

TOWN OF EAST LYME, CONNECTICUT

FINANCIAL REPORT

June 30, 2011

TOWN OF EAST LYME, CONNECTICUT

FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Finance
Town of East Lyme, Connecticut

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 East Lyme, Connecticut (the "Town") as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of East Lyme, Connecticut as of June 30, 2011, and the respective changes in financial position, and the cash flows where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 14 to the basic financial statements, the Town adopted GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," which changed its method of accounting of governmental funds fund balance classification and restated various funds' beginning fund balances.

In accordance with "Government Auditing Standards," we have also issued our report dated December 21, 2011 on our consideration of the Town of East Lyme, Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The management discussion and analysis, the schedules of funding progress and employer contributions for the pension plans and other post-employment benefits and the budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by

accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budgetary detail, combining and individual nonmajor fund statements, capital asset schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary detail, combining and individual nonmajor fund statements, capital asset schedules and other schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

New Haven, Connecticut
December 21, 2011

Town of East Lyme, Connecticut Management's Discussion and Analysis June 30, 2011

The management of the Town of East Lyme, Connecticut offers readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

The assets of the Town exceeded its liabilities at the close of the fiscal year by \$124.3 million (*net assets*).

The Town's total net assets decreased by \$12,528.

As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$13.8 million, an increase of \$1.4 million in comparison with the prior year.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4.1 million or 7.0% of total general fund budgeted expenditures and transfers out of \$59.0 million.

The Town's total bond/note debt decreased by \$380,000 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are 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 basic financial statements themselves. The report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to private-sector business. All of the resources the Town has at its disposal are shown, including major assets such as buildings and infrastructure. A thorough accounting of the cost of government is rendered because the statements present all costs, not just how much was collected and disbursed. They provide both long-term and short-term information about the Town's overall financial status.

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 only result in cash flows in a future fiscal period (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (government 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, health, social services, recreation and education. The business-type activities of the Town include the waste-operating facility.

The government-wide financial statements can be found on pages 13 and 14 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, like other state and local governments, 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 a 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 eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, bonded projects fund and the sewer assessment fund, all of which are considered to be major funds. Data from the other five 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 the report.

Proprietary Funds. The Town maintains two different 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 an enterprise fund to account for its Sewer Department. The internal service fund is an accounting device used to accumulate and allocate certain costs internally among the Town's various functions. The Town uses an internal service fund to account for its medical benefits for its employees. Because this service predominantly benefits governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Department. The Sewer Department is considered a major fund of the Town. Data for the internal service fund is also provided as a separate column in the proprietary fund financial statements.

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

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide benefits to its employees, and General Fund budgetary comparison information.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a Town's financial position and an important determinant of its ability to finance services in the future. The Town's assets exceeded liabilities by \$124.4 million at the close of the fiscal year.

By far the largest portion of the Town's net assets (81.8%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TOWN OF EAST LYME, CONNECTICUT

NET ASSETS

JUNE 30, 2011

	June 30, 2011			June 30, 2010		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 28,967	\$ 543	\$ 29,510	\$ 31,222	\$ 531	\$ 31,753
Capital assets	100,723	48,793	149,516	100,715	49,433	150,148
Total Assets	129,690	49,336	179,026	131,937	49,964	181,901
Other liabilities	9,004	56	9,060	8,789	59	8,848
Long-term liabilities	45,594	-	45,594	48,668	-	48,668
Total Liabilities	54,598	56	54,654	57,457	59	57,516
Net assets:						
Invested in capital assets, net of related debt	52,897	48,792	101,689	51,200	49,433	100,633
Unrestricted	22,195	488	22,683	23,280	472	23,752
Total Net Assets	\$ 75,092	\$ 49,280	\$ 124,372	\$ 74,480	\$ 49,905	\$ 124,385

**TOWN OF EAST LYME, CONNECTICUT
CHANGES IN NET ASSETS
JUNE 30, 2011**

	Year Ended June 30, 2011			Year Ended June 30, 2010		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues:						
Program Revenues:						
Charge for services	\$ 8,496	\$ 1,571	\$ 10,067	\$ 8,494	\$ 1,458	\$ 9,952
Operating grants and contributions	11,491	-	11,491	11,928	-	11,928
Capital grants and contributions	1,085	-	1,085	1,515	-	1,515
General Revenues:						
Property Taxes	46,571	-	46,571	45,652	-	45,652
Grants, contributions not restricted to specific programs	1,476	-	1,476	1,565	-	1,565
Investment income	169	-	169	119	-	119
Recovery of Loss	-	-	-	1,525	-	1,525
Special item	-	-	-	12,506	(12,506)	-
Total Revenues	\$ 69,288	\$ 1,571	\$ 70,859	\$ 83,304	\$ (11,048)	\$ 72,256
Expenses:						
Program Activities						
Primary Government:						
General government	\$ 7,604	\$ -	\$ 7,604	\$ 8,117	-	\$ 8,117
Public safety	3,481	-	3,481	3,118	-	3,118
Public works	5,878	-	5,878	4,387	-	4,387
Health and welfare	252	-	252	230	-	230
Culture and recreation	1,987	-	1,987	1,893	-	1,893
Education	47,745	-	47,745	48,690	-	48,690
Interest expense	1,523	-	1,523	1,992	-	1,992
Business-Type Activities:						
Sewer department	-	2,402	2,402	-	2,301	2,301
Total Expenses	68,470	2,402	70,872	68,427	2,301	70,728
Transfers in (out)	(206)	206	-	(487)	487	-
Change in net assets	612	(625)	(13)	14,390	(12,862)	1,528
Net assets - beginning	74,480	49,905	124,385	60,090	62,767	122,857
Net assets - ending	\$ 75,092	\$ 49,280	\$ 124,372	\$ 74,480	\$ 49,905	\$ 124,385

Governmental Activities

For governmental activities, 67.2% of the revenues were derived from property taxes, followed by 20.3% from intergovernmental revenues.

Major revenue factors included:

- Revenues remained consistent with prior year activities.

For governmental activities, approximately 69.8% of the Town's expenses relate to education, 11.1% relate to general government, 8.6% relate to public works operations, 5.1% to public safety and the remaining 5.4% relate to interest expense, health and welfare, social services, recreation and miscellaneous.

Major expense factors include:

- Expenses were consistent with prior year activities.

Business-Type Activities

Business-type activities (Sewer Department) decreased the Town's net assets by \$.6 million, or 1.3%. This decrease was due primarily to depreciation expense.

Financial Analysis of the Fund Financial Statements

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

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

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4.1 million, while total fund balance reached \$5.4 million. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 7.0% of total general fund budgeted expenditures.

The fund balance for the Town's general fund increased by approximately \$.6 million during the current fiscal year. A key factor in this is as follows:

- An increase in operating results due to more conservative revenue estimates and expenditures coming in below budget.

The Sewer Assessments fund balance decreased \$1.0 million as a result of the transfer out to the general fund of \$2 million for the purpose of debt service.

The Bonded Project Fund decreased \$1.3 million due primarily to the completion of various capital projects.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the Sewer Department at the end of the year were \$49 million, a decrease of \$.625 million over the prior year. Unrestricted net assets for the Sewer Department reflected \$.5 million of total net assets.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was \$.149 million.

During the year, actual revenues, including transfers in, were \$59.7 million, which was less than budgetary estimates by \$1.2 million. Major contributors were:

Although we continue to experience changes in the economy, we proposed the 2010-11 fiscal year budget with more conservative estimates based upon trends of previous years in taxes, local license and permit fees, lower charges for services and interest rates.

- \$1 million less than estimated in State Education Cost Sharing Revenues due to state classification of ARRA funding for education expenditures.
- \$.1 million lower than estimated tax collections due to a continuing slow economy.
- \$.1 million less combined net effect for various local fee estimates.

General Fund Budgetary Highlights

Expenditures

Special appropriations during the year totaled \$148,810 as follows:

- \$18 thousand for Emergency Service NSEP Utility Vehicle Grant
- \$58 thousand for DUI Police overtime grant
- \$6 thousand for Youth Service Grant
- \$59 thousand for Homeland Security Emergency Shelter Generator Grant
- \$2 thousand for America the Beautiful Grant
- \$6 thousand for DEEP State Grant for Zero Turn Mower

Capital Assets and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounted to \$149.5 million (net of accumulated depreciation). This investment in capital assets includes land, building and system improvements, machinery and equipment, park facilities, roads, sewers and bridges. The total net decrease in the Town's investment in capital assets for the current fiscal year was \$.631 million, a decrease of less than 1%.

Major capital asset events during the current fiscal year included the following:

- Various town facility improvements.
- Road reconstruction and improvement projects.
- Implementation of a vehicle acquisition program in accordance with a fleet plan including dump trucks, Police cruisers an automated trash/recycling truck and pick-up trucks.
- Capitalization of the additions to the water and sewer distribution systems.

**TOWN OF EAST LYME, CONNECTICUT
CAPITAL ASSETS, NET OF DEPRECIATION
JUNE 30, 2011 AND 2010**

	June 30, 2011			June 30, 2010		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Land	\$ 8,994	\$ 608	\$ 9,602	\$ 8,994	\$ 608	\$ 9,602
Construction in progress	3,383	15	3,398	3,124	15	3,139
Water and Sewer distribution systems	11,536	44,577	56,113	11,054	45,119	56,173
Building and improvements	65,416	3,533	68,949	66,655	3,624	70,279
Vehicles	4,357	-	4,357	3,788	-	3,788
Machinery and equipment	2,189	60	2,249	1,838	66	1,904
Infrastructure	4,848	-	4,848	5,262	-	5,262
Total	\$ 100,723	\$ 48,793	\$ 149,516	\$ 100,715	\$ 49,432	\$ 150,147

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 has total bonded debt outstanding of \$43.5 million, all of which is backed by the full faith and credit of the Town government.

**TOWN OF EAST LYME, CONNECTICUT
CHANGES IN TOWN DEBT
JUNE 30, 2011 AND 2010**

	June 30, 2011			June 30, 2010		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ 43,528	\$ -	\$ 43,528	\$ 43,908	\$ -	\$ 43,908

The Town's total bonded debt decreased by \$.4 million during the 2011 fiscal year due to the scheduled paydown of debt during the fiscal year. The Town received a Moody's Investors Service rating of Aaa on the most recent bond issue.

Economic Factors and Next Year's Budgets and Rates

The Town's elected and appointed officials considered many factors when setting the fiscal year 2012 budget tax rates, the primary factor being the economy. Unemployment in the Town is at 7.3% and 6.7% for 2010 and 2009. This compares with the State's average unemployment rate of 9.0% and 8.0% and is 1.4% lower than the New London County average rate of 8.7%.

Revenues

The Town did not expect increases in State funding in a number of areas as detailed below and, thus, we were compelled to offset no growth not only with expenditure reductions but with an overall increase in taxes of \$.582 million (as a result of a modest increase in our grand list). Significant revenue issues were as follows:

- Continued flat and declining State grant funding at levels without long-term inflationary growth.
- We adjusted various local fees collected based upon trend analysis in the building, planning and zoning departments and decreased conveyance taxes for the second consecutive year by \$60 thousand due to the sluggish housing market.
- A decrease of \$65 thousand for out-of-district tuition due to a decline in the number of students enrolled.
- An increase of tipping, recycling and landfill receipts of \$60 thousand because of an analysis of the prior year activity.
- An increase in appropriation of fund balance of \$453 thousand as management opted to use fund balance with the goal of maintaining the prior year mill rate. The impact of this measure resulted in a mill rate decrease.
- A decrease in investment earnings of \$23 thousand due to continuing decline in interest rates.
- A decrease of \$85 thousand, operating transfer-in from Sewer Assessment Fund due to retired debt service.

Expenditures

The average wage increases for town employees was 2.85%, with three group increases allocated to beginning and mid-year year as a budget savings measure. Board of Education employees average wage increase was 3.0%. The custodians and secretarial employees also received step increases.

The Board of Education requested a budget increase of \$1.8 million; the Board of Finance reduced the bottom line by \$1.3 million to \$40.5 million. The Board of Finance was able to make this reduction working with the Board of Education to include equipment in the acquisition program and the final Health Insurance renewal information. The Town has no authority to direct where those cuts will come, only the Board of Education can decide what line items will be altered.

All of these factors were considered in preparing the Town's budget for the 2012 fiscal year. During the current fiscal year, unassigned fund balance in the general fund increased to \$4.5 million. The Town did appropriate \$453,500 of fund balance for spending in the 2012 fiscal year budget.

Actual expenditures and transfers out on a budgetary basis totaled \$59.96 million.

Overall, the fiscal year 2011 – 2012 budget was increased \$.582 million or .96%. Town government increased \$803 thousand (1.6%) over fiscal year 2011, debt service decreased \$251 thousand (4.6%), and the Board of Education increased \$81 thousand (2.1%) from the prior year. Capital improvement expenditures were decreased \$51 thousand (7.7%).

