



# OFFICIAL STATEMENT

## NEW MONEY

## MOODY'S RATING:

(See "Ratings" herein)

*In the opinion of Bond Counsel, based on existing statutes and court decisions and assuming continuing compliance with certain covenants and procedures relating to requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds is excluded from gross income for federal income tax purposes and is not treated as an item of tax preference for purposes of computing the federal alternative minimum tax. Interest on the Bonds may be includable in the calculation of certain taxes under the Code, including the federal alternative minimum tax imposed on certain corporations. In the opinion of Bond Counsel, based on existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates, and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax. (See "Tax Matters" herein).*

## TOWN OF EAST LYME, CONNECTICUT

### \$3,860,000

### GENERAL OBLIGATION BONDS, ISSUE OF 2011 (BANK QUALIFIED) BOOK-ENTRY ONLY

#### **Dated: Date of Delivery**

#### **Due: February 1, as shown below**

The Bonds will be general obligations of the Town of East Lyme, Connecticut (the