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SECURITIES AND EXCHANGE COMMISSION  
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ANNUAL AUDITED REPORT

~~FORM X-17A-5~~

PART III

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8-46646

Washington, DC

FACING PAGE

110  
Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING JAN 1, 2008 AND ENDING Dec 31, 2008  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: WINDHAM FINANCIAL SERVICES, INC.

OFFICIAL USE ONLY  
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

3078 HAWKINS RD

(No. and Street)

FERRISBURGH

(City)

VERMONT

(State)

05456

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

PAUL D. MENDEL SOHN

802-877-6589

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

LOVE, CODY & COMPANY

(Name - if individual, state last, first, middle name)

115 ELM STREET

(Address)

BENNINGTON

(City)

VT

(State)

05201

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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SEC 1410 (06-02)

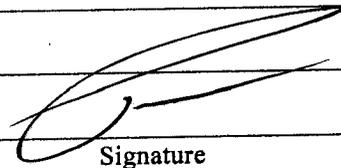
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OATH OR AFFIRMATION

I, PAUL D. MENDELSON, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of WINDHAM FINANCIAL SERVICES, INC., as of December 31, 2008, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

NONE



Signature

President

Title

Paul P. Gonsior

Notary Public

EXPIRES 2-10-2011

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\* For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**WINDHAM FINANCIAL SERVICES, INC.**

**Financial Statements and Schedules**

**December 31, 2008 and 2007**

**(With Independent Auditors' Report Thereon)**

**Love, Cody & Company, CPAs**

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**WINDHAM FINANCIAL SERVICES, INC.**  
**Statements of Financial Condition**

	<i>December 31,</i>	
	2008	2007
<b>Assets</b>		
Cash	\$ 183,747	197,903
Commissions and management fees receivable	164,752	73,145
Prepaid expenses	8,081	8,760
<b>Total current assets</b>	<b>356,580</b>	<b>279,808</b>
Furniture and equipment, net	2,532	5,246
<b>Total assets</b>	<b>\$ 359,112</b>	<b>285,054</b>
<b>Liabilities and Stockholder's Equity</b>		
Accounts payable	\$ 33,552	11,774
Accrued expenses	5,187	8,306
<b>Total current liabilities</b>	<b>38,739</b>	<b>20,080</b>
<b>Stockholder's Equity:</b>		
Common stock, no par value: 1,000 shares authorized; 100 shares issued and outstanding	100	100
Additional paid-in capital	124,040	124,040
Retained earnings	196,233	140,834
<b>Total stockholder's equity</b>	<b>320,373</b>	<b>264,974</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 359,112</b>	<b>285,054</b>

See accompanying notes to financial statements.

**WINDHAM FINANCIAL SERVICES, INC.**  
**Statements of Income**

	<i>Year Ended December 31,</i>	
	<b>2008</b>	<b>2007</b>
<b><i>Revenues:</i></b>		
Commissions	\$ 397,873	450,181
Interest earned	4,608	6,926
Management fees	195,685	148,483
Net gain (loss) on investments	1,980	(267)
	<b>600,146</b>	<b>605,323</b>
<b><i>Expenses:</i></b>		
Commissions and brokerage	160,961	118,803
Depreciation and amortization	2,714	3,362
Employee compensation and benefits	275,132	342,719
Occupancy and equipment rental	17,622	17,350
Other operating expenses	60,818	43,955
	<b>517,247</b>	<b>526,189</b>
<b><i>Net income</i></b>	<b>\$ 82,899</b>	<b>79,134</b>

See accompanying notes to financial statements.

**WINDHAM FINANCIAL SERVICES, INC.**  
**Statements of Changes in Stockholder's Equity**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stock- holder's Equity
	Number of Shares	Amount			
<b><i>Balances January 1, 2007</i></b>	100	100	124,040	90,200	214,340
Net income	-	-	-	79,134	79,134
Distributions to shareholder	-	-	-	(28,500)	(28,500)
<b><i>Balances December 31, 2007</i></b>	100	100	124,040	140,834	264,974
Net income	-	-	-	82,899	82,899
Distributions to shareholder	-	-	-	(27,500)	(27,500)
<b><i>Balances December 31, 2008</i></b>	100	\$ 100	124,040	196,233	320,373

See accompanying notes to financial statements.

