



February 11, 2019

MEMORANDUM TO PROSPECTIVE BIDDERS

**Re: TOWN OF WINDHAM, CONNECTICUT
\$17,000,000 General Obligation Bond Anticipation Notes**

**Dated: March 7, 2019
Due: August 21, 2019**

**Date of Sale: Tuesday, February 19, 2019
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 19, 2019. 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 19, 2019.**

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, 2017. 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



BAN Sale Term Sheet
\$17,000,000
General Obligation Bond Anticipation Notes
Town of Windham, Connecticut

Date of Sale: Tuesday, February 19, 2019 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: \$17,000,000 General Obligation Bond Anticipation Notes (the "Notes").

Dated Date: March 7, 2019

Principal and Interest Due: At maturity on August 21, 2019

Purpose: The Notes are being issued to renew notes initially issued to finance various general purpose and school projects.

Authorized Bond Denominations: \$100,000, or whole multiples of \$1,000 in excess thereof.

Bid Requirement: \$100,000, or integral multiples of \$100,000 in excess thereof.

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 Standard & Poor's of "AA-" and Moody's Investors Service of "A1".

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 NOT** 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.

Option for No Book Entry: A bidder for the Notes may request that the Notes be issued in the form of a single fully registered physical certificate in the par amount of the Notes, rather than in book-entry form through the facilities of DTC. See "Option for No Book Entry" in Notice of Sale.

Municipal Advisor: Phoenix Advisors, LLC of Milford, Connecticut will act as Municipal Advisor. Mr. Barry J. Bernabe, Managing Director, Phoenix Advisors, LLC, 53 River Street, Milford, Connecticut, Telephone: (203) 283-1110, email: bbernabe@muniadvisors.com

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 or, if no book-entry, to the purchaser on or about March 7, 2019. Delivery of the Notes will be made against payment in immediately available Federal Funds.

Issuer Official: Questions concerning the Town should be directed to Mr. Christian Johnson, Finance Director, 979 Main Street, Windham, Connecticut 06226, telephone: (860) 465-2532.

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

**\$17,000,000 GENERAL OBLIGATION BOND ANTICIPATION NOTES
Dated March 7, 2019: Due August 21, 2019**

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 19, 2019

(the "Bid Date") for the purchase of the above-captioned **TOWN OF WINDHAM** General Obligation Bond Anticipation Notes (the "Notes") which mature on August 21, 2019.

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 7, 2019 and will be payable to the registered owners on August 21, 2019. They will be issued in minimum denominations of \$100,000 or integral multiples in excess thereof of \$1,000. 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 will be received until 11:30 A.M. (Eastern Time) by an authorized agent of Phoenix Advisors, LLC, the Town's financial advisor. All telephone bids must be made to (203) 283-1110 and be completed by 11:30 A.M. (Eastern Time) on Tuesday, February 19, 2019.

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 at least \$100,000, or integral multiples of \$100,000 in excess thereof. 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.

Establishment of Issue Price

In order to provide the Town with information that enables it to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the exclusion of interest on the Notes from the gross income of their owners, the winning bidder will be required to complete, execute, and deliver to the Town at or prior to the delivery of the Notes an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the Public (the "Initial Offering Price") or the actual sales price or prices of the Notes, as circumstances may determine, together with the supporting pricing wires or equivalent communications, with such modifications as may be appropriate or necessary, in the reasonable judgment of Bond Counsel. However, such certificate may indicate that the winning bidder has purchased the Notes for its own account in a capacity other than as an Underwriter, and currently has no intent to reoffer the Notes for sale to the Public (as defined below). For purposes of this "Establishment of Issue Price" section, Bond Counsel may act on behalf of the Town.

The Town intends that the provisions of Treasury Regulations Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Notes) will apply to the initial sale of the Notes (the "Competitive Sale Rule") because:

- (1) the Town shall disseminate, or have disseminated on its behalf, this Notice of Sale to potential bidders in a manner that is reasonably designed to reach potential bidders;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the Town anticipates receiving bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the Town anticipates awarding the sale of the Notes to the bidder who submits a firm offer to purchase the Notes at the lowest net interest cost, as set forth in this Notice of Sale.

By submitting a bid, each bidder is certifying that (i) it is an underwriter with an established industry reputation for underwriting municipal bonds, and (ii) its bid is a firm offer to purchase the Notes, is a good faith offer which the bidder believes reflects current market conditions, and is not a "courtesy bid" being submitted for the purpose of assisting in meeting the Competitive Sale Rule, including the requirement that bids be received from at least three (3) underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds. The municipal advisor will advise the winning bidder if the Competitive Sale Rule was met at the same time it notifies the winning bidder of the award of the Notes. Bids will not be subject to cancellation in the event that the Competitive Sale Rule is not satisfied.

In the event that the Competitive Sale Rule is not satisfied, the Town shall treat the first price at which 10% of each interest rate for a maturity of the Notes (the "Actual Sale Rule") is sold to the Public as the issue price of that interest rate and maturity. In such event, the winning bidder shall promptly advise the Town if the Notes satisfy the Actual Sale Rule as of the Bid Date.

To satisfy the Actual Sale Rule for the Notes, the winning bidder:

- (1) will make a bona fide offering to the Public of all of the Notes at the Initial Offering Price and provide the Town with reasonable supporting documentation, such as a copy of the pricing wire or equivalent communication, the form of which is acceptable to Bond Counsel,
- (2) will report to the Town information regarding the actual prices at which at least 10% of each maturity of the Notes have been sold to the Public,
- (3) will provide the Town with reasonable supporting documentation or certifications of such sale prices the form of which is acceptable to Bond Counsel. This reporting requirement, which may extend beyond the closing date of the Notes, will continue until such date that 10% of each maturity of the Notes has been sold to the Public at such sale price, and
- (4) has or will include within any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the winning bidder is a party) relating to the initial sale of the Notes to the Public, together with the related pricing wires, language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such third-party distribution agreement, as applicable, to comply with the reporting requirement described above.

Sales of any Notes to any person that is a Related Party (as defined below) to an Underwriter shall not constitute sales to the Public for purposes of this Notice of Sale. Further, for purposes of this Notice of Sale:

- (1) “*Public*” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to an Underwriter.
- (2) “*Related Party*” generally means any two or more persons who have greater than 50% common ownership, directly or indirectly.
- (3) “*Underwriter*” means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Notes to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this definition to participate in the initial sale of the Notes to the Public (including a member of the selling group or a party to a retail distribution agreement participating in the initial sale of the Notes to the Public).

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 shall NOT 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 underwriter except to the extent specifically stated in this Notice of Sale. The underwriter 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 underwriter 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 7, 2019 against payment in immediately available Federal Funds, except in the case that the option for no book entry is selected by the underwriter. 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 underwriter 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 underwriter 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 underwriter 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 integral multiples in excess thereof of \$1,000, 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.

Option For No Book Entry

A bidder for the Notes may request that the Notes be issued in the form of a single fully registered physical certificate in the par amount of the Notes, rather than in book-entry form through the facilities of DTC, provided the bid is for all the Notes at the same interest rate. A bidder for the Notes requesting that the Notes be issued in non-book-entry form may request that it be designated by the Town as the Certifying Agent, Registrar and Paying Agent for the Notes if it is a bank or trust company authorized to act in such capacity pursuant to the Connecticut General Statutes. Any bidder seeking to have the Notes issued in non-book-entry form, or to be designated as Certifying Agent, Registrar and Paying Agent for such Notes, 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, or to designate the successful bidder as Certifying Agent, Registrar and Paying Agent for the Notes, if it should determine, in its sole discretion, that issuing the Notes in such manner or with such designation is not in its best

interests. If the Notes are issued in non-book-entry form, the successful bidder, and any subsequent registered owner of the Notes, shall not impose on or charge the Town any costs or expenses of any re-registration or transfer of Notes from time to time, including any costs of counsel, costs to convert the Notes to book-entry only form, or for any costs or expenses of services as Certifying Agent, Registrar and Paying Agent for the Notes if the successful bidder is so designated.

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.

James Rivers
Town Manager

Patricia P. Spruance
Treasurer

February 11, 2019

March __, 2019

Town of Windham
979 Main Street
Willimantic, CT 06226

Re: \$17,000,000 General Obligation Bond Anticipation Notes,
dated March __, 2019

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 \$17,000,000 General Obligation Bond Anticipation Notes (the “Notes”), dated March __, 2019 and maturing August __, 2019. 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 __, 2019 (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 statutes and court decisions, (i) interest on the Notes is excludable from gross income for federal income tax purposes; and (ii) such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations. We express no opinion regarding other Federal income tax consequences caused by ownership or disposition of, or receipt of interest on 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 interest on the Notes 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 not includable in 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, 2017



RSM US LLP

Independent Auditor's Report

To the Board of Finance
Town of Windham, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Windham, Connecticut (the Town) as of and for the year ended June 30, 2017, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Windham, Connecticut as of June 30, 2017, 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, budgetary comparison information and the pension and OPEB related schedules 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 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 June 1, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's 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.

RSM US LLP

New Haven, Connecticut
June 1, 2018

**Town of Windham, Connecticut
Management's Discussion and Analysis (Unaudited)
June 30, 2017**

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, 2017.

Financial Highlights

- The assets and deferred outflows of resources of the Town exceeded its liabilities at the close of the most recent fiscal year by \$89,538,551 (net position). Of this amount, \$1,107,784 (unrestricted net position) may be used to meet the Town's ongoing obligations to its citizens and creditors. Of this amount, \$11,635,565 represents unrestricted net position attributed to the operations of the Town's water and sewer systems (business-type activities). The net unrestricted deficit of the Town's governmental activities was (\$10,527,781).
- The Town's changes in net position for the year ended June 30, 2017, amounted to (\$2,714,289) which consisted of a decrease of (\$1,259,541) relating to the Town's governmental activities combined with a decrease of (\$1,454,748) 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 (deficits) of (\$1,578,903), a decrease of \$(3,446,831) in comparison with the prior year. Of this amount (\$4,759,954) of governmental ending fund balances (deficits) was unassigned fund deficit. At the end of the close of the current fiscal year, unassigned fund balance for the General Fund was \$8,544,056 or 10.6% 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, decreased by \$2,449,873

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 deferred outflows of resources and liabilities and deferred inflows of resources with the difference 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 Capital Improvement 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 13-14 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 2 internal service funds. 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 21-64 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 65-116 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, 2017			June 30, 2016		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 21,025,377	\$ 12,295,932	\$ 33,321,309	\$ 28,511,818	\$ 13,920,049	\$ 42,431,867
Capital assets	89,861,206	34,968,017	124,829,223	85,891,481	35,680,351	121,571,832
Total assets	110,886,583	47,263,949	158,150,532	114,403,299	49,600,400	164,003,699
Deferred outflows	2,344,295	-	2,344,295	3,518,843	-	3,518,843
Long-term liabilities	40,992,070	12,607,421	53,599,491	41,643,757	13,434,009	55,077,766
Other liabilities	14,582,376	278,427	14,860,803	16,981,693	333,542	17,315,235
Total liabilities	55,574,446	12,885,848	68,460,294	58,625,450	13,767,551	72,393,001
Deferred pension credit	2,495,982	-	2,495,982	2,876,701	-	2,876,701
Net Investment in capital assets	64,730,137	22,742,536	87,472,673	59,714,008	22,644,497	82,358,505
Restricted	958,094	-	958,094	863,552	-	863,552
Unrestricted	(10,527,781)	11,635,565	1,107,784	(4,157,569)	13,188,352	9,030,783
Total Net Position	\$ 55,160,450	\$ 34,378,101	\$ 89,538,551	\$ 56,419,991	\$ 35,832,849	\$ 92,252,840

The Town's government-wide net position of \$89.5 million represents a decrease of \$2.7 million over last year's net position of \$92.3 million. The Town had an overall decrease from operations in the Town's governmental activities. 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 \$1.1 million at the end of this year compared with \$9.0 million at the end of last year. Government activities unrestricted net position decreased \$6.4 million. Unrestricted net position of the Town's business-type activities decreased \$1.6 million in 2017.

