclosure or Official Statement

Since the Notes mature not more than nine months from the date of issue and are in denominations of \$100,000 or more, the undertaking to provide an official statement or continuing disclosure under SEC Rule 15c2-12 does not apply to the Notes. Therefore, the Town will not provide an official statement nor enter into a continuing disclosure agreement with respect to the Notes.

Additional Information

More information concerning the issue and the Town may be obtained from Barry J. Bernabe, Managing Director, Phoenix Advisors, LLC, 53 River Street, Suite 1, Milford, CT 06460 (203) 283-1110.

Neal Beets
Town Manager

Patricia Spruance
Treasurer

February 16, 2016

March 8, 2016

Town of Windham
979 Main Street
Willimantic, CT 06226

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Town of Windham (the "Town"), in the State of Connecticut, of its \$9,150,000 General Obligation Bond Anticipation Notes (the "Notes") dated March 8, 2016 and maturing December 7, 2016. In such capacity, we have examined a record of proceedings of the Town authorizing the Notes, a Tax Regulatory Agreement of the Town dated March 8, 2016 (the "Agreement"), such law and such other proceedings, certifications, and documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

We are of the opinion that when the Notes are duly certified by U.S. Bank National Association, they will be valid and legally binding general obligations of the Town payable as to both principal and interest from ad valorem taxes which may be levied on all taxable property subject to taxation by the Town without limitation as to rate or amount except as to classified property such as certified forest lands taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts pursuant to Connecticut statutes. We are further of the opinion that the Agreement is a valid and binding agreement of the Town and was duly authorized by the Town.

The rights of the holders of the Notes and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be satisfied at and subsequent to the issuance and delivery of the Notes in order that interest on the Notes be excluded from gross income under Section 103 of the Code. In the Agreement, the Town has made covenants and representations designed to assure compliance with such requirements of the Code. The Town has covenanted in the Agreement that it will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Notes to ensure that interest on the Notes shall not be included in gross income for federal income tax purposes retroactive to the date of issuance of the Notes, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Notes.

In rendering the below opinions regarding the federal treatment of interest on the Notes, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and

reasonable expectations, and certifications of fact contained in the Agreement, and (ii) continuing compliance by the Town with the covenants set forth in the Agreement as to such tax matters.

In our opinion, under existing law, interest on the Notes is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in computing the federal alternative minimum tax. We express no opinion regarding other federal income tax consequences caused by the ownership or disposition of, or receipt of interest on the Notes.

The Town has designated the Notes as “qualified tax exempt obligations” within the meaning of Code Section 265(b)(3) for purposes of the deduction by financial institutions for interest expense allocable to the Notes.

We are further of the opinion that, under existing statutes, interest on the Notes is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based for individuals, trusts and estates required to pay the federal alternative minimum tax. We express no opinion regarding other state income tax consequences caused by ownership or disposition of, or receipt of interest on the Notes.

We have not undertaken to advise whether any events after the date of issuance of the Notes, including the adoption of federal tax legislation, may affect the tax status of interest on the Notes.

Although we have rendered an opinion that interest on the Notes is excludable from gross income for federal income tax purposes, federal income tax liability may otherwise be affected by the ownership or disposition of the Notes. We express no opinion regarding any tax consequence caused by ownership or disposition of, or receipt of interest income on, the Notes not specifically described herein.

Respectfully,

PULLMAN & COMLEY, LLC

TOWN OF WINDHAM, CONNECTICUT

FINANCIAL INFORMATION

Excerpted from the
Annual Financial Report of
The Town of Windham, Connecticut
Year Ended June 30, 2014



Independent Auditor's Report

To the Board of Finance
Town of Windham, Connecticut

Report on the Financial Statements

We have audited the governmental activities, the business type activities, each major fund and the aggregate remaining fund information accompanying the financial statements of the Town of Windham, Connecticut (the "Town") as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Windham, Connecticut as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 3-9, the schedules of funding progress and employers' contributions on pages 59-60, schedule of changes in the Town's net pension liability and related ratios on page 61 and budgetary comparison information on page 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

The introductory and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2015 on our consideration of the Town'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



New Haven, Connecticut
March 16, 2015

**Town of Windham, Connecticut
Management's Discussion and Analysis (Unaudited)
June 30, 2014**

The management of the Town of Windham, Connecticut (the Town), offers the readers of its financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$101,479,261 (net position). Of this amount, \$24,020,509 (unrestricted net position) may be used to meet the Town's ongoing obligations to its citizens and creditors. Of this amount, \$15,287,765 represents unrestricted net position attributed to the operations of the Town's water and sewer systems (business-type activities).
- The Town's changes in net position for the year ended June 30, 2014, amounted to \$4,787,298 which consisted of an increase of \$4,448,580 relating to the Town's governmental activities combined with an increase of \$338,718 relating to the Town's business-type activities.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$13,002,787, an increase of \$5,271,858 in comparison with the prior year. Of this amount \$5,721,730 of governmental ending fund balances are available for spending at the Town's discretion (unassigned fund balance).
- At the end of the close of the current fiscal year, unassigned fund balance for the General Fund was \$11,092,506 or 15.1% of total General Fund GAAP expenditures and operating transfers out.
- The Town's total long-term debt, consisting of bonds payable, notes payable and capital leases payable, increased \$2,566,202.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad over view of the Town's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements are intended to distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, public works,

human services, civic and cultural, education, planning and development, police, and fire. The business-type activities of the Town include sewer and water activities.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains a number of individual governmental funds for reporting purposes. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Educational Grants Fund and the Windham Magnet School Fund, which are considered to be major funds. Data from the other remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 13-15 of this report.

Proprietary Funds

The Town maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its sewer and water operations. The second type is an Internal Service Fund. internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses an internal service fund to account for its risk management activities.

The Town maintains 2 individual enterprise funds and 1 internal service fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Information is presented separately in the proprietary fund financial statements for the Sewer Fund and the Water Fund, both of which are considered to be major funds and the Internal Service Fund, which is considered a nonmajor fund.

The basic proprietary fund financial statements can be found on pages 16-18 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the Town government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 19-20 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-57 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information and combining and individual and non-major fund statements and schedules that can be found on page 59-106 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

The analysis below focuses on the net position and changes in net position of the Town's governmental and business-type activities.

Town of Windham, Connecticut Summary Statement of Net Position

	June 30, 2014			June 30, 2013		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 34,099,961	\$ 16,048,550	\$ 50,148,511	\$ 29,188,780	\$ 15,523,084	\$ 44,711,864
Capital assets	81,914,577	34,912,678	116,827,255	74,748,734	36,016,037	110,764,771
Total assets	116,014,538	50,961,228	166,975,766	103,937,514	51,539,121	155,476,635
Deferred amounts on refunding	76,593	-	76,593	223,697	-	223,697
Total deferred outflows	76,593	-	76,593	223,697	-	223,697
Long-term liabilities	38,493,587	15,655,923	54,149,510	33,008,336	16,665,700	49,674,036
Other liabilities	11,054,517	369,071	11,423,588	9,058,428	275,905	9,334,333
Total liabilities	49,548,104	16,024,994	65,573,098	42,066,764	16,941,605	59,008,369
Net Investment in capital assets	56,095,135	19,648,469	75,743,604	56,129,132	19,747,202	75,876,334
Restricted	1,715,148	-	1,715,148	1,652,683	-	1,652,683
Unrestricted	8,732,744	15,287,765	24,020,509	4,312,632	14,850,314	19,162,946
Total Net Position	\$ 66,543,027	\$ 34,936,234	\$ 101,479,261	\$ 62,094,447	\$ 34,597,516	\$ 96,691,963

The Town's government-wide net position of \$101.5 million represent an increase of \$4.8 million over last year's net position of \$96.7 million. The Town was able to generate an overall increase in the Town's governmental activities net position principally due to the receipt of \$5.0 million in capital grants and contributions from the State in support of the Town's school renovation and construction capital program and various public works projects. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without restraints established by debt covenants, enabling legislation or other legal requirements – is \$24.0 million at the end of this year compared with \$19.2 million at the end of last year. Government activities unrestricted net position increased \$4.4 million. Unrestricted net position of the Town's business-type activities increased \$.44 million in 2014. Both increases are mainly due to an increase in revenue collections and stronger control over expenditures.

**Town of Windham, Connecticut
Summary of Change in Net Position**

	Year Ended June 30, 2014			Year Ended June 30, 2013		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues:						
Program Revenues:						
Charge for services	\$ 4,026,783	\$ 5,562,717	\$ 9,589,500	\$ 3,838,029	\$ 4,810,560	\$ 8,648,589
Operating grants and contributions	50,608,892	-	50,608,892	45,846,618	-	45,846,618
Capital grants and contributions	4,960,329	-	4,960,329	18,742,754	-	18,742,754
General Revenues:						
Property taxes	33,855,514	-	33,855,514	32,429,289	-	32,429,289
Grants, contributions not restricted	5,489,221	97,072	5,586,293	6,837,388	62,824	6,900,212
Unrestricted investment earnings	102,646	535,142	637,788	41,319	479,645	520,964
Transfers	184,000	(184,000)	-	184,000	(184,000)	-
Total revenues	99,227,385	6,010,931	105,238,316	107,919,397	5,169,029	113,088,426
Expenses:						
Program Activities						
Primary Government:						
General government	3,503,142	-	3,503,142	3,014,463	-	3,014,463
Public safety	11,490,672	-	11,490,672	11,621,614	-	11,621,614
Public works	6,540,875	-	6,540,875	5,687,745	-	5,687,745
Human services	670,819	-	670,819	645,364	-	645,364
Civic and cultural	1,557,750	-	1,557,750	2,064,512	-	2,064,512
Education	68,109,554	-	68,109,554	63,776,248	-	63,776,248
Planning and development	1,541,852	-	1,541,852	777,272	-	777,272
Interest on long-term debt	1,364,141	-	1,364,141	1,520,014	-	1,520,014
Business-Type Activities:						
Water	-	2,324,419	2,324,419	-	2,467,506	2,467,506
Sewer	-	3,347,794	3,347,794	-	3,684,353	3,684,353
Total expenses	94,778,805	5,672,213	100,451,018	89,107,232	6,151,859	95,259,091
Change in net position	4,448,580	338,718	4,787,298	18,812,165	(982,830)	17,829,335
Net Position - beginning	62,094,447	34,597,516	96,691,963	43,282,282	35,580,346	78,862,628
Net Position - ending	\$ 66,543,027	\$ 34,936,234	\$ 101,479,261	\$ 62,094,447	\$ 34,597,516	\$ 96,691,963

The Town's governmental activities and business-type activities total revenue in 2014 of \$105.2 million represents a decrease of \$7.9 million over last year. Capital grants and contributions decreased by \$13.8 million as capital expenses subject to reimbursement from the State for the school renovation and construction program decreased compared with the previous year. Operating grants and contributions increased by \$4.8 million due to additional grants for various purposes.

The Town's total program expenses of \$100,451,018 million represents an increase of \$5,191,927 million over last year. The increase in General government, Public works, Planning and development and Education is related to the receipt of additional grants.

The Town's overall net position increased by \$4.8 million due to the Town's increasing revenues and controlling expenses.

Governmental Activities

Governmental activities increased the Town's net position by \$4.4 million.

Business-Type Activities

Business-type activities decreased the Town's net position by \$.34 million.

Financial Analysis Of The Town's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$13,002,787, an increase of \$5,271,858 in comparison with the prior year. Of this amount, approximately 44%, or \$5,721,730 of governmental ending fund balances are available for spending at the Town's discretion (unassigned fund balance). The remainder of fund balance is assigned, committed, restricted or nonspendable, to indicate that it is not available for new spending because it has already been committed for specific purposes.

General Fund

The General Fund is the chief operating fund of the Town and is accounted for separately for the Town and Willimantic Service District. The Town of Windham, Connecticut and City of Willimantic, Connecticut were consolidated by ordinance adopted December 15, 1982 under the name "Town of Windham, Connecticut" and came into political existence on July 1, 1983. The former City of Willimantic is now known as the Willimantic Service District (the WSD). At the end of the current fiscal year, unassigned fund balance of the Town General Fund was \$7,848,364, while the unassigned fund balance of the WSD General Fund was \$3,244,142.

The fund balance of the combined General Fund on a GAAP basis increased by \$1,264,847 during the current fiscal year, mainly due to property tax revenues ahead of budget and less overall operating expenses.

Educational Grants Fund

There was no change in net position of the Educational Grants Fund as revenue under cost reimbursement grants and contracts equaled grant and contract expenditures. Total revenue and expenditures for the year were \$14,084,901 as compared to \$11,238,924 in the prior year.

Windham Magnet School Fund

The fund's expenditures of approximately \$5.5 million were for capital improvements which were in turn reimbursed by approximately \$6.5 million of governmental grants. The difference between expenditures and revenues is due to timing of the recording of intergovernmental revenue. In the prior year the fund received \$12.9 million in intergovernmental revenues and had expenditures of \$20.7 million.

General Fund Budgetary Highlights

The final budget for 2014 planned for budgeted expenses to equal budgeted revenues. During the year, revenues were ahead of budget and expenses were less than planned budgetary expenses for a total Town positive variance of \$1,808,229.

Capital Asset and Debt Administration

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2014, totaled \$116,827,257 (net of accumulated depreciation). This investment in capital assets includes land and improvements, construction in progress, buildings and improvements, machinery and equipment, and infrastructure. The net increase in the Town's investment in capital assets for the current fiscal year was \$6,062,486 or a 5.5% increase. The majority of the increase relates to capital costs incurred in connection with the improvements to the magnet school.

The following table is a two-year comparison of the investment in capital assets presented for both governmental and business-type activities:

Town of Windham, Connecticut
Capital Assets, Net of Depreciation
June 30, 2014 and 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land and improvements	\$ 3,547,959	\$ 3,547,959	\$ 99,330	\$ 99,330	\$ 3,647,289	\$ 3,647,289
Construction in progress	10,122,695	36,074,699	-	-	10,122,695	36,074,699
Buildings and improvements	55,079,302	21,076,755	16,422,089	16,867,283	71,501,391	37,944,038
Machinery and equipment	2,192,474	1,741,264	8,421,838	9,069,852	10,614,312	10,811,116
Infrastructure	10,972,147	12,308,057	9,969,423	9,979,572	20,941,570	22,287,629
Total	\$ 81,914,577	\$ 74,748,734	\$ 34,912,680	\$ 36,016,037	\$ 116,827,257	\$ 110,764,771

Additional information on the Town's capital assets can be found in Note 4 of this report.