The following factors played a role in our setting the budget for fiscal year 2011 – 2012 both from a revenue and an expense point of view:

- The economic picture of slow, if any, growth, the uncertainty of State Aid to municipalities for fiscal year 2012 and in future fiscal years with the increased need to replace stagnant and declining State Aid and declining local revenues with property taxes.
- Emphasis was placed on maintaining existing public services and the prevailing quality-of-life within the town.
- Where possible, departmental operating costs have been kept to a bare minimum maintaining or decreasing the 2010/11 level of spending. Increases in operating costs are primarily due to health insurance premiums, contract issues, state mandates and the Capital Improvement Program.
- The Town of East Lyme's 2011/2012 budget totals \$61.3 million, which represents a .96% increase in expenditures from the fiscal year 2011 adopted budget. The Town's mill rate decreased from 19.551 to 19.472 a .079 or a .40% decrease. This represents a fiscally conservative and prudent approach to developing a Town-wide spending plan for the fiscal year.

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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Director of Finance, 108 Pennsylvania Avenue, Niantic, CT 06357.

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Basic Financial Statements

TOWN OF EAST LYME, CONNECTICUT

STATEMENT OF NET ASSETS

June 30, 2011

	Governmental Type Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 13,858,196	\$ 475,746	\$ 14,333,942
Investments	4,508,448	-	4,508,448
Receivables:			
Property taxes, net of allowance for collection losses	1,344,804	-	1,344,804
Assessments/use charges	7,672,421	345,342	8,017,763
Intergovernmental	557,615	-	557,615
Internal balances	295,618	(295,287)	331
Bond issue costs	458,111	-	458,111
Net pension asset	36,378	-	36,378
Other assets	235,438	17,570	253,008
Capital assets, not being depreciated	12,377,953	623,015	13,000,968
Capital assets, net of accumulated depreciation	88,345,065	48,169,489	136,514,554
Total assets	129,690,047	49,335,875	179,025,922
Liabilities			
Accounts payable and accruals	2,661,392	52,009	2,713,401
Accrued interest payable	575,226	-	575,226
Meter deposits	-	3,451	3,451
Notes payable	369,934	-	369,934
Unearned revenue	453,138	-	453,138
Noncurrent liabilities:			
Due within one year	4,943,710	-	4,943,710
Due in more than one year	45,594,449	-	45,594,449
Total liabilities	54,597,849	55,460	54,653,309
Net Assets			
Invested in capital assets, net of related debt	52,896,924	48,792,504	101,689,428
Unrestricted	22,195,274	487,911	22,683,185
Total net assets	\$ 75,092,198	\$ 49,280,415	\$ 124,372,613

The notes to the financial statements are an integral part of this statement.

TOWN OF EAST LYME, CONNECTICUT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental activities:								
General government	\$ 7,604,020	\$ 813,988	\$ -	\$ -	\$ (6,790,032)	\$ -	\$ (6,790,032)	
Public safety	3,480,818	82,011	100,752	-	(3,298,055)	-	(3,298,055)	
Public works	5,877,740	3,737,597	229,581	1,084,549	(826,013)	-	(826,013)	
Health and welfare	252,106	20,381	27,227	-	(204,498)	-	(204,498)	
Culture and recreation	1,987,280	466,460	3,000	-	(1,517,820)	-	(1,517,820)	
Education	47,744,697	3,375,568	11,130,808	-	(33,238,321)	-	(33,238,321)	
Interest expense	1,522,582	-	-	-	(1,522,582)	-	(1,522,582)	
Total governmental activities	68,469,243	8,496,005	11,491,368	1,084,549	(47,397,321)	-	(47,397,321)	
Business-type activities:								
Sewer Department	2,401,759	1,571,491	-	-	-	(830,268)	(830,268)	
Total business-type activities	2,401,759	1,571,491	-	-	-	(830,268)	(830,268)	
Total primary government	<u>\$ 70,871,002</u>	<u>\$ 10,067,496</u>	<u>\$ 11,491,368</u>	<u>\$ 1,084,549</u>	<u>(47,397,321)</u>	<u>(830,268)</u>	<u>(48,227,589)</u>	
		General revenues:						
					Property taxes	46,570,536	-	46,570,536
					Grants and contributions not restricted to specific programs	1,475,800	-	1,475,800
					Income from investments	168,725	-	168,725
					Transfers	(205,790)	205,790	-
					Total general revenues	48,009,271	205,790	48,215,061
					Change in net assets	611,950	(624,478)	(12,528)
					Net assets - beginning	74,480,248	49,904,893	124,385,141
					Net assets - ending	<u>\$ 75,092,198</u>	<u>\$ 49,280,415</u>	<u>\$ 124,372,613</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF EAST LYME, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	Major Funds			Other	Total Governmental Funds
	General	Sewer Assessments Fund	Bonded Capital Projects	Nonmajor Governmental Funds	
Assets					
Cash and cash equivalents	\$ 4,081,231	\$ 868,422	\$ 3,372,142	\$ 3,154,390	\$ 11,476,185
Investments	3,008,448	1,500,000	-	-	4,508,448
Receivables (net of allowances for collection losses):					
Property taxes	1,344,804	-	-	-	1,344,804
Assessments/use charges	69,430	6,982,722	-	620,269	7,672,421
Intergovernmental	96,844	-	267,251	193,520	557,615
Advances from other funds	-	635,927	-	-	635,927
Due from other funds	322,632	305,750	622,590	474,374	1,725,346
Other	199,859	8,579	-	27,000	235,438
Total assets	\$ 9,123,248	\$ 10,301,400	\$ 4,261,983	\$ 4,469,553	\$ 28,156,184
Liabilities					
Accounts payable and accruals	\$ 1,406,933	\$ 180	\$ 113,286	\$ 714,386	\$ 2,234,785
Due to other funds	591,642	-	348,160	489,926	1,429,728
Unearned revenue	266,956	-	-	186,182	453,138
Deferred revenue	1,502,752	6,982,722	267,251	481,601	9,234,326
Note payable	-	-	369,934	-	369,934
Advances to other funds	-	-	635,927	-	635,927
Total liabilities	3,768,283	6,982,902	1,734,558	1,872,095	14,357,838
Fund balances					
Nonspendable	-	-	-	910	910
Restricted	-	-	-	9,516	9,516
Committed	-	3,318,498	2,527,425	2,643,723	8,489,646
Assigned	1,273,044	-	-	-	1,273,044
Unassigned	4,081,921	-	-	(56,691)	4,025,230
Total fund balances	5,354,965	3,318,498	2,527,425	2,597,458	13,798,346
Total liabilities and fund balances	\$ 9,123,248	\$ 10,301,400	\$ 4,261,983	\$ 4,469,553	

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

Capital assets, net of accumulated depreciation purchased in governmental funds are reported as expenditures, however, the statement of net assets includes those capital assets among the assets of the Town as a whole.	100,723,018
Deferred revenues are not available and therefore not recognized in the funds.	9,234,326
Bond issue costs	458,111
Net pension asset	36,378
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(50,538,159)
Internal service funds are used by management to charge the costs of risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	1,955,404
Accrued interest payable not recorded in the funds.	(575,226)

Net assets of governmental activities \$ 75,092,198

The notes to the financial statements are an integral part of this statement.

TOWN OF EAST LYME, CONNECTICUT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) -
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2011

	Major Funds			Other Nonmajor Governmental Funds	Total Governmental Funds
	General	Sewer Assessments Fund	Bonded Capital Projects		
REVENUES					
Property tax assessments and lien fees	\$ 45,105,288	\$ 1,329,322	\$ -	\$ -	\$ 46,434,610
Intergovernmental	11,012,922	-	124,905	2,798,987	13,936,814
Charges for services	6,054,875	-	-	2,955,078	9,009,953
Investment income	69,093	7,215	15,787	5,231	97,326
Total revenues	62,242,178	1,336,537	140,692	5,759,296	69,478,703
EXPENDITURES					
Current:					
General government	5,857,917	-	122,522	-	5,980,439
Public safety	3,239,321	-	-	-	3,239,321
Public works	3,374,598	109,382	-	1,696,862	5,180,842
Health and welfare	248,282	-	-	-	248,282
Culture and recreation	1,963,606	-	-	8,091	1,971,697
Education	43,090,693	-	-	2,622,303	45,712,996
Capital outlay	500,423	-	1,298,977	2,519,651	4,319,051
Debt service:					
Principal retirements	4,150,326	-	-	510,693	4,661,019
Interest and other charges	1,403,228	-	-	-	1,403,228
Total expenditures	63,828,394	109,382	1,421,499	7,357,600	72,716,875
Revenues over (under) expenditures	(1,586,216)	1,227,155	(1,280,807)	(1,598,304)	(3,238,172)
OTHER FINANCING SOURCES (USES)					
Capital leases	-	-	-	834,232	834,232
Transfers in	2,148,562	-	-	73,379	2,221,941
Transfers (out)	(121,144)	(2,274,352)	-	(32,235)	(2,427,731)
Bond premium	586,861	-	-	10,155	597,016
Issuance of bonds	12,205,000	-	-	3,860,000	16,065,000
Payment to escrow	(12,649,998)	-	-	-	(12,649,998)
Total other financing sources (uses)	2,169,281	(2,274,352)	-	4,745,531	4,640,460
Change in fund balances (deficits)	583,065	(1,047,197)	(1,280,807)	3,147,227	1,402,288
FUND BALANCES (DEFICITS), beginning, as restated (Note 15)	4,771,900	4,365,695	3,808,232	(549,769)	12,396,058
FUND BALANCES, ending	\$ 5,354,965	\$ 3,318,498	\$ 2,527,425	\$ 2,597,458	\$ 13,798,346

The notes to the financial statements are an integral part of this statement.

TOWN OF EAST LYME, CONNECTICUT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011**

Net change in fund balances – total governmental funds	\$ 1,402,288
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. This is the amount by which capital outlays exceeded depreciation in the current period.	7,353
Changes in revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(191,720)
Change in net pension asset	(1,335)
The issuance of long-term debt (e.g., bonds, leases) 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 assets. Also, governmental funds report the effect of issuance costs, 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.	(320,024)
Changes in 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.	(994,944)
The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>710,332</u>
Change in net assets of governmental activities	<u>\$ 611,950</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF EAST LYME, CONNECTICUT

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2011

	Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Fund
	Sewer Department	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 475,746	\$ 2,382,011
Receivables:		
User charges	345,342	-
Due from other funds	15,013	-
Inventory	17,570	-
Total current assets	<u>853,671</u>	<u>2,382,011</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	48,792,504	-
Total noncurrent assets	<u>48,792,504</u>	<u>-</u>
Total assets	<u>49,646,175</u>	<u>2,382,011</u>
LIABILITIES		
Current liabilities:		
Accounts payable	23,570	-
Meter deposits	3,451	-
Claims payable	-	426,607
Due to other funds	310,300	-
Compensated absences	28,439	-
Total liabilities	<u>365,760</u>	<u>426,607</u>
NET ASSETS		
Invested in capital assets	48,792,504	-
Unrestricted	487,911	1,955,404
Total net assets	<u>\$ 49,280,415</u>	<u>\$ 1,955,404</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF EAST LYME, CONNECTICUT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUNDS
For the Year Ended June 30, 2011

	Business-Type Activities Enterprise Funds	Governmental Activities
	Sewer Department	Internal Service Fund
OPERATING REVENUES		
Charges for services and other	\$ 1,571,491	\$ 7,476,621
Total operating revenues	<u>1,571,491</u>	<u>7,476,621</u>
OPERATING EXPENSES		
General and administrative	47,958	735,048
Labor and maintenance	1,509,707	-
Claims	-	6,032,452
Depreciation	844,094	-
Total operating expenses	<u>2,401,759</u>	<u>6,767,500</u>
Operating (loss) income	<u>(830,268)</u>	<u>709,121</u>
NONOPERATING REVENUES		
Investment income	-	1,211
Total nonoperating revenues	<u>-</u>	<u>1,211</u>
Net (loss) income before transfers	<u>(830,268)</u>	<u>710,332</u>
TRANSFERS		
Transfers in	205,790	-
Change in net assets	<u>(624,478)</u>	<u>710,332</u>
NET ASSETS, beginning	<u>49,904,893</u>	<u>1,245,072</u>
NET ASSETS, ending	<u>\$ 49,280,415</u>	<u>\$ 1,955,404</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF EAST LYME, CONNECTICUT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2011

	Business-Type Activities Enterprise Funds	Governmental Activities
	Sewer Department	Internal Service Fund
Cash Flows From Operating Activities		
Receipts from customers and users	\$ 1,524,835	\$ -
Payments to suppliers	(1,025,040)	-
Payment to employees	(515,524)	-
Receipts from premiums	-	7,772,876
Cash paid for claims and administration	-	(6,760,060)
Net cash provided by (used in) operating activities	<u>(15,729)</u>	<u>1,012,816</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(205,790)	-
Net cash used in capital and related financing activities	<u>(205,790)</u>	<u>-</u>
Cash Flows From Noncapital Financing Activities		
Transfers in	205,790	-
Net cash provided by noncapital financing activities	<u>205,790</u>	<u>-</u>
Cash Flows Provided by Investing Activities		
Investment income	-	1,211
Net cash provided by investing activities	<u>-</u>	<u>1,211</u>
Net increase (decrease) in cash and cash equivalents	(15,729)	1,014,027
Cash and Cash Equivalents		
Beginning	491,475	1,367,984
Ending	<u>\$ 475,746</u>	<u>\$ 2,382,011</u>

(Continued)

TOWN OF EAST LYME, CONNECTICUT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS, Continued
 For the Year Ended June 30, 2011

	Business-Type Activities Enterprise Funds	Governmental Activities
	Sewer Department	Internal Service Fund
Reconciliation of Operating (Loss) Income to Net Cash Provided by (Used in) Operating Activities		
Operating (loss) income	\$ (830,268)	\$ 709,121
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities		
Loss on disposal of fixed assets	1,726	-
Depreciation	844,094	-
(Increase) decrease in:		
Inventory	3,540	
Receivables	(46,656)	296,255
Due from other funds	16,244	-
Increase (decrease) in:		
Accounts and other payables	(3,244)	7,440
Due to other funds	(1,165)	-
Net cash provided by (used in) operating activities	\$ (15,729)	\$ 1,012,816

The notes to the financial statements are an integral part of this statement.