Town of Windham, Connecticut
Summary of Change in Net Position

	Year Ended June 30, 2017			Year Ended June 30, 2016		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues:						
Program revenues:						
Charge for services	\$ 3,993,927	\$ 4,776,234	\$ 8,770,161	\$ 3,999,613	\$ 5,715,510	\$ 9,715,123
Operating grants and contributions	53,067,087	-	53,067,087	52,222,241	-	52,222,241
Capital grants and contributions	3,715,650	-	3,715,650	3,596,919	-	3,596,919
General revenues:						
Property taxes	36,730,390	-	36,730,390	35,705,839	-	35,705,839
Grants, contributions not restricted	6,742,026	117,635	6,859,661	5,124,669	200,142	5,324,811
Unrestricted investment earnings	57,304	(136,922)	(79,618)	91,471	1,118,532	1,210,003
Total revenues	104,306,384	4,756,947	109,063,331	100,740,752	7,034,184	107,774,936
Expenses:						
Program activities						
Primary government:						
General government	3,735,769	-	3,735,769	3,610,803	-	3,610,803
Public safety	12,446,873	-	12,446,873	16,365,621	-	16,365,621
Public works	5,925,898	-	5,925,898	7,690,249	-	7,690,249
Human services	884,345	-	884,345	901,355	-	901,355
Civic and cultural	2,239,032	-	2,239,032	1,964,407	-	1,964,407
Education	79,196,154	-	79,196,154	75,038,480	-	75,038,480
Planning and development	611,274	-	611,274	549,618	-	549,618
Interest on long-term debt	710,580	-	710,580	684,749	-	684,749
Business-type activities:						
Water	-	2,332,600	2,332,600	-	2,684,004	2,684,004
Sewer	-	3,695,095	3,695,095	-	3,639,562	3,639,562
Total expenses	105,749,925	6,027,695	111,777,620	106,805,282	6,323,566	113,128,848
Increase (decrease) in net position before transfers	(1,443,541)	(1,270,748)	(2,714,289)	(6,064,530)	710,618	(5,353,912)
Transfers	184,000	(184,000)	-	184,000	(184,000)	-
Change in net position	(1,259,541)	(1,454,748)	(2,714,289)	(5,880,530)	526,618	(5,353,912)
Net Position - Beginning	56,419,991	35,832,849	92,252,840	62,300,521	-	62,300,521
Net Position - Ending	\$ 55,160,450	\$ 34,378,101	\$ 89,538,551	\$ 56,419,991	\$ 526,618	\$ 56,946,609

The Town's governmental activities and business-type activities total revenue in 2017 of \$109.1 million represents an increase of \$1.3 million over last year. Capital grants and contributions increased by \$119 thousand. Operating grants and contributions increased by \$845 thousand due to additional grants for various purposes.

The Town's total program expenses of \$111.8 million represents a decrease of \$1.4 million over last year. The increase in General government, Civic and Cultural, Education, and Planning and development is related to the receipt of additional expenditure driven grants and increased pension expense.

The Town's overall net position decreased by \$2.7 million from operations.

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.

Enterprise Funds

The Water Fund had an increase in net position of \$45,554, which was consistent with the prior year.

The Sewer Fund had a decrease in net position of \$1,500,302, mainly due to increased operating costs.

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 \$(1,578,903) a decrease of \$(3,446,831) in comparison with the prior year. Of this amount (\$4,741,487) 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 Taxing 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 Taxing District (the WTD). At the end of the current fiscal year, unassigned fund balance of the Town General Fund was \$5,597,303 while the unassigned fund balance of the WTD General Fund was \$2,911,975.

The fund balance of the combined General Fund on a GAAP basis decreased by (\$855,337) 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 \$14,386,108 as compared to \$14,542,838 in the prior year.

Capital Improvement Fund

The Capital Improvement Fund has expenditures of \$6,204,200 in the current year as compared to \$5,055,503 in the prior year.

General Fund Budgetary Highlights

During the year, revenues were less than budget and expenses were less than planned budgetary expenses for a total Town negative variance of (\$86,966).

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, 2017, totaled \$124,829,225 (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 \$3,257,393 or a 2.7% increase. The majority of the increase relates to capital costs incurred in connection with the improvements to the middle school roof replacement, the micro-grid and street and sidewalk improvements.

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, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land and Improvements	\$ 3,547,959	\$ 3,547,959	\$ 99,330	\$ 99,330	\$ 3,647,289	\$ 3,647,289
Construction in Progress	10,563,436	5,241,724	-	-	10,563,436	5,241,724
Buildings and Improvements	60,320,902	61,342,180	15,322,020	15,758,502	75,642,922	77,100,682
Machinery and Equipment	3,537,473	3,021,054	9,389,184	10,109,854	12,926,657	13,130,908
Infrastructure	11,891,436	12,738,564	10,157,483	9,712,665	22,048,919	22,451,229
Total	\$ 89,861,206	\$ 85,891,481	\$ 34,968,017	\$ 35,680,351	\$ 124,829,223	\$ 121,571,832

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 \$15,097,000. This entire amount is comprised of debt backed by the full faith and credit of the Town.

The Town's total governmental activities long-term obligations decreased by \$1,639,500 during the current fiscal year. The Enterprise Fund's long-term obligations decreased by \$810,373 for debt amortization.

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 bonds and notes payable and capital leases payable presented for both governmental and business-type activities:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Bonds Payable	\$ 15,097,000	\$ 16,736,500	\$ 568,000	\$ 638,500	\$ 15,665,000	\$ 17,375,000
Notes Payable	-	-	11,657,481	12,397,354	11,657,481	12,397,354
	\$ 15,097,000	\$ 16,736,500	\$ 12,225,481	\$ 13,035,854	\$ 27,322,481	\$ 29,772,354

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 2018 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.
- The Town used a hard zero increase approach in developing the 2018 Budget due to the uncertainty of the State's budget.
- Because the Town of Windham BOE is designated an Alliance District by the State of Connecticut Department of Education, its Educational Cost Sharing (ECS) Grant and Alliance Grant funding are offered added protection from both State and Town cuts.

All of these factors were considered in preparing the Town's budget for fiscal year 2018.

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.

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Basic Financial Statements

Town of Windham, Connecticut

Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,123,980	\$ 3,039,480	\$ 8,163,460
Investments	684,401	11,216,334	11,900,735
Receivables, net of allowances for collection losses:			
Property taxes	1,122,852	-	1,122,852
Grants and contracts	7,482,551	-	7,482,551
Accounts receivable	1,077,987	1,025,617	2,103,604
Notes receivable	15,283	-	15,283
Internal balances	3,298,945	(3,298,945)	-
Inventories	165,924	313,446	479,370
Restricted cash	792,170	-	792,170
Due from fiduciary funds	1,261,284	-	1,261,284
Capital assets:			
Non-depreciable	14,111,395	99,330	14,210,725
Depreciable, net	75,749,811	34,868,687	110,618,498
Total assets	110,886,583	47,263,949	158,150,532
Deferred outflows of resources:			
Deferred charge on refunding	107,610	-	107,610
Deferred pension items	2,236,685	-	2,236,685
Total deferred outflows of resources	2,344,295	-	2,344,295
Liabilities			
Accounts payable and accrued liabilities	3,979,803	278,427	4,258,230
Bond anticipation notes payable	9,795,000	-	9,795,000
Unearned revenues	807,573	-	807,573
Noncurrent liabilities:			
Due within one year	3,576,718	1,007,432	4,584,150
Due in more than one year	37,415,352	11,599,989	49,015,341
Total liabilities	55,574,446	12,885,848	68,460,294
Deferred inflows of resources:			
Deferred pension items	2,495,982	-	2,495,982
Total deferred inflows of resources	2,495,982	-	2,495,982
Net position:			
Net investment in capital assets	64,730,137	22,742,536	87,472,673
Restricted for:			
Debt repayment	792,170	-	792,170
Other purposes	165,924	-	165,924
Unrestricted (deficit)	(10,527,781)	11,635,565	1,107,784
Total net position	\$ 55,160,450	\$ 34,378,101	\$ 89,538,551

See notes to financial statements.

Town of Windham, Connecticut

Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		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	\$ (3,735,769)	\$ 609,108	\$ 3,493	\$ -	\$ (3,123,168)	\$ -	\$ (3,123,168)
Public safety	(12,446,873)	1,663,843	471,893	-	(10,311,137)	-	(10,311,137)
Public works	(5,925,898)	403,286	256,293	3,715,650	(1,550,669)	-	(1,550,669)
Human services	(884,345)	1,280	516,609	-	(366,456)	-	(366,456)
Civic and cultural	(2,239,032)	174,651	11,010	-	(2,053,371)	-	(2,053,371)
Planning and development	(611,274)	4,722	-	-	(606,552)	-	(606,552)
Education	(79,196,154)	1,137,037	51,807,789	-	(26,251,328)	-	(26,251,328)
Interest and other charges	(710,580)	-	-	-	(710,580)	-	(710,580)
Total governmental activities	(105,749,925)	3,993,927	53,067,087	3,715,650	(44,973,261)	-	(44,973,261)
Business-type activities:							
Water	(2,332,600)	2,330,658	-	-	-	(1,942)	(1,942)
Sewer	(3,695,095)	2,445,576	-	-	-	(1,249,519)	(1,249,519)
Total business-type activities	(6,027,695)	4,776,234	-	-	-	(1,251,461)	(1,251,461)
Total primary government	\$ (111,777,620)	\$ 8,770,161	\$ 53,067,087	\$ 3,715,650	(44,973,261)	(1,251,461)	(46,224,722)
General revenues:							
Property taxes, levied for general purposes					36,730,390	-	36,730,390
Grants and contributions not restricted to specific programs					6,742,026	117,635	6,859,661
Unrestricted investment income (loss)					57,304	(136,922)	(79,618)
Transfers					184,000	(184,000)	-
Total general revenues and transfers					<u>43,713,720</u>	<u>(203,287)</u>	<u>43,510,433</u>
Change in net position					(1,259,541)	(1,454,748)	(2,714,289)
Net position - beginning of year					<u>56,419,991</u>	<u>35,832,849</u>	<u>92,252,840</u>
Net position - end of year					<u>\$ 55,160,450</u>	<u>\$ 34,378,101</u>	<u>\$ 89,538,551</u>

See notes to financial statements.