**WINDHAM FINANCIAL SERVICES, INC.**  
**Statements of Cash Flows**

	<i>Year Ended December 31,</i>	
	2008	2007
<b><i>Cash flows form operating activities:</i></b>		
Net income	\$ 82,899	79,134
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,714	3,362
(Increase) decrease in operating assets:		
Commissions and management fees receivable	(91,607)	(174)
Prepaid expenses	679	290
Increase (decrease) in operating liabilities:		
Accounts payable	21,778	(8,898)
Accrued liabilities	(3,119)	(140)
Total adjustments	(69,555)	(5,560)
<b><i>Net cash provided by operating activities</i></b>	<b>13,344</b>	<b>73,574</b>
<b><i>Cash flows from investing activities:</i></b>		
Purchases of equipment	-	-
<b><i>Net cash used in investing activities</i></b>	<b>-</b>	<b>-</b>
<b><i>Cash flows from financing activities:</i></b>		
Distributions to shareholder	(27,500)	(28,500)
<b><i>Net cash used in financing activities</i></b>	<b>(27,500)</b>	<b>(28,500)</b>
<b><i>Net increase (decrease) in cash</i></b>	<b>(14,156)</b>	<b>45,074</b>
<b><i>Cash, beginning of year</i></b>	<b>197,903</b>	<b>152,829</b>
<b><i>Cash, end of year</i></b>	<b>\$ 183,747</b>	<b>197,903</b>

See accompanying notes to financial statements.

# WINDHAM FINANCIAL SERVICES, INC.

## Notes to Financial Statements

### **(1) Description of Business Activity and Summary of Significant Accounting Policies**

#### **(a) Business Activity**

Windham Financial Services, Inc. (the "Company") was incorporated on September 21, 1983 for the purpose of developing certain computerized market trading programs and acting as a Commodity Trading Advisor (CTA).

On December 30, 1988, the Company received an order granting registration pursuant to section 203 of the Investment Advisors Act of 1940 from the Securities and Exchange Commission as a Registered Investment Advisor (RIA). In January 1994, as an extension to its advisory services, the Company became a member in the National Association of Securities Dealers (NASD).

The Company is a member of Financial Industry Regulatory Authority (FINRA) (formerly NASD), Securities Investors Protection Corporation (SIPC), and the Municipal Securities Rulemaking Board (MSRB). The Company is also registered with the Securities and Exchange Commission (SEC) as a securities broker dealer. The Company is also registered and licensed with state regulatory agencies in jurisdictions where transactions occur.

The Company provides services to customers throughout the United States.

#### **(b) Customer Accounts**

The Company has registered as a Fully Disclosed Introducing Broker/Dealer that does not receive, directly or indirectly, or hold funds or securities for, or owe funds or securities to customers and does not carry accounts of or for customers. As such, the Company is exempt from the requirements of SEC Customer Protection Rule 15c3-3 and Rule 15c3-2 dealing with customers' notification of free credit balances.

All customer accounts are maintained by an independent clearing broker dealer who is responsible for all customer account record keeping under SEC Rules 15c3-2 and 15c3-3. Customers' securities transactions are recorded on a settlement date basis with related commission income and expenses recorded on a trade date basis. Securities transactions of the Company are recorded on a trade date basis. Investment banking revenue is recorded as income in the period earned.

#### **(c) Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

(continued)

# WINDHAM FINANCIAL SERVICES, INC.

## Notes to Financial Statements

### (1) *Description of Business Activity and Summary of Significant Accounting Policies (continued)*

#### (d) *Cash*

Cash consists of checking and savings accounts with financial institutions as well as investment cash balances maintained with a clearing broker.

#### (e) *Furniture and Equipment*

Furniture and equipment are carried at cost. Depreciation of furniture and equipment is provided on a straight-line basis using estimated lives of five to seven years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals and betterments.