TOWN OF EAST LYME, CONNECTICUT

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

June 30, 2011

	Pension Trust Fund	Private Purpose Trusts	Agency Funds
ASSETS			
Cash	\$ -	\$ 30,400	\$ 2,530,583
Investments	11,382,521	-	-
Total assets	11,382,521	30,400	2,530,583
LIABILITIES			
Due to other funds	-	331	-
Payable to others	-	-	1,943,383
Due to student groups	-	-	587,200
Total liabilities	-	331	2,530,583
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES			
	\$ 11,382,521	\$ 30,069	\$ -

The notes to the financial statements are an integral part of this statement.

TOWN OF EAST LYME, CONNECTICUT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
For the Year Ended June 30, 2011

	Pension Trust Fund	Private Purpose Trusts
ADDITIONS		
Contributions:		
Employer	\$ 913,459	\$ -
Plan members	161,914	-
Other	-	4,654
Total contributions	<u>1,075,373</u>	<u>4,654</u>
Investment income:		
Net appreciation in fair value of investments	127,895	-
Interest income	<u>1,374,598</u>	<u>69</u>
Total investment income	<u>1,502,493</u>	<u>69</u>
Total additions	<u>2,577,866</u>	<u>4,723</u>
DEDUCTIONS		
Benefits	120,603	-
Administration	480	-
Total deductions	<u>121,083</u>	<u>-</u>
Change in net assets	2,456,783	4,723
NET ASSETS, beginning	<u>8,925,738</u>	<u>25,346</u>
NET ASSETS, ending	<u><u>\$ 11,382,521</u></u>	<u><u>\$ 30,069</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Town of East Lyme, Connecticut (the "Town"), was incorporated in 1839. The Town covers 34.8 square miles located in the southeastern part of Connecticut. The Town operates under a Town Meeting form of government. The First Selectman serves as the Chief Executive Officer. The Town provides the following services including public safety, public works, health, social services, recreation, planning and zoning, education and general government.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statements have been considered and there are no agencies or entities which should be presented with the Town.

Government-Wide and Fund Financial Statements

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

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 fund 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds do not have a measurement focus but are accounted for on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues 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 OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures and expenditures related to compensated absences, pension obligations, other post-employment benefit obligations, and claims and judgments are recorded only when payment is due (matured).

Property taxes when levied for, intergovernmental revenue when eligibility requirements are met, licenses, 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.

Governmental Funds

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It is used to account for and report all financial transactions and resources of the general government, 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.

The *Sewer Assessments Fund* accounts for the revenues that are used to finance sewer system improvements.

The *Bonded Capital Projects Fund* accounts for the financial revenues and expenditures associated with major capital asset construction projects and/or purchases.

The Town reports the following major proprietary fund:

The *Sewer Fund* accounts for the activities of the Town's Sewer Department.

Additionally, the Town reports the following fund types:

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.

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 *Internal Service Fund* accounts for all risk financing activities for medical insurance benefits as allowed by GASB Statement No. 10.

The *Pension Trust Funds* account for the activities of the Town's Employees' Retirement System and the Town's Defined Benefit Trust, which accumulates resources for pension benefit payments to qualified employees.

The *Private-Purpose Trust Funds* are used to account for resources legally held in trust for senior citizens and students. All resources of the funds, including any earnings on invested resources, may be used to support the Town's activities. There is no requirement that any portion of these resources be preserved as capital.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

The *Agency Funds*, fiduciary funds, account for monies held as a custodian for outside student groups and agencies and do not involve measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Town also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

For "Advances To/From Other Funds," the assets reported in the governmental fund financial statements are offset by a fund balance reserve to indicate that they are not available for appropriation and are not expendable financial resources.

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 all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of proprietary funds are charges to customers for services and other Town funds for premiums. Operating expenses for the funds include the cost of operations and maintenance, administrative expenses, claim expense, and depreciation on capital expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Accounting Estimates

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

Property Taxes

Property taxes are assessed as of October 1, and are levied for on the following July 1. Real estate and personal property taxes are due in two installments, July 1 and January 1. Motor vehicle taxes are due in one installment on July 1, and supplemental motor vehicle taxes are due in full January 1. Taxes become delinquent thirty days after the installment is due. Liens are filed by the last day of the fiscal year.

Delinquent real estate taxes are billed at least twice a year, with interest charged at a rate of 1.5 percent per month. Delinquent motor vehicle and personal property accounts are transferred to a suspense account after three years, at which time they cease to be carried as receivables. However, they remain valid claims for up to 15 years after being levied.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

Cash and Cash Equivalents

The Town's cash and cash equivalents consist of cash on hand, demand deposits, money market accounts and short-term investments with original maturities of three months or less from the date of acquisition.

Allowance for Doubtful Accounts

Accounts and notes receivable for the primary government are reported net of allowance for doubtful accounts. The allowance for doubtful accounts represents those accounts which are deemed uncollectible based on past collection history and on analysis of creditor's ability to pay.

Investments

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

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

Inventories

Inventories are stated at the lower of cost or market determined on the first-in, first-out basis.

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 Town as assets with an initial, individual cost of more than \$5,000 for equipment, \$20,000 for improvements and \$100,000 for infrastructure, 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 fair 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 net of interest earned on project specific debt during the construction phase of capital assets of business-type activities and enterprise fund is included as part of the capitalized cost of the assets constructed.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2011

Capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	33-100
Sewer systems	50-75
Water systems	25-50
Machinery, equipment and vehicles	5-15

In the governmental fund financial statements, capital outlay (assets) is reported as an expenditure and no depreciation expense is reported.

Compensated Absences

Under the terms of its various contracts, employees are granted vacation in varying amounts based on length of service. The obligation for vacation pay vests when earned. In the event of retirement, employees are reimbursed for accumulated sick days based on union contract. The liability is typically liquidated by the general fund.

Long-Term Obligations

In the government-wide and proprietary 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 assets. Bond principal premiums and discounts, as well as issuance costs, are deferred and amortized over the life the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred gains/losses on refundings. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Bond principal payments are recorded as expenditures. 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, are reported as debt service expenditures.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as an assignment of fund balance as they do not constitute either expenditures or liabilities.

All other General Fund appropriations lapse at year-end.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2011

Pension accounting

Pension Trust Fund

Employee contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the Town has made a formal commitment to provide the contributions. Benefits and refunds are recognized when paid. Standalone statements are not issued.

Governmental Funds

Expenditures are recognized when they are paid or are expected to be paid with current available resources.

Funding Policy

The Town funds the contributions to its defined benefit pension plan based on an actuarial valuation, which amount is included in the budget.

OPEB accounting

OPEB Trust

Employer contributions are recognized in the period in which the contributions are due, and the Town has made a formal commitment to provide the contributions. Employees begin contributing on July 1, 2008.

Governmental Funds/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 based on the actuaries' recommendation.

Net Assets

In the Government-Wide and Proprietary Fund Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net Assets – This category represents the net assets of the Town, which are restricted by external parties (creditors, grantors, contributors or laws and regulations).

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Unrestricted Net Assets (Deficit) - This category represents the net assets of the Town, which are not restricted for any project or other purpose. A deficit will require future funding.

Fund Balance

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

- Nonspendable Fund Balance – Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted Fund Balance – These amounts are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislations.
- Committed Fund Balance – This represents amounts constrained prior to year-end for a specific purpose by a government using its highest level of decision-making authority (Town of East Lyme Board of Finance/Board of Selectmen).
- 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.
- 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.

When both restricted and unrestricted amounts are available for use, it is the Town's practice to use restricted resources first. Additionally, the Town would first use committed, then assigned, and lastly unassigned.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

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 assets

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds, and net assets - governmental activities as reported in the government-wide statement of net assets. 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	\$ 43,527,849
Bond premium	1,434,226
OPEB obligations	2,863,400
Compensated absences	2,010,574
Early retirement incentive	678,781
Deferred gains/losses	(1,553,252)
Capital leases payable	1,137,603
Landfill closure	220,870
SCRRA loan	<u>218,108</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 50,538,159</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances - total governmental funds, and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this difference are as follows:

Capital outlay	\$ 4,162,166
Depreciation expense	(3,888,852)
Loss on disposal	<u>(265,961)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 7,353</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) 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,

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Debt issued or incurred:	
Issuance of bonds	\$ (16,065,000)
Capital lease	(834,232)
Bond Premium	(597,016)
Principal repayments:	
General obligation debt	16,445,325
Capital lease	322,262
Deferred gain on refunding	354,998
Bond issuance costs	<u>53,639</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ (320,024)</u></u>

Another element of that reconciliation states that "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." The details of this difference are as follows:

OPEB obligations	\$ (892,300)
Compensated absences	(758,889)
Early retirement incentives	149,182
Accrued interest	457,037
SCRRRA loan	62,575
Landfill closure	12,500
Amortization of deferred charges	(200,105)
Amortization of bond premium	130,944
Amortization of bond issue costs	<u>44,112</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ (994,944)</u></u>

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

Note 3. Cash, Cash Equivalents and Investments

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

Investments: The Town and the Pension Trust do not have a custodial credit risk policy for investments. The Town and the Pension Trust do not have a policy for investments or related credit risk for debt securities, however, it is their practice to follow State statutes. 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 3-24f and 3-27f) also provide for investment in shares of the Connecticut Short Term Investment Fund and the Tax Exempt Proceeds Fund.

Interest rate risk: The Town and the Pension Plan do not have a policy that limits investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates. However, their practice is to structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, 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.

Concentrations: The Town and the Pension Plan do not have a policy that limits the amounts invested in any one issuer. However, their 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, 2011, \$14,872,000 of the Town's bank balance of \$18,107,000 was uninsured and uncollateralized.

Investments: This is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town has no investments subject to this risk.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Cash, cash equivalents and investments of the Town consist of the following at June 30, 2011:

Cash and Cash Equivalents	
Deposits with financial institutions	\$ 12,930,513
State of Connecticut Short-Term Investment Fund	1,590,852
Cutwater-Connecticut Class Plus Account	<u>2,373,560</u>
Total cash and cash equivalents	<u>16,894,925</u>
Investments	
Pension Trust Funds:	
Mutual Funds	<u>11,382,521</u>
General Fund:	
Certificates of deposit	<u>3,008,448</u>
Sewer Assessment Fund:	
Certificates of deposit	<u>1,500,000</u>
Total investments	<u>15,890,969</u>
Total cash, cash equivalents and investments	<u>\$ 32,785,894</u>

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

Statement of Net Assets	
Cash and cash equivalents	\$ 14,333,942
Investments	<u>4,508,448</u>
	<u>18,842,390</u>
Fiduciary Funds	
Cash and cash equivalents	2,560,983
Investments	<u>11,382,521</u>
	<u>13,943,504</u>
Total cash, cash equivalents and investments	<u>\$ 32,785,894</u>

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

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:

Type of Investment	Fair Value	Investment Maturities (in Years)	
		Less Than 1 Year	6-10 Years
Pooled fixed income	\$ 3,964,412	\$ 3,964,412	\$ -

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 minimum rating as required for each debt type investment.