Town of Windham, Connecticut

Balance Sheet - Governmental Funds
June 30, 2017

	Major Funds			Other Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Educational Grants Fund	Capital Improvement Fund		
Assets					
Cash and cash equivalents	\$ 1,329,941	\$ 484,416	\$ -	\$ 1,265,186	\$ 3,079,543
Investments	-	-	-	684,401	684,401
Receivables, net of allowance for collection losses:					
Property taxes	1,122,852	-	-	-	1,122,852
Grants and contracts	-	453,839	6,514,751	516,478	7,485,068
Accounts receivable	719,572	-	-	358,415	1,077,987
Notes receivable	-	-	-	15,283	15,283
Due from other funds	7,574,063	-	-	66	7,574,129
Restricted cash	792,170	-	-	-	792,170
Inventories	144,801	-	-	21,123	165,924
Total assets	\$ 11,683,399	\$ 938,255	\$ 6,514,751	\$ 2,860,952	\$ 21,997,357
Liabilities					
Accounts payable and accrued liabilities	\$ 899,070	\$ 368,197	\$ 642,578	\$ 208,950	\$ 2,118,795
Bond anticipation note payable	-	-	9,795,000	-	9,795,000
Due to other funds	221,627	-	2,629,777	162,496	3,013,900
Unearned revenue	-	570,058	-	237,515	807,573
Total liabilities	1,120,697	938,255	13,067,355	608,961	15,735,268
Deferred inflows of resources:					
Unavailable resources	1,081,675	-	6,514,751	244,566	7,840,992
Total deferred inflows of resources	1,081,675	-	6,514,751	244,566	7,840,992
Fund balances (deficits):					
Nonspendable	144,801	-	-	320,019	464,820
Restricted	792,170	-	-	1,721,876	2,514,046
Committed	-	-	-	202,185	202,185
Unassigned (deficit)	8,544,056	-	(13,067,355)	(236,655)	(4,759,954)
Total fund balances (deficit)	9,481,027	-	(13,067,355)	2,007,425	(1,578,903)
Total liabilities, deferred inflows of resources and fund balances (deficits)	\$ 11,683,399	\$ 938,255	\$ 6,514,751	\$ 2,860,952	

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.	89,861,206
Unavailable revenues are not available to pay for current-period expenditures and therefore are not recognized as revenues in the funds.	7,840,992
Deferred charge on refunding	107,610
Deferred pension expense	2,236,685
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.	315,282
Deferred pension credit	(2,495,982)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(40,992,070)
Accrued interest payable	(134,370)
Net position of governmental activities	\$ 55,160,450

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, 2017

	Major Funds			Other Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Educational Grants Fund	Capital Improvement Fund		
Revenues:					
Property taxes	\$ 36,376,109	\$ -	\$ -	\$ -	\$ 36,376,109
Intergovernmental	40,539,900	14,386,108	3,661,423	5,836,205	64,423,636
Charges for services	2,035,658	-	-	365,469	2,401,127
Licenses and permits	302,462	-	-	-	302,462
Fines, forfeitures, and penalties	152,414	-	-	-	152,414
Investment income	9,080	-	-	48,224	57,304
Miscellaneous	152,783	-	-	640,251	793,034
Donations and contributions	-	-	-	344,890	344,890
Total revenues	79,568,406	14,386,108	3,661,423	7,235,039	104,850,976
Expenditures:					
Current:					
General government	2,455,663	-	-	36,131	2,491,794
Public safety	1,610,262	-	-	160,798	1,771,060
Public works	3,778,357	-	-	323,758	4,102,115
Human services	686,654	-	-	-	686,654
Civic and cultural	963,321	-	-	406,346	1,369,667
Planning and development	367,314	-	-	-	367,314
Education	54,887,548	14,386,108	-	5,401,221	74,674,877
Debt issuance costs	-	-	-	30,118	30,118
Other	3,393,385	-	-	-	3,393,385
Police	6,636,841	-	-	-	6,636,841
Fire	3,564,651	-	-	-	3,564,651
Miscellaneous	2,100	-	-	-	2,100
Debt service:					
Principal retirements	1,706,464	-	-	-	1,706,464
Interest and other charges	468,608	-	-	200,851	669,459
Capital outlay	-	-	6,204,200	811,108	7,015,308
Total expenditures	80,521,168	14,386,108	6,204,200	7,370,331	108,481,807
Excess (deficiency) of revenues over (under) expenditures	(952,762)	-	(2,542,777)	(135,292)	(3,630,831)
Other financing sources (uses):					
Transfers in	236,425	-	-	139,000	375,425
Transfers out	(139,000)	-	-	(52,425)	(191,425)
Total other financing sources (uses)	97,425	-	-	86,575	184,000
Net change in fund balances (deficits)	(855,337)	-	(2,542,777)	(48,717)	(3,446,831)
Fund balances (deficit), beginning	10,336,364	-	(10,524,578)	2,056,142	1,867,928
Fund balances (deficit), ending	\$ 9,481,027	\$ -	\$ (13,067,355)	\$ 2,007,425	\$ (1,578,903)

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, 2017**

Reconciliation of the statement of revenues, expenditures and changes in fund balances (deficits) - 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		\$ (3,446,831)
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	\$ 7,870,399	
Depreciation expense	<u>(3,900,674)</u>	
		3,969,725
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	354,281	
Loans receivable	(138,439)	
Other receivables	(162,829)	
Intergovernmental revenue on magnet school construction	<u>(597,605)</u>	
		(544,592)
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	1,639,500	
Amortization of bond premium	63,861	
Amortization of deferred charges	(11,957)	
Change in net pension liability	340,348	
Change in deferred pension items	(781,872)	
		1,249,880
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.		
		(1,099,758)
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	4,057	
Change in landfill closure liability	188,801	
Change in long-term compensated absences	(191,471)	
Change in OPEB liability	<u>(1,389,352)</u>	
		<u>(1,387,965)</u>
Change in net position of governmental activities		<u>\$ (1,259,541)</u>

See notes to financial statements.

Town of Windham, Connecticut

Statement of Net Position - Proprietary Funds
June 30, 2017

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Funds
Assets				
Current assets:				
Cash and cash equivalents	\$ 128,545	\$ 2,910,935	\$ 3,039,480	\$ 2,044,437
Accounts receivable, net	598,439	427,178	1,025,617	-
Inventories	313,446	-	313,446	-
Total current assets	1,040,430	3,338,113	4,378,543	2,044,437
Noncurrent assets:				
Investments	2,966,899	8,249,435	11,216,334	-
Capital assets:				
Non-depreciable	69,850	29,480	99,330	-
Depreciable, net	11,028,024	23,840,663	34,868,687	-
Total noncurrent assets	14,064,773	32,119,578	46,184,351	-
Total assets	15,105,203	35,457,691	50,562,894	2,044,437
Liabilities				
Current liabilities:				
Accounts payable	190,580	31,814	222,394	59,541
Claims payable	-	-	-	1,496,875
Accrued liabilities:				
Accrued interest	6,212	19,429	25,641	-
Other	21,292	9,100	30,392	172,739
Due to other funds	-	3,298,945	3,298,945	-
Bonds and notes payable - current	69,100	804,653	873,753	-
Compensated absences - current	62,504	71,175	133,679	-
Total current liabilities	349,688	4,235,116	4,584,804	1,729,155
Noncurrent liabilities:				
Bonds and notes payable	498,900	10,852,828	11,351,728	-
Compensated absences	116,079	132,182	248,261	-
Total noncurrent liabilities	614,979	10,985,010	11,599,989	-
Total liabilities	964,667	15,220,126	16,184,793	1,729,155
Net position (deficit):				
Net investment in capital assets	10,529,874	12,212,662	22,742,536	-
Unrestricted (deficit)	3,610,662	8,024,903	11,635,565	315,282
Total net position (deficit)	\$ 14,140,536	\$ 20,237,565	\$ 34,378,101	\$ 315,282

See notes to financial statements.

Town of Windham, Connecticut

Statement of Revenues, Expenses and Changes in Fund Net Position (Deficit) - Proprietary Funds
For the Year Ended June 30, 2017

	Business-Type Activities - Enterprise Funds			Governmental
	Water Fund	Sewer Fund	Total	Internal Service Funds
Operating revenues:				
Charges for services	\$ 2,330,658	\$ 2,445,576	\$ 4,776,234	\$ 11,185,178
Other	92,309	25,326	117,635	-
Total operating revenues	2,422,967	2,470,902	4,893,869	11,185,178
Operating expenses:				
Personnel services	1,267,996	1,302,819	2,570,815	-
Outside services	62,660	350,791	413,451	-
Depreciation	382,085	1,203,565	1,585,650	-
Fuel and utilities	198,767	245,321	444,088	-
Administration	77,393	68,358	145,751	1,089,447
Repairs, maintenance and supplies	321,644	218,498	540,142	-
Other	6,970	2,506	9,476	-
Claims incurred	-	-	-	11,196,051
Total operating expenses	2,317,515	3,391,858	5,709,373	12,285,498
Operating income (loss)	105,452	(920,956)	(815,504)	(1,100,320)
Nonoperating revenues (expenses):				
Interest income (loss)	47,187	(184,109)	(136,922)	562
Interest expense	(15,085)	(303,237)	(318,322)	-
Total non-operating revenues (expenses)	32,102	(487,346)	(455,244)	562
Net income (loss) before transfers	137,554	(1,408,302)	(1,270,748)	(1,099,758)
Transfers out	(92,000)	(92,000)	(184,000)	-
Change in net position	45,554	(1,500,302)	(1,454,748)	(1,099,758)
Net position - beginning	14,094,982	21,737,867	35,832,849	1,415,040
Net position (deficit) - ending	\$ 14,140,536	\$ 20,237,565	\$ 34,378,101	\$ 315,282

See notes to financial statement.

Town of Windham, Connecticut

Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2017

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Funds
Cash flows from operating activities:				
Cash received for the following:				
Charges for services	\$ 2,634,982	\$ 2,680,732	\$ 5,315,714	\$ 11,550,353
Other income	92,309	25,326	117,635	-
	<u>2,727,291</u>	<u>2,706,058</u>	<u>5,433,349</u>	<u>11,550,353</u>
Cash paid for the following:				
Personnel services	(1,300,686)	(1,286,344)	(2,587,030)	-
Fuel and utilities	(198,767)	(245,321)	(444,088)	-
Outside services	(35,980)	(548,265)	(584,245)	-
Administration	(77,393)	(68,358)	(145,751)	(1,030,656)
Repairs, maintenance and supplies	(321,644)	(218,498)	(540,142)	-
Other	(2,178)	(2,506)	(4,684)	-
Claims paid	-	-	-	(11,106,446)
	<u>(1,936,648)</u>	<u>(2,369,292)</u>	<u>(4,305,940)</u>	<u>(12,137,102)</u>
Net cash provided by (used in) operating activities	790,643	336,766	1,127,409	(586,749)
Cash flows from noncapital financing activities:				
Transfers from (to) other funds	(92,000)	2,840,136	2,748,136	-
Net cash provided by (used in) noncapital financing activities	(92,000)	2,840,136	2,748,136	-
Cash flows from capital and related financing activities:				
Purchases of capital assets	(629,186)	(244,130)	(873,316)	-
Principal paid on capital debt	(70,500)	(739,873)	(810,373)	-
Interest paid on capital debt	(15,714)	(304,577)	(320,291)	-
Net cash used in capital and related financing activities	(715,400)	(1,288,580)	(2,003,980)	-
Cash flows from investing activities:				
Purchase of investments	(7,961)	-	(7,961)	-
Sale of investments	-	1,206,722	-	-
Interest and dividends	47,187	(184,109)	(136,922)	562
Net cash (used in) provided by investing activities	39,226	1,022,613	1,061,839	562
Net increase (decrease) in cash and cash equivalents	22,469	2,910,935	2,933,404	(586,187)
Cash and cash equivalents, beginning of year	106,076	-	106,076	2,630,624
Cash and cash equivalents, end of year	<u>\$ 128,545</u>	<u>\$ 2,910,935</u>	<u>\$ 3,039,480</u>	<u>\$ 2,044,437</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 105,452	\$ (920,956)	\$ (815,504)	\$ (1,100,320)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	382,085	1,203,565	1,585,650	-
(Increase) decrease in assets:				
Accounts receivable	304,324	248,056	552,380	366,679
Inventories	(125,756)	-	(125,756)	-
Other assets	-	-	-	-
Increase (decrease) in liabilities:				
Accounts payable	152,436	(211,474)	(59,038)	58,791
Accrued liabilities and compensated absences	(27,898)	30,475	2,577	88,101
Due to other funds	-	(12,900)	(12,900)	-
Net cash provided by (used in) operating activities	\$ 790,643	\$ 336,766	\$ 1,127,409	\$ (586,749)

See notes to financial statements.