Long-Term Debt

At the end of the current fiscal year, the Town Governmental Activities had total long-term bonded debt outstanding of \$18,673,223. This entire amount is comprised of debt backed by the full faith and credit of the Town.

The Town's total governmental long-term debt increased by \$3,891,806 during the current fiscal year due to the issuance of \$6,030,000 of general obligation bonds and \$1,790,900 of general obligation refunding bonds. The Enterprise Fund's debt decreased by \$266,805 for debt amortization.

The Town received a double upgrade from A+ to AA rating from Standard and Poor's for general obligation debt this year.

State statutes limit the amount of general obligation debt the Town may issue to approximately seven times its annual receipts from taxation, as defined by the statutes. The current debt limitation for the Town is significantly in excess of the Town's outstanding general obligation debt.

The following table is a two-year comparison of long-term debt including notes payable and capital leases payable presented for both governmental and business-type activities:

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Bonds payable	\$ 18,673,223	\$ 14,781,417	\$ 1,196,776	\$ 1,463,581	\$ 19,869,999	\$ 16,244,998
Notes payable	-	-	14,067,433	14,805,253	14,067,433	14,805,253
Capital leases payable	3,484,549	3,805,527	-	-	3,484,549	3,805,527
	\$ 22,157,772	\$ 18,586,944	\$ 15,264,209	\$ 16,268,834	\$ 37,421,981	\$ 34,855,778

Additional information on the Town's long-term debt can be found in Note 6 of this report.

Economic Factors and Next Year's Budgets And Rates

A summary of key economic factors affecting the Town are as follows:

- The Town receives intergovernmental revenues from the State of Connecticut. Connecticut's economy moves in the same general cycle as the national economy, which may affect the amount of intergovernmental revenues the Town will receive in fiscal year 2014 and thereafter.
- Inflationary trends in the region approximate the national indices.
- As a whole, the Town continues to aggressively pursue economic development activities to help spread the tax burden among commercial and residential taxpayers.

All of these factors were considered in preparing the Town's budget for fiscal year 2015.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Department of Finance, 322 Prospect Street, Willimantic, CT 06226.

This page intentionally left blank.

Basic Financial Statements

Town of Windham, Connecticut

Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 12,370,862	\$ 1,268,877	\$ 13,639,739
Investments	773,477	14,268,892	15,042,369
Receivables, net of allowances for collection losses:			
Property taxes	928,430	-	928,430
Grants and contracts	12,815,454	-	12,815,454
Accounts receivable	4,854,090	1,047,079	5,901,169
Notes receivable	491,129	-	491,129
Inventories	134,271	214,492	348,763
Restricted cash	587,352	-	587,352
Internal balances	750,790	(750,790)	-
Net pension assets	394,106	-	394,106
Capital assets:			
Non-depreciable	13,670,654	99,330	13,769,984
Depreciable, net	68,243,923	34,813,348	103,057,271
Total assets	116,014,538	50,961,228	166,975,766
Deferred Outflows of Resources			
Deferred charge on refunding	76,593	-	76,593
Total deferred outflows of resources			
Liabilities			
Accounts payable and accrued liabilities	7,906,272	369,071	8,275,343
Bond anticipation notes payable	2,513,000	-	2,513,000
Unearned revenues	635,245	-	635,245
Noncurrent liabilities:			
Due within one year	4,881,725	1,240,017	6,121,742
Due in more than one year	33,611,862	14,415,906	48,027,768
Total liabilities	49,548,104	16,024,994	65,573,098
Net Position			
Net investment in capital assets	56,095,135	19,648,469	75,743,604
Restricted for:			
Grant program purposes	645,956	-	645,956
Endowments	459,920	-	459,920
Debt repayment	587,352	-	587,352
Other purposes	21,920	-	21,920
Unrestricted	8,732,744	15,287,765	24,020,509
Total net position	\$ 66,543,027	\$ 34,936,234	\$ 101,479,261

See Notes to Financial Statements.

Town of Windham, Connecticut

Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Positions		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ (3,503,142)	\$ 1,013,637	\$ 42,437	\$ 220,650	\$ (2,226,418)	\$ -	\$ (2,226,418)
Public safety	(11,490,672)	1,604,538	404,529	-	(9,481,605)	-	(9,481,605)
Public works	(6,540,875)	410,443	1,247,754	242,837	(4,639,841)	-	(4,639,841)
Human services	(670,819)	143,673	1,076,606	-	549,460	-	549,460
Civic and cultural	(1,557,750)	237,451	-	30,379	(1,289,920)	-	(1,289,920)
Education	(68,109,554)	577,976	47,837,566	4,466,463	(15,227,549)	-	(15,227,549)
Planning and development	(1,541,852)	39,065	-	-	(1,502,787)	-	(1,502,787)
Interest on long-term debt	(1,364,141)	-	-	-	(1,364,141)	-	(1,364,141)
Total governmental activities	(94,778,805)	4,026,783	50,608,892	4,960,329	(35,182,801)	-	(35,182,801)
Business-type activities:							
Water	(2,324,419)	2,769,360	-	-	-	444,941	444,941
Sewer	(3,347,794)	2,793,357	-	-	-	(554,437)	(554,437)
Total business-type activities	(5,672,213)	5,562,717	-	-	-	(109,496)	(109,496)
Total primary government	\$ (100,451,018)	\$ 9,589,500	\$ 50,608,892	\$ 4,960,329	(35,182,801)	(109,496)	(35,292,297)
General revenues:							
Property taxes, levied for general purposes					33,855,514	-	33,855,514
Grants and contributions not restricted to specific programs					5,489,221	97,072	5,586,293
Unrestricted investment earnings					102,646	535,142	637,788
Transfers					184,000	(184,000)	-
Total general revenues and transfers					39,631,381	448,214	40,079,595
Change in net position					4,448,580	338,718	4,787,298
Net position - beginning					62,094,447	34,597,516	96,691,963
Net position - ending					\$ 66,543,027	\$ 34,936,234	\$ 101,479,261

See Notes to Financial Statements.

Town of Windham, Connecticut

Balance Sheet - Governmental Funds
June 30, 2014

	Major Funds			Other	Total
	General	Educational	Windham	Non-Major	Governmental
	Fund	Grants	Magnet School	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
Assets					
Cash and cash equivalents	\$ 8,979,888	\$ 1,494,793	\$ -	\$ 601,620	\$ 11,076,301
Investments	-	-	-	773,477	773,477
Receivables, net of allowance for collection losses:					
Property taxes,	928,430				
grants and contracts	1,746,684	1,575,597	7,481,949	2,011,224	12,815,454
Accounts receivable	1,078,851	-	-	33,856	1,112,707
Notes receivable		-	-	491,129	491,129
Due from other funds	12,646,857	-	-	5,212,190	17,859,047
Restricted cash	587,352	-	-	-	587,352
Inventories	112,351	-	-	21,920	134,271
Total assets	\$ 26,080,413	\$ 3,070,390	\$ 7,481,949	\$ 9,145,416	\$ 45,778,168
Liabilities:					
Accounts payable and accrued liabilities	\$ 5,061,382	\$ 135,097	\$ 113,574	\$ 1,214,409	\$ 6,524,462
BAN Payable	-	-	1,630,000	883,000	2,513,000
Due to other funds	5,839,095	2,325,727	7,160,463	1,076,688	16,401,973
Unearned revenue	-	609,566	-	25,679	635,245
Total liabilities	10,900,477	3,070,390	8,904,037	3,199,776	26,074,680
Deferred Inflows of Resources					
Unavailable resources	2,489,338	-	3,310,056	901,307	6,700,701
Total deferred inflows of resources	2,489,338	-	3,310,056	901,307	6,700,701
Fund balances (deficits):					
Nonspendable	112,351	-	-	480,964	593,315
Restricted	587,352	-	-	3,680,664	4,268,016
Committed	-	-	-	1,521,337	1,521,337
Assigned	898,389	-	-	-	898,389
Unassigned	11,092,506	-	(4,732,144)	(638,632)	5,721,730
Total fund balances (deficit)	12,690,598	-	(4,732,144)	5,044,333	13,002,787
Total liabilities and fund balances (deficits)	\$ 26,080,413	\$ 3,070,390	\$ 7,481,949	\$ 9,145,416	

Amounts reported for governmental activities in the statement of

Net position is different because:

Capital assets purchased by governmental funds are reported as expenditures,
however, the statement of net position includes those capital assets among
the assets of the Town as a whole.

81,914,577

Unavailable revenues are not available to pay for current-period expenditures
and therefore are not recognized as revenues in the funds.

6,700,701

Deferred outflows of resources

76,593

Net pension assets

394,106

Internal service funds are used by management to charge the costs of health
insurance to individual funds. The assets and liabilities of the internal
service funds are included in governmental activities in the statement of
Net Positions.

3,027,845

Long-term liabilities, including bonds payable, are not due and payable
in the current period and therefore are not reported in the funds.

(38,493,587)

Accrued interest payable

(79,995)

Net position of governmental activities

\$ 66,543,027

See Notes to Financial Statements.

Town of Windham, Connecticut

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)
 Governmental Funds
 For the Year Ended June 30, 2014

	General Fund	Educational Grants Fund	Windham Magnet School Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 33,826,651	\$ -	\$ -	\$ -	\$ 33,826,651
Intergovernmental	37,271,487	14,084,781	6,463,188	6,542,471	64,361,927
Charges for services	2,253,027	-	-	303,512	2,556,539
Licenses and permits	295,542	-	-	-	295,542
Fines, forfeitures, and penalties	45,417	-	-	-	45,417
Investment income	6,496	120	-	96,030	102,646
Miscellaneous	875,615	-	3,797	249,873	1,129,285
Total revenues	74,574,235	14,084,901	6,466,985	7,191,886	102,318,007
Expenditures					
Current:					
General government	2,878,796	-	-	80,364	2,959,160
Public safety	1,739,446	-	-	424,040	2,163,486
Public works	4,232,124	-	-	464,048	4,696,172
Human services	586,157	-	-	-	586,157
Civic and cultural	1,193,154	-	-	147,610	1,340,764
Planning and development	401,747	-	-	937,756	1,339,503
Education	49,414,612	14,084,901	-	3,174,276	66,673,789
Debt issuance costs	-	-	-	39,120	39,120
Police	5,572,877	-	-	-	5,572,877
Fire	2,610,494	-	-	-	2,610,494
Miscellaneous	1,054,937	-	-	-	1,054,937
Debt service:					
Principal retirements	2,196,094	-	-	-	2,196,094
Interest and other charges	1,107,956	-	27,864	-	1,135,820
Capital outlay	25,677	-	5,462,867	5,715,523	11,204,067
Total expenditures	73,014,071	14,084,901	5,490,731	10,982,737	103,572,440
Excess (deficiency) of revenues over (under) expenditures	1,560,164	-	976,254	(3,790,851)	(1,254,433)
Other Financing Sources (Uses)					
Bond proceeds	-	-	1,080,000	4,950,000	6,030,000
Bond premium	-	-	17,585	340,650	358,235
Deposit to escrow	-	-	-	(1,836,844)	(1,836,844)
Refunding bond proceeds	-	-	-	1,790,900	1,790,900
Transfers in	239,683	-	-	525,000	764,683
Transfers out	(535,000)	-	-	(45,683)	(580,683)
Total other financing sources (uses)	(295,317)	-	1,097,585	5,724,023	6,526,291
Net change in fund balances	1,264,847	-	2,073,839	1,933,172	5,271,858
Fund Balances (deficit), beginning	11,425,751	-	(6,805,983)	3,111,161	7,730,929
Fund balances (deficit), ending	\$ 12,690,598	\$ -	\$ (4,732,144)	\$ 5,044,333	\$ 13,002,787

See Notes to Financial Statements.

Town of Windham, Connecticut

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficits) of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2014**

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
to the Statement of Activities:

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances – total governmental funds **\$ 5,271,858**

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 10,919,653	
Depreciation expense	(3,753,810)	
		7,165,843

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes and interest collected after 60 days	28,863	
Loans receivable	204,999	
Other receivables	360,489	
Intergovernmental revenue on school bonds	(938,227)	
Intergovernmental revenue on magnet school construction	(2,930,746)	
		(3,274,622)
Change in pension asset		34,443

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on Net Positions. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on bonds	3,929,094	
Amortization of bond premium	(271,908)	
Issuance of general obligation bonds	(6,030,000)	
Issuance of refunding general obligation bonds	(1,790,900)	
Principal payments on capital leases	320,978	
Amortization of deferred charges	(147,104)	
		(3,989,840)

Internal service funds are used by management to charge costs to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

907,993

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest	(24,580)	
Change in landfill closure liability	37,000	
Change in long-term compensated absences	(359,544)	
Change in OPEB liability	(1,319,971)	
		(1,667,095)

Change in net position of governmental activities

\$ 4,448,580

See Notes to Financial Statements.

Town of Windham, Connecticut

Statement of Net Position - Proprietary Funds
June 30, 2014

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
Assets				
Current assets:				
Cash and cash equivalents	\$ 142,559	\$ 1,126,318	\$ 1,268,877	\$ 1,294,561
Accounts receivable, net	586,158	460,921	1,047,079	3,035,099
Inventories	214,492	-	214,492	-
Due from other funds	542,329	-	542,329	-
Total current assets	1,485,538	1,587,239	3,072,777	4,329,660
Noncurrent assets:				
Investments	2,326,443	11,942,449	14,268,892	-
Capital assets:				
Non-depreciable	65,000	34,330	99,330	-
Depreciable, net	11,102,471	23,710,877	34,813,348	-
Total noncurrent assets	13,493,914	35,687,656	49,181,570	-
Total assets	14,979,452	37,274,895	52,254,347	4,329,660
Liabilities				
Current liabilities:				
Accounts payable	113,923	188,448	302,371	1,594
Claims payable	-	-	-	1,300,221
Accrued liabilities:				
Accrued interest	4,224	24,787	29,011	-
Accrued salaries and benefits payable	3,000	3,189	6,189	-
Other	22,500	9,000	31,500	-
Due to other funds	-	1,293,119	1,293,119	-
Bonds and notes payable - current	300,256	802,661	1,102,917	-
Compensated absences - current	71,910	65,190	137,100	-
Total current liabilities	515,813	2,386,394	2,902,207	1,301,815
Noncurrent liabilities:				
Bonds and notes payable	896,520	13,264,772	14,161,292	-
Compensated absences	133,546	121,068	254,614	-
Total liabilities	1,545,879	15,772,234	17,318,113	1,301,815
Net Position				
Net Investment in capital assets	9,970,695	9,677,774	19,648,469	-
Unrestricted	3,462,878	11,824,887	15,287,765	3,027,845
Total net position	\$ 13,433,573	\$ 21,502,661	\$ 34,936,234	\$ 3,027,845

See Notes to Financial Statements.