Average Rating	Pooled Fixed Income
AAAm	\$ 3,964,412

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 8,994,862	\$ -	\$ -	\$ 8,994,862
Construction in progress	3,124,160	1,383,947	(1,125,016)	3,383,091
Total capital assets, not being depreciated	<u>12,119,022</u>	<u>1,383,947</u>	<u>(1,125,016)</u>	<u>12,377,953</u>
Capital assets, being depreciated:				
Buildings and Improvements	117,549,639	586,942		118,136,581
Machinery and equipment	5,684,429	465,847	(310,733)	5,839,543
Vehicles	6,601,340	1,219,396	(285,337)	7,535,399
Infrastructure	18,429,757	675,171		19,104,928
Water distribution systems	21,050,767	955,879		22,006,646
Total capital assets, being depreciated	<u>169,315,932</u>	<u>3,903,235</u>	<u>(596,070)</u>	<u>172,623,097</u>
Total capital assets	<u>181,434,954</u>	<u>5,287,182</u>	<u>(1,721,086)</u>	<u>185,001,050</u>
Less accumulated depreciation for:				
Buildings and Improvements	50,895,245	1,826,099	-	52,721,344
Machinery and equipment	3,846,780	114,670	(310,733)	3,650,717
Vehicles	2,812,780	385,142	(19,376)	3,178,546
Infrastructure	13,167,751	1,089,126	-	14,256,877
Water distribution systems	9,996,733	473,815	-	10,470,548
Total accumulated depreciation	<u>80,719,289</u>	<u>3,888,852</u>	<u>(330,109)</u>	<u>84,278,032</u>
Total capital assets, being depreciated, net	<u>88,596,643</u>	<u>14,383</u>	<u>(265,961)</u>	<u>88,345,065</u>
Governmental activities capital assets, net	<u>\$ 100,715,665</u>	<u>\$ 1,398,330</u>	<u>\$ (1,390,977)</u>	<u>\$ 100,723,018</u>

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 608,210	\$ -	\$ -	\$ 608,210
Construction in progress	14,805			14,805
Total capital assets, not being depreciated	623,015	-	-	623,015
Capital assets, being depreciated:				
Buildings and Improvements	5,090,394	-	-	5,090,394
Machinery and equipment	620,414	-	(20,000)	600,414
Sewer distribution systems	57,408,201	205,790	-	57,613,991
Total capital assets, being depreciated	63,119,009	205,790	(20,000)	63,304,799
Total capital assets	63,742,024	205,790	(20,000)	63,927,814
Less accumulated depreciation for:				
Buildings and Improvements	1,466,033	91,627	-	1,557,660
Machinery and equipment	554,587	3,785	(18,274)	540,098
Sewer distribution systems	12,288,870	748,682	-	13,037,552
Total accumulated depreciation	14,309,490	844,094	(18,274)	15,135,310
Total capital assets, being depreciated, net	48,809,519	(638,304)	(1,726)	48,169,489
Total business-type activities capital assets, net	\$ 49,432,534	\$ (638,304)	\$ (1,726)	\$ 48,792,504

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

Governmental activities:	
General government	\$ 1,346,500
Public safety	228,746
Public works	668,077
Recreation	25,652
Education	1,619,877
Total depreciation expense - governmental activities	\$ 3,888,852
Business-type activities:	
Sewer	844,094
Total depreciation expense - business-type activities	\$ 844,094

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Note 5. Interfund Receivables, Payables and Transfers

A summary of interfund balances as of June 30, 2011 is presented below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 322,632	\$ 591,642
Sewer Assessments Fund	305,750	-
Bonded Capital Projects Fund	622,590	348,160
Non-Major Governmental Funds	474,374	489,926
Enterprise Funds	15,013	310,300
Private Purpose Trust Funds	-	331
Grand Total	\$ 1,740,359	\$ 1,740,359

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.

\$636,000 due to the Sewer Assessments Fund from the Bonded Capital Project Fund is a long-term advance as it will not be paid in the short-term.

Interfund transfers during the year ended June 30, 2011 were as follows:

	Transfers From Other Funds	Transfers To Other Funds
General Fund	\$ 2,148,562	\$ 121,144
Sewer Assessments Fund	-	2,274,352
Nonmajor Governmental Funds	73,379	32,235
Enterprise Funds	205,790	-
Grand Total	\$ 2,427,731	\$ 2,427,731

Transfers are used to account for financing by the General Fund of programs accounted for in other funds in accordance with budgetary amortizations, and from the Sewer Assessment Fund to the General Fund to pay sewer notes and bonds. Nonmajor fund transfers to Enterprise Funds are for construction of capital assets.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Note 6. Unearned Revenue/Deferred Revenue

Governmental funds report deferred 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 defer 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 unearned revenue and deferred revenue reported in the governmental funds and governmental activities were as follows:

	Deferred Revenues	Unearned Revenues
	<u> </u>	<u> </u>
General Fund:		
Delinquent property taxes receivable	\$ 1,270,686	\$ -
Advance tax collections	-	266,956
Intergovernmental	92,407	-
Other	139,659	-
Sewer Assessments Fund:		
Sewer assessments not yet due	6,982,722	-
Bonded Capital Projects:		
Grant drawdowns prior to meeting all eligibility requirements	267,251	-
Other Nonmajor Governmental Funds:		
Water usage unbilled	481,601	-
Grant drawdowns prior to meeting all eligibility requirements	-	186,182
Total deferred/unearned revenue	<u>\$ 9,234,326</u>	<u>\$ 453,138</u>

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Note 7. Long-Term Liabilities

A summary of changes in outstanding long-term obligations during the year ended June 30, 2011 is as follows:

Description	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 43,908,174	\$ 16,065,000	\$ 16,445,325	\$ 43,527,849	\$ 4,229,970
Bond premium	968,154	597,016	130,944	1,434,226	189,000
Deferred gains/losses	(1,398,359)	(354,998)	(200,105)	(1,553,252)	(235,000)
	<u>43,477,969</u>	<u>16,307,018</u>	<u>16,376,164</u>	<u>43,408,823</u>	<u>4,183,970</u>
Other long-term liabilities:					
OPEB obligations	1,971,100	892,300	-	2,863,400	-
Compensated absences	1,251,685	758,889	-	2,010,574	133,000
SCRRA Loan	280,683	-	62,575	218,108	29,166
Capital lease obligations	625,633	834,232	322,262	1,137,603	285,574
Early retirement incentives	827,963	155,563	304,745	678,781	298,000
Landfill closure	233,370	-	12,500	220,870	14,000
Total other long-term liabilities	<u>5,190,434</u>	<u>2,640,984</u>	<u>702,082</u>	<u>7,129,336</u>	<u>759,740</u>
Governmental activity long-term liabilities	<u>\$ 48,668,403</u>	<u>\$ 18,948,002</u>	<u>\$ 17,078,246</u>	<u>\$ 50,538,159</u>	<u>\$ 4,943,710</u>

TOWN OF EAST LYME, CONNECTICUT

**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

General Obligation Bonds - Governmental Activities

As of June 30, 2011, the outstanding general obligation bonds of the Town were as follows:

Purpose	Original Amount	Date of Issue	Date of Maturity	Interest Rate	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
General Purpose:								
TIF, Tech, & CIP	\$ 135,000	4/18/2011	7/15/2016	2.0 - 5.0%	-	135,000	-	135,000
Land Acq, Road, Fire Pump	3,860,000	2/9/2011	2/9/2031	2.0 - 5.0%	-	3,860,000	-	3,860,000
Open Space	918,000	2/10/2010	7/15/2026	2.0 - 5.0%	918,000	-	11,000	907,000
Radio System Upgrade	1,105,000	7/16/2009	7/15/2030	3.5-5.0%	1,105,000	-	-	1,105,000
Open Space	500,000	7/15/2007	7/15/2028	4.25%	375,000	-	25,000	350,000
Open Space	1,000,000	7/15/2005	7/15/2025	3.87%	100,000	-	50,000	50,000
Capital Improvement-Refund	768,000	7/15/2005	7/15/2015	3.98%	570,000	-	447,000	123,000
General Govt - Refund	346,800	7/15/2003	7/15/2015	3.98%	256,000	-	201,000	55,000
Muni Complex Bds	1,607,733	7/15/2001	7/15/2012	4.25-5.125%	311,000	-	157,000	154,000
Total General Purpose					3,635,000	3,995,000	891,000	6,739,000
Schools:								
ELMS, Roof, School CIP	6,876,000	4/18/2011	7/15/2021	2.0 - 5.0%	-	6,876,000	-	6,876,000
ELMS, HS Roof & Ren Ref	7,785,000	2/10/2010	7/15/2024	2.0 - 5.0%	7,785,000	-	32,000	7,753,000
ELHS & Pool Refunding	3,969,000	7/16/2009	7/15/2019	3.0-4.0%	3,969,000	-	418,000	3,551,000
High School Roof	2,780,000	7/15/2007	7/15/2028	4.25%	2,030,000	-	140,000	1,890,000
School Renovations Projects	220,000	7/15/2007	7/15/2028	4.25%	170,000	-	10,000	160,000
Middle School Construction	10,500,000	7/15/2005	7/15/2025	3.87%	1,150,000	-	575,000	575,000
New Middle School Ren	11,000,000	5/1/2001	7/15/2021	4.25-5.125%	1,250,000	-	600,000	650,000
Middle School Refunding	6,954,200	7/15/2005	7/15/2020	3.98%	6,735,000	-	6,665,000	70,000
Total Schools					23,089,000	6,876,000	8,440,000	21,525,000
Sewer:								
Sewer Const. - Ref 92 7 95	4,955,000	4/18/2011	7/15/2018	2.0 - 5.0%	-	4,955,000	-	4,955,000
Pine Grove Sewer Refund	2,182,000	2/10/2010	7/15/2026	2.0 - 5.0%	2,182,000	-	17,000	2,165,000
Sewer Const (Colton Rd)-Ref	531,000	7/16/2009	7/15/2019	3.00%	531,000	-	56,000	475,000
Pine Grove Sewer	1,000,000	7/15/2007	7/15/2028	4.25%	750,000	-	50,000	700,000
Sewer Refunding	2,500,000	7/15/2005	7/15/2025	3.87%	300,000	-	150,000	150,000
Sewer Const.-Refinance	11,692,600	5/1/2001	7/15/2018	4.25-5.125%	5,069,000	-	4,388,000	681,000
Sewer Const.-Refinance	2,839,632	5/1/2001	7/15/2018	4.25-5.125%	1,544,000	-	1,403,000	141,000
Clean Water Phase II	1,907,103	11/26/1991	5/31/2011	2.00%	95,355	-	95,355	-
Clean Water Phase III	8,588,195	12/30/1994	12/21/2014	2.00%	1,575,566	-	450,037	1,125,529
Clean Water Phase IV	598,686	3/31/1995	3/31/2014	2.00%	112,253	-	29,933	82,320
Total Sewers					12,159,174	4,955,000	6,639,325	10,474,849
Water Bonds								
Water Bonds - ref 98	\$ 239,000	4/18/2011	7/15/2016	2.0 - 5.0%	\$ -	239,000	\$ -	239,000
Various Water Projects	4,180,000	7/16/2009	7/15/2030	3.5-5.0%	4,180,000	-	-	4,180,000
Water Ref 03 Bonds	200,000	7/16/2009	7/15/2019	3.0-4.0%	200,000	-	21,000	179,000
Water Bonds-Refunding	606,000	7/15/2005	7/15/2015	3.98%	449,000	-	352,000	97,000
Water Bonds-Refinance	1,346,737	5/1/2001	7/15/2002	4.25-5.125%	196,000	-	102,000	94,000
Total Water					5,025,000	239,000	475,000	4,789,000
Total bonds/notes - governmental activities					\$ 43,908,174	\$ 16,065,000	\$ 16,445,325	\$ 43,527,849

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

The following is a summary as of June 30, 2011, of the future principal and interest requirements for the Town's bond indebtedness - governmental activities excluding the bond anticipation notes:

Fiscal Year Ending	Principal	Interest	Total
2012	\$ 4,229,970	\$ 1,386,010	\$ 5,615,980
2013	3,949,972	1,349,167	5,299,139
2014	3,792,907	1,242,993	5,035,900
2015	3,605,000	1,127,343	4,732,343
2016	3,635,000	998,693	4,633,693
2017	3,560,000	864,443	4,424,443
2018	3,535,000	738,530	4,273,530
2019	2,750,000	629,568	3,379,568
2020	2,200,000	542,146	2,742,146
2021	2,195,000	459,931	2,654,931
2022	1,510,000	387,056	1,897,056
2023	1,525,000	327,606	1,852,606
2024	1,525,000	267,231	1,792,231
2025	1,125,000	213,934	1,338,934
2026	1,125,000	167,481	1,292,481
2027	900,000	124,938	1,024,938
2028	900,000	86,866	986,866
2029	600,000	54,775	654,775
2030	605,000	29,350	634,350
2031	260,000	11,050	271,050
Total	<u>\$ 43,527,849</u>	<u>\$ 11,009,111</u>	<u>\$ 54,536,960</u>

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

2011 General Obligation Bond – In-substance Defeasance

On April 5, 2011, the Town issued \$12,205,000 of general obligation refunding bonds with interest rates ranging from 2.0% to 5.0%, of which were used to advance refund portions of the outstanding principal amounts of the general obligation bonds of the Town dated July 21, 2005 and May 15, 2001 (the "Refunding Bonds"). Of the net proceeds of \$12,791,861 (after payment of \$141,863 in underwriters fees and other costs), \$12,649,998 was placed in an irrevocable trust fund under an Escrow Agreement dated April 5, 2011 between the Town and the Escrow Holder. The Escrow Holder used the proceeds to purchase a portfolio of non-callable direct obligations of the United States of America ("Government Obligations"). The Government Obligations will have maturities and interest rates sufficient to pay principal and interest payments and redemption premiums on the Refunding Bonds on the date the payments are due.