Town of Windham, Connecticut

Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2017

	Pension Trust Funds	Private Purpose Trust Funds	Agency Funds
Assets			
Cash and cash equivalents	\$ 1,850,436	\$ 63,816	\$ 115,182
Investments, at fair value:			
Debt securities	5,925,807	-	-
Certificates of deposit	-	-	207,570
Corporate bonds	6,878,478	-	-
Mutual funds	-	17,210	-
Collective trusts	5,598,693	-	-
Equity securities	36,380,269	96,718	-
Other	-	12,168	-
Prepaid pension	518,719		
Receivables	2,363,580	36	-
Total assets	59,515,982	189,948	322,752
Liabilities			
Accounts payable	6,375	-	2,141
Due to others	-	-	320,611
Due to other funds	1,261,284	-	-
Total liabilities	1,267,659	-	322,752
Net position restricted for pension benefits and other	\$ 58,248,323	\$ 189,948	\$ -

See notes to financial statements.

Town of Windham, Connecticut

**Statement of Changes in Fiduciary Net Position -
Fiduciary Funds
For the Year Ended June 30, 2017**

	Pension Trust Funds	Private Purpose Trust Funds
Additions:		
Contributions:		
Employer	\$ 2,790,630	\$ -
Plan members	479,016	-
Private donations and other	1,996	-
Total contributions and other	<u>3,271,642</u>	<u>-</u>
Investment income:		
Interest and dividends	1,348,157	2,339
Net appreciation in the fair value of investments	2,419,664	12,020
Total investment earnings	<u>3,767,821</u>	<u>14,359</u>
Less administrative and other expenses	102,825	2,641
Net investment earnings	<u>3,664,996</u>	<u>11,718</u>
Total additions	<u>6,936,638</u>	<u>11,718</u>
Deductions:		
Benefit payments	2,560,612	5,046
Total deductions	<u>2,560,612</u>	<u>5,046</u>
Change in net position	4,376,026	6,672
Net position - restricted for pension benefits and other, beginning	<u>53,872,297</u>	<u>183,276</u>
Net position - restricted for pension benefits and other, ending	<u>\$ 58,248,323</u>	<u>\$ 189,948</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 Taxing District (the WTD).

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 GASB 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. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans that administer benefits on behalf of governments. Statement 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The implementation of this statement had no 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. 77, *Tax Abatement Disclosures*. This Statement establishes disclosure of information about nature and magnitude of tax abatements to allow users of the financial statements to understand 1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and 2) the impact those abatements have on a government's financial condition and economic condition. The implementation of this statement had no impact on the Town's financial statements.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This standard narrows the scope and applicability of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan meeting specific criteria; establishes new guidance for these employers, including separate requirements for recognition and measurement of pension expense or expenditures and liabilities, note disclosures and required supplementary information (RSI). The implementation of this statement had no impact on the Town's financial statements.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of this statement had no impact on the Town's financial statements.

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.

Town of Windham, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Proprietary funds: Proprietary funds are used to account for activities that are similar to those often found in the private sector. 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 and Workers' Compensation Fund are the Town's internal service funds.

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 various defined benefit plans of the Town.

The **Private purpose trust fund** accounts for trust arrangements under which principal and income benefit individuals, private organizations, or other governments

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.

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: 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).

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 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 Taxing District (the WTD). The Town and WTD are two separate "sub-funds" of the General Fund. Each sub-fund has its own legally adopted budget.

Town of Windham, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

Capital Improvement fund: This fund is used to account for revenues and expenditures relating to the capital improvement projects.

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 inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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: The Connecticut State Treasurer's Short-Term Investment Fund is an investment pool managed by the State of Connecticut Office of the State Treasurer. These investments are carried at amortized cost. The Town also invests in certificates of deposit which are also carried at amortized cost. Annuities are measured at contract value.

Town of Windham, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Fair value: The Town uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. 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. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

The Town's fair value measurements are classified into a fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

The three categories within the hierarchy are as follows:

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, credit spreads, and market-corroborated inputs.

Level 3: Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flows methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgement.

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 \$361,000 as of June 30, 2017.

Inventories: All inventories are valued at lower of cost or net realizable value 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.

Town of Windham, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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, liabilities and deferred inflows/outflows 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.

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 acquisition 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.

Town of Windham, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Net pension liability: The net pension liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension liability), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period. The net pension liability is reported in the statement of net position. In the governmental funds, expenditures are recognized when they are paid or are expected to be paid with current available resources

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: The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances (net of unspent bond proceeds) of bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

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.

Town of Windham, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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.

Deferred outflows/inflows of resources: In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period or periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. The Town also reports deferred outflows related to pensions in the government-wide statement of net position. A deferred outflow of resources related to pensions results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

Town of Windham, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 a deferred inflow of resources related to pensions in the government-wide statement of net position. A deferred inflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

The governmental funds report unavailable revenues from property taxes, interest on property taxes, and charges for services. These amounts are deferred and recognized as an inflow of resources (revenue) in the period before the amounts become available, in accordance with the modified accrual basis of accounting.

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	\$ 15,097,000
Deferred premiums, net of amortization	346,679
Compensated absences	5,514,908
Landfill post-closure liability	77,000
Net pension liability	6,677,642
OPEB	<u>13,278,841</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 40,992,070</u>

Town of Windham, Connecticut

Notes to Financial Statements

Note 3. Cash, Cash Equivalents and Investments

Deposits: The Town and the Pension Trust funds do not have a custodial credit risk policy. However, as a practice, the Town and the Pension Trust fund follow 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.

Investments: The Town and the Pension Trust Funds do not have a custodial credit risk policy for investments. 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.

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, 2017, \$10.8 million of the entity's bank balance of \$13.6 million 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.

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, 2017:

Cash and cash equivalents:	
Deposits with financial institutions	\$ 10,985,064
Total cash and cash equivalents	10,985,064
Permanent funds:	
Cemetery Trust:	
Corporate bonds	55,412 *
U.S. Treasury securities	45,489 *
U.S. Government agencies	4,988 *
Common stock	131,957 *
Other	12,092 *
William A. & Jennie S. King Trust:	
Corporate bonds	73,068 *
U.S. Treasury securities	64,595 *
Common stock	272,803 *
Other	23,997 *
Total permanent funds	684,401
Enterprise funds:	
Sewer fund:	
U.S. Government agencies	7,853,169 *
Certificates of deposits	396,266
Water fund:	
Certificates of deposits	2,966,899
Total enterprise funds	11,216,334
Private purpose trust funds:	
Common stock	96,718 *
Money market mutual fund	1,853 *
Fixed income mutual funds	15,357 *
Other	12,168 *
Total private purpose trust funds	126,096
Scholarship funds:	
Certificates of deposits	52,684
Student activity funds:	
Certificates of deposits	154,886
Pension trust funds:	
Corporate bonds	6,878,478 *
U.S. Treasury securities	5,400,636 *
U.S. Government agencies	525,171 *
Collective trusts	5,598,693 *
Common stock	36,380,269 *
Total pension trust funds	54,783,247
Total cash, cash equivalents and investments	\$ 78,002,712

* These investments are uninsured with securities held by the counterparty in the Town's, Permanent Trust or Pension Trust's name.

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	\$ 8,955,630
Investments	11,900,735
	<u>20,856,365</u>

Fiduciary funds:

Cash and cash equivalents	2,029,434
Investments	55,116,913
	<u>57,146,347</u>

Total cash, cash equivalents and investments	<u><u>\$ 78,002,712</u></u>
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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, 2017, the Town's pension trusts' 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:					
Corporate bonds	\$ 7,006,958	\$ 1,447,247	\$ 4,226,425	\$ 1,333,286	\$ -
Fixed income mutual funds	15,357	15,357	-	-	-
U.S. Government agencies	8,383,328	533,775	1,066,440	3,622,880	3,160,233
U.S. Treasury securities	5,510,720	-	3,758,656	1,752,064	-
Totals	<u>\$ 20,916,363</u>	<u>\$ 1,996,379</u>	<u>\$ 9,051,521</u>	<u>\$ 6,708,230</u>	<u>\$ 3,160,233</u>

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 pension funds' investments in debt securities were rated by Standard & Poor's as follows at June 30, 2017:

Debt Securities	Fair Value	A+	A	A-	AA+	AA	AA-
Corporate bonds	\$ 7,006,958	\$ 773,262	\$ 522,746	\$ 1,291,592	\$ 251,943	\$ 265,424	\$ 652,370
Fixed income mutual funds	15,357	-	-	-	15,357	-	-
U.S. government agencies	8,383,328	-	-	-	-	7,853,169	-
	<u>\$ 15,405,643</u>	<u>\$ 773,262</u>	<u>\$ 522,746</u>	<u>\$ 1,291,592</u>	<u>\$ 267,300</u>	<u>\$ 8,118,593</u>	<u>\$ 652,370</u>

Debt Securities	BBB+	BBB	BBB-	Unrated
Corporate bonds	\$ 1,847,491	\$ 1,033,003	\$ 369,127	\$ -
Fixed income mutual funds	-	-	-	-
U.S. government agencies	-	-	-	-
	<u>\$ 1,847,491</u>	<u>\$ 1,033,003</u>	<u>\$ 369,127</u>	<u>\$ -</u>

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

Town of Windham, Connecticut

Notes to Financial Statements

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

Fair value: The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following recurring fair value measurements as of June 30, 2017:

Investment Instruments Measured at Fair Value

	Fair Value Measurements Using			
	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
Investments by fair value level:				
Stocks	\$ 36,881,747	\$ 36,881,747	\$ -	\$ -
Mutual funds	15,357	15,357	-	-
Collective trusts	5,598,693	-	5,598,693	-
Other	48,257	48,257	-	-
Debt securities:				
U.S. Treasury	5,510,720	-	5,510,720	-
Corporate bonds	7,006,958	-	7,006,958	-
Asset and mortgage backed	8,383,328	-	8,383,328	-
Total debt securities	20,901,006	-	20,901,006	-
Total investments by fair value level	\$ 63,445,060	\$ 36,945,361	\$ 26,499,699	\$ -
Investments measured at amortized cost:				
Certificate of deposits	3,572,588			
Total investments measured at amortized cost	3,572,588			
Total investments	\$ 67,017,648			

Town of Windham, Connecticut

Notes to Financial Statements

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2017, 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	5,241,724	5,359,759	(38,047)	10,563,436
Total capital assets, not being depreciated	8,789,683	5,359,759	(38,047)	14,111,395
Capital assets, being depreciated				
Buildings and improvements	98,978,399	1,328,265	-	100,306,664
Machinery and equipment	18,879,081	904,231	-	19,783,312
Infrastructure	28,500,288	316,191	-	28,816,479
Total capital assets, being depreciated	146,357,768	2,548,687	-	148,906,455
Less accumulated depreciation for:				
Buildings and improvements	(37,636,219)	(2,349,543)	-	(39,985,762)
Machinery and equipment	(15,858,027)	(387,812)	-	(16,245,839)
Infrastructure	(15,761,724)	(1,163,319)	-	(16,925,043)
Total accumulated depreciation	(69,255,970)	(3,900,674)	-	(73,156,644)
Total capital assets, being depreciated, net	77,101,798	(1,351,987)	-	75,749,811
Governmental activities capital assets, net	\$ 85,891,481	\$ 4,007,772	\$ (38,047)	\$ 89,861,206