Town of Windham, Connecticut

Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds
For the Year Ended June 30, 2014

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
Operating Revenues				
Charges for services	\$ 2,769,360	\$ 2,793,357	\$ 5,562,717	\$ 10,786,336
Other	57,831	39,241	97,072	-
Total operating revenues	<u>2,827,191</u>	<u>2,832,598</u>	<u>5,659,789</u>	<u>10,786,336</u>
Operating Expenses				
Personnel services	1,068,964	1,100,529	2,169,493	-
Outside services	45,468	390,800	436,268	-
Depreciation	394,114	1,024,031	1,418,145	-
Fuel and utilities	197,231	208,578	405,809	-
Administration	85,421	57,328	142,749	1,080,322
Repairs, maintenance and supplies	480,995	212,753	693,748	-
Claims incurred	-	-	-	8,799,907
Total operating expenses	<u>2,272,193</u>	<u>2,994,019</u>	<u>5,266,212</u>	<u>9,880,229</u>
Operating income (loss)	<u>554,998</u>	<u>(161,421)</u>	<u>393,577</u>	<u>906,107</u>
Non-Operating Revenues (Expenses)				
Interest income	31,862	503,280	535,142	1,886
Interest expense	(52,226)	(353,775)	(406,001)	-
Total non-operating revenues (expenses)	<u>(20,364)</u>	<u>149,505</u>	<u>129,141</u>	<u>1,886</u>
Net income before transfers	<u>534,634</u>	<u>(11,916)</u>	<u>522,718</u>	<u>907,993</u>
Transfers out	(92,000)	(92,000)	(184,000)	-
Change in net position	<u>442,634</u>	<u>(103,916)</u>	<u>338,718</u>	<u>907,993</u>
Net Position - Beginning	<u>12,990,939</u>	<u>21,606,577</u>	<u>34,597,516</u>	<u>2,119,852</u>
Net Position - Ending	<u>\$ 13,433,573</u>	<u>\$ 21,502,661</u>	<u>\$ 34,936,234</u>	<u>\$ 3,027,845</u>

See Notes to Financial Statement.

Town of Windham, Connecticut

Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2014

	Business-Type Activities - Enterprise Funds			Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Total	
Cash Flows From Operating Activities				
Cash received for the following:				
Charges for services	\$ 2,775,083	\$ 2,798,988	\$ 5,574,071	\$ 9,224,635
Other income	57,831	39,241	97,072	-
	<u>2,832,914</u>	<u>2,838,229</u>	<u>5,671,143</u>	<u>9,224,635</u>
Cash paid for the following:				
Personnel services	(1,085,815)	(1,109,922)	(2,195,737)	-
Fuel and utilities	(197,231)	(208,578)	(405,809)	-
Outside services	(47,468)	(310,277)	(357,745)	-
Administration	(85,421)	(57,328)	(142,749)	(1,120,021)
Repairs, maintenance and supplies	(432,750)	(212,753)	(645,503)	-
Claims paid	-	-	-	(8,912,487)
	<u>(1,848,685)</u>	<u>(1,898,858)</u>	<u>(3,747,543)</u>	<u>(10,032,508)</u>
Net cash provided by (used in) operating activities	<u>984,229</u>	<u>939,371</u>	<u>1,923,600</u>	<u>(807,873)</u>
Cash Flows From Noncapital Financing Activities				
Transfers to other funds	(92,000)	(92,000)	(184,000)	-
Payments (receipts) on due (to)/from other funds	(209,554)	283,877	74,323	597,237
Net cash provided by (used in) provided by noncapital financing activities	<u>(301,554)</u>	<u>191,877</u>	<u>(109,677)</u>	<u>597,237</u>
Cash Flows From Capital and Related Financing Activities				
Purchases of capital assets	(276,919)	(37,867)	(314,786)	-
Proceeds from issuance of refunding bonds	684,100	-	684,100	-
Principal paid on capital debt	(950,905)	(737,821)	(1,688,726)	-
Interest paid on capital debt	(53,682)	(352,957)	(406,639)	-
Net cash used in capital and related financing activities	<u>(597,406)</u>	<u>(1,128,645)</u>	<u>(1,726,051)</u>	<u>-</u>
Cash Flows From Investing Activities				
Purchase of investments	(21,134)	(694,189)	(715,323)	-
Sale of investments	-	-	-	-
Interest and dividends	31,862	503,280	535,142	1,886
Net cash provided by (used in) investing activities	<u>10,728</u>	<u>(190,909)</u>	<u>(180,181)</u>	<u>1,886</u>
Net increase (decrease) in cash and cash equivalents	<u>95,997</u>	<u>(188,306)</u>	<u>(92,309)</u>	<u>(208,750)</u>
Cash and Cash Equivalents, beginning of year	<u>46,562</u>	<u>1,314,624</u>	<u>1,361,186</u>	<u>1,503,311</u>
Cash and Cash Equivalents, end of year	<u>\$ 142,559</u>	<u>\$ 1,126,318</u>	<u>\$ 1,268,877</u>	<u>\$ 1,294,561</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Operating income (loss)	\$ 554,998	\$ (161,421)	\$ 393,577	\$ 906,107
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	394,114	1,024,031	1,418,145	-
(Increase) decrease in assets:				
Accounts receivable	5,723	5,631	11,354	(1,561,701)
Inventories	11,871	-	11,871	-
Increase (decrease) in liabilities:				
Accounts payable	36,374	75,523	111,897	(39,699)
Accrued liabilities and compensated absences	(18,851)	(4,393)	-	(112,580)
Net cash provided by (used in) operating activities	<u>\$ 984,229</u>	<u>\$ 939,371</u>	<u>\$ 1,923,600</u>	<u>\$ (807,873)</u>

See Notes to Financial Statements.

Town of Windham, Connecticut

Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2014

	Pension Trust Funds	Private Purpose Trust Funds	Agency Funds
Assets			
Cash and cash equivalents	\$ 2,315,055	\$ 85,203	\$ 83,239
Investments, at fair value:			
Debt securities	4,027,540	-	-
Certificates of deposit	-	-	192,577
Corporate bonds	2,647,623	-	-
Group annuity contracts	14,250,213	-	-
Mutual funds	-	12,197	-
Collective trusts	7,136,534	-	-
Equity securities	18,793,716	88,463	-
Other	-	34,198	-
Receivables	68,953	-	6,551
Due from other funds	-	-	2,238
Total assets	49,239,634	220,061	284,605
Liabilities			
Accounts payable	-	-	1,747
Due to others	-	-	278,004
Due to other funds	679,407	24,261	4,854
Total liabilities	679,407	24,261	284,605
Net Position Restricted for Pension Benefits and Other	\$ 48,560,227	\$ 195,800	\$ -

See Notes to Financial Statements.

Town of Windham, Connecticut

**Statement of Changes in Fiduciary Net Position -
Fiduciary Funds
For the Year Ended June 30, 2014**

	Pension Trust Funds	Private Purpose Trust Funds
Additions		
Contributions:		
Employer	\$ 2,232,337	\$ -
Plan members	365,162	-
Private donations and other	2,749	500
Total contributions and other	<u>2,600,248</u>	<u>500</u>
Investment income:		
Interest and dividends	963,711	2,746
Net appreciation in the fair value of investments	4,844,127	16,362
Total investment earnings	<u>5,807,838</u>	<u>19,108</u>
Total additions	<u>8,408,086</u>	<u>19,608</u>
Deductions		
Benefit payments	1,947,297	5,149
Administrative and other expenses	80,084	3,065
Total deductions	<u>2,027,381</u>	<u>8,214</u>
Change in net position	6,380,705	11,394
Net Position Restricted For Pension Benefits and Other, beginning	<u>42,179,522</u>	<u>184,406</u>
Net Position Restricted For Pension Benefits and Other, ending	<u>\$ 48,560,227</u>	<u>\$ 195,800</u>

See Notes to Financial Statements.

Town of Windham, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The financial statements of the Town of Windham, Connecticut (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant policies of the Town are described below.

Reporting Entity: The Town of Windham, Connecticut, (the Town) was incorporated in 1692 after being settled in 1686 and adopted its original charter in 1947. The Town of Windham, Connecticut and City of Willimantic, Connecticut were consolidated by ordinance adopted December 15, 1982 under the name "Town of Windham, Connecticut" and came into political existence on July 1, 1983. The former City of Willimantic is now known as the Willimantic Service District (the "WSD").

Effective November 17, 2009, as a result of a Town charter revision, the Town's form of government changed from an eleven member Board of Selectman which served as the Town's legislative body to an eleven member Town Council. Formerly, the First Selectman acted as the chief executive officer and this position has subsequently been replaced with a non-elected Town Manager and a "ceremonial" Mayor who serves as the Town Council Chair and acts as the ombudsman for the Town. The functions of the existing seven member Board of Finance remains substantially unchanged. The general objective of the charter revision is to provide stable, professional Town management which will help to ensure the efficient administration of Town government and to develop and implement strategic initiatives for the Town that are consistent with the goals set forth by the legislative body.

The legislative power of the Town is vested with the Town Council and Town Meeting. The Town Council may enact, amend or repeal ordinances and resolutions. The Board of Finance is responsible for financial and taxation matters as prescribed by the Connecticut General Statutes, and is responsible for presenting fiscal operating budgets for Town Meeting approval.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement Codification Section 2100 have been considered and there are no agencies or entities that should be, but are not, included in the financial statements of the Town.

Accounting Standards Adopted in the Current Year:

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, was implemented as of July 1, 2013. This statement clarified the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. As a result of the adoption of this standard, \$76,593 of deferred amounts on refundings were reclassified to Deferred Outflows of Resources. Previously, these amounts offset long-term debt.

GASB Statement No. 67, Financial Reporting for Pension Plans an amendment of GASB Statement No. 25, issued in June 2012, was effective for the Town as of July 1, 2013. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The implementation of this statement did not have a material impact on the Town's financial statements.

Town of Windham, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, Became effective on July 1, 2013. This statement provides guidance to governments that extend and receive nonexchange financial guarantees. The implementation of this statement had no impact on the Town's financial statement.

Government-Wide and Fund Financial Statements: The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. The effect of interfund activity has been removed from the statement of net position, except for the net residual amounts due between governmental and business-type activities. The interfund services provided and used are not eliminated from the statement of activities in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 instead as general revenues.

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

The various funds included in the financial statements are described below:

Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed.

The *General Fund* is the primary operating fund of the Town. This fund is used to account for and report all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal grants, licenses, permits, charges for service and interest income.

Special Revenue Funds account for and report the proceeds of specific revenue sources (other than major capital projects) that are restricted or committed for expenditure for specific activities other than debt service or capital projects.

Capital Project Funds account for and report all financial resources that are restricted, committed or assigned to expenditure for capital outlay, other than reported in proprietary funds.

Permanent Funds are used to account for and report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Town's programs.

The *Debt Service Fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest.

Town of Windham, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Proprietary Funds

Proprietary funds are used to account for activities that are similar to those often found in the private sector. These funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. The following are the Town's proprietary funds:

- Enterprise Funds account for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Water and Sewer Funds are the Town's only enterprise funds.
- Internal Service Funds account for the financing of goods or services provided by one department to other departments or agencies of the Town on a cost-reimbursement basis. The Health Insurance Fund is the Town's only internal service fund.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations and/or other governments. Fiduciary funds are not included in the government-wide statements. The fiduciary funds are as follows:

The *Pension Trust Fund* accounts for the Municipal Employees Retirement System.

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation. The Student Activities Fund, Student Scholarship Fund and Performance Bonds Fund are the Town's agency funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation: The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. However, agency funds, unlike other fiduciary funds, report only assets and liabilities and do not have a measurement focus, and follow 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 for. Intergovernmental grants and entitlements 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 Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred except for debt service expenditures, as well as expenditures related to compensated absences, pension obligations, landfill post-closure monitoring, claims and judgments, and other post-employment benefits which are recorded only when payment is due (matured).

Town of Windham, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued): Property taxes when levied for, intergovernmental revenue when eligibility requirements are met, licenses, charges for services and interest associated with the current fiscal period are all considered to be measurable and so have been recognized as revenues of the current fiscal period, if available. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental funds:

General Fund - This 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. It accounts for all activities in relation to the normal recurring operations of the Town's general government, including the Board of Education and the Willimantic Service District (the "WSD"). The Town and WSD are two separate "sub-funds" of the General Fund. Each sub-fund has its own legally adopted budget.

Educational Grants Fund - This fund is used to account for educational revenues and expenditures relating to federal and state educational grants.

Windham Magnet School Fund - This fund is used to account for revenues and expenditures relating to the construction of the magnet school.

The Town reports the following major enterprise funds:

Water Fund - This fund is used to account for expenses and revenues associated with the processing and distribution of water service to residents of the Town.

Sewer Fund - This fund is used to account for expenses and revenues associated with the processing, treatment, and disposal of sewage within the Town.

In addition, the Town reports the following fund types:

Internal Service Fund - This fund type is used to account for activities that provide goods or services to other funds, departments, or agencies of the Town on a cost-reimbursement basis. The Town utilizes an internal service fund to account for risk management activities as permitted by GASB Statement No. 10.

Pension Trust Funds - These funds are used to account for resources held in trust for the members and beneficiaries of the Town's defined benefit pension plans. The Town utilizes these funds to account for activities of the following plans: Firemen's Pension, Policemen's Pension, Municipal Employees', and the Board of Education Employees' Pension.