The Town advance refunded the above bonds to obtain an economic gain (difference between the present values of the debt service payments on the old and net debt of \$738,202 and cash savings of \$787,000.

The balance in the escrow was approximately \$12,649,998 at June 30, 2011. The balance of the defeased bonds was approximately \$12,205,000 at June 30, 2011. As a result, the refunded bonds are considered defeased and the liability has been removed from the basic financial statements. As of June 30, 2011, the amount of defeased debt outstanding, but removed from the Town's government-wide financial statements, amounted to the following:

April 2011 Refunding	<u>\$ 12,205,000</u>
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Changes in bond anticipation note activity was as follows:

Outstanding, July 1, 2010	\$ 2,900,000
New borrowings	-
Repayments	<u>(2,900,000)</u>
Outstanding, June 30, 2011	<u>\$ -</u>

Bonds Authorized But Unissued

Total authorized but unissued debt at June 30, 2011 consists of the following:

General purpose	\$ 7,130,000
Schools	916,066
Sewer	4,366,046
	<u>\$ 12,412,112</u>

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Legal Debt Limit

The Town's indebtedness (including authorized but unissued bonds and overlapping debt), net of principal reimbursements expected from the State, does not exceed the legal debt limitation as required by the Connecticut General Statutes as reflected in the following schedule:

<u>Category</u>	<u>Debt Limit</u>	<u>Indebtedness</u>	<u>Balance</u>
General purpose	\$ 101,737,978	\$ 13,869,000	\$ 87,868,978
Schools	203,475,956	22,441,066	181,034,890
Sewers	169,563,296	14,840,895	154,722,401
Urban renewal	146,954,857	-	146,954,857
Pension deficit	135,650,637	-	135,650,637

The total overall statutory debt limit for the Town is equal to seven times annual receipts from taxation, or approximately \$316,518,000.

Capital Lease

At June 30, 2011, the Board of Education is committed under leases for vehicles and miscellaneous instruments. These lease agreements qualify as capital leases for accounting purposes (title transfers at the beginning of the lease term) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The equipment is carried at approximately \$1,987,530, with approximately \$328,207 in accumulated depreciation.

Future minimum lease payments under the capital lease is as follows:

2012	\$ 317,291
2013	296,275
2014	280,984
2015	269,369
2016	44,409
Total	<u>1,208,328</u>
Less amount representing interest	<u>(70,725)</u>
	<u><u>\$ 1,137,603</u></u>

SCRRA Loan

On April 1, 2010, the Town borrowed \$295,000 to purchase recyclers for residents to assist in its recycling efforts. Monthly principal and interest payments are \$5,073 at a 1.24% interest rate through June 15, 2015.

Interim Financing

The Town received interim financing from the State of Connecticut of \$369,934. When the project is complete, the short-term interim financing will be restructured into long-term debt.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

Termination Benefits

The Town provides severance payments to teachers and department coordinators upon retirement, death or severe illness and to administrators upon retirement or the elimination of a position. To qualify for benefits, the employee must be the age of 50 with 20 years of service, 25 years of service, or age 60 with 10 years of service. The Town funds the severance cost for the 21 eligible participants. The amounts are paid as incurred from the general fund. During the fiscal year ended June 30, 2011, \$305,000 was paid for these benefits. At June 30, 2011, approximately \$679,000 is accrued in the governmental activities. The liability is liquidated out of the general fund.

Note 8. Landfill Closure and Post-Closure Care Costs

State and federal laws and regulations require that the Town place a final cover on its landfill and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill post-closure care costs has a balance of \$220,870 as of June 30, 2011, which is based on 100% usage of the landfill. The liability is accrued in the governmental activities. The estimated total current cost of the landfill closure and post-closure care is based on the amount that would be paid if all equipment, facilities and services required to close, monitor and maintain the landfill were acquired as of June 30, 2011. However, post-closure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

Note 9. Risk Management

The Town is exposed to various risks of loss related to public official liability, police professional liability, theft or impairment of assets, errors and omissions, injury to employees, natural disasters, and owners' and contractors' protective liability.

The Town established as an internal service fund, the health insurance fund, to account for and finance the retained risk of loss for Town employee medical benefits coverage. A third party administers the plan for which the fund pays a fee. The health insurance fund provides coverage for all eligible full time employees.

The Town has purchased a stop loss policy for individual claims exceeding \$125,000 for combined hospital and major medical.

Health insurance premiums are based upon estimates by number of employees and type of coverage (single or family), trends in the insurance claims and estimates for administration. The claims liability reported is based upon the requirements of GASB Statements No. 10 and 30, which require that a liability for estimated claims incurred but not reported be recorded.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

The self-insurance fund liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that has been incurred but not reported.

	Liability July 1,	Current Year Claims And Changes in Estimates	Claim Payments	Liability June 30,
2009-2010	\$ 546,605	\$ 5,911,732	\$ 6,039,693	\$ 418,644
2010-2011	418,644	6,032,452	6,024,489	426,607

The Workers Compensation coverage for Town employees is provided by Argonaut Insurance Company, a member of Argo Group. It is an admitted carrier in the State of Connecticut and has an AM Best rating of A (Excellent) and a Financial Size Category of XII (\$1 Billion to \$1.25 Billion). The program is fully insured and the Town does not retain any risk of loss. The coverage is as follows: Part One-Workers Compensation Insurance – policy applies to the Workers Compensation Law of Connecticut. Part Two – Employers Liability – limits are Bodily Injury by Accident \$1,000,000 Each Accident, Bodily Injury by Disease \$1,000,000 Each Employee and Bodily Injury by Disease \$1,000,000 Policy Limit. The Town pays an annual premium for its coverage. The Town had no claims in excess of coverage amounts during the year.

The Town purchases commercial insurance for all other risks of loss, including blanket and umbrella policies. Settled claims have not exceeded commercial coverage in any of the past three years and there have not been any significant reductions in insurance coverage from the amounts held in prior years.

Note 10. Contingent Liabilities

The Town has been named as defendant in several claims and legal actions. The Town's management estimates that the potential claims against the Town would not have a material adverse effect on the financial condition of the Town.

Note 11. Retirement Plans

Defined Benefit Plan (PERS)

Plan Description

Summary

The Town participates in a single employer, defined benefit pension plan covering substantially all full-time employees and noncertified Board of Education employees. The certified faculty and administrative personnel of the Board of Education participate in a contributory retirement plan administered by the State Teachers' Retirement Board. The Town does not contribute to the State's plan.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2011

The Plan is administered by a third-party. It is the responsibility of the vendor to function as an investment and administrative agent for the Town of East Lyme with respect to the pension Plan. The Pension Committee makes recommendations for plan provisions which are approved by the Board of Finance. The PERS is considered to be part of the Town of East Lyme's financial reporting entity and is included in the Town's financial statements as a pension trust fund. The plan does not issue standalone financial reports.

Classes of Employees Covered

At January 1, 2010, the date of the last actuarial valuation, membership in the plan consisted of the following:

Retirees and beneficiaries currently receiving benefits		10	
Terminated employees entitled to benefits but not yet receiving them		23	
Inactive participants		-	
Current employees			
Vested	103		
Nonvested	75	178	
		<u>211</u>	

Benefit Provisions

The Plan covers all municipal employees and staff except for those employees covered under the State Teachers' Retirement Plan. In order to be eligible for the Plan, the employee must complete six months of service and be hired prior to age 61. Policemen and firemen become participants on the first of the month after hire if they are under age 45 and make contributions. The Town makes annual contributions to the Plan based on the recommended actuarial determined contribution.

Contribution requirements of the plan members and the Town are established and may be amended by the Board of Selectmen. Policemen and firemen are required to contribute 8% and 5.5%, respectively, of their annual salary to the Plan. All other plan members do not contribute to the Plan. The Town is required to annually contribute an actuarially determined amount to fund benefits. Administrative costs are financed through investment earnings.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
6/30/2009	\$ 677,063	99.00%	\$ (39,049)
6/30/2010	752,277	99.82%	(37,713)
6/30/2011	851,372	99.84%	(36,378)

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Actuarial Assumptions

The annual required contribution for the current year was determined as part of the January 1, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included:

Investment rate of return	7.0%
Projected salary increases (per year)	4.5%
Inflation rate	None
Cost of living adjustment	None
Asset valuation method	Fair value

Annual Pension Cost and Net Pension Asset (NPA)

The Town's annual pension cost and net pension asset to the pension trust fund for the current year were:

Annual required contribution	\$ 850,037
Interest on net pension obligation	(2,640)
Adjustment to annual required contribution	3,975
Annual pension cost	<u>851,372</u>
Contributions made	<u>850,037</u>
Decrease in net pension asset	1,335
Net pension asset July 1, 2010	<u>(37,713)</u>
Net pension asset June 30, 2011	<u><u>\$ (36,378)</u></u>

Schedule of Funding Progress

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2)-(1)	Funded Ratio (1)/(2)	Annual Covered Payroll	UAAL As a % of Payroll ((2)-(1))/(5)
1/01/11	\$ 10,722,350	\$ 15,207,773	\$ 4,485,423	70.5%	\$ 7,318,648	(61.3) %

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

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2011

Plan Description – 401(a) Plan

Summary

On July 1, 2001, the Town established the Town of East Lyme 401(a) Plan, a single employer defined contribution plan to provide pension benefits for all Town employees not covered by a collective bargaining agreement between the Town and the employees. The Plan, its provisions and contribution requirements, was established and can be amended by the Board of Selectmen.

In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. Employees are eligible to participate after one year of service. Participants are not required to contribute to the Plan. The Town's contributions for each employee and interest allocated to the employee's account are fully vested after five years of continuous service. Under the Plan's provisions, the Town is required to contribute 5%. At June 30, 2011, there were 18 plan members. The Town contributed \$63,422.

SCHEDULE OF PLAN NET ASSETS
June 30, 2011

	Pension Trust funds		
	Retirement Pension Trust	Defined Contribution Trust	Total Pension Trust Funds
ASSETS			
Investments:			
Mutual Funds	\$ 10,722,350	\$ 660,171	\$ 11,382,521
Total investments	<u>10,722,350</u>	<u>660,171</u>	<u>11,382,521</u>
Total assets	<u>10,722,350</u>	<u>660,171</u>	<u>11,382,521</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 10,722,350</u>	<u>\$ 660,171</u>	<u>\$ 11,382,521</u>

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

SCHEDULE OF CHANGES IN PLAN NET ASSETS
For the Year Ended June 30, 2011

	Pension Trust funds		
	Retirement	Defined	Total Pension
	Pension	Contribution	Trust
	Trust	Trust	Funds
ADDITIONS			
Contributions:			
Employer	\$ 850,037	\$ 63,422	\$ 913,459
Plan members	124,663	37,251	161,914
Total contributions	974,700	100,673	1,075,373
Investments:			
Net appreciation in fair value of investments	-	127,895	127,895
Interest income	1,374,598	-	1,374,598
Total investment income	1,374,598	127,895	1,502,493
Total additions	2,349,298	228,568	2,577,866
DEDUCTIONS			
Benefits	81,690	38,913	120,603
Administration	-	480	480
Total deductions	81,690	39,393	121,083
Changes in net assets	2,267,608	189,175	2,456,783
NET ASSETS, beginning	8,454,742	470,996	8,925,738
NET ASSETS, ending	\$ 10,722,350	\$ 660,171	\$ 11,382,521

Connecticut State Teachers' Retirement System

The faculty and professional personnel of the Board of Education participate in a contributory defined benefit plan, established under Chapter 167a of the Connecticut General Statutes, which is administered by the Connecticut State Teachers' Retirement Board. A teacher is eligible to receive normal retirement benefits if he or she has attained age sixty and has accumulated twenty years of credited service in the public schools of Connecticut or has attained any age and has accumulated thirty-five years of credited service, at least twenty-five of which are service in the public schools of Connecticut. The State of Connecticut Teacher Retirement System is considered to be 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 by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Certain part-time and full-time certified teachers are eligible to participate in the plan and are required to contribute 7.25% of their annual earnings to the plan. The Town does not, and is not legally responsible to, contribute to the plan.