#### (f) *Organization Costs*

Organization costs represent professional and registration fees associated with the commencement of broker-dealer activities by the Company and are being amortized over five years.

#### (g) *Advertising*

The Company expenses advertising costs the first time the advertising takes place.

### (2) *Commissions Receivable*

Commissions receivable consist of commissions earned and due from the clearing broker, investment companies, life insurance companies, variable annuity distributors and clients of separately managed accounts.

### (3) *Furniture and Equipment*

Furniture and equipment consist of the following:

	2008	2007
Furniture and equipment	\$ 38,595	38,595
Less accumulated depreciation and amortization	(36,063)	(33,349)
	\$ 2,532	5,246

### (4) *Income Taxes*

The Company's stockholder has elected S-Corporation status under provisions of the Internal Revenue Code. Income from corporations classified as S-Corporations is generally taxed at the shareholder level and, accordingly, the Company has not accrued any Federal or State income tax liability.

**WINDHAM FINANCIAL SERVICES, INC.**

**Notes to Financial Statements**

**(5) Retirement Plan Contributions**

The Company created a 401(k) plan for its employees in 2003. Retirement plan contributions were \$45,000 and \$50,000 for the year ended December 31, 2008 and 2007, respectively.

**(6) Liabilities Subordinated to Claims of General Creditors**

At December 31, 2008 and 2007 the Company had no liabilities subordinated to claims of general creditors.

**(7) Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2008, the Company had net capital of \$154,227, which was \$149,227 in excess of its required net capital of \$5,000. The Company's net capital ratio was 0.251 to 1.

Net capital reflects an immaterial difference from the amount reported in the Company's unaudited FOCUS report as a result of an audit adjustment to accounts payable.

**WINDHAM FINANCIAL SERVICES, INC.**  
**Computation of Net Capital Under Rule 15c3-1 of the**  
**Securities and Exchange Commission**  
**December 31, 2008**

<b>Net capital:</b>		
<b>Total stockholder's equity</b>		\$ 320,373
<b>Less:</b>		
<b>Non-allowable assets:</b>		
Prepaid expenses	\$ 8,187	
Equipment and leasehold improvements	2,532	
Non-allowable receivables	<u>147,543</u>	(158,262)
<b>Other deductions:</b>		
Excess blanket bond deductible		<u>(5,000)</u>
<b>Net capital</b>		\$ 157,111
15c3-1(f) Haircut (CD-5%)		<u>(2,884)</u>
<b>Adjusted net capital</b>		<u>\$ 154,227</u>
<b>Aggregate indebtedness:</b>		
Current liabilities		<u>\$ 38,739</u>
<b>Required net capital</b>		<u>\$ 5,000</u>
<b>Excess net capital</b>		<u>\$ 149,227</u>
<b>Ratio: Aggregate indebtedness to net capital</b>		<u>0.251 to 1</u>

**WINDHAM FINANCIAL SERVICES, INC.**  
**Computation for Determination of Reserve Requirements**  
**Under Rule 15c3-3 of the Securities and Exchange Commission**  
**December 31, 2008**

The Company is not subject to the requirements of SEC Rule 15c3-3.

**WINDHAM FINANCIAL SERVICES, INC.  
Information Relating to Possession or Control Requirements  
Under Rule 15c3-3 of the Securities and Exchange Commission  
December 31, 2008**

The Company is not subject to the requirements of SEC Rule 15c3-3.



**Independent Auditors' Report on Internal Control Structure  
Required by Securities and Exchange Commission Rule 17a-5**

Board of Directors  
Windham Financial Services, Inc.

In planning and performing our audits of the financial statements and supplemental schedules of Windham Financial Services, Inc. (the Company), as of and for the years ended December 31, 2008 and 2007 in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2008 and 2007, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the New York Stock Exchange and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Love, Cody & Company, CPAs, P.C.*

February 23, 2009

Vt. Reg. #357

Love, Cody & Company, CPAs