Private Purpose Trust Funds - These funds are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The Town utilizes these funds to account for activities of the Scholarship Trust Fund and the Walter Fahey Trust Fund.

Agency Funds - These funds are used to account for resources held by the Town in a purely custodial capacity. The Town primarily utilizes an agency fund to account for assets of the student activities funds. The student activities funds account for monies generated by student activities in the Town's school system.

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

Town of Windham, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 property taxes.

Cash and Cash Equivalents: Cash and cash equivalents include short-term, highly liquid investments with original maturities of three months or less when purchased.

Investments: Investments for the Town are stated at fair value using quoted market prices. The Connecticut State Treasurer's Short-Term Investment Fund is an investment pool managed by the State of Connecticut Office of the State Treasurer. Investments must be made in instruments authorized by Connecticut General Statutes 3-27c through 3-27e. Investment guidelines are adopted by the State Treasurer. The fair value of the position in the pool is the same as the value of the pool shares.

The Town's Pension Plan's Guaranteed Investment Contract is valued at contract value. The Guaranteed Investment Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities to pay administrative expenses.

The balance of the pooled fixed income investments were invested in a pool similar to a SEC 2a-7. The value of the position in the pool is the same as the value of the pool shares. These investments are stated at amortized cost.

Property Taxes: The Town's property tax is levied each July, on the assessed value listed on the prior October 1 Grand List, for all taxable property located in the Town. Real estate taxes are due in two equal installments on July 1 and January 1 following the levy date and personal property taxes are due in one installment on July 1 following the levy date, although a 30-day grace period is provided. Motor vehicle taxes are due and payable July 1 and motor vehicle supplement taxes are due and payable January 1. Taxes become delinquent thirty days after the installment is due and liens are filed on balances that are delinquent for one year. Based on historical collection experience and other factors, the Town has established an allowance for uncollectible taxes of \$142,000 as of June 30, 2014.

Inventories and Prepaid Items: All prepaids are reported using the consumption method.

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Town of Windham, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 or business-type activities columns in the government-wide financial statements and proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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 costs of normal maintenance and repairs 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	5-50
Machinery and equipment	3-25
Infrastructure	20-50
Services and improvements	20-100

In the governmental fund financial statements, capital assets are recorded as expenditure when purchased and no depreciation expense is reported.

Compensated Absences: Employees are granted vacation and sick leave based upon length of employment. For Town employees, unused vacation can be accumulated from year to year up to certain limits. Sick days can also be accumulated up to certain limits. For Board of Education employees, vacation days do accumulate, as do sick days up to contractual limits.

Vacation and sick leave expenses to be paid in future periods are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only for amounts that have become due. The general fund is typically used to liquidate the liability

Long-term Obligations: In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any significant applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued 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 and principal payments, are reported as debt service expenditures.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Equity: The government-wide statement of net position presents the Town's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- **Net Investment in Capital Assets** - This category consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of capital assets.
- **Restricted Net Position** - These amounts are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislations.
- **Unrestricted Net Position** - This category consists of net position which does not meet the definition of the two preceding categories.

In the government fund financial statements, the Town classified fund balances as follows:

- **Nonspendable Fund Balance** – Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted Fund Balance** - These amounts are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislations.
- **Committed Fund Balance** – This represents amounts constrained prior to year-end for a specific purpose by a government using its highest level of decision-making authority (Town of Windham Town Council). Commitments may be established, modified, or rescinded only through resolutions approved by the Town Council as per the Town Charter.
- **Assigned Fund Balance** – Amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts. Under the Town's adopted policy, the Town Manager or the Controller has the authority to assign amounts for a specific purpose.
- **Unassigned Fund Balance** – The residual amount not allocated to any other fund balance category in the General Fund and any residual deficit balance of any other governmental funds.

The Town does not have a formal policy over the use of fund balance. In accordance with GASB Statement No. 54, the Town will use restricted resources first, then unrestricted resources as needed. Unrestricted resources are used in the following order: committed; assigned; then unassigned.

Interfund Receivables and Payables: Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Interfund Services Provided and Used: Sales and purchases of goods and services between funds for a price approximating their external exchange value are reported as revenues and expenditures, or expenses, in the applicable funds.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Interfund Transfers: Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.

Interfund Reimbursements: Interfund reimbursements represent repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them.

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Town reports a deferred charge on refunding in this manner in the government-wide statement of net position. A deferred charge on debt refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports advance property tax collections in the government-wide statement of net position and in the governmental funds balance sheet. Advance property tax collections represent taxes inherently associated with a future period. This amount is recognized during the period in which the revenue is associated. Also, for governmental funds, the Town reports unavailable revenue, which arises only under the modified accrual basis of accounting. The governmental funds report unavailable revenues from several sources: property taxes, grants and charges for services. These amounts are deferred and recognized as an inflow of resources (revenue) in the period in which the amounts become available.

Pension Accounting:

Pension Trust Funds: Employee contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the Town has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Governmental Funds and Governmental Activities: In governmental funds, expenditures are recognized when they are paid or are expected to be paid with current available resources. In governmental activities, expense is recognized based on actuarially required contributions. The net pension obligation (asset), the cumulative difference between annual pension cost and the Town's contributions to the plans since 1986, is calculated on an actuarial basis consistent with the requirements of Government Accounting Standards Board Statement No. 27. The pension obligation (asset) is recorded as a noncurrent liability (asset) in the government-wide financial statements.

Funding Policy: The Town makes annual contributions based on contracts.

Town of Windham, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Other Post-Employment Obligations (OPEB) Accounting:

Governmental Funds and Governmental Activities: In governmental funds, expenditures are recognized when they are paid or are expected to be paid with current available resources. In governmental activities, expense is recognized based on actuarially required contributions. The net OPEB obligation, the cumulative difference between annual OPEB cost and the Town's contributions to the plan since July 1, 2008, is calculated on an actuarial basis consistent with the requirements of Government Accounting Standards Board Statement No. 45. The OPEB obligation (OPEB) is recorded as a noncurrent liability in the government-wide financial statements.

Funding Policy: The Town makes annual contributions on a pay as you go basis.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position: The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds, and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows:

Bonds payable	\$ 18,673,223
Deferred premiums, net of amortization	538,263
Capital leases	3,484,549
Compensated absences	6,282,448
Landfill post-closure liability	98,000
OPEB	<u>9,417,104</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u><u>\$ 38,493,587</u></u>

Note 3. Cash, Cash Equivalents and Investments

Deposits: The Town and the Pension Trust funds do not have a policy for deposits. The Town and the Pension Trust funds also do not have a custodial credit risk policy. However, as a practice, the Town and the Pension Trust fund follows State statutes. The State of Connecticut requires that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk based capital ratio.

Town of Windham, Connecticut

Notes to Financial Statements

Note 3. Cash, Cash Equivalents and Investments (Continued)

Investments: The Town and the Pension Trust Funds do not have a custodial credit risk policy for investments. The Town and the Pension Trust Funds have adopted investment policies for credit risk that conform to the policies as set forth by the State of Connecticut. The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: (1) obligations of the United States and its agencies (2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof; and (3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open-end money market mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. The Statutes (Sections 2-24f and 3-27f) also provide for investment in shares of the Connecticut Short Term Investment Fund and the Tax Exempt Proceeds Fund. Other provisions of the Statutes cover specific municipal pension funds with particular investment authority and do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries. The Pension Trust Fund's investment in foreign bonds and stocks is in proportion with which the investment manager shall deem appropriate.

Interest Rate Risk: The Town, including its Pension Trust Funds, does not have a policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, its practice is to structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations or pension payments, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Concentration of Credit Risk: The Town, including its Pension Trust Funds, does not have a formal policy that limits the amounts invested in any one issuer. However, its practice is to maintain a diversified portfolio to minimize the risk of loss resulting from over-concentration of assets in a specific issuer.

Custodial Credit Risk:

Deposits: This is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2014, \$14,519,919 of the entity's bank balance of \$17,669,762 was uninsured and uncollateralized.

Investments: This is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The following represents the investments in each respective Plan that represents more than 5% of the respective Plan's net position as of June 30, 2014:

Municipal Pension Fund	
MSCI ACWI Ex-US Index	\$ 648,776
Calvert Equity I	648,776
S&P 500 Index	2,595,103
Diamond Hill Large Cap I	648,776
Neuberger Berman Genesis	648,776
PIMCO Total Return Inst.	1,946,327
Defined Benefit Guaranteed Portfolio	5,838,982
Board of Education	
Aetna Life Insurance Company	8,108,835

Town of Windham, Connecticut

Notes to Financial Statements

Note 3. Cash, Cash Equivalents and Investments (Continued)

Cash, cash equivalents and investments of the Town consist of the following at June 30, 2014:

Cash and Cash Equivalents		
Deposits with financial institutions	\$	16,487,606
Cooperative Liquid Assets Security Systems Fund (CLASS)		222,982
Total cash and cash equivalents		<u>16,710,588</u>
Permanent Funds		
Cemetery Trust:		
Corporate Bonds		44,754 *
U.S. Treasury Securities		53,292 *
U.S. Government Agencies		3,975 *
Common Stock		300,659 *
William A. & Jennie S. King Trust:		
Corporate Bonds		49,727 *
U.S. Treasury Securities		59,244
U.S. Government Agencies		3,975
Common Stock		257,851
Total permanent funds		<u>773,477</u>
Sewer Fund		
U.S. Government Agencies		9,024,150 *
Certificates of deposits		2,918,299
Water Fund		
Certificates of deposits		2,326,443
Total enterprise funds		<u>14,268,892</u>
Private Purpose Trust Funds		
Common Stock		88,463 *
Fixed Income Mutual Funds		12,197 *
Other		34,198 *
Total private purpose		<u>134,858</u>
Scholarship Funds		
Certificates of deposits		145,999 *
Student Activity Funds		
Certificates of deposits		46,578 *
Corporate bonds		2,647,623 *
U.S. Treasury Securities		1,913,150 *
U.S. Government Agencies		2,114,390 *
Group annuity contracts		14,250,213 *
Collective trusts		7,136,534 *
Common Stock		18,793,716 *
Total pension trust		<u>46,855,626</u>
Total cash, cash equivalents and pension investments		<u>46,855,626</u>
Total cash, cash equivalents and investments	\$	<u>78,936,018</u>

* These investments are uninsured with securities held by the counterparty in the

Town of Windham, Connecticut

Notes to Financial Statements

Note 3. Cash, Cash Equivalents and Investments (Continued)

Cash, cash equivalents and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and cash equivalents	\$ 14,227,091
Investments	15,042,369
	<u>29,269,460</u>

Fiduciary Funds:

Cash and cash equivalents	2,483,497
Investments	47,183,061
	<u>49,666,558</u>

Total cash, cash equivalents and investments	\$ 78,936,018
---	----------------------

Interest Rate Risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the exposure of the Town's debt type investments to this risk using the segmented time distribution model is as follows.

As of June 30, 2014, the Town's investments consisted of the following:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt Securities:					
Cooperative Liquid Asset Security					
Systems Fund (CLASS)	\$ 222,982	\$ 222,982	\$ -	\$ -	\$ -
Corporate Bonds	2,742,104	386,732	1,406,712	674,720	273,940
Fixed Income Mutual Funds	12,197	-	12,197	-	-
U.S. Government Agencies	11,146,490	-	287,254	2,103,438	8,755,798
U.S. Treasury Securities	2,025,686	51,067	916,861	863,230	194,528

Credit Risk: Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. Presented below is the actual rating as required for each debt type investment.

Town of Windham, Connecticut

Notes to Financial Statements

Note 3. Cash, Cash Equivalents and Investments (Continued)

The Town's investments in debt securities were rated by Fitch Ratings and/or Standard & Poor's as follows at June 30, 2014:

Debt Securities	Fair Value	AAAm	AAA	AA+	AA	AA-	A+
Cooperative Liquid Asset Security Systems Fund (CLASS)	\$ 222,982	\$ 222,982	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Bonds	2,742,104	-	-	123,338	380,449	343,122	255,084
Fixed Income Mutual Funds	12,197	-	12,197	-	-	-	-
U.S. Government Agencies	11,142,515	-	11,142,515	-	-	-	-
	<u>\$ 14,119,798</u>	<u>\$ 222,982</u>	<u>\$ 11,154,712</u>	<u>\$ 123,338</u>	<u>\$ 380,449</u>	<u>\$ 343,122</u>	<u>\$ 255,084</u>

Debt Securities	A	A-	BBB+	BBB	BBB-	Unrated
Cooperative Liquid Asset Security Systems Fund (CLASS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Bonds	770,670	518,010	307,787	6,297	3,119	34,228
Fixed Income Mutual Funds	-	-	-	-	-	-
Mortgage Backed Securities	-	-	-	-	-	-
	<u>\$ 770,670</u>	<u>\$ 518,010</u>	<u>\$ 307,787</u>	<u>\$ 6,297</u>	<u>\$ 3,119</u>	<u>\$ 34,228</u>

No credit risk disclosures are required relating to U.S. Treasury Securities.