The State of Connecticut contributes based on actuarially determined amounts. The funding level was determined based on an actuarial valuation of the plan as a whole, which does not provide actuarial information on an individual city/town basis.

In addition, the Town has recognized revenues and expenditures for on-behalf payments for pension contributions paid directly to the Connecticut State Teachers' Retirement System by the State of Connecticut. Such on-behalf payments were approximately \$3,005,000 for the year ended June 30, 2011.

Note 12. Other Post-Employment Benefits

In addition to providing pension benefits, various Town employee agreements provide for a portion of health insurance coverage or subsidized coverage to retired employees. These benefits are negotiated through union contracts, personnel policies, and/or individual employment agreements.

Post retirement benefits

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2009, the Town recognizes the cost of postemployment healthcare in the year when the employee services are received, disclosed the accumulated liability from prior years, and provides information useful in assessing potential demands on the Town's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

Plan description and funding policy

The Town provides post-retirement benefits for certain employees for current and future health and life insurance benefit expenses through a single-employer defined benefit plan. A bi-annual actuarial valuation is made to determine whether the contributions are sufficient to meet the plan obligations. The latest actuarial valuation was made July 1, 2010. The post-retirement plan does not issue stand-alone financial reports.

The contribution requirements of plan members and the Town are established and may be amended by the Town. The Town determines the required contribution using the Projected Unit Credit Method.

Membership in the plan consisted of the following at July 1, 2010, the date of the last actuarial valuation.

Retirees and beneficiaries receiving benefits	40
Active plan members	472
Total	<u><u>512</u></u>

The Town's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. 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 (or

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

funding excess) over a period not to exceed thirty years. The actuarial accrued liability as of July 1, 2010 is estimated to be \$13,999,300. The Town's contributions represent payments made for premiums for insured individuals on a pay-as-you-go method.

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

Fiscal Year Ending	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/11	\$ 1,133,000	\$ 240,700	21.20%	\$ 2,863,400
6/30/10	1,083,400	222,800	20.56%	1,971,100

Schedule of Funding Progress - OPEB

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL	Funded Ratio	Covered Payroll (Total)	UAAL as a Percentage of Payroll Covered
7/1/2010	\$ -	\$ 13,999,300	\$ 13,999,300	0.0%	\$ 28,599,000	49.0

OPEB Obligation

Annual required contribution	\$ 1,163,800
Interest on net pension obligation	78,800
Adjustment to ARC	<u>(109,600)</u>
Annual OPEB cost	1,133,000
Contributions made	<u>240,700</u>
Increase in net OPEB liability	892,300
Net OPEB obligation, beginning of year	<u>1,971,100</u>
Net OPEB obligation, end of year	<u><u>\$ 2,863,400</u></u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into 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 employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The information presented was determined as part of the actuarial valuation. Additional information as of the last actuarial valuations follows:

Valuation Date:	July 1, 2010
Actuarial Cost Method:	Projected Unit Credit
Asset Valuation Method:	N/A
Amortization Method:	Level Percent of Pay
Remaining Amortization Period	30 Years – Level Dollar, Open
Actuarial Assumptions:	
Interest	4%
Health cost trend rates	Average annual healthcare cost trend rates are assumed to be as follows:

Year	Decrease
2010	10%
2011	9%
2012	8%
2013	7%
2014	6%
2015 and later	5%

Note 13. Fund Deficits

The following fund had a fund deficit as of June 30, 2011:

School Lunch Fund	\$56,691
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The School Lunch Fund deficit is expected to be eliminated through transfers from the Town's general fund and from other revenue sources.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Note 14. Fund Balance

Below is a table of fund balance categories and classifications at June 30, 2011 for the Town governmental funds:

	General Fund	Sewer Assessments Fund	Bonded Capital Projects	Nonmajor Governmental Funds
Fund balances:				
Non-spendable:				
Permanent	\$ -	\$ -	\$ -	\$ 910
Restricted:				
Recreation	-	-	-	9,516
Committed:				
Public works	-	3,318,498	-	502,460
Capital projects	-	-	2,527,425	2,141,263
Assigned:				
Recreation	60,040	-	-	-
General government	555,598	-	-	-
Education	657,406	-	-	-
Unassigned:				
General government	4,081,921	-	-	-
Fund deficit	-	-	-	(56,691)
Total fund balance	\$ 5,354,965	\$ 3,318,498	\$ 2,527,425	\$ 2,597,458

Note 15. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented during the year ended June 30, 2011. The effect of fund type reclassification is as follows:

	General	Other Governmental Funds
Fund balance, June 30, 2010, as previously reported	\$ 4,092,278	\$ 1,171,867
Change in fund type classification per implementation of GASB Statement No. 54	679,622	(679,622)
Fund balance, July 1, 2010, as restated	\$ 4,771,900	\$ 492,245

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Note 16. Governmental Accounting Standards Board (GASB) Statements

The Town adopted the following statements during the year ended June 30, 2011:

- **GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.** This Statement is intended to improve the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints. As explained in Notes 14 and 15 to the basic financial statements, the Town reclassified the fund balances for governmental funds and restated the General Fund and Nonmajor Governmental Funds fund balance by \$679,662 as a result of the implementation of this Statement.
- **GASB Statement No. 59, *Financial Instruments Omnibus*.** This Statement is intended to update and improve existing standards regarding financial reporting of certain financial instruments and external investment pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investment pools, addressing the applicability of GASB 53, Accounting and Financial Reporting for Derivative Instruments, and applying the reporting provisions for interest-earning investment contracts of GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

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:

- **GASB Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*,** was issued in December 2009. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). This Statement amends Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, to permit certain OPEB plans to use an alternative measurement method. Consistent with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, requirement that a defined benefit OPEB plan obtain an actuarial valuation. In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. The provisions of this Statement will be effective for the Town beginning with its year ending June 30, 2012.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

- **GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements***, issued November 2010, will be effective for the Town beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Specifically, this Statement improves financial reporting by establishing recognition, measurement, and disclosure requirements SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.
- **GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34***, issued November 2010, will be effective for the Town beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.
- **GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements***, issued January 2011, will be effective for the Town beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.
- **GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***, issued July 2011, will be effective for the Town beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

- **GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*** (an amendment of GASB Statement No. 53), issued July 2011, will be effective for the Town beginning with its year ending June 30, 2012. This Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (a) the collectibility of swap payments is considered to be probable, (b) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (c) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied.

Note 17. Subsequent Events

Bond anticipation notes

Bond anticipation notes dated July 27, 2011 and October 28, 2011 were issued in the amounts of \$2,285,000 and \$4,235,000, respectively. Both the July 27, 2011 and October 28, 2011 bond anticipation notes mature July 26, 2012.

The \$4,235,000 bond anticipation notes were issued at 1.0% to finance the acquisition of the Darrow Pond Property approved at referendum.

The \$2,285,000 bond anticipation notes were issued at 1.5% to finance the costs of various capital improvement projects.

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**Required Supplementary
Information**

TOWN OF EAST LYME, CONNECTICUT

**REQUIRED SUPPLEMENTARY INFORMATION
PENSION TRUST AND OPEB
June 30, 2011**

Schedule of Funding Progress - Pension

Fiscal Year	(1)	(2)	(3)	(4)	(5)	(6)
	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2)-(1)	Funded Ratio (1)/(2)	Annual Covered Payroll	UAAL As a % of Payroll ((2)-(1))/(5)
* 06/30/2006	\$ 6,850,721	\$ 6,850,721	\$ -	100.0%	\$ 6,132,890	-
06/30/2007	6,876,025	9,761,154	2,885,129	70.4%	6,635,165	(43.5)%
06/30/2008	7,189,058	10,727,282	3,538,224	67.0%	6,714,774	(52.7)%
06/30/2009	7,616,354	13,299,312	5,682,758	57.3%	7,219,904	(78.7)%
06/30/2010	8,357,352	13,315,443	4,958,091	62.8%	7,641,981	(64.9)%
06/30/2011	10,722,350	15,207,773	4,485,423	70.5%	7,318,648	(61.3)%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Actual Contribution	Percentage Contributed
2006	\$ 469,903	\$ 469,903	100.0%
2007	531,455	531,455	100.0%
2008	605,163	605,163	100.0%
2009	675,251	675,251	100.0%
2010	750,941	750,941	100.0%
2011	850,037	850,037	100.0%

* Prior to the adoption of GASB 50, GASB 25 and GASB 27 defined the Actuarial Accrued Liability under the Aggregate method to be equal to the Actuarial Value of Assets. Subsequent to the adoption of GASB 50 for periods beginning after June 25, 2007, funded status information is prepared using the entry age actuarial cost method. The information presented above is intended to serve as a surrogate for the funded status and funding progress of the plan.

Schedule of Funding Progress - OPEB

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL	Funded Ratio	Covered Payroll (Total)	UAAL as a Percentage of Payroll Covered
7/1/2008	\$ -	\$ 12,751,400	\$ 12,751,400	0.0%	\$ 24,900,000	51.2%
7/1/2010	-	13,999,300	13,999,300	0.0%	28,599,000	49.0%

Schedule of Employer Contributions - OPEB

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
06/30/09	\$ 1,129,500	02.00%
06/30/10	1,146,300	19.90%
06/30/11	1,163,800	21.20%

TOWN OF EAST LYME, CONNECTICUT

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES AND EXPENDITURES - BUDGETARY BASIS - BUDGET AND ACTUAL -
GENERAL FUND

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes, interest and lien fees	\$ 45,239,260	\$ 45,239,260	\$ 45,104,072	\$ (135,188)
Intergovernmental	8,979,186	9,127,496	8,007,922	(1,119,574)
Charges for services	4,328,723	4,329,223	4,375,230	46,007
Income from investments	75,000	75,000	68,453	(6,547)
Total revenues	58,622,169	58,770,979	57,555,677	(1,215,302)
EXPENDITURES				
Current:				
General government	6,052,481	6,003,565	5,859,397	144,168
Public safety	3,266,466	3,367,181	3,235,354	131,827
Public works	3,417,037	3,526,704	3,222,113	304,591
Health and welfare	260,854	262,711	249,922	12,789
Culture and recreation	1,741,605	1,750,932	1,735,191	15,741
Education	39,917,597	39,917,597	38,653,969	1,263,628
Capital outlay	628,003	604,163	493,048	111,115
Debt service	5,456,688	5,456,688	5,411,692	44,996
Total expenditures	60,740,731	60,889,541	58,860,686	2,028,855
Revenues over (under) expenditures	(2,118,562)	(2,118,562)	(1,305,009)	813,553
OTHER FINANCING SOURCES (USES)				
Transfers in	2,148,562	2,148,562	2,158,562	10,000
Transfers (out)	(30,000)	(30,000)	(121,144)	(91,144)
Total other financing sources (uses)	2,118,562	2,118,562	2,037,418	(81,144)
Total	\$ -	\$ -	\$ 732,409	\$ 732,409

See note to required supplementary information

TOWN OF EAST LYME, CONNECTICUT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2011

General Fund

The Town establishes its general fund budget in accordance with provisions of its Town Charter and Connecticut General Statutes.

- A budget for the general fund is authorized by the Board of Finance. The Board of Finance follows these procedures in establishing the budgetary data reflected in the financial statements:
 - The citizens of the Town vote on the recommended budget.
 - The Board of Finance sets the tax rate for the fiscal year.
 - All budget transfers must be approved by the Board of Finance.
 - All unencumbered appropriations of the general fund lapse at year-end.
- Formal budgetary integration is employed as a management control device during the year for the general fund.
- The legal level of control, the level at which expenditures may not legally exceed appropriations, is at the department level.
- The Board of Education is authorized under State law to make any transfers within their budget at their discretion. Any additional appropriations must have Board of Education and Board of Finance approval and, if over \$10,000, Town Meeting approval.
- During the year, additional appropriation requests are submitted by the department heads to the Board of Selectmen. The Board of Selectmen act on the requests, which, if approved, are sent to the Board of Finance. The Board of Finance then acts on the requests.
- Any additional appropriation requires approval at a Town Meeting if it exceeds \$10,000 or is a second request by the asking board commission or department. Additional appropriation is for the year ended June 30, 2011 aggregated approximately \$148,000 for the General Fund.
- 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 in the current year. Generally, all unencumbered appropriations lapse at year-end, except for those in the Capital Projects Funds. Appropriations for capital projects are continued until completion of applicable projects, even when projects extend more than one fiscal year.