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	24,600,611	-	-	24,600,611
Machinery and equipment	15,463,254	239,316	-	15,702,570
Services and improvements	17,291,944	634,000	-	17,925,944
Total capital assets, being depreciated	57,355,809	873,316	-	58,229,125
Less accumulated depreciation for:				
Buildings and improvements	(8,842,109)	(436,482)	-	(9,278,591)
Machinery and equipment	(5,353,400)	(959,986)	-	(6,313,386)
Services and improvements	(7,579,279)	(189,182)	-	(7,768,461)
Total accumulated depreciation	(21,774,788)	(1,585,650)	-	(23,360,438)
Total capital assets, being depreciated, net	35,581,021	(712,334)	-	34,868,687
Business-type activities capital assets, net	\$ 35,680,351	\$ (712,334)	\$ -	\$ 34,968,017

Depreciation and amortization expense was charged to functions as follows:

Governmental activities:	
General government	\$ 312,053
Public safety	780,135
Public works	1,560,270
Human services	39,007
Planning and development	39,007
Civic and cultural	156,027
Education	1,014,175
Total depreciation and amortization expense-governmental activities	<u>3,900,674</u>
Business-type activities:	
Water	382,085
Sewer	1,203,565
Total depreciation and amortization expense-business-type activities	<u>1,585,650</u>

Town of Windham, Connecticut

Notes to Financial Statements

Note 5. Interfund Receivables, Payables and Transfers

A summary of interfund balances as of June 30, 2017, is presented below:

	Due From Other Funds	Due to Other Funds
General fund	\$ 7,574,063	\$ 221,627
Capital improvement fund	-	2,629,777
Sewer fund	-	3,298,945
Nonmajor governmental funds	66	162,496
Fiduciary funds	-	1,261,284
	<u>\$ 7,574,129</u>	<u>\$ 7,574,129</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, 2017, consisted of the following:

	Transfers From Other Funds	Transfers to Other Funds
General fund	\$ 236,425	\$ 139,000
Water fund	-	92,000
Sewer fund	-	92,000
Nonmajor governmental funds	139,000	52,425
	<u>\$ 375,425</u>	<u>\$ 375,425</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, 2017:

	Beginning Balances	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
Bonds and notes payable:					
General obligation bonds	\$ 16,736,500	\$ -	\$ (1,639,500)	\$ 15,097,000	\$ 1,639,500
Unamortized amounts:					
Premiums	410,540	-	(63,861)	346,679	-
Total bonds payable	17,147,040	-	(1,703,361)	15,443,679	1,639,500
Other liabilities:					
Compensated absences	5,323,437	1,863,203	(1,671,732)	5,514,908	1,930,218
Landfill post-closure liability	265,801	-	(188,801)	77,000	7,000
Net OPEB obligation (see Note 10)	11,889,489	1,389,352	-	13,278,841	-
Net pension liability (see Note 8)	7,017,990	-	(340,348)	6,677,642	-
	<u>\$ 41,643,757</u>	<u>\$ 3,252,555</u>	<u>\$ (3,904,242)</u>	<u>\$ 40,992,070</u>	<u>\$ 3,576,718</u>
Business-type activities					
Bonds payable:					
General obligation bonds	\$ 638,500	\$ -	\$ (70,500)	\$ 568,000	\$ 69,100
Other liabilities:					
Notes payable	12,397,354	-	(739,873)	11,657,481	804,653
Compensated absences	398,155	-	(16,215)	381,940	133,679
	<u>\$ 13,434,009</u>	<u>\$ -</u>	<u>\$ (826,588)</u>	<u>\$ 12,607,421</u>	<u>\$ 1,007,432</u>

The remaining liabilities including pension and OPEB liabilities above typically have been liquidated from 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, 2017, is as follows:

<u>Purpose of Bonds</u>	<u>Date of Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding</u>
Governmental :					
Bonds payable:					
General purpose bonds	2010	\$ 4,000,000	1.75%-4.00%	2031	\$ 2,825,000
General purpose refunding bonds	2010	5,260,000	2.00%-4.00%	2024	1,960,000
General purpose refunding bonds	2014	7,820,900	2.00%-4.00%	2034	6,852,000
General purpose bonds	2015	2,845,000	1.80%	2022	2,460,000
Qualified Zone Academy Bonds	2003	500,000	-	2017	500,000
Qualified Zone Academy Bonds	2006	500,000	-	2022	500,000
Total governmental activities					<u>\$ 15,097,000</u>
Business-type activities:					
Bonds payable:					
Water bonds, refinanced	2014	684,100	2.00%-3.00%	2026	\$ 568,000
Notes payable:					
Clean Water Fund note payable	2008	\$ 668,189	2.00%	2027	357,975
Clean Water Fund note payable	2012	15,408,418	2.00%	2032	11,299,506
Total business-type activities					<u>\$ 12,225,481</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, 2017:

Year Ending June 30:	Governmental Activities	
	Bonds Payable	
	Principal	Interest
2018	\$ 2,185,900	\$ 391,740
2019	1,712,300	354,230
2020	1,598,700	313,590
2021	1,628,700	272,566
2022	1,625,100	230,328
2023-2027	3,936,300	730,241
2028-2032	1,800,000	297,234
2033-2036	610,000	24,400
	<u>\$ 15,097,000</u>	<u>\$ 2,614,329</u>

Year Ending June 30:	Business-Type Activities					
	Bonds Payable		Notes Payable		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 69,100	\$ 14,318	\$ 804,653	\$ 225,774	\$ 873,753	\$ 240,092
2019	67,700	12,950	805,344	209,675	873,044	222,625
2020	66,300	11,610	806,049	193,562	872,349	205,172
2021	66,300	9,953	806,768	177,434	873,068	187,387
2022	64,900	7,985	807,502	161,292	872,402	169,277
2023-2027	233,700	12,880	4,031,868	563,858	4,265,568	576,738
2028-2032	-	-	3,595,297	170,778	3,595,297	170,778
	<u>\$ 568,000</u>	<u>\$ 69,696</u>	<u>\$ 11,657,481</u>	<u>\$ 1,702,373</u>	<u>\$ 12,225,481</u>	<u>\$ 1,772,069</u>

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 \$253.6 million as of June 30, 2017. 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, 2017.

As of June 30, 2017, the Town has authorized and unissued bonds of \$1,872,242 for school construction projects, \$4,280,000 for roads and sidewalks and \$7,200,000 for municipal and public safety projects.

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 12 years are estimated to be \$258,801. 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	\$ 1,081,675	\$ -
	<u>1,081,675</u>	<u>-</u>
Capital improvement fund:		
Intergovernmental receivable	6,514,751	-
	<u>6,514,751</u>	<u>-</u>
Educational grants fund:		
Grants drawdown in advance	-	570,058
	<u>-</u>	<u>570,058</u>
Other nonmajor governmental funds:		
Loans receivable	15,283	-
Other receivable	229,283	-
Grants drawdown in advance	-	237,515
	<u>244,566</u>	<u>237,515</u>
Total	<u>\$ 7,840,992</u>	<u>\$ 807,573</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	30	31	18	80
Terminated employees entitled to benefits but not yet receiving them	2	2	69	56
Active plan members	29	43	96	110
	<u>61</u>	<u>76</u>	<u>183</u>	<u>246</u>

Benefit provisions:

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, 2017 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.

Administrative costs: Administrative costs are paid by the plans.

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, 2017, 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	\$ 677,857	\$ 1,009,811	\$ 637,407	\$ 465,555
Employee	158,040	236,360	86,153	-
Total	\$ 835,897	\$ 1,246,171	\$ 723,560	\$ 465,555

Percentage of Covered Payroll	Fire	Police	Municipal	Board of Education
Employer	35.2%	52.5%	33.1%	24.2%
Employee	8.2%	12.3%	4.5%	0.0%
Total	43.5%	64.8%	37.6%	24.2%

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, 2017

	Firemen's Pension	Policemen's Pension	Municipal Employees' Pension	Board of Education Employees' Pension	Total
Assets					
Cash and cash equivalents	\$ 472,390	\$ 711,467	\$ 570,830	\$ 95,749	\$ 1,850,436
Investments:					
Corporate bonds	1,667,662	2,896,486	2,314,330	-	6,878,478
U.S. government securities	1,305,617	2,314,758	1,780,261	-	5,400,636
U.S. agencies	127,703	222,261	175,207	-	525,171
Collective trusts	-	-	-	5,598,693	5,598,693
Common stock	8,013,547	13,991,533	10,792,163	3,583,026	36,380,269
Prepaid pension	-	-	518,719	-	518,719
Receivables	696,362	1,029,811	637,407	-	2,363,580
Total assets	<u>12,283,281</u>	<u>21,166,316</u>	<u>16,788,917</u>	<u>9,277,468</u>	<u>59,515,982</u>
Liabilities					
Accounts payable	3,250	3,125	-	-	6,375
Due to other funds	48,046	57,112	1,156,126	-	1,261,284
Total liabilities	<u>51,296</u>	<u>60,237</u>	<u>1,156,126</u>	<u>-</u>	<u>1,267,659</u>
Net position:					
Restricted for pension benefits	<u>\$ 12,231,985</u>	<u>\$ 21,106,079</u>	<u>\$ 15,632,791</u>	<u>\$ 9,277,468</u>	<u>\$ 58,248,323</u>

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, 2017**

	Firemen's Pension	Policemen's Pension	Municipal Employees' Pension	Board of Education Employees' Pension	Total
Additions					
Contributions:					
Employer	\$ 677,857	\$ 1,009,811	\$ 637,407	\$ 465,555	\$ 2,790,630
Plan members	156,503	236,360	86,153	-	479,016
Other	1,266	252	478	-	1,996
Total contributions	<u>835,626</u>	<u>1,246,423</u>	<u>724,038</u>	<u>465,555</u>	<u>3,271,642</u>
Investment earnings:					
Interest and dividends	294,287	511,700	226,553	315,617	1,348,157
Net appreciation in fair value of investments	468,686	1,089,428	616,644	244,906	2,419,664
Total investment earnings	<u>762,973</u>	<u>1,601,128</u>	<u>843,197</u>	<u>560,523</u>	<u>3,767,821</u>
Less administrative and other expenses					
Net investment earnings	<u>16,454</u>	<u>13,761</u>	<u>-</u>	<u>72,610</u>	<u>102,825</u>
Total additions	<u>1,582,145</u>	<u>2,833,790</u>	<u>1,567,235</u>	<u>953,468</u>	<u>6,936,638</u>
Deductions					
Benefit payments	710,928	1,043,135	343,525	463,024	2,560,612
Total deductions	<u>710,928</u>	<u>1,043,135</u>	<u>343,525</u>	<u>463,024</u>	<u>2,560,612</u>
Change in net position	871,217	1,790,655	1,223,710	490,444	4,376,026
Net position restricted for pension benefits					
Beginning of year	<u>11,360,768</u>	<u>19,315,424</u>	<u>14,409,081</u>	<u>8,787,024</u>	<u>53,872,297</u>
End of year	<u>\$ 12,231,985</u>	<u>\$ 21,106,079</u>	<u>\$ 15,632,791</u>	<u>\$ 9,277,468</u>	<u>\$ 58,248,323</u>

Town of Windham, Connecticut

Notes to Financial Statements

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

Summary of significant accounting policies and plan asset matters:

Basis of accounting: The Pension Trusts' financial statements are accounted for using the accrual basis of accounting. Contributions are recognized when they are due, pursuant to formal commitments and contractual requirements. Investment income is recognized when earned. Investments are reported at fair value. Expenses (benefits, administration, and refunds) are recognized when they are due and payable in accordance with the terms of the plan.