Concentrations of Credit Risk: The following represents individual holdings which exceeded 5% of each respective Plan's total investments:

Investment Type	Issuer	Fire	Police	Municipal	Board of Education
U.S. Treasuries	U.S. Treasury Notes	\$ 676,482	\$ 1,236,668	\$ -	\$ -
U.S. Agency	Federal National Mortgage Association	781,994	1,332,396	-	-
Collective Trust	PIMCO Total Return	-	-	1,946,328	-
Collective Trust	Calvert Equity	-	-	648,776	-
Collective Trust	MSCI ACWI Ex Us Index	-	-	648,776	-
Collective Trust	Neuberger Berman Genesis Instl	-	-	648,776	-
Collective Trust	S&P 500 Index	-	-	2,595,103	-
Collective Trust	Diamond Hill Large Cap I	-	-	648,776	-
Group annuity	Metropolitan Life Insurance Company	-	-	5,838,982	-
Group annuity	Aetna Life Insurance Company	-	-	-	8,411,231
		<u>\$ 1,458,476</u>	<u>\$ 2,569,064</u>	<u>\$ 12,975,517</u>	<u>\$ 8,411,231</u>

Town of Windham, Connecticut

Notes to Financial Statements

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases and Transfers	Decreases and Transfers	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land and improvements	\$ 3,547,959	\$ -	\$ -	\$ 3,547,959
Construction in progress	36,074,699	9,951,066	(35,903,070)	10,122,695
Total capital assets, not being depreciated	39,622,658	9,951,066	(35,903,070)	13,670,654
Capital assets, being depreciated:				
Buildings and improvements	51,104,919	36,060,458	-	87,165,377
Machinery and equipment	16,462,955	674,752	-	17,137,707
Infrastructure	23,606,920	136,447	-	23,743,367
Total capital assets, being depreciated	91,174,794	36,871,657	-	128,046,451
Less accumulated depreciation for:				
Buildings and improvements	(30,028,163)	(2,057,912)	-	(32,086,075)
Machinery and equipment	(14,721,692)	(223,541)	-	(14,945,233)
Infrastructure	(11,298,863)	(1,472,357)	-	(12,771,220)
Total accumulated depreciation	(56,048,718)	(3,753,810)	-	(59,802,528)
Total capital assets, being depreciated, net	35,126,076	33,117,847	-	68,243,923
Governmental activities capital assets, net	\$ 74,748,734	43,068,913	(35,903,070)	\$ 81,914,577

Town of Windham, Connecticut

Notes to Financial Statements

Note 4. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases and Transfers	Ending Balance
Business-type Activities				
Capital assets, not being depreciated:				
Land and improvements	\$ 99,330	\$ -	\$ -	\$ 99,330
Total capital assets, not being depreciated	99,330	-	-	99,330
Capital assets, being depreciated:				
Buildings and improvements	24,384,448	-	-	24,384,448
Machinery and equipment	11,896,724	144,508	-	12,041,232
Services and improvements	17,014,531	170,278	-	17,184,809
Total capital assets, being depreciated	53,295,703	314,786	-	53,610,489
Less accumulated depreciation for:				
Buildings and improvements	(7,517,165)	(445,195)	-	(7,962,360)
Machinery and equipment	(2,826,872)	(792,522)	-	(3,619,394)
Services and improvements	(7,034,959)	(180,428)	-	(7,215,387)
Total accumulated depreciation	(17,378,996)	(1,418,145)	-	(18,797,141)
Total capital assets, being depreciated, net	35,916,707	(1,103,359)	-	34,813,348
Business-type activities capital assets, net	<u>\$ 36,016,037</u>	<u>(1,103,359)</u>	<u>-</u>	<u>\$ 34,912,678</u>

Depreciation and amortization expense was charged to functions as follows:

Governmental activities:	
General government	\$ 300,305
Public safety	750,762
Public works	1,501,524
Human services	37,538
Planning and development	37,538
Civic and cultural	150,152
Education	975,991
Total depreciation and amortization expense-governmental activities	<u>\$ 3,753,810</u>
Business-type activities:	
Water	\$ 394,114
Sewer	1,024,031
Total depreciation and amortization expense-business-type activities	<u>\$ 1,418,145</u>

Town of Windham, Connecticut

Notes to Financial Statements

Note 5. Interfund Receivables, Payables and Transfers

During the course of operations, transactions are processed through a fund on behalf of another fund. A summary of interfund balances as of June 30, 2014, is presented below:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 12,646,857	\$ 5,839,095
Educational Grants Fund	-	2,325,727
Windham Magnet School	-	7,160,463
Water Fund	542,329	-
Sewer Fund	-	1,293,119
Nonmajor Governmental Funds	5,212,190	1,076,688
Fiduciary Funds	2,238	708,522
	<u>\$ 18,403,614</u>	<u>\$ 18,403,614</u>

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

Interfund transfers for the year ended June 30, 2014, consisted of the following:

	Transfers from Other Funds	Transfers to Other Funds
General Fund	\$ 239,683	\$ 535,000
Water Fund	-	92,000
Sewer Fund	-	92,000
Nonmajor Governmental Funds	525,000	45,683
	<u>\$ 764,683</u>	<u>\$ 764,683</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Town of Windham, Connecticut

Notes to Financial Statements

Note 6. Long-Term Liabilities

The following is a summary of changes in long-term obligations for the year ended June 30, 2014:

	Beginning Balances	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Bonds payable:					
General obligation bonds	\$ 14,781,417	\$ 7,820,900	\$ (3,929,094)	\$ 18,673,223	\$ 2,351,708
Unamortized amounts:					
Premiums	266,355	358,235	(86,327)	538,263	-
Total bonds payable	15,047,772	8,179,135	(4,015,421)	19,211,486	2,351,708
Other liabilities:					
Capital leases	3,805,527	-	(320,978)	3,484,549	324,160
Compensated absences	5,922,904	616,107	(256,563)	6,282,448	2,198,857
Landfill post-closure liability	135,000	-	(37,000)	98,000	7,000
Net OPEB obligation (see Note 10)	8,097,133	1,319,971	-	9,417,104	-
	\$ 33,008,336	\$ 10,115,213	\$ (4,629,962)	\$ 38,493,587	\$ 4,881,725
Business-type Activities					
Bonds payable:					
General obligation bonds	\$ 1,463,582	\$ 684,100	\$ (950,906)	\$ 1,196,776	\$ 300,256
Other liabilities:					
Notes payable	14,805,253	-	(737,820)	14,067,433	802,661
Compensated absences	396,865	131,100	(136,251)	391,714	137,100
	\$ 16,665,700	\$ 815,200	\$ (1,824,977)	\$ 15,655,923	\$ 1,240,017

Certain general obligation bonds and the notes payable allocable to the water and sewer projects are secured by the full faith and credit of the Town, but are substantially liquidated by water and sewer usage charges. The remaining liabilities above typically have been liquidated in the General and other governmental funds.

Town of Windham, Connecticut

Notes to Financial Statements

Note 6. Long-Term Liabilities (Continued)

General Obligation Bonds: A summary of general obligation bonds outstanding at June 30, 2014, is as follows:

Purpose of Bonds	Date of Issue	Original Amount	Interest Rates	Final Maturity Date	Amount Outstanding
Governmental Activities:					
Bonds Payable:					
General purposes and schools refunding bonds	2004	\$ 14,424,733	2.75%-5.00%	2016	\$ 2,679,323
General purpose bonds	2006	3,200,000	4.00%-5.00%	2026	163,000
General purpose bonds	2010	4,000,000	1.75%-4.00%	2031	3,545,000
General purpose refunding bonds	2010	5,260,000	2.00%-4.00%	2024	3,465,000
General purpose refunding bonds	2014	7,820,900	2.00%-4.00%	2034	7,820,900
Qualified Zone Academy Bonds	2003	500,000	-	2017	500,000
Qualified Zone Academy Bonds	2006	500,000	-	2022	500,000
					<u>\$ 18,673,223</u>
Business-type Activities:					
Bonds Payable:					
Water bonds, refinanced	2004	\$ 2,553,665	2.75%-5.00%	2016	\$ 450,676
Water bonds	2006	1,220,000	4.00%-5.00%	2026	62,000
Water bonds, refinanced	2014	684,100	2.00%-3.00%	2026	684,100
					<u>1,196,776</u>
Notes Payable:					
Clean Water Fund note payable	2008	\$ 668,189	2.00%	2027	456,664
Clean Water Fund note payable	2012	15,408,418	2.00%	2032	13,610,769
					<u>14,067,433</u>
					<u>\$ 33,937,432</u>

Town of Windham, Connecticut

Notes to Financial Statements

Note 6. Long-Term Liabilities (Continued)

Annual debt service requirements to maturity on general obligation bonds, water bonds and clean water fund notes are as follows as of June 30, 2014:

Year Ending June 30:	Governmental Activities	
	Bonds Payable	
	Principal	Interest
2015	\$ 2,284,743	\$ 608,810
2016	2,496,980	477,046
2017	1,254,500	386,374
2018	1,295,900	351,420
2019	1,242,300	322,100
2020-2024	5,362,500	1,135,803
2025-2029	2,596,300	531,279
2030-2034	1,690,000	159,978
	<u>\$ 18,223,223</u>	<u>\$ 3,972,810</u>

Year Ending June 30:	Business-Type Activities					
	Bonds Payable		Notes Payable		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 300,256	\$ 39,952	\$ 802,661	\$ 273,992	\$ 1,102,917	\$ 313,944
2016	258,020	27,992	803,312	257,933	1,061,332	285,925
2017	70,500	15,714	803,976	241,860	874,476	257,574
2018	69,100	14,318	804,653	225,774	873,753	240,092
2019	67,700	12,950	805,344	208,391	873,044	221,341
2020-2024	327,500	36,669	4,037,582	799,968	4,365,082	836,637
2025-2029	103,700	2,759	3,805,446	397,619	3,909,146	400,378
2030-2032	-	-	2,204,459	53,073	2,204,459	53,073
	<u>\$ 1,196,776</u>	<u>\$ 150,354</u>	<u>\$ 14,067,433</u>	<u>\$ 2,458,610</u>	<u>\$ 15,264,209</u>	<u>\$ 2,608,964</u>

On April 1, 2014, the Town issued \$4,420,000 of general obligation bonds with interest rates ranging from 2.0% to 4.0% of which was used to advance refund portions of the outstanding principal amounts of the general obligation bonds of the Town dated May 15, 2006 (the "Refunding Bonds"). Of the net proceeds of \$2,600,000, \$2,538,000 was placed in an irrevocable trust fund under an Escrow Agreement dated April 2014 between the Town and the Escrow Holder (after payment of \$67,000 in underwriter's fees and other costs). The Escrow Holder used the proceeds to purchase a portfolio of non-callable direct obligations of the United States of America ("Government Obligations"). The Government Obligations will have maturities and interest rates sufficient to pay principal and interest payments and redemption premiums on the Refunding Bonds on the date the payments are due.

The Town advance refunded the above bonds to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$169,000 and a savings of approximately \$227,000 between the old debt payments and the new debt payments.

The balance in the escrow was approximately \$2.5 million at June 30, 2014. The balance of the defeased bonds was approximately \$2.5 million at June 30, 2014. As a result, the refunded bonds are considered defeased and the liability has been removed from the basic financial statements.

Statutory Debt Limitation: Connecticut General Statutes Section 7-374(b) provides that authorized debt of the Town shall not exceed seven times base receipts, as defined in the Statute, or approximately \$236,210,268 as of June 30, 2014. Further, the statute limits the amount of debt that may be authorized by the Town for general purposes, schools, sewers, urban renewal and pension deficit. The Town did not exceed any of the statutory debt limitations at June 30, 2014.

Town of Windham, Connecticut

Notes to Financial Statements

Note 6. Long-Term Liabilities (Continued)

As of June 30, 2014, the Town has authorized and unissued bonds of \$4,395,242 for school construction projects and \$280,000 for roads and sidewalks.

School Bond Reimbursement: The State of Connecticut reimburses the Town for eligible school bond principal and interest costs. The amount of reimbursement for principal and interest for the year ended June 30, 2014, was \$824,597 and \$113,630 respectively. Additional reimbursements of principal and interest aggregating 1,633,536 and \$113,148, respectively, are expected to be received through the applicable bonds' maturity dates.

Capital Leases: A summary of assets under capital leases is as follows as of June 30, 2014:

	Governmental Activities
Machinery and equipment	\$ 5,367,418
Less: accumulated depreciation	<u>2,173,962</u>
	<u><u>\$ 3,193,456</u></u>

Depreciation expense relative to leased property under capital leases for the year ended June 30, 2014, totaled \$357,828 and is included in depreciation and amortization expense.

Future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, are as follows:

Year Ending June 30:	Governmental Activities
2015	\$ 456,377
2016	473,390
2017	491,044
2018	509,362
2019	528,371
Thereafter	<u>1,672,207</u>
Total minimum lease payments	4,130,751
Less: amount representing interest	<u>646,202</u>
Present value of minimum lease payments	<u><u>\$ 3,484,549</u></u>

Landfill Post-Closure Liability: The Town landfill has been closed. State and federal laws and regulations require landfill closures to meet certain standards. Monitoring costs for the next 14 years are estimated to be \$98,000. This amount is based on estimates, which are subject to change due to inflation, technology or applicable laws and regulations. The estimated liability is not recorded in the fund financial statements since the liability will be funded from future financial resources, not from expendable available financial resources.

Town of Windham, Connecticut

Notes to Financial Statements

Note 7. Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and Governmental Activities also report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable Revenue	Unearned Revenues
General Fund		
Property taxes receivable	\$ 742,654	\$ -
School construction grant receivable	1,746,684	-
	<u>2,489,338</u>	<u>-</u>
Magnet School Fund		
Intergovernmental receivable	<u>3,310,056</u>	<u>-</u>
Educational Grants Fund		
Grants drawdown in advance	<u>-</u>	<u>609,566</u>
Other Nonmajor Governmental Funds		
Loans receivable	491,154	-
Intergovernmental receivable	410,153	25,679
	<u>901,307</u>	<u>25,679</u>
Total	<u>\$ 6,700,701</u>	<u>\$ 635,245</u>

Note 8. Employee Retirement Systems and Pension Plans

Public Employee Retirement System:

Plan Descriptions:

The Town is the administrator of three separate single-employer Public Employee Retirement System (PERS) defined benefit contributory pension plans established and administered to provide pension benefits for its municipal, police and firefighters, and one separate single-employer PERS defined benefit noncontributory pension plan established and administered to provide pension benefits for its Board of Education full-time employees other than teachers. The PERS do not issue stand-alone financial statements and are considered to be part of the Town's financial reporting entity. As such, the PERS are included in the Town's fiduciary fund financial statements as pension trust funds. Before the merger of the Town of Windham, Connecticut with the City of Willimantic, municipal employees held their pensions with the Travelers Insurance Company. During 1986, the Travelers plan was frozen and assets related to active participants of this plan were transferred to New England Financial Retirement Services. Since all retirement benefits under this plan were funded through annual purchases of annuity contracts for all active employees, the Travelers is obligated to pay the related pension benefits. Therefore, the activity of the assets in the Travelers plans and the actuarial present value of the accumulated plan benefits are excluded from the Town's financial statements.