(Continued)

TOWN OF EAST LYME, CONNECTICUT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION. Continued
June 30, 2011

A reconciliation of General Fund operations presented in accordance with accounting principles generally accepted in the United States of America ("GAAP") to the amounts presented on the budgetary basis is as follows:

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Balance, budgetary basis	\$ 59,714,239	\$ 58,981,830
State Teachers Retirement payments made by State Department of Education on behalf of the Town, not recognized for budgetary purposes	3,005,000	3,005,000
Refunding, net	12,791,861	12,791,861
Effect of implementation of GASB 54	1,708,251	1,670,427
Encumbrances:		
June 30, 2010	-	289,266
June 30, 2011		(102,098)
Cancellation of prior year encumbrances	(36,750)	(36,750)
Balance, GAAP basis	<u>\$ 77,182,601</u>	<u>\$ 76,599,536</u>

**Supplemental and Combining
Nonmajor Fund Statements and Schedules**

General Fund

General Fund

The general fund is the principal fund of the Town and is used to account for all activities of the Town, except those required to be accounted for in another fund. The general fund accounts for the normal recurring activities of the Town (i.e., general government, public safety, public works, health, social services, recreation, education, etc.) These activities are funded principally by property taxes, user fees and grants from other governmental units.

TOWN OF EAST LYME, CONNECTICUT

GENERAL FUND REVENUES AND OTHER FINANCING SOURCES - BUDGETARY BASIS -
BUDGET AND ACTUAL

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget
				Positive (Negative)
TAXES, INTEREST AND LIEN FEES				
Current Taxes	\$ 44,699,260	\$ 44,699,260	\$ 44,367,687	\$ (331,573)
Prior Taxes	335,000	335,000	485,904	150,904
Interest and Lien Fees	205,000	205,000	250,481	45,481
Total taxes, interest and lien fees	45,239,260	45,239,260	45,104,072	(135,188)
INTERGOVERNMENTAL				
Education cost sharing	7,100,611	7,100,611	6,098,146	(1,002,465)
Transportation	114,569	114,569	79,574	(34,995)
School facilities bond subsidy	22,000	22,000		(22,000)
Town aid roads	160,313	160,313	161,781	1,468
Local Capital Improvement	122,534	122,534	-	(122,534)
Miscellaneous	-	58,800	67,800	9,000
Youth Service Bureau	24,700	30,950	27,227	(3,723)
Tax relief-telephone taxes	100,471	100,471	64,207	(36,264)
PILOT - State owned property	763,877	763,877	768,259	4,382
Pequot fund	328,821	328,821	329,458	637
PILOT - Hospital and Colleges	48,556	48,556	48,740	184
Tax relief machinery and equipment	20,147	20,147	17,837	(2,310)
Tax relief for elderly	92,867	92,867	113,591	20,724
Tax relief for disabled	900	900	1,017	117
Civil Preparedness	30,000	30,000	55,580	25,580
Tax relief for boats	22,320	22,320	35,152	12,832
Tax relief for veterans	14,000	14,000	18,222	4,222
State grant - CERT	4,000	4,000	128	(3,872)
State grant - DUI	-	57,900	4,358	(53,542)
State Grant Affordable Housing	-	5,660	5,522	(138)
Other grants	-	-	87,586	87,586
Beautification grant	-	1,500	-	(1,500)
Nuclear Safety Emergency Grant	8,500	26,700	23,737	(2,963)
Total intergovernmental	8,979,186	9,127,496	8,007,922	(1,119,574)
CHARGES FOR SERVICES				
Licenses and Permits:				
Building permits	180,000	180,000	226,733	46,733
Beach and recreation town funds	103,500	103,500	97,602	(5,898)
ZBA and planning commission	10,000	10,000	5,895	(4,105)
Conveyance tax	240,000	240,000	231,645	(8,355)
Dog licenses	10,000	10,000	10,777	777
Town Clerk fees	165,000	165,000	151,965	(13,035)
Zoning commission - Maps and permits	25,000	25,000	32,675	7,675
Solid waste removal license	525	525	375	(150)
Shellfish Permits	2,694	2,694	2,070	(624)

(Continued)

TOWN OF EAST LYME, CONNECTICUT

GENERAL FUND REVENUES AND OTHER FINANCING SOURCES - BUDGETARY BASIS -
 BUDGET AND ACTUAL, Continued
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget
				Positive
				(Negative)
CHARGES FOR SERVICES, CONTINUED				
Licenses and Permits, Continued:				
Conservation permits	17,000	17,000	5,595	(11,405)
Mooring Permits	4,675	4,675	7,445	2,770
Total licenses and permits	758,394	758,394	772,777	14,383
Fines and Forfeits:				
Parking Fees	6,000	6,000	10,187	4,187
Extra duty - police and fire	20,000	20,000	54,812	34,812
TC office fees	4,100	4,100	4,756	656
TC Fish and Game fees	750	750	493	(257)
Total licenses and permits	30,850	30,850	70,248	39,398
CHARGES FOR SERVICES				
Tuition - other districts	2,767,446	2,767,446	2,722,343	(45,103)
Rent - cini park	13,840	13,840	11,729	(2,111)
Debt payment - Salem	92,353	92,353	92,353	-
Tipping fees commercial	280,000	280,000	278,345	(1,655)
Transportation subsidy	45,335	45,335	48,313	2,978
Recycling - other	17,000	17,000	30,005	13,005
Recycling - newspaper/cardboard	12,500	12,500	32,635	20,135
MSW containers	7,100	7,100	3,252	(3,848)
Pistol, Fire, & Loding	3,000	3,000	6,230	3,230
Assessor	5,000	5,000	3,984	(1,016)
Aging	50,600	50,600	45,836	(4,764)
Landfill deposits	135,000	135,000	136,921	1,921
Financial department	62,000	62,000	55,221	(6,779)
Tax collector	600	600	751	151
BOE miscellaneous	-	-	1,337	1,337
Police	150	150	5	(145)
Selectman's office	900	1,400	620	(780)
Wetland Fees	3,380	3,380	306	(3,074)
Smith-Harris commission	1,000	1,000	275	(725)
Town miscellaneous	5,000	5,000	33,372	28,372
Water and sewer services	6,775	6,775	6,775	-
Returned check fees	500	500	1,216	716
Youth services	30,000	30,000	20,381	(9,619)
Total charges for services	3,539,479	3,539,979	3,532,205	(7,774)
Total charges for services	4,328,723	4,329,223	4,375,230	46,007
INCOME FROM INVESTMENTS				
Interest Income	75,000	75,000	68,453	(6,547)
Total revenues	58,622,169	58,770,979	57,555,677	(1,215,302)

(Continued)

TOWN OF EAST LYME, CONNECTICUT

GENERAL FUND REVENUES AND OTHER FINANCING SOURCES - BUDGETARY BASIS -
 BUDGET AND ACTUAL, Continued
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES				
Transfers in	2,148,562	2,148,562	2,158,562	10,000
	2,148,562	2,148,562	2,158,562	10,000
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 60,770,731	\$ 60,919,541	\$ 59,714,239	\$ (1,205,302)

(Concluded)

TOWN OF EAST LYME, CONNECTICUT

GENERAL FUND EXPENDITURES AND OTHER FINANCING USES - BUDGETARY BASIS -
BUDGET AND ACTUAL

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget
				Positive (Negative)
GENERAL GOVERNMENT				
First Selectman	\$ 210,776	215,248	\$ 209,376	\$ 5,872
Assessor's office	186,313	188,109	186,740	1,369
Tax collector	150,897	152,475	152,131	344
Building official	151,547	148,392	142,149	6,243
Town engineer	284,211	288,307	288,019	288
Human resources	40,128	41,057	41,011	46
Town clerk	184,556	185,766	171,744	14,022
Health department	144,549	144,549	144,548	1
Information Technology	78,289	79,447	79,239	208
Registrars	90,305	96,823	91,093	5,730
Judge of Probate	5,000	5,000	5,000	-
Maintenance of town buildings	659,213	678,989	656,705	22,284
General government and benefits	3,181,970	3,186,186	3,186,883	(697)
Community services	26,151	26,151	25,151	1,000
Zoning commission	75,303	77,061	75,331	1,730
Planning department	63,201	64,516	64,219	297
Finance department	210,918	212,375	208,774	3,601
Contingency funds	208,400	112,169	53,178	58,991
Board of finance	35,200	35,200	33,887	1,313
Board of assessment appeals	2,514	2,360	1,067	1,293
Planning commission	2,900	2,900	1,848	1,052
Zoning board of appeals	950	950	372	578
Economic Development Commission	5,900	5,900	5,624	276
Inland wetlands agency	25,816	26,141	14,895	11,246
Conservation commission	1,750	1,750	928	822
Waterford/ East Lyme shellfish commission	500	500	500	-
Smith-Harris Commission	12,150	12,150	10,484	1,666
Town building committee	1,000	1,000	535	465
Harbor management commission	12,074	12,094	7,966	4,128
Total General Government	6,052,481	6,003,565	5,859,397	144,168
PUBLIC SAFETY				
Police department	1,863,397	1,940,669	1,838,624	102,045
Niantic fire department	436,937	446,736	441,620	5,116
Flanders fire department	335,836	342,770	331,532	11,238
Emergency management	579,902	586,612	573,526	13,086
Animal Control	50,394	50,394	50,052	342
Total public safety	3,266,466	3,367,181	3,235,354	131,827
PUBLIC WORKS				
Highways and sanitation	3,417,037	3,526,704	3,222,113	304,591
Total public works	3,417,037	3,526,704	3,222,113	304,591

(Continued)

TOWN OF EAST LYME, CONNECTICUT

GENERAL FUND EXPENDITURES AND OTHER FINANCING USES - BUDGETARY BASIS -
 BUDGET AND ACTUAL, Continued
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
HEALTH AND WELFARE				
Commission on aging	242,092	243,949	239,067	4,882
Visiting nurses association	18,762	18,762	10,855	7,907
Total health and welfare	260,854	262,711	249,922	12,789
BOARD OF EDUCATION				
	39,917,597	39,917,597	38,653,969	1,263,628
CULTURE AND RECREATION				
East Lyme public library	953,179	953,179	953,179	-
Parks and recreation	652,866	654,716	645,577	9,139
Youth Services Commission	135,560	143,037	136,435	6,602
Total culture and recreation	1,741,605	1,750,932	1,735,191	15,741
CAPITAL OUTLAY				
Town - Capital improvement program	543,843	520,003	408,888	111,115
Town - Special Appropriations	84,160	84,160	84,160	-
Total capital outlay	628,003	604,163	493,048	111,115
DEBT SERVICE				
Redemption of debt - principal	3,932,326	3,932,326	3,932,326	-
Interest payments	1,524,362	1,524,362	1,479,366	44,996
Total debt service	5,456,688	5,456,688	5,411,692	44,996
TOTAL EXPENDITURES				
	60,740,731	60,889,541	58,860,686	2,028,855
OTHER FINANCING USES				
Transfers out	30,000	30,000	121,144	(91,144)
Total other financing uses	30,000	30,000	121,144	(91,144)
TOTAL EXPENDITURES				
OTHER FINANCING USES				
	\$ 60,770,731	60,919,541	\$ 58,981,830	\$ 1,937,711

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Nonmajor Governmental Funds

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Water Fund – the fund is to account for the activities of the Town's' Water Department.

School Lunch Fund - is used to account for operations of the school lunch program, including the receipt and expenditure of related federal and state funding.

Special Education Grant Fund - is used to account for U.S. Department of Education and Connecticut Department of Education grants, as well as local grants relating to education.

Historic Preservation Fund - is used to account for land record receipts earmarked for preservation of Town documents.

Capital Project Funds

Capital Project Funds are used to report all financial resources that are restricted, committed, or assigned for capital outlay.

Capital Nonrecurring Fund – is used to account for revenue and expenditures associated with nonrecurring capital items.

Permanent Fund

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

McCook Point Memorial Fund – is used to account for a donation to support Town projects.