Investments: 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, 2017:

Asset Class	Pension Fund Allocation %			
	Fire	Police	Municipal	BOE
Cash	2.5%	2.5%	0.0%	0.0%
Core fixed income	0.0%	0.0%	60.0%	65.0%
Large cap core equities	32.5%	32.5%	30.0%	20.0%
Mid cap core equities	15.0%	15.0%	0.0%	7.0%
Small cap core equities	5.0%	5.0%	5.0%	3.0%
International equity	12.5%	10.0%	5.0%	5.0%
Emerging markets equities	0.0%	2.5%	0.0%	0.0%
Intermediate duration investment grade taxable	17.5%	17.5%	0.0%	0.0%
Short duration investment grade taxable fixed	15.0%	15.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%

Town of Windham, Connecticut

Notes to Financial Statements

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

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

Investment Type	Issuer	Board of Education
Collective Trust	Aetna Life Insurance Company	<u>\$ 5,598,693</u>

Net pension liability of the Town: The components of the net pension liability of the Town at June 30, 2017 were as follows:

Municipal Employees Pension Plan

Net Pension Liability

Total pension liability	\$ 17,499,796
Plan fiduciary net position	<u>(15,632,791)</u>
Net pension liability	<u>\$ 1,867,005</u>

Plan fiduciary net position as a percentage of total pension liability 89.33%

BOE Pension Plan

Net Pension Liability

Total pension liability	\$ 10,329,577
Plan fiduciary net position	<u>(9,277,468)</u>
Net pension liability	<u>\$ 1,052,109</u>

Plan fiduciary net position as a percentage of total pension liability 89.81%

Town of Windham, Connecticut

Notes to Financial Statements

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

Police Pension Plan

Net Pension Liability

Total pension liability	\$ 22,811,961
Plan fiduciary net position	<u>(21,106,079)</u>
Net pension liability	<u><u>\$ 1,705,882</u></u>

Plan fiduciary net position as a percentage of total pension liability 92.52%

Fire Pension Plan

Net Pension Liability

Total pension liability	\$ 14,284,631
Plan fiduciary net position	<u>(12,231,985)</u>
Net pension liability	<u><u>\$ 2,052,646</u></u>

Plan fiduciary net position as a percentage of total pension liability 85.63%

Rate of return: For the year ended June 30, 2017, 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	5.18%	6.49%	13.66%	6.21%

Actuarial assumptions: The total pension liability was determined by actuarial valuations as of July 1, 2015 for Fire, Police, and BOE and January 1, 2016 for Municipal, calculated based on the discount rate and actuarial assumptions below, and then was projected forward to the measurement date June 30, 2017. There have been no significant changes between the valuation date and the fiscal year-end.

	Police	Fire	Municipal	BOE
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Investment rate of return	7.0%	7.0%	7.5%	6.50%
Projected salary increases	4.5% compounded annually	4.5% compounded annually	3.0%	3.0%
Inflation rate	2.75%	2.75%	2.75%	2.75%
Measurement date	06/30/2017	06/30/2017	06/30/2017	06/30/2017

Mortality rates were based on the RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2015.

Town of Windham, Connecticut

Notes to Financial Statements

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

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, 2017, and the final investment return assumption, are summarized in the following table:

Asset Class	Police	Fire	Municipal	BOE
	Long-Term Expected	Long-Term Expected	Long-Term Expected	Long-Term Expected
	Real Return - Portfolio	Real Return - Portfolio	Real Return - Portfolio	Real Return - Portfolio
Cash		-		
Core fixed income	-	-	1.70	2.66
Large cap core equities	5.70	5.70	5.70	4.86
Mid cap core equities	6.20	6.20	-	5.41
Small cap core equities	6.70	6.70	6.70	6.11
International equity	5.50	5.50	5.50	5.88
Emerging markets equities	6.50	6.50	-	-
Intermediate duration investment grade taxable	1.70	1.70	-	-
Short duration investment grade taxable fixed	0.60	0.60	-	-
Inflation	2.75	2.75	2.75	2.75
Long-term nominal rate	6.97	6.97	6.10	6.51

Discount rate: The discount rate used to measure the total pension liability is listed below. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the Town will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	Police	Fire	Municipal	BOE
Discount rate	7.00%	7.00%	7.50%	6.50%

Town of Windham, Connecticut

Notes to Financial Statements

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

Sensitivity of the net pension liability to changes in the discount rate:

Net Pension Liability (Asset)	1% decrease	Current Discount Rate	1% increase
Police	\$ 3,675,015	\$ 1,705,882	\$ 97,724
Fire	3,348,765	2,052,646	890,501
Municipal	3,739,319	1,867,005	62,146
BOE	2,293,307	1,052,109	(695)

Changes in the Net Pension Liability

	Municipal Employees Pension Plan		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/16	\$ 15,550,740	\$ 13,613,657	\$ 1,937,083
Changes for the year:			
Service cost	434,840	-	434,840
Interest	1,186,369	-	1,186,369
Contributions - employer	-	560,000	(560,000)
Contributions - member	-	86,153	(86,153)
Administrative expense	-	(38,400)	(38,400)
Net investment income	-	1,752,197	(1,752,197)
Differences between expected and actual experience	668,663		
Benefit payments, including refunds of employee contributions	(340,816)	(340,816)	-
Net changes	1,949,056	2,019,134	(70,078)
Balances at 6/30/17	\$ 17,499,796	\$ 15,632,791	\$ 1,867,005

Town of Windham, Connecticut

Notes to Financial Statements

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

Changes in the Net Pension Liability

	BOE Pension Plan		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/16	\$ 9,762,054	\$ 8,810,672	\$ 951,382
Changes for the year:			
Service cost	278,939	-	278,939
Interest	637,854	-	637,854
Effect of economic/demographic gains or losses	113,754	-	113,754
Effect of assumptions changes or inputs	-	-	-
Contributions - employer	-	465,555	(465,555)
Net investment income	-	536,867	(536,867)
Benefit payments, including refunds of employee contributions	(463,024)	(463,024)	-
Administrative expense	-	(72,602)	72,602
Net changes	567,523	466,796	100,727
Balances at 6/30/17	\$ 10,329,577	\$ 9,277,468	\$ 1,052,109

Changes in the Net Pension Liability

	Police Pension Plan		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/16	\$ 21,507,530	\$ 19,578,202	\$ 1,929,328
Changes for the year:			
Service cost	841,694	-	841,694
Interest	1,527,799	-	1,527,799
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	1,009,811	(1,009,811)
Contributions - member	-	244,526	(244,526)
Net investment income	-	1,338,602	(1,338,602)
Benefit payments, including refunds of employee contributions	(1,065,062)	(1,065,062)	-
Net changes	1,304,431	1,527,877	(223,446)
Balances at 6/30/17	\$ 22,811,961	\$ 21,106,079	\$ 1,705,882

Town of Windham, Connecticut

Notes to Financial Statements

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

Changes in the Net Pension Liability

	Fire Pension Plan		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at 6/30/16	\$ 13,601,571	\$ 11,401,374	\$ 2,200,197
Changes for the year:			
Service cost	453,225	-	453,225
Interest	958,755	-	958,755
Contributions - employer	-	677,857	(677,857)
Contributions - member	-	158,040	(158,040)
Net investment income	-	723,634	(723,634)
Benefit payments, including refunds of employee contributions	(728,920)	(728,920)	-
Net changes	683,060	830,611	(147,551)
Balances at 6/30/17	\$ 14,284,631	\$ 12,231,985	\$ 2,052,646

For the year ended June 30, 2017, the Town recognized pension expense of \$534,377. As of June 30, 2017, the Town's reported deferred outflows of resources and deferred inflows of resources related to pensions in the statement of net position from the following sources:

	Municipal Employees Pension Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		\$ 713,059	\$ -
Net difference between projected and actual earnings on pension plan investments		34,443	-
Total		\$ 747,502	\$ -

Town of Windham, Connecticut

Notes to Financial Statements

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

For the year ended June 30, 2017, the Town recognized pension expense of \$691,452. As of June 30, 2017, the Town's reported deferred outflows of resources and deferred inflows of resources related to pensions in the statement of net position from the following sources:

BOE Pension Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 182,787	\$ (10,624)
Changes of assumptions	-	(134,119)
Net difference between projected and actual earnings on pension plan investments	290,131	-
Total	<u>\$ 472,918</u>	<u>\$ (144,743)</u>

For the year ended June 30, 2017, the Town recognized pension expense of \$928,900. As of June 30, 2017, the Town's reported deferred outflows of resources and deferred inflows of resources related to pensions in the statement of net position from the following sources:

Police Pension Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (421,559)
Changes of assumptions	568,816	
Net difference between projected and actual earnings on pension plan investments	-	(644,040)
Total	<u>\$ 568,816</u>	<u>\$ (1,065,599)</u>

For the year ended June 30, 2017, the Town recognized pension expense of \$440,018. As of June 30, 2017, the Town's reported deferred outflows of resources and deferred inflows of resources related to pensions in the statement of net position from the following sources:

Fire Pension Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (675,320)
Changes of assumptions	447,449	
Net difference between projected and actual earnings on pension plan investments	-	(610,320)
Total	<u>\$ 447,449</u>	<u>\$ (1,285,640)</u>

Aggregate Pension Information:

	Net Pension Liability	Pension Expense	Deferred Outflows of Resources	Deferred Inflows of Resources
Municipal Plan	\$ 1,867,005	\$ 534,377	\$ 747,502	\$ -
BOE Plan	1,052,109	691,452	472,918	144,743
Police Plan	1,705,882	928,900	568,816	1,065,599
Fire Plan	2,052,646	440,018	447,449	1,285,640
	<u>\$ 6,677,642</u>	<u>\$ 2,594,747</u>	<u>\$ 2,236,685</u>	<u>\$ 2,495,982</u>

Town of Windham, Connecticut

Notes to Financial Statements

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

Amounts reported in deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Municipal Employees Pension Plan</u>
2018	\$ 125,548
2019	231,511
2020	174,549
2021	4,427
2022	107,872
Thereafter	103,595
	<u>\$ 747,502</u>

<u>Year Ended June 30,</u>	<u>BOE Pension Plan</u>
2018	\$ 115,184
2019	123,875
2020	79,519
2021	9,597
	<u>\$ 328,175</u>

<u>Year Ended June 30,</u>	<u>Police Pension Plan</u>
2018	\$ (47,741)
2019	(47,742)
2020	(288,433)
2021	23,039
2022	(171,603)
Thereafter	35,697
	<u>\$ (496,783)</u>

<u>Year Ended June 30,</u>	<u>Fire Pension Plan</u>
2018	\$ (160,867)
2019	(160,769)
2020	(295,756)
2021	(30,454)
2022	(166,729)
Thereafter	(23,616)
	<u>\$ (838,191)</u>

Town of Windham, Connecticut

Notes to Financial Statements

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

Connecticut State Teachers' Retirement System:

All certified personnel participate in the State of Connecticut Teachers' Retirement System under Section 10.183 of the General Statutes of the State of Connecticut. These employees are eligible to receive a normal retirement benefit if he or she has: 1) attained age 60 and has accumulated 20 years of credited service in the public schools of Connecticut, or 2) attained any age and has accumulated 35 years of credited service, at least 25 years of which are served in the public schools of Connecticut.

Description of system: Eligible employees within the City's school system participate in a retirement system administered by the Connecticut State Teachers' Retirement Board. This Connecticut State Teachers' Retirement System (the System) is a cost sharing multiple employer defined benefit pension system with a special funding situation. As such, the City does not have a liability.

The System is considered a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained at www.ct.gov.