Town of Windham, Connecticut

Notes to Financial Statements

Note 8. Employee Retirement Systems and Pension Plans (Continued)

Plan Membership:

Membership of the Plans consisted of the following at the date of the latest actuarial valuations:

	Fire	Police	Municipal	Board of Education
Retirees and beneficiaries receiving benefits	27	29	12	76
Terminated employees entitled to benefits but not yet receiving them	1	1*	68	51
Active plan members	29	42	94	108
	<u>57</u>	<u>72</u>	<u>174</u>	<u>235</u>

*Non-vested terminations due a refund of contributions

Fire and Police Pension Plans:

The fire and police PERS cover regular employees of the fire and police departments. The PERS provide retirement, disability and survivorship (optional) benefits generally based on final base pay for all active and retired employees. The Town provides retirement benefits through a single employer, contributory, defined benefit plan. All regular employees of both departments are eligible for participation on their date of hire. Fire and police employees are 100% vested after ten (10) years of service. The retirement benefit for fire is 2.25% of the annual straight time earnings plus paid holiday pay in the fifty-two (52) pay periods before retirement, multiplied by the number of years and completed months of service up to a maximum of thirty-five (35) years. The retirement benefit for police is 2.3% of annual straight time earnings in the fiscal year last completed before retirement plus longevity pay in that year, multiplied by the number of years and completed months of service up to a maximum of forty (40) years. Normal retirement is assumed to be after twenty-five (25) years of service or age sixty (60), whichever comes first, for fire and after twenty (20) years of service or age sixty (60), whichever comes first, for police.

Fire employees are required to contribute 8.0% of their straight time earnings plus holiday pay pre-tax to the PERS. Police employees are required to contribute 8.0% of their straight time earnings pre-tax. If a member leaves covered employment or dies before meeting the vesting requirements, accumulated employee contributions are refunded. The Town is required to contribute the remaining amounts necessary to finance the benefits for its fire and police employees. Benefits and employee contributions are fixed by contract and may be amended by union negotiations.

Municipal Pension Plan:

The Town's municipal PERS cover all regular employees of the Town other than police, fire, Board of Education employees, and teachers. The Town provides all retirement benefits through a single-employer contributory defined benefit plan. All employees are eligible to become participants in the PERS on the first day of the first month following two (2) years of service. The retirement benefit is the sum of 1.75% of the participant's average annual earnings for the last three (3) years of employment, multiplied by the number of years of service excluding the first two (2) years and any years prior to age twenty-one (21) for employees hired before January 1, 1995. Normal retirement is assumed to be at age sixty-five (65) with the completion of Five (5) years of plan participation. A participant becomes 100% vested upon completion of five (5) years of credited service. The municipal PERS offer optional survivorship benefits.

Town of Windham, Connecticut

Notes to Financial Statements

Note 8. Employee Retirement Systems and Pension Plans (Continued)

Municipal employees are required to make contributions of 1.50% of annual earnings through June 30, 2014 to the PERS. If a member leaves covered employment or dies before meeting the vesting requirements, accumulated employee contributions are refunded. The Town is required to contribute the remaining amounts necessary to finance the benefits for its employees. Benefits are fixed by contract and may be amended by union negotiations.

Board of Education Pension Plan:

The Town of Windham's Board of Education provides benefits to all full-time employees other than teachers through a single-employer, noncontributory, defined benefit plan. All employees are eligible for membership in the PERS on the first day of the month after completion of two (2) years of service and attainment of age twenty-four (24). Employees are 100% vested after five (5) years of continuous service. The retirement benefit is 1.25% of average earnings paid to a member during the highest five (5) consecutive years of active employment multiplied by the number of whole years of continuous service. Normal retirement is assumed to be the later of age sixty-five (65) and five (5) years of participation in the plan. The Board of Education pension plan offers optional survivorship benefits.

Employees are not required to contribute to the PERS. The Board of Education is required to contribute the amounts necessary to finance the benefits for its employees. Benefits are fixed by contract and may be amended by union negotiations.

Annual Pension Cost and Net Pension Obligation (GASB 27):

Annual pension costs and net pension obligations (assets) for the current year were as follows:

	Fire	Police	Municipal	Board of Education
Annual required contribution	\$ 551,973	\$ 816,486	\$ 446,501	\$ 367,393
Interest on net pension obligation	(6,500)	(3,846)	(14,794)	(1,149)
Adjustment to annual required contribution	9,067	5,817	25,095	1,851
Annual pension cost	554,540	818,457	456,802	368,095
Contributions made	551,973	816,486	496,485	367,393
(Increase) decrease in net pension asset	2,567	1,971	(39,683)	702
Net pension assets, beginning of year	(86,673)	(51,281)	(203,332)	(18,377)
Net pension asset, end of year	\$ (84,106)	\$ (49,310)	\$ (243,015)	\$ (17,675)

Town of Windham, Connecticut

Notes to Financial Statements

Note 8. Employee Retirement Systems and Pension Plans (Continued)

Three Year Trend Information:

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Fire PERS			
June 30, 2014	\$ 554,540	99.5%	\$ (84,106)
June 30, 2013	528,858	99.5%	(86,673)
June 30, 2012	493,786	99.4%	(89,337)
Police PERS			
June 30, 2014	\$ 818,457	99.8%	\$ (49,310)
June 30, 2013	779,629	99.7%	(51,281)
June 30, 2012	784,648	99.7%	(53,327)
Municipal PERS			
December 31, 2014	\$ 456,802	108.7%	\$ (243,015)
December 31, 2013	505,821	98.2%	(203,332)
December 31, 2012	454,026	98.1%	(212,668)
Board of Education PERS			
June 30, 2014	\$ 368,095	99.8%	\$ (17,675)
June 30, 2013	338,516	99.8%	(18,377)
June 30, 2012	320,167	99.8%	(19,008)

Covered Payroll:

Covered payroll for the Town's various pension plans described above as of the most recent actuarial valuation were as follows:

Covered by:	
Fire PERS	\$ 1,794,352
Police PERS	2,633,264
Municipal PERS	5,310,533
Board of Education PERS	3,776,596
Total covered payroll	\$ 13,514,745

Administrative Costs:

Administrative costs are paid by the plans.

Town of Windham, Connecticut

Notes to Financial Statements

Note 8. Employee Retirement Systems and Pension Plans (Continued)

Funding Status and Funding Progress (GASB 27):

At the last actuarial valuation update, the schedule of funding progress for the Town's pension plans is as follows:

Actuarial Valuation Date	Fiscal Year Ending June 30,	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Overfunded (Underfunded) AAL (UAAL) (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((A-B)/C)
FIRE PERS							
July 1, 2013	2014	\$ 7,791,868	\$ 11,476,391	\$ (3,684,523)	68%	\$ 1,794,352	-205%
Police PERS							
July 1, 2013	2014	13,373,790	16,028,912	(2,655,122)	83%	2,633,264	-101%
Municipal PERS							
January 1, 2014	2014	12,164,788	12,813,368	(648,580)	95%	5,310,533	-12%
Board of Education PERS							
July 1, 2013	2014	8,031,550	8,551,031	(519,481)	94%	3,776,596	-14%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The Aggregate Actuarial Cost Method is used to determine the annual required contributions (ARC) of the Town for the Municipal Plan. Because the method does not identify or separately amortize unfunded actuarial liabilities, information about funded status is prepared using the Projected Unit Credit Cost Method.

The significant actuarial assumptions (GASB 27) are as follows:

	Fire	Police	Municipal	Board of Education
Valuation date	July 1, 2013	July 1, 2013	January 1, 2014	July 1, 2013
Actuarial cost method	Projected Unit Credit Cost Method	Projected Unit Credit Cost Method	Entry Age Normal Method	Entry Age Normal Method
Amortization method	Level Dollar	Level Dollar	Level Dollar	Level Dollar
Remaining amortization period	15.2 years- closed	13.2 years - closed	-	15 years- closed
Asset valuation method	**	**	Fair Value	Fair value
Actuarial assumptions:				
Investment rate of return	7.50%	7.50%	7.50%	6.25%
Projected salary increases	5.00%	5.00%	3.00%	3.00%
Inflation rate	3.50%	3.50%	2.00%	2.75%

** 4 year smoothing of capital appreciation.

Town of Windham, Connecticut

Notes to Financial Statements

Note 8. Employee Retirement Systems and Pension Plans (Continued)

Contribution Requirements and Contributions Made:

The Town's funding policy provides for periodic employer contributions at actuarially determined rates, that, when expressed as a percentage of annual covered payroll, are sufficient to accumulate the assets needed to pay benefits when due. Contributions were determined in accordance with actuarially determined contribution requirements computed through actuarial valuations performed at various valuation dates. The employer's contributions were based on normal cost and an amortization of the unfunded actuarial accrued liability. The Town's actuary, as stated in the actuarial valuation, determines annual contributions to each plan. Contributions for the fiscal year ended June 30, 2014, and the employee and employer contributions as a percentage of covered payroll, respectively, are as follows:

Pension Contributions	Fire	Police	Municipal	Board of Education
Employer	\$ 551,973	\$ 816,486	\$ 496,485	\$ 367,393
Employee	139,703	147,543	77,915	-
Total	<u>\$ 691,676</u>	<u>\$ 964,029</u>	<u>\$ 574,400</u>	<u>\$ 367,393</u>

Percentage of Covered Payroll	Fire	Police	Municipal	Board of Education
Employer	30.8%	31.0%	9.3%	9.7%
Employee	7.8%	5.6%	1.5%	0.0%
Total	<u>38.5%</u>	<u>36.6%</u>	<u>10.8%</u>	<u>9.7%</u>

Town of Windham, Connecticut

Notes to Financial Statements

Note 8. Employee Retirement Systems and Pension Plans (Continued)

Plan Financial Statements:

**Town of Windham, Connecticut
Combining Statement of Fiduciary Net Position -
Pension Trust Funds
June 30, 2014**

	Firemen's Pension	Policemen's Pension	Municipal Employees' Pension	Board of Education Employees' Pension	Total
Assets					
Cash and cash equivalents	\$ 900,923	\$ 1,414,132	\$ -	\$ -	\$ 2,315,055
Investments:					
Corporate bonds	928,257	1,719,366	-	-	2,647,623
U.S. government securities	676,482	1,236,668	-	-	1,913,150
U.S. agencies	781,994	1,332,396	-	-	2,114,390
Group annuity contracts	-	-	5,838,982	8,411,231	14,250,213
Collective trusts	-	-	7,136,534	-	7,136,534
Common stock	7,007,068	11,786,648	-	-	18,793,716
Receivables	17,335	51,618	-	-	68,953
Total assets	10,312,059	17,540,828	12,975,516	8,411,231	49,239,634
Liabilities					
Due to other funds	307,954	371,453	-	-	679,407
Total liabilities	307,954	371,453	-	-	679,407
Net Position					
Held in trust for pension benefits	\$ 10,004,105	\$ 17,169,375	\$ 12,975,516	\$ 8,411,231	\$ 48,560,227

Town of Windham, Connecticut

Notes to Financial Statements

Note 8. Employee Retirement Systems and Pension Plans (Continued)

Town of Windham, Connecticut
Combining Statement of Changes in Fiduciary Net Position -
Pension Trust Funds
For the Year Ended June 30, 2014

	Firemen's Pension	Policemen's Pension	Municipal Employees' Pension	Board of Education Employees' Pension	Total
Additions					
Contributions:					
Employer	\$ 551,973	\$ 816,486	\$ 496,485	\$ 367,393	\$ 2,232,337
Plan members	139,703	147,543	77,915	-	365,161
Other	2,303	1,571	-	-	3,874
Total contributions	693,979	965,600	574,400	367,393	2,601,372
Investment earnings:					
Interest and dividends	224,116	379,204	-	360,391	963,711
Net appreciation in fair value of investments	1,245,580	2,076,530	1,219,622	302,396	4,844,128
Total investment	1,469,696	2,455,734	1,219,622	662,787	5,807,839
Total additions	2,163,675	3,421,334	1,794,022	1,030,180	8,409,211
Deductions					
Benefit payments	624,551	737,935	229,285	356,651	1,948,422
Administrative and other expenses	-	-	-	80,084	80,084
Total deductions	624,551	737,935	229,285	436,735	2,028,506
Change in net position	1,539,124	2,683,399	1,564,737	593,445	6,380,705
Net Position Held in Trust for Pension Benefits:					
Beginning of year	8,464,981	14,485,976	11,410,779	7,817,786	42,179,522
End of year	\$ 10,004,105	\$ 17,169,375	\$ 12,975,516	\$ 8,411,231	\$ 48,560,227

Connecticut State Teachers' Retirement System: The faculty and professional personnel of the Board of Education participate in a contributory defined benefit retirement plan established under Chapter 167a of the Connecticut General Statutes (CGS) and administered by the State Teachers' Retirement Board. Neither the Board of Education nor the Town has a legal obligation to contribute to the retirement fund. The financial statements of the Plan are available from the Connecticut State Teachers' Retirement Board, 21 Grand Street, Hartford, CT 06105.

Participation in the system is required for all certified teachers in the State who are employed for at least an average of half time. Teachers are 100% vested after completing ten (10) years of Connecticut teaching service, the last five (5) of which must have been consecutive, if leaving the Connecticut Public School service before age sixty (60).

The Board of Education's total certified and covered payroll is \$21,930,000. The teachers' contributions for the year ended June 30, 2014, were \$1,589,891. Teachers are required to contribute 7.25% of their annual salary with the State of Connecticut funding the remaining cost of benefits. These obligations are established under the authority of Section 10-183 b(7) of the CGS.

Town of Windham, Connecticut

Notes to Financial Statements

Note 8. Employee Retirement Systems and Pension Plans (Continued)

In accordance with the provisions of Governmental Accounting Standards Board Statement No. 24, the Town has reported "on-behalf" payments of \$5,437,000 made by the State of Connecticut into the plan as intergovernmental revenues and related expenditures of the General Fund in the accompanying statement of revenues, expenditures and changes in fund balances of governmental funds.