TOWN OF EAST LYME, CONNECTICUT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2011

	Special Revenue				Capital Project	Permanent Fund	Total Nonmajor Funds
	Water Department	School Lunch Fund	Special Education Grant Fund	Historic Preservation Fund	Capital Nonrecurring Fund	McCook Memorial Fund	
ASSETS							
Cash	\$ 877,648	\$ 40,310	\$ 35,511	\$ -	\$ 2,199,121	\$ 1,800	\$ 3,154,390
Intergovernmental receivables	-	25,946	167,574	-	-	-	193,520
Assessments/user charges	620,269	-	-	-	-	-	620,269
Inventory	27,000	-	-	-	-	-	27,000
Due from other funds	2,641	-	-	9,516	462,217	-	474,374
Total assets	\$ 1,527,558	\$ 66,256	\$ 203,085	\$ 9,516	\$ 2,661,338	\$ 1,800	\$ 4,469,553
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 408,310	\$ 122,947	\$ 16,903	\$ -	\$ 166,226	\$ -	\$ 714,386
Due to other funds	135,187	-	-	-	353,849	890	489,926
Unearned revenue	-	-	186,182	-	-	-	186,182
Deferred revenue	481,601	-	-	-	-	-	481,601
Total liabilities	1,025,098	122,947	203,085	-	520,075	890	1,872,095
Fund Balances (Deficits)							
Nonspendable	-	-	-	-	-	910	910
Restricted	-	-	-	9,516	-	-	9,516
Committed	502,460	-	-	-	2,141,263	-	2,643,723
Unassigned	-	(56,691)	-	-	-	-	(56,691)
Total fund balances (deficits)	502,460	(56,691)	-	9,516	2,141,263	910	2,597,458
Total liabilities and fund balances (deficits)	\$ 1,527,558	\$ 66,256	\$ 203,085	\$ 9,516	\$ 2,661,338	\$ 1,800	\$ 4,469,553

TOWN OF EAST LYME, CONNECTICUT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ending June 30, 2011

	Special Revenue				Capital Project	Permanent Fund	Total Nonmajor Funds
	Water Department	School Lunch Fund	Special Education Grant Fund	Historic Preservation Fund	Capital Nonrecurring Fund	McCook Memorial Funds	
REVENUES							
Intergovernmental	\$ -	\$ 160,736	\$ 1,787,352	\$ 3,000	\$ 847,899	\$ -	\$ 2,798,987
Charges for services	2,198,764	647,998	-	3,890	104,426	-	2,955,078
Interest income	158	-	-	-	5,072	1	5,231
Total revenues	2,198,922	808,734	1,787,352	6,890	957,397	1	5,759,296
EXPENDITURES							
Current:							
Culture and recreation	-	-	-	7,201	-	890	8,091
Public works	1,696,862	-	-	-	-	-	1,696,862
Education	-	834,951	1,787,352	-	-	-	2,622,303
Debt service	510,693	-	-	-	-	-	510,693
Capital outlay	-	-	-	-	2,519,651	-	2,519,651
Total expenditures	2,207,555	834,951	1,787,352	7,201	2,519,651	890	7,357,600
Revenues over (under) expenditures	(8,633)	(26,217)	-	(311)	(1,562,254)	(889)	(1,598,304)
OTHER FINANCING SOURCES (USES)							
Capital leases	-	-	-	-	834,232	-	834,232
Transfers in	-	-	-	-	73,379	-	73,379
Transfers (out)	-	-	-	-	(32,235)	-	(32,235)
Bond premium	-	-	-	-	10,155	-	10,155
Issuance of bonds	-	-	-	-	3,860,000	-	3,860,000
Total other financing sources (uses)	-	-	-	-	4,745,531	-	4,745,531
Change in fund balances (deficits)	(8,633)	(26,217)	-	(311)	3,183,277	(889)	3,147,227
FUND BALANCES (DEFICITS), beginning	511,093	(30,474)	-	9,827	(1,042,014)	1,799	(549,769)
FUND BALANCES (DEFICITS), ending	\$ 502,460	\$ (56,691)	\$ -	\$ 9,516	\$ 2,141,263	\$ 910	\$ 2,597,458

Fiduciary Funds

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the Town in a trustee capacity for individuals, private organizations or other governments.

Private-Purpose Trust Funds

A fiduciary trust fund type used to report all trust arrangements, other than those properly reported in a pension trust fund or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments.

Agency Funds

Agency funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

Student Activity Fund - is used to receive student funds and promote the educational and student activities of students.

Performance Bonds - is used to account for performance bonds held by the Town until such time the bonds are released.

TOWN OF EAST LYME, CONNECTICUT

COMBINING STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

June 30, 2011

	Private-Purpose Trust Funds		
	N. Parahus Senior Citizens Fund	Clarence A. Haynes Fund	Total Private Purpose Trust Funds
ASSETS			
Cash	\$ 27,291	\$ 3,109	\$ 30,400
Total assets	<u>27,291</u>	<u>3,109</u>	<u>30,400</u>
LIABILITIES			
Due to other funds	331	-	331
Total liabilities	<u>331</u>	<u>-</u>	<u>331</u>
NET ASSETS HELD IN TRUST FOR OTHER PURPOSES	<u>\$ 26,960</u>	<u>\$ 3,109</u>	<u>\$ 30,069</u>

TOWN OF EAST LYME, CONNECTICUT

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

For the Year Ended June 30, 2011

	Private-Purpose Trust Funds		
	N. Parahus Senior Citizens Fund	Clarence A. Haynes Fund	Total Private Purpose Trust Funds
ADDITIONS			
Contributions:			
Private	\$ 4,654	\$ -	\$ 4,654
Total contributions	<u>4,654</u>	<u>-</u>	<u>4,654</u>
Investments:			
Interest income	67	2	69
Total investment income	<u>67</u>	<u>2</u>	<u>69</u>
Changes in net assets	4,721	2	4,723
NET ASSETS, July 1, 2010	<u>22,239</u>	<u>3,107</u>	<u>25,346</u>
NET ASSETS, June 30, 2011	<u>\$ 26,960</u>	<u>\$ 3,109</u>	<u>\$ 30,069</u>

TOWN OF EAST LYME, CONNECTICUT

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUNDS

June 30, 2011

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
ASSETS				
Cash and cash equivalents:				
Student activity fund	\$ 559,342	\$ 992,357	\$ 964,499	\$ 587,200
Performance bonds	2,146,347	12,104	215,068	1,943,383
Total assets	2,705,689	1,004,461	1,179,567	2,530,583
LIABILITIES				
Student activity fund	\$ 559,342	\$ 992,357	\$ 964,499	\$ 587,200
Performance bonds	2,146,347	12,104	215,068	1,943,383
Total liabilities	\$ 2,705,689	\$ 1,004,461	\$ 1,179,567	\$ 2,530,583

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**Capital Assets Used in the Operation
of Governmental Funds**

CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS

Capital assets used in governmental fund type operations are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their market value on the date donated.

TOWN OF EAST LYME, CONNECTICUT

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY CATEGORY

June 30, 2011

Governmental funds capital assets:

Land	\$ 8,994,862
Construction in progress	3,383,091
Buildings and improvements	118,136,581
Machinery and equipment	5,839,543
Vehicles	7,535,399
Infrastructure	19,104,928
Water distribution system	22,006,646
Total governmental funds capital assets	<u>\$ 185,001,050</u>

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Other Schedules

TOWN OF EAST LYME, CONNECTICUT

BALANCE SHEET - BY ACCOUNT - GENERAL FUND

June 30, 2011

	General Fund	Board of Education Special Fund	NBB Maintenance Fund	Parks and Recreation Fund	Eliminate Interfund Receivables	Totals
ASSETS						
Cash	\$ 3,423,825	\$ 657,406	\$ -	\$ -	\$ -	\$ 4,081,231
Investments	3,008,448	-	-	-	-	3,008,448
Intergovernmental receivables	96,844	-	-	-	-	96,844
Property taxes	1,344,804	-	-	-	-	1,344,804
Assessments/user charges	69,430	-	-	-	-	69,430
Other	199,859	-	-	-	-	199,859
Due from other funds	322,632	-	2,272	70,336	(72,608)	322,632
Total assets	\$ 8,465,842	\$ 657,406	\$ 2,272	\$ 70,336	\$ (72,608)	\$ 9,123,248
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 1,404,365	\$ -	\$ -	\$ 2,568	\$ -	\$ 1,406,933
Due to other funds	654,250	-	-	10,000	(72,608)	591,642
Unearned revenue	266,956	-	-	-	-	266,956
Deferred revenue	1,502,752	-	-	-	-	1,502,752
Total liabilities	3,828,323	-	-	12,568	(72,608)	3,768,283
FUND BALANCES						
Assigned	555,598	657,406	2,272	57,768	-	1,273,044
Unassigned	4,081,921	-	-	-	-	4,081,921
Total fund balances	4,637,519	657,406	2,272	57,768	-	5,354,965
Total liabilities and fund balances	\$ 8,465,842	\$ 657,406	\$ 2,272	\$ 70,336	\$ (72,608)	\$ 9,123,248

TOWN OF EAST LYME, CONNECTICUT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BY ACCOUNT -
GENERAL FUND

For the Year Ended June 30, 2011

	General Fund	Board of Education Special Fund	NBB Maintenance Fund	Parks and Recreation Fund	Eliminate Interfund Receivables	Totals
REVENUES						
Property taxes	\$ 45,105,288	\$ -	\$ -	\$ -	\$ -	\$ 45,105,288
Intergovernmental	11,012,922	-	-	-	-	11,012,922
Charges for services	4,347,264	1,411,428	-	296,183	-	6,054,875
Interest income	68,453	640	-	-	-	69,093
Total revenues	60,533,927	1,412,068	-	296,183	-	62,242,178
EXPENDITURES						
Current:						
Culture and recreation	1,735,191	-	-	228,415	-	1,963,606
Public works	3,374,598	-	-	-	-	3,374,598
Education	41,658,969	1,431,724	-	-	-	43,090,693
General government	5,857,917	-	-	-	-	5,857,917
Public safety	3,239,321	-	-	-	-	3,239,321
Health and welfare	248,282	-	-	-	-	248,282
Capital outlay	500,135	-	288	-	-	500,423
Debt service:						
Principal	4,150,326	-	-	-	-	4,150,326
Interest	1,403,228	-	-	-	-	1,403,228
Total expenditures	62,167,967	1,431,724	288	228,415	-	63,828,394
Revenues over (under) expenditures	(1,634,040)	(19,656)	(288)	67,768	-	(1,586,216)
OTHER FINANCING SOURCES (USES)						
Transfers in	2,158,562	-	-	-	(10,000)	2,148,562
Transfers (out)	(121,144)	-	-	(10,000)	10,000	(121,144)
Bond premium	586,861	-	-	-	-	586,861
Issuance of bonds	12,205,000	-	-	-	-	12,205,000
Payment to escrow	(12,649,998)	-	-	-	-	(12,649,998)
Total other financing sources (uses)	2,179,281	-	-	(10,000)	-	2,169,281
Change in fund balances (deficits)	545,241	(19,656)	(288)	57,768	-	583,065
FUND BALANCES, beginning	4,092,278	677,062	2,560	-	-	4,771,900
FUND BALANCES, ending	\$ 4,637,519	\$ 657,406	\$ 2,272	\$ 57,768	\$ -	\$ 5,354,965

TOWN OF EAST LYME, CONNECTICUT

SCHEDULE OF PROPERTY TAXES LEVIED, COLLECTED AND OUTSTANDING

For the Year Ended June 30, 2011

Grand List Year	Balance Uncollected July 1, 2010	Current Levy	Lawful Corrections			Transfers to Suspense	Balance to be Collected	Collections			Balance Uncollected June 30, 2011
			Additions	Deletions				Taxes	Interest and Lien Fees	Total	
1995	\$ 3,030	\$ -	\$ 143	\$ -	\$ -	\$ 3,173	\$ 179	\$ 460	\$ 639	\$ 2,994	
1996	3,065	-	255	-	-	3,320	254	629	883	3,066	
1997	3,273	-	26	-	-	3,299	26	59	85	3,273	
1998	3,070	-	-	-	-	3,070	-	-	-	3,070	
1999	3,433	-	-	2	-	3,431	-	-	-	3,431	
2000	4,823	-	155	-	92	4,886	64	-	64	4,822	
2001	5,719	-	103	-	60	5,762	80	52	132	5,682	
2002	8,301	-	167	-	59	8,409	153	52	205	8,256	
2003	10,574	-	1,356	-	1,343	10,587	(2,384)	-	(2,384)	12,971	
2004	22,149	-	4,029	-	3,999	22,179	430	524	954	21,749	
2005	56,779	-	11,124	447	10,871	56,585	6,330	2,875	9,205	50,255	
2006	82,721	-	8,838	16,636	8,786	66,137	6,456	13,020	19,476	59,681	
2007	209,017	-	8,783	21,803	3,412	192,585	102,761	29,736	132,497	89,824	
2008	597,118	-	15,250	30,635	1,000	580,733	370,577	76,311	446,888	210,156	
2009		45,166,981	20,029	204,596	762	44,981,652	44,367,689	127,098	44,494,787	613,963	
	<u>\$ 1,013,072</u>	<u>\$ 45,166,981</u>	<u>\$ 70,258</u>	<u>\$ 274,119</u>	<u>\$ 30,384</u>	<u>\$ 45,945,808</u>	<u>\$ 44,852,615</u>	<u>\$ 250,816</u>	<u>\$ 45,103,431</u>	<u>\$ 1,093,193</u>	

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