The System is administered under the provisions of Chapter 167a of the Connecticut General Statutes (CGS). Participation in the System is restricted to certified staff employed in the public schools of Connecticut and members of the professional staff of the State Department of Education or the board of Governors of Higher Education and their constituent units. Participation in the System is mandatory for certified personnel of local boards of education who are employed for an average of at least one-half of a school day. Members of the professional staff of the State Department of Education or the Board of Governors of Higher Education and their constituent units may elect to participate in this system, the State Employees' Retirement System, or the Alternate Retirement System (TIAA-CREF).

Summary of significant accounting policies: For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources, and expense associated with the State's requirement to contribute to the System, information about System's fiduciary net position and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Benefits provided: The benefits provided to participants by the System are as follows:

Normal benefit: A member at age 60 with 20 years of Credited Service in Connecticut, or 35 years of Credited Service including at least 25 years of service in Connecticut is eligible for vested benefits of 2 percent of average annual salary times years of credited service (maximum benefit is 75 percent of average annual salary.)

Prorated benefit: A member who completes 10 years of Connecticut public school service is eligible for a vested benefit commencing at age 60. The benefit is 2 percent less 0.1 percent for each year less than 20 years of average annual salary times years of credited service.

Minimum benefit: Effective January 1, 1999, Public Act 98-251 provides a minimum monthly retirement benefit of \$1,200 to teachers who retire under the Normal Benefit provisions and who have completed at least 25 years of full time Connecticut service at retirement.

Town of Windham, Connecticut

Notes to Financial Statements

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

Contribution requirements: The pension contributions made by the State to the System are determined on an actuarial reserve basis as described in CGS Sections 10-1831 and 10-183z. Employees are required to contribute 6.0 percent of their annual salary rate to the System as required by CGS Section 10-183b (7).

Employers are not required to make contributions to the Plan.

Actuarial assumptions: The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015. The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following key actuarial assumptions:

Inflation	2.75 Percent
Salary increases, including inflation	3.25-6.50 Percent
Long-term investment rate of return, net of pension investment expense, including inflation	8.00 Percent

Mortality rates were based on the RPH-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale, and further adjusted to grade in increases (5% for females and 8% for males) to rates over age 80 for the period after the service retirement and for dependent beneficiaries as well as for active members. The RPH-2014 Disabled Mortality Table projected to 2017 with Scale BB is used for the period after disability retirement.

The long-term expected rate of return on pension investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Expected Rate of Return
Large cap U.S. equities	21.00%	5.80%
Developed non-U.S. equities	18.00%	6.60%
Emerging markets (Non-U.S.)	9.00%	8.30%
Real estate	7.00%	5.10%
Private Equity	11.00%	7.60%
Alternative investments	8.00%	4.10%
Core Fixed Income	7.00%	1.30%
High Yield Bonds	5.00%	3.90%
Emerging markets bonds	5.00%	3.70%
Inflation Linked Bond Fund	3.00%	1.00%
Cash	6.00%	0.40%
	100.00%	

Town of Windham, Connecticut

Notes to Financial Statements

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

Discount rate: The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that State contributions will be made at the actuarially determined rates in future years. Based on those assumptions, the pension's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability (NPL) to changes in the discount rate: The following presents the State's proportionate share of the net pension liability (NPL) associated with the Town, calculated using the discount rate of 8.0 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.0 percent) than the current rate. The Town has not accrued any of the liability as the responsibility for the liability is with the State.

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
State's portion of the NPL associated with the Town	\$ 101,560,648	\$ 82,320,688	\$ 66,056,328

Pension liabilities, pension expense, and deferred inflows/outflows of resources: The State makes all contributions to the System on behalf of employees of the participating districts. Therefore, participating employers are considered to be in a special funding situation as defined by Governmental Accounting Standards Board No. 68 and the State is treated as a non-employer contributing entity in the System. Since the districts do not contribute directly to the System, there is no net pension liability or deferred inflows or outflows to report in the financial statements of the City. The portion of the State net pension liability that was associated with the Town was \$82,320,688 and 100 percent of the collective net pension liability is allocated to the State. The Town has no proportionate share of the liability.

June 30, 2016 is the actuarial valuation date upon which the total pension liability is based, which is also the measurement date. For the 2016 valuation, rates of withdrawal, disability, retirement, mortality and assumed rates of salary increases were adjusted to reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five-year period ended June 30, 2015.

The Town recognized the total pension expense associated with the Town as well as revenue in an amount equal to the non-employer contributing entities' total proportionate share of the collective pension expense associated with the Town. For the fiscal year ended June 30, 2017, the Town recognized \$8,977,367 as the amount expended by the State on behalf of the Town to meet the State's funding requirements in the Statement of Activities.

Other information: Additional information is included in the required supplementary section of the financial statements.

Town of Windham, Connecticut

Notes to Financial Statements

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.

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	\$ 1,276,600
Interest on net OPEB obligation	475,580
Adjustment to annual required contribution	<u>(661,262)</u>
Annual OPEB cost	1,090,918
Contributions made	<u>(298,434)</u>
Increase in net OPEB obligation	1,389,352
Net OPEB obligation, beginning of year	<u>11,889,489</u>
Net OPEB obligation, end of year	<u><u>\$ 13,278,841</u></u>

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, 2017	\$ 1,090,918	-27%	\$ 13,278,841
June 30, 2016	1,084,955	3%	11,889,489
June 30, 2015	1,371,630	4%	10,836,936

Funded status and funding progress: The funded status of the plan as of July 1, 2014, (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, 2016	2017	\$ -	\$ 14,667,655	\$ (14,667,655)	0%	\$ 33,887,100	-43%

Town of Windham, Connecticut

Notes to Financial Statements

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

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, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Remaining amortization period in years	30 Years – Open
Investment return	N/A
Actuarial assumptions (includes inflation rate):	
Inflation rate	4.00%
Healthcare cost trend rate	7.75 % initial; 4.75% final

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.

Settled claims have not exceeded commercial coverage nor has coverage been materially reduced in any of the last three years.

The Town is self-insured for worker's compensation claims. The Town recognizes a liability for worker's compensation claims payable and for claims incurred but not reported based on actuarial analysis of claim history and for other self-insured claims which are probable of loss based on a case-by-case review. The Town also purchases stop-loss coverage of \$500,000 per claim.

Town of Windham, Connecticut

Notes to Financial Statements

Note 10. Risk Management (Continued)

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 (\$10,500,000) 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 health and workers' compensation risks for the years ended June 30, 2017 and 2016 are as follows:

Year Ended June 30,	Claims Payable, Beginning of Year	Claims and Changes in Estimates	Claims Paid	Claims Payable, End of Year
2016	\$ 1,986,710	\$ 10,874,754	\$ 11,395,593	\$ 1,465,871
2017	1,465,871	11,310,189	11,106,446	1,669,614

The Town establishes claims liabilities based on estimates of claims that have been incurred but not reported at June 30, 2017. 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.

Town of Windham, Connecticut

Notes to Financial Statements

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 financial statements of the Town.

Note 13. Fund Balances (Deficits)

Below is a table of fund balance categories and classifications at June 30, 2017, for the Town's governmental funds:

	General Fund	Educational Grants Fund	Capital Improvements Fund	Nonmajor Governmental Funds
Fund balances (deficits)				
Nonspendable:				
Inventory	\$ 144,801	\$ -	\$ -	\$ 21,123
Permanent fund principal	-	-	-	298,896
Total nonspendable	<u>144,801</u>	<u>-</u>		<u>320,019</u>
Restricted:				
Education	-	-	-	1,086,747
Debt service	792,170	-	-	-
Civic and cultural - cemetery	-	-	-	81,696
Civic and cultural - recreation programs	-	-	-	129,758
Civic and cultural - library	-	-	-	29,827
Public safety	-	-	-	243,050
Community rehabilitation program	-	-	-	143,632
Capital outlay	-	-	-	33,162
Total restricted	<u>792,170</u>	<u>-</u>	<u>-</u>	<u>1,747,872</u>
Committed:				
Capital outlay	-	-	-	202,185
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>202,185</u>
Unassigned (deficit)	<u>8,544,056</u>	<u>-</u>	<u>(13,067,355)</u>	<u>(262,651)</u>
Total fund balance (deficit)	<u>\$ 9,481,027</u>	<u>\$ -</u>	<u>\$ (13,067,355)</u>	<u>\$ 2,007,425</u>

Town of Windham, Connecticut

Notes to Financial Statements

Note 14. Bond Anticipation Notes and Subsequent Events

Bond anticipation notes: The Town has \$9,750,000 of bond anticipation notes as of June 30, 2017. The bond anticipation notes had an interest rate of 1.25% and matured on October 12, 2017.

Subsequent Events: On October 12, 2017 and April 12, 2018, the Town issued a \$14,500,000 and \$15,500,000 bond anticipation note with an interest rate of 2.25% and 2.75%, maturing on April 12, 2018 and October 12, 2018, respectfully.

Note 15. Deficit Fund Equity

Major funds:

Capital improvement fund	<u>\$ 13,067,355</u>
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Nonmajor funds:

Public safety donation fund	\$ 37,371
Town capital improvements fund	18,467
Drug-free communities year fund	101,933
LoCIP	<u>78,884</u>
	<u>\$ 236,655</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 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, except for GASB 75, which will most likely have a material impact, though the amount has not yet been determined:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 carries forward from Statement 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

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

- GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.
- *GASB Statement No. 85, Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.
- GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

**Required Supplementary
Information—*unaudited***

Town of Windham, Connecticut

**Required Supplementary Information-Unaudited
Schedule of Employer Contributions and Funding Progress - OPEB
Last Nine Fiscal Years**

Schedule of Employer Contributions

	Annual Required Contributions	Actual Contributions	Percentage Contributed
2017	\$ 1,276,600	\$ (298,434)	-23%
2016	1,254,200	32,402	3%
2015	1,518,700	(48,202)	-3%
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%

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)
July 1, 2016	2017	\$ -	\$ 14,667,655	\$ (14,667,655)	0%	\$ 33,887,100	(43%)
July 1, 2014	2015	-	12,259,100	(12,259,100)	0%	33,020,300	(37%)
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
 Last Ten Fiscal Years

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					
2017	\$ 677,857	\$ 677,857	\$ -	\$ 2,009,650	34%
2016	714,062	-	714,062	1,923,110	0%
2015	680,426	450,000	-	1,884,070	24%
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%
Police PERS					
2017	\$ 1,009,811	\$ 1,009,811	\$ -	\$ 2,952,695	34%
2016	790,769	-	790,769	2,825,545	0%
2015	753,269	753,269	-	2,764,927	27%
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	676,445	10	2,138,454	32%
Municipal PERS					
2017	\$ 637,407	\$ 637,407	\$ -	\$ 5,926,104	11%
2016	518,719	518,719	-	5,753,499	9%
2015	518,719	518,719	-	5,729,056	9%
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%
Board of Education PERS					
2017	\$ 465,555	\$ 465,555	\$ -	\$ 463,024	101%
2016	411,800	411,800	-	3,797,635	11%
2015	406,309	406,309	-	3,797,294	11%
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%

Town of Windham, Connecticut

**Required Supplementary Information - Unaudited
Schedule of Changes in the Town's Net Pension Liability and Related Ratios and Schedule of
Investment Returns
Last Four Fiscal Years**

	2017	2016	2015	2014
	Municipal Employees Pension Plan	Municipal Employees Pension Plan	Municipal Employees Pension Plan	Municipal Employees Pension Plan
Changes in Net Pension Liability (000's)				
Total pension liability:				
Service cost	\$ 434,840	\$ 369,204	\$ 339,526	\$ 328,517
Interest on total pension liability	1,186,369	1,046,867	951,896	863,773
Plan participants' contributions	-	83,448	82,157	79,178
Effect of economic/demographic gains or (losses)	668,663	247,009	135,707	137,143
Benefit payments	(340,816)	(283,451)	(234,991)	(204,272)
Net change in total pension liability	1,949,056	1,463,077	1,274,295	1,204,339
Total pension liability, beginning	15,550,740	14,087,663	12,813,368	11,609,029
Total pension liability, ending (a)	17,499,796	15,550,740	14,087,663	12,813,368
Fiduciary net position:				
Employer contributions	560,000	518,719	496,485	629,646
Member contributions	86,153	83,448	82,157	79,178
Investment income net of investment expenses	1,713,797	148,346	638,156	1,323,945
Benefit payments	(340,816)	(283,451)	(234,991)	(204,272)
Net change in plan fiduciary net position	2,019,134	467,062	981,807	1,828,497
Fiduciary net position, beginning	13,613,657	13,146,595	12,164,788	10,336,291
Fiduciary net position, ending (b)	15,632,791	13,613,657	13,146,595	12,164,788
Net pension liability, ending = (a) - (b)	\$ 1,867,005	\$ 1,937,083	\$ 941,068	\$ 648,580
Fiduciary net position as a % of total pension liability	89.33%	87.54%	93.32%	94.94%
Covered payroll	\$ 5,926,104	\$ 5,753,499	\$ 5,729,056	\$ 5,310,533
Net pension liability as a % of covered payroll	31.50%	33.67%	16.43%	12.21%
	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	13.66%	1.11%	5.18%	12.52%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Town will present information for those years for which information is available.