Investment Policy: Each of the Pension Plan's policy in regard to the allocation of invested assets is established and may be amended by the Town Council/Board of Education. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

The following was the allocation policy as of June 30, 2014:

Asset Class	Pension Fund Allocation %			
	Police	Fire	Municipal	BOE
Cash	\$ 2.5	\$ 2.5	\$ -	\$ -
Core fixed income	-	-	15.0	100.0
Core Bonds	-	-	-	-
Broad U.S. Equities	-	-	30.0	-
Large Cap Core Equities	32.5	32.5	-	-
Mid Cap Core Equities	15.0	15.0	-	-
Small Cap Core Equities	5.0	5.0	5.0	-
International Equity	10.0	10.0	5.0	-
Developed Foreign Equities	-	-	-	-
Emerging Markets Equities	2.5	2.5	-	-
Intermediate Duration Investment Grade Taxable	17.5	17.5	-	-
Short Duration Investment grade Taxable Fixed	15.0	15.0	-	-
Other	-	-	45.0	-
Total	100.0	100.0	100.0	100.0

Rate of Return: For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was as follows.

	Police	Fire	Municipal	BOE
Money Weighted Rate of Return	17.24	17.83	12.52	5.67
Net Pension Liability*	Police	Fire	Municipal	BOE
Total Pension Liability	\$ 17,227,302	\$ 12,367,343	\$ 12,813,368	\$ 8,983,513
Plan Fiduciary Net Position	\$ 17,224,799	\$ 10,004,105	\$ 12,164,788	\$ 8,411,231
Net Pension Liability	\$ 2,503	\$ 2,363,238	\$ 648,580	\$ 572,282
Plan Fiduciary Net Position as a percentage of Total Pension Liability	99.99%	80.89%	94.94%	93.63%

*As of June 30, 2014 for police, fire and BOE, as of January 1, 2014 for municipal.

Town of Windham, Connecticut

Notes to Financial Statements

Note 8. Employee Retirement Systems and Pension Plans (Continued)

Actuarial Assumptions (GASB 67): The total pension liability was determined by actuarial valuations as of July 1, 2013 for Fire, Police, and BOE and January 1, 2014 for Municipal, calculated based on the discount rate and actuarial assumptions below, and then was projected forward to the measurement date Jun 30, 2014. There have been no significant changes between the valuation date and the fiscal year-end.

	Fire	Police	BOE	Municipal
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Investment rate of return	7.5%	7.5%	6.25%	7.5%
Projected salary increases	5% compounded annually	5% compounded annually	3.00%	3.0%
Inflation rate	2.70%	2.70%	2.75%	2.00%

Mortality rates were based on the RP-2000 Table for Employees, Health Annuitants and Disabled Annuitants with a generational projection to the valuation date with Scale AA.

Assumed Rate of Return: The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed. Best estimates of the real rates of returns for each major asset class are included in the pension plan's target asset allocation. Best-estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, and the final investment return assumption, are summarized in the following table:

Asset Class	Police	Fire	BOE	Municipal
	Long-Term Expected Geometric Real Return - Portfolio	Long-Term Expected Geometric Real Return - Portfolio	Long-Term Expected Arithmetic Real Return - Portfolio	Long-Term Expected Geometric Real Return - Portfolio
Cash	-	-	0.49	-
Core fixed income	-	-	1.95	-
Core Bonds	-	-	1.61	-
Short Term Bonds	-	-	0.98	2.10
Intermediate Term Bonds	-	-	1.46	3.27
Long Term Bonds	-	-	2.34	-
Mortgages	-	-	2.54	-
High Yield Bonds	-	-	3.90	-
Non U.S. Fixed Income	-	-	0.73	-
Inflation indexed bonds	-	-	0.88	-
Broad U.S. Equities	-	-	4.49	7.49
Large Cap Value	-	-	-	7.78
Large Cap U.S. Equities	-	-	4.39	7.52
Mid Cap U.S. Equities	-	-	4.49	-
Small Cap U.S. Equities	-	-	4.63	-
Large Cap Core Equities	5.80	5.80	-	-
Mid Cap Core Equities	6.70	6.70	-	-
Small Cap Core Equities	8.70	8.70	-	8.40
International Equity	7.00	7.00	-	8.35
Developed Foreign Equities	-	0.18	4.39	-
Emerging Markets Equities	7.20	0.37	4.88	-
Intermediate Duration Investment Grade Taxable	2.10	0.14	-	-
Short Duration Investment Grade Taxable Fixed	0.90	-	-	-
Master Limited Partnerships	8.60	-	-	-
Private Equity	-	-	5.37	-
Managed Futures Alternative Investment	3.80	-	-	-
Preferred Stock	5.10	-	-	-
High Yield / Junk Rated Fixed Income	5.10	-	-	-
Long Credit Bonds	-	-	3.17	-
Commodities	-	-	2.93	-
Hedge FUND/ABSOLUTE Return	-	-	2.93	-
Real Estate (property)	-	-	3.66	-
Real Estate (REITS)	6.60	-	3.90	-
Inflation	2.70	2.70	2.75	2.00

Note 8. Employee Retirement Systems and Pension Plans (Continued)

Town of Windham, Connecticut

Notes to Financial Statements

Discount rate: The discount rate to measure the total pension liability was as follows:

	Police	Fire	Municipal	BOE
Discount Rate	7.50%	7.50%	7.50%	6.25%

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate:

Net Pension Liability (Asset)	1% decrease	Current Discount Rate	1% increase
Police	\$ 2,092,088	\$ 2,503	\$ (1,739,763)
Fire	3,864,000	2,363,238	1,099,717
Municipal	2,504,008	648,580	(914,431)
BOE	1,707,740	572,282	(384,712)

Note 9. Other Post-Employment Benefits (OPEB)

Plan Description: The Town administers an Other Post-Employment Benefits Plan (the Plan), which is a single-employer defined benefit, healthcare plan. The Plan provides healthcare and life insurance benefits for eligible retirees and their spouses through the Town's group healthcare and life insurance plans, which covers both active and retired members. Benefit provisions are established through negotiations between the Town and the unions representing Town employees and are renegotiated each three-year bargaining period. The Plan does not issue a publicly available financial report and is not included in the financial statements of another entity.

Funding Policy: Contribution requirements of the plan members upon retirement vary by employee class and range from 10% to 100% of the retiree's healthcare premium cost. Contribution requirements are established in the Plan document and may be amended through negotiations between the Town and the unions.

For fiscal year 2014, the Town is self-insured. The retiree contributions exceeded claims and administrative costs resulting in a negative contribution.

Annual OPEB Cost and Net OPEB Obligation: The Town's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Town's net OPEB obligation.

Annual required contribution	\$ 1,491,500
Interest on net OPEB obligation	323,885
Adjustment to annual required contribution	(450,341)
Annual OPEB cost	1,365,044
Contributions made	(45,073)
Increase in net OPEB obligation	1,319,971
Net OPEB obligation, beginning of year	8,097,133
Net OPEB obligation, end of year	\$ 9,417,104

Town of Windham, Connecticut

Notes to Financial Statements

Note 9. Other Post-employment Benefits (OPEB) (Continued)

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation are as follows:

Plan Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 1,365,044	3.3%	\$ 9,417,104
June 30, 2013	1,612,869	2.1%	8,097,133
June 30, 2012	1,600,973	42.4%	6,449,928

Funded Status and Funding Progress: The funded status of the plan as of July 1, 2012, (the date of the most recent actuarial valuation) was as follows:

Actuarial Valuation Date	Fiscal Year Ended June 30,	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Overfunded (Underfunded) AAL (UAAL) (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((A-B)/C)
July 1, 2012	2014	\$ -	\$ 14,318,000	\$ (14,318,000)	0%	\$ 42,017,400	34%

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Town are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits are based on the substantive plan (the plan as understood by the Town and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Town and the plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the Town and plan members in the future. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

Valuation date	July 1, 2012
Actuarial cost method	Projected Unit Credit Method
Amortization method	Level Dollar
Remaining amortization period in years	30 Years – Open
Actuarial assumptions (includes inflation rate):	
Inflation rate	4.00%
Healthcare cost trend rate	9.00 % initial; 5.00% final

Town of Windham, Connecticut

Notes to Financial Statements

Note 9. Other Post-employment Benefits (OPEB) (Continued)

In addition to pension benefits, certain health and life insurance benefits for retired employees and their spouses are provided by the Town as determined by various union contracts. Substantially all Town employees may become eligible for those benefits, if they reach normal retirement age while working for the Town. The Town recognizes the cost of providing those benefits on a pay-as-you-go basis.

Note 10. Risk Management

The Town is exposed to various risks of loss relating to torts; theft of, damage of, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town purchases commercial insurance to manage these risks. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in the last three years. The Town is not insured concerning the following types of risks: unemployment compensation.

The Town is currently a member in the Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool established for the purpose of administering an interlocal risk management program pursuant to the provisions of Section 7-479a et. seq. of the CGS, for workers' compensation coverage. CIRMA has approximately 215 members in the workers' compensation pool. The Town pays an annual premium for its coverage. CIRMA is to be self-sustaining through members' premiums but reinsures in excess of \$750,000 for each insured occurrence.

The Health Insurance Fund, an internal service fund, was established to account for and finance employee medical benefits claims for eligible employees of both the Town and the Board of Education. The Town retains the risk of loss under the plan.

A third party processes the claims filed under the self-insured health plan, for which the General Fund is charged an administrative fee.

As of July 1, 2012, the Town and BOE transitioned its liability for health benefits to a Self Insurance Fund to account for claim activity and the administrative costs associated with a self-insured funding arrangement. The Town and BOE have Individual Stop Loss (ISL) coverage that limits their liability to \$175,000 per claimant in a plan year. The Town and BOE's overall claim liability is also limited to 115% of expected claims (\$9,637,396) with Aggregate Stop Loss coverage for the plan year. Anthem, administers the payment of Medical and Pharmacy claims, calculates and provides the accrued liability in a year-end settlement. Lockton Companies, LLC, the consultant for the Town and BOE, analyzes those claims and administrative expenses and advises the Town and BOE on all health insurance related issues.

A summary of claims activity for the year ended through June 30, 2014 and 2013 are as follows:

Year Ended June 30,	Claims Payable, Beginning of Year	Claims and Changes in Estimates	Claims Paid	Claims Payable, End of Year
2013	\$ 12,839	\$ 7,372,270	\$ 6,948,707	\$ 436,402
2014	436,402	9,776,306	8,912,487	1,300,221

Notes to Financial Statements

Note 10. Risk Management (Continued)

The Town establishes claims liabilities based on estimates of claims that have been incurred but not reported at June 30, 2014. Claims liabilities are recorded in accordance with GASB Statements No. 10 and 30, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is possible that a liability has been incurred at the date of the financial statements and the amount of possible loss can be reasonably estimated. The amount of the claims accrual is based on the ultimate costs of settling the claims, which include past experience data, inflation and other future economic and societal factors and incremental claim adjustment expenses, net of estimated subrogation recoveries.

Note 11. Contingent Liabilities

The Town has received State and Federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for any expenditures disallowed under terms of the grant. Based on prior experience, Town management believes such disallowances, if any, will not be material.

In addition, there are several lawsuits pending against the Town. The outcome and eventual liability to the Town, if any, in these cases, is not known at this time. The Town's management, based upon consultation with legal counsel, estimates that potential claims against the Town resulting from such litigation would not materially affect the financial position of the Town.

Note 12. Deferred Compensation Plan

The Town offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all Town employees, permit them 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.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive benefit of the plans participants and their beneficiaries. Therefore, the accounts of the deferred compensation plans are not reported in the general-purpose financial statements of the Town in accordance with GASB Statement No. 32.

Town of Windham, Connecticut

Notes to Financial Statements

Note 13. Fund Balances (Deficits)

Below is a table of fund balance categories and classifications at June 30, 2014, for the Town's governmental funds:

	General Fund	Educational Grants Fund	Windham Magnet School Fund	Nonmajor Governmental Funds
Fund balances (deficits):				
Nonspendable:				
Inventory	\$ 112,351	\$ -	\$ -	\$ 21,920
Permanent Fund Principal	-	-	-	459,044
Total nonspendable	112,351	-		480,964
Restricted:				
Education	587,352	-	-	135,542
General government	-	-	-	19,592
Civic and Cultural - Cemetery	-	-	-	29,532
Civic and Cultural - Library				272,547
Debt Service				174,988
Public safety	-	-	-	233,722
Public works	-	-	-	118,076
Community Rehabilitation Program	-	-	-	164,079
Capital Outlay	-	-	-	2,532,586
Total restricted	587,352	-	-	3,680,664
Committed:				
Capital outlay	-	-	-	1,361,622
Civic and Cultural - Recreation Programs	-	-	-	159,715
Total committed	-	-	-	1,521,337
Assigned:				
General Government - Financial Software Project	214,303			
General Government -Kramer Building	254,466			
General Government - Grant Match	241,422	-	-	-
General Government - Historic Preservation	11,606	-	-	-
General Government - Assessor Revaluation	19,296	-	-	-
General Government - Other	13,981			
Police - Police Services	16,667			
Education - Books	23,399	-	-	-
Education - Literacy program	69,278			
Education- Other	273	-	-	-
Capital Outlay - Open Space	33,698	-	-	-
Total assigned	898,389	-	-	-
Unassigned (deficit)	11,092,506	-	(4,732,144)	(638,632)
Total fund balance (deficit)	\$ 12,690,598	\$ -	\$ (4,732,144)	\$ 5,044,333

Note 14. Subsequent Event

Bond Anticipation Notes: On September 10, 2014, the Town issued a \$6,315,000 bond anticipation note with an interest rate of 1% maturing on June 30, 2015.

Town of Windham, Connecticut

Notes to Financial Statements

Note 15. Deficit Fund Equity

Major Funds:	
Magnet School Fund	\$ 4,732,144
Nonmajor Funds:	
Windham High School Fund	216,671
Natchaug School Roof Fund	422,061
	<hr/>
	<u>\$ 5,370,876</u>

The Town anticipates financing the deficit through future bond and grant proceeds.

Note 16. Governmental Accounting Standards Board (GASB) Statements

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates in the future that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Town, except for GASB No. 68 which requires recognition of the Town's net pension liabilities.

- *GASB Statement 68, Accounting and Financial Reporting for Pensions.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The provisions of this Statement will be effective for the Town beginning with year ending June 30, 2015.
- *GASB Statement No. 69, Government Combinations and Disposals of Government Operations,* was issued in January 2013. This Statement provides guidance for:
 - Determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations.
 - Using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations.
 - Measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based on their acquisition values in a government acquisition.
 - Reporting the disposal of government operations that have been transferred or sold.