Town of Windham, Connecticut

**Required Supplementary Information - Unaudited
Schedule of Changes in the Board of Education's Net Pension Liability and Related Ratios and
Schedule of Investment Returns
Last Four Fiscal Years**

	2017	2016	2015	2014
	BOE	BOE	BOE	BOE
Changes in Net Pension Liability (000's)	Pension Plan	Pension Plan	Pension Plan	Pension Plan
Total pension liability:				
Service cost	\$ 278,939	\$ 260,773	\$ 248,566	\$ 250,042
Interest on total pension liability	637,854	608,513	563,878	539,091
Effect of economic/demographic gains or (losses)	113,754	194,946	(39,598)	-
Effect of assumption changes or inputs	-	(268,239)	-	-
Benefit payments	(463,024)	(409,942)	(380,356)	(356,651)
Net change in total pension liability	567,523	386,051	392,490	432,482
Total pension liability, beginning	9,762,054	9,376,003	8,983,513	8,551,031
Total pension liability, ending (a)	10,329,577	9,762,054	9,376,003	8,983,513
Fiduciary net position:				
Employer contributions	465,555	411,800	406,309	367,393
Expected net investment income	-	-	-	-
Investment income net of investment expenses	1,089,947	(222,083)	205,472	449,023
Benefit payments	(463,024)	(409,942)	(380,356)	(356,651)
Administrative expenses	(72,602)	(73,255)	(91,584)	(80,084)
Net change in plan fiduciary net position	1,019,876	(293,480)	139,841	379,681
Fiduciary net position, beginning	8,257,592	8,551,072	8,411,231	8,031,550
Fiduciary net position, ending (b)	9,277,468	8,257,592	8,551,072	8,411,231
Net pension liability, ending = (a) - (b)	\$ 1,052,109	\$ 1,504,462	\$ 824,931	\$ 572,282
Fiduciary net position as a % of total pension liability	89.81%	84.59%	91.20%	93.63%
Covered payroll	\$ 4,119,506	\$ 3,797,635	\$ 3,797,294	\$ 3,776,596
Net pension liability as a % of covered payroll	25.54%	39.62%	21.72%	15.15%
	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	6.21%	3.96%	2.48%	5.67%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Town will present information for those years for which information is available.

Town of Windham, Connecticut

**Required Supplementary Information - Unaudited
Schedule of Changes in the Police Net Pension Liability and Related Ratios and Schedule of
Investment Returns
Last Four Fiscal Years**

	2017	2016	2015	2014
Changes in Net Pension Liability (000's)	Police Pension Plan	Police Pension Plan	Police Pension Plan	Police Pension Plan
Total pension liability:				
Service cost	\$ 841,694	\$ 623,532	\$ 599,536	\$ 570,987
Interest on total pension liability	1,527,799	1,385,907	1,307,830	1,228,112
Changes of benefit terms	-	1,955,797	-	-
Differences between expected and actual experience	-	(549,303)	-	-
Changes of assumptions	-	741,184	-	-
Benefit payments	(1,065,062)	(991,702)	(792,553)	(737,935)
Net change in total pension liability	1,304,431	3,165,415	1,114,813	1,061,164
Total pension liability, beginning	21,507,530	18,342,115	17,227,302	16,166,138
Total pension liability, ending (a)	22,811,961	21,507,530	18,342,115	17,227,302
Fiduciary net position:				
Employer contributions	1,009,811	-	753,269	816,486
Member contributions	244,526	233,545	214,434	202,966
Investment income net of investment expenses	1,338,602	2,841,554	94,856	2,457,309
Benefit payments	(1,065,062)	(991,702)	(737,129)	(737,935)
Net change in plan fiduciary net position	1,527,877	2,083,397	325,430	2,738,826
Fiduciary net position, beginning	19,578,202	17,494,805	17,169,375	14,485,973
Fiduciary net position, ending (b)	21,106,079	19,578,202	17,494,805	17,224,799
Net pension liability, ending = (a) - (b)	\$ 1,705,882	\$ 1,929,328	\$ 847,310	\$ 2,503
Fiduciary net position as a % of total pension liability	92.52%	91.03%	95.38%	99.99%
Covered payroll	\$ 2,952,695	\$ 2,825,545	\$ 2,764,927	\$ 2,633,264
Net pension liability as a % of covered payroll	57.77%	68.28%	30.64%	0.10%
	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	5.18%	16.57%	0.01%	17.24%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Town will present information for those years for which information is available.

Town of Windham, Connecticut

**Required Supplementary Information - Unaudited
Schedule of Changes in the Fire Net Pension Liability and Related Ratios and Schedule of
Investment Returns
Last Four Fiscal Years**

	2017	2016	2015	2014
	Fire Pension Plan	Fire Pension Plan	Fire Pension Plan	Fire Pension Plan
Changes in Net Pension Liability (000's)				
Total pension liability:				
Service cost	\$ 453,225	\$ 430,295	\$ 413,736	\$ 394,034
Interest on total pension liability	958,755	979,024	932,057	884,978
Differences between expected and actual experience	-	262,662	-	-
Changes of assumptions	-	610,157	-	-
Change of benefit terms	-	(920,890)	-	-
Benefit payments	(728,920)	(752,483)	(720,330)	(623,426)
Net change in total pension liability	683,060	608,765	625,463	655,586
Total pension liability, beginning	13,601,571	12,992,806	12,367,343	11,711,757
Total pension liability, ending (a)	14,284,631	13,601,571	12,992,806	12,367,343
Fiduciary net position:				
Employer contributions	677,857	-	450,000	551,973
Member contributions	158,040	155,129	143,628	139,703
Investment income net of investment expenses	723,634	2,050,630	70,695	1,470,873
Benefit payments	(728,920)	(752,483)	(720,330)	(623,426)
Net change in plan fiduciary net position	830,611	1,453,276	(56,007)	1,539,123
Fiduciary net position, beginning	11,401,374	9,948,098	10,004,105	8,464,982
Fiduciary net position, ending (b)	12,231,985	11,401,374	9,948,098	10,004,105
Net pension liability, ending = (a) - (b)	\$ 2,052,646	\$ 2,200,197	\$ 3,044,708	\$ 2,363,238
Fiduciary net position as a % of total pension liability	85.63%	83.82%	76.57%	80.89%
Covered payroll	\$ 2,009,650	\$ 1,923,110	\$ 1,884,070	\$ 1,794,352
Net pension liability as a % of covered payroll	102.14%	114.41%	161.60%	131.70%
	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	6.49%	21.20%	0.01%	17.83%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Town will present information for those years for which information is available.

Town of Windham, Connecticut

**Schedule of the Town's Proportionate Share of the Net Pension Liability - Teachers'
Retirement System
Required Supplementary Information - unaudited
Last Three Fiscal Years**

Measurement Date, June 30	2017	2016	2015
Town's proportion of the net pension liability	0.00%	0.00%	0.00%
Town's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the Town	<u>\$ 82,320,688</u>	<u>\$ 62,227,331</u>	<u>\$ 57,516,697</u>
Total	<u>\$ 82,320,688</u>	<u>\$ 62,227,331</u>	<u>\$ 57,516,697</u>
Town's covered-employee payroll	<u>\$ 24,730,000</u>	<u>\$ 23,600,000</u>	<u>\$ 21,841,000</u>
Town's proportionate share of the net pension liability as a percentage of its covered payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
System fiduciary net position as a percentage of the total pension liability	<u>52.26%</u>	<u>59.50%</u>	<u>61.51%</u>

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Town will present information for those years for which information is available.

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, 2017**

	Total			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes, liens and interest	\$ 36,438,781	\$ 36,438,781	\$ 36,376,109	\$ (62,672)
Intergovernmental	31,880,531	31,880,531	31,562,533	(317,998)
Licenses and permits	364,900	364,900	302,462	(62,438)
Fines, forfeitures, and penalties	97,000	97,000	152,414	55,414
Charges for services	2,218,500	2,218,500	1,988,786	(229,714)
Investment income	70,000	70,000	9,080	(60,920)
Other	481,500	481,500	152,783	(328,717)
Total revenues	71,551,212	71,551,212	70,544,167	(1,007,045)
Expenditures:				
Current:				
General government	2,265,915	2,401,118	2,397,954	3,164
Public safety	1,653,012	1,653,012	1,610,259	42,753
Public works	3,666,607	3,692,803	3,689,918	2,885
Human services	693,242	700,812	686,654	14,158
Civic and cultural	978,170	987,610	963,321	24,289
Planning and development	395,925	395,925	367,312	28,613
Benefits and other	3,627,422	3,945,302	3,855,602	89,700
Police	6,680,742	6,686,162	6,636,841	49,321
Fire	3,081,048	3,081,048	3,052,434	28,614
Education	45,951,524	45,951,524	45,951,524	-
Debt service:	3,140,604	2,713,804	2,177,172	536,632
Contingency	190,000	115,091	25,000	90,091
Total expenditures	72,324,211	72,324,211	71,413,991	910,220
Excess (deficit) of revenues over (under) expenditures	(772,999)	(772,999)	(869,824)	(96,825)
Other financing sources (uses):				
Transfers in	355,000	355,000	346,425	(8,575)
Transfers out	(334,000)	(334,000)	(315,566)	18,434
Total other financing sources (uses)	21,000	21,000	30,859	9,859
Revenues and other financing sources over (under) expenditures and other financing uses	\$ (751,999)	\$ (751,999)	\$ (838,965)	\$ (86,966)

See note to required supplementary information.

Town of Windham, Connecticut

Note to Required Supplementary Information - Unaudited

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 WTD. 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 WTD.
- 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, 2017, 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

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, 2017:

	<u>Revenues and Transfers</u>	<u>Expenditures and Transfers</u>
Budgetary basis	\$ 70,890,592	\$ 71,729,557
"On-behalf" payments - state teachers retirement fund	8,977,367	8,977,367
Reclassified to general fund due to GASB No. 54	88,438	88,439
Transfers eliminated due to GASB No. 54	(151,566)	(151,566)
Other	-	16,371
GAAP basis	<u>\$ 79,804,831</u>	<u>\$ 80,660,168</u>