The requirements of this Statement are effective for periods beginning after December 15, 2013, and should be applied on a prospective basis.

Note 16. Governmental Accounting Standards Board (GASB) Statements (Continued)

- *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement date, an amendment of GASB Statement No. 68.* The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, Accounting and Financial Reporting for Pensions, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. The provisions of this Statement are effective for reporting periods beginning after June 15, 2015.
- *GASB Statement No. 72, Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

This page intentionally left blank.

**Required Supplementary
Information—*unaudited***

Town of Windham, Connecticut

Required Supplementary Information - Unaudited
Schedule of Funding Progress
June 30, 2014

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Fiscal Year Ended	Actuarial Valuation of Assets (A)	Actuarial Accrued Liability (AAL) (B)	(Unfunded)/ Overfunded AAL (UAAL) (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((A-B)/C)
Fire PERS							
July 1, 2013	2014	\$ 7,791,868	\$ 11,476,391	\$ (3,684,523)	68%	\$ 1,794,352	(205%)
July 1, 2011	2012	6,947,426	9,989,719	(3,042,293)	70%	1,493,434	(204%)
July 1, 2009	2010	7,151,615	9,682,542	(2,530,927)	74%	1,719,319	(147%)
July 1, 2007	2008	7,010,955	8,958,819	(1,947,864)	78%	1,407,852	(138%)
July 1, 2005	2006	6,208,423	8,371,476	(2,163,053)	74%	1,230,209	(176%)
Police PERS							
July 1, 2013	2014	\$ 13,373,790	\$ 16,028,912	\$ (2,655,122)	83%	\$ 1,794,352	(148%)
July 1, 2011	2012	11,259,929	14,524,523	(3,264,594)	78%	2,476,451	(132%)
July 1, 2009	2010	10,490,417	13,739,936	(3,249,519)	76%	2,451,505	(133%)
July 1, 2007	2008	9,490,945	11,905,977	(2,415,032)	80%	2,138,454	(113%)
July 1, 2005	2006	7,736,178	10,843,144	(3,106,966)	71%	2,051,700	(151%)
Municipal PERS							
January 1, 2014	2014	\$ 12,164,788	\$ 12,813,368	\$ (648,580)	95%	\$ 5,310,533	(12%)
January 1, 2013	2013	10,469,452	10,244,221	225,231	102%	5,297,089	4%
January 1, 2012	2012	9,930,100	9,627,584	302,516	103%	5,266,031	6%
January 1, 2011	2011	9,809,076	8,572,796	1,236,280	114%	4,891,794	25%
January 1, 2010	2010	8,471,091	7,832,271	638,820	108%	4,753,331	13%
January 1, 2009	2009	8,269,138	8,055,101	214,037	103%	4,807,456	4%
January 1, 2008	2008	9,560,220	8,854,965	705,255	108%	4,555,826	15%
January 1, 2007	2007	9,629,910	8,214,016	1,415,894	117%	4,459,537	32%
Board of Education PERS							
July 1, 2012	2014	\$ 8,031,550	\$ 8,551,031	\$ (519,481)	94%	\$ 3,776,596	(14%)
July 1, 2012	2014	7,538,239	7,829,391	(291,152)	96%	3,776,596	(8%)
July 1, 2011	2013	7,227,208	7,282,371	(55,163)	99%	3,805,941	(1%)
July 1, 2010	2012	6,932,974	6,897,426	35,548	101%	3,890,910	1%
July 1, 2009	2011	6,626,078	6,482,180	143,898	102%	3,797,147	4%
July 1, 2008	2010	6,273,747	6,046,151	227,596	104%	3,791,184	6%
July 1, 2007	2009	5,902,603	5,742,543	160,060	103%	3,515,021	5%
July 1, 2006	2008	5,535,001	5,311,567	223,434	104%	3,429,673	7%
July 1, 2005	2007	5,236,145	4,970,905	265,240	105%	3,271,719	8%
Other Post-Employment Benefit Plan							
July 1, 2012	2013	\$ -	\$ 14,318,000	\$ (14,318,000)	0%	\$ 42,017,400	(34%)
July 1, 2010	2011	-	18,112,000	(18,112,000)	0%	40,045,000	(45%)
July 1, 2008	2009	-	26,159,831	(26,159,831)	0%	39,532,700	(66%)

Town of Windham, Connecticut

Required Supplementary Information-Unaudited
Schedule of Employer Contributions
June 30, 2014

SCHEDULE OF EMPLOYER CONTRIBUTIONS						
Year Ended June 30,	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll	
Fire PERS						
2014	\$ 551,973	\$ 551,973	\$ -	\$ 1,794,352	31%	
2013	526,194	526,194	-	1,794,352	29%	
2012	491,040	491,040	-	1,493,434	33%	
2011	467,717	444,479	(23,238)	1,493,434	30%	
2010	368,082	368,082	-	1,719,319	21%	
2009	350,495	350,495	-	1,719,319	20%	
2008	357,806	357,806	-	1,407,852	25%	
2007	341,103	438,800	97,697	1,407,852	31%	
2006	218,189	215,279	(2,910)	1,230,209	17%	
2005	215,279	215,279	-	1,230,209	17%	
Police PERS						
2014	\$ 816,486	\$ 816,486	\$ -	\$ 2,633,264	31%	
2013	777,583	777,583	-	2,633,264	30%	
2012	782,520	782,520	-	2,476,451	32%	
2011	745,490	695,142	(50,348)	2,476,451	28%	
2010	624,215	624,215	-	2,451,505	25%	
2009	594,921	594,921	-	2,451,505	24%	
2008	676,445	676,455	10	2,138,454	32%	
2007	476,291	476,291	-	2,138,454	22%	
2006	475,100	475,100	-	2,051,700	23%	
2005	452,126	452,126	-	2,051,700	22%	
Municipal PERS						
2014	\$ 496,485	\$ 496,485	\$ -	\$ 5,301,533	9%	
2013	496,485	496,485	-	5,297,089	9%	
2012	445,550	445,550	-	5,266,031	8%	
2011	312,389	382,548	70,159	4,891,794	8%	
2010	382,548	423,201	40,653	4,753,331	9%	
2009	423,201	497,457	74,256	4,807,456	10%	
2008	492,458	492,458	-	4,555,826	11%	
2007	464,291	464,291	-	4,459,537	10%	
2006	498,062	498,062	-	4,352,992	11%	
2005	529,288	529,288	-	43,896,426	1%	
Board of Education						
2014	\$ 367,393	\$ 367,393	\$ -	\$ 3,776,596	10%	
2013	337,885	337,885	-	3,805,941	9%	
2012	319,576	319,576	-	3,890,910	8%	
2011	298,906	298,906	-	3,797,147	8%	
2010	288,880	288,880	-	3,791,184	8%	
2009	277,220	277,220	-	3,515,021	8%	
2008	260,848	260,848	-	3,429,673	8%	
2007	250,997	250,997	-	3,515,021	7%	
2006	213,181	219,576	6,395	3,429,673	6%	
2005	213,181	162,998	(50,183)	3,271,719	5%	
OPEB						
	Annual Required Contributions	Actual Contributions	Percentage Contributed			
2014	\$ 1,491,500	\$ 45,073	3%			
2013	1,713,600	(34,336)	-2%			
2012	1,687,300	678,646	40%			
2011	2,538,940	615,394	24%			
2010	2,498,355	671,816	27%			
2009	2,459,331	595,528	24%			

Town of Windham, Connecticut

Required Supplementary Information - Unaudited
Schedule of Changes in the Town's Net Pension Liability and Related Ratios
June 30, 2014

	Fire PERS	Police PERS	Municipal PERS	Board of Education PERS
Changes in Net Pension Liability (000's)				
Total Pension Liability				
Service cost	\$ 394	\$ 571	\$ 329	\$ 250
Interest on total pension liability (asset)	885	1,228	864	539
Plan participants' contributions	-	-	79	-
Effect of plan changes	-	-	-	-
Effect of economic/demographic gains or (losses)	-	-	137	-
Effect of assumption changes or inputs	-	-	-	-
Benefit payments	(624)	(738)	(204)	(357)
Net change in total pension liability	655	1,061	1,205	432
Total Pension Liability, beginning	11,712	16,166	11,609	8,551
Total pension liability, ending (a)	12,367	17,227	12,814	8,984
Fiduciary Net Position				
Employer contributions	\$ 552	\$ 816	\$ 630	\$ 367
Member contributions	140	203	79	-
Investment income net of investment expenses	1,471	2,457	1,324	449
Benefit payments	(624)	(738)	(204)	(357)
Administrative expenses	-	-	-	(80)
Net change in plan fiduciary net position	1,539	2,738	1,829	380
Fiduciary Net Position, beginning	8,465	14,486	10,336	8,032
Fiduciary net position, ending (b)	10,004	17,224	12,165	8,411
Net pension liability, ending = (a) - (b)	\$ 2,363	\$ 3	\$ 649	\$ 572
Fiduciary net position as a % of total pension liability	80.89%	99.99%	94.94%	93.63%
Covered payroll	\$ 1,794	\$ 2,633	\$ 5,311	\$ 3,777
Net pension liability as a % of covered payroll	131.70%	0.10%	60.13%	15.15%

Town of Windham, Connecticut

Required Supplementary Information-Unaudited

Combined Statement of Revenues and Expenditures - Budget and Actual - Budgetary Basis -
General Fund

For the Year Ended June 30, 2014

	Total			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes, liens and interest	\$ 33,251,220	\$ 33,251,220	\$ 33,826,651	\$ 575,431
Intergovernmental	30,313,585	30,313,585	31,002,745	689,160
Licenses and permits	363,600	363,600	295,542	(68,058)
Fines, forfeitures, and penalties	22,800	22,800	45,417	22,617
Charges for services	1,802,335	1,802,335	2,129,060	326,725
Investment income	95,000	95,000	6,477	(88,523)
Other	768,438	768,438	872,666	104,228
Total revenues	66,616,978	66,616,978	68,178,558	1,561,580
Expenditures				
Current:				
General government	2,598,174	2,501,671	2,473,164	28,507
Public safety	1,678,343	1,761,902	1,739,447	22,455
Public works	3,990,804	4,091,277	4,084,088	7,189
Human services	589,083	588,667	586,157	2,510
Civic and cultural	1,182,765	1,171,617	1,163,277	8,340
Planning and development	463,675	406,465	401,746	4,719
Other	1,341,480	1,241,257	1,237,183	4,074
Police	5,928,289	5,770,768	5,622,878	147,890
Fire	2,609,207	2,652,015	2,645,492	6,523
Education	43,000,000	43,000,000	42,971,245	28,755
Debt service:	3,212,157	3,171,552	3,171,550	2
Contingency	180,000	1	-	1
Total expenditures	66,773,977	66,357,192	66,096,227	260,965
Excess (deficit) of revenues over (under) expenditures	(156,999)	259,786	2,082,331	1,822,545
Other Financing Sources (Uses)				
Transfers in	339,000	339,000	324,683	(14,317)
Transfers out	(250,000)	(666,732)	(666,731)	-
Total other financing sources (uses)	89,000	(327,732)	(342,048)	(14,316)
Revenues and other financing sources over (under) expenditures and other financing uses	\$ (67,999)	\$ (67,946)	\$ 1,740,283	\$ 1,808,229

Note 1. Budgetary Information and Compliance

Budgetary Information: The General Fund is the only fund for which an annual budget is legally adopted. The Town adheres to the following procedures in establishing the budgetary data for the General Fund.

- On or before March 1 and after input from each agency and department of the Town, except the Board of Education (BOE), the Town Manager submits to the Town Council a proposed operating budget for both the Town and the WSD. These two budgets are the driving force of and are operated as "sub-funds" of the combined General Fund. In addition, a program concerning capital improvement projects for the next five fiscal years and a method of financing them for the fiscal year commencing the following July 1, is also submitted.
- On or before March 15, the Town Manager and Town Council presents to the Board of Finance (BOF) a budget prepared for the fiscal year commencing the following July 1 for both the Town and WSD.
- Copies of the budgets are made available to taxpayers five (5) days before the public hearings and five (5) days before the annual budget meeting. One (1) public hearing is held to obtain taxpayer comments. A Town meeting is held on the first Tuesday of May and adjourned to a referendum on the second Tuesday in May. Should the recommended budgets fail at referendum, they are returned to the BOF for adjustments. The budgets are legally enacted no later than seven (7) days after the taxpayers approve them by vote.
- Management cannot amend the budgets without approval of the BOF. Only the BOF is authorized to transfer budgeted amounts.
- The BOF must approve any additional appropriation and a Town Meeting must be held to approve any additional appropriation over \$40,000 for both budgets. During the year ended June 30, 2013, no additional appropriations from fund balance were made.
- Formal budgetary integration is employed as a management control device during the year.
- The legal level of control (the level at which expenditures may not legally exceed appropriations) is at the budgetary department line item level (i.e. Finance Department, Town Council within the General Government function) for the General Fund, except for the BOE where department control is implemented.
- The budget is prepared on the modified accrual basis of accounting. "On-behalf" payments made by the State of Connecticut into the State Teachers Retirement System are not recorded for budgetary purposes. Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order, contract or other commitment is issued and, accordingly, encumbrances outstanding at year-end are reported in budgetary reports as expenditures of the current year.
- All unexpended appropriations lapse at year-end.

Town of Windham, Connecticut

Note to Required Supplementary Information – Unaudited (Continued)

Note 1. Budgetary Information and Compliance (Continued)

As described above, accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP basis). A reconciliation of General Fund amounts presented on the budgetary basis to amounts presented on the GAAP basis is as follows for the year ended June 30, 2014:

	Revenues and Transfers	Expenditures and Transfers
Budgetary basis	\$ 68,503,241	\$ 66,762,958
"On-behalf" payments - State Teachers Retirement Fund (see Note 9)	5,437,000	5,437,000
Reclassified to General Fund due to GASB No. 54	958,659	958,659
Transfers eliminated due to GASB No. 54	(85,000)	(85,000)
Other	18	475,454
GAAP basis	<u>\$ 74,813,918</u>	<u>\$ 73,549,071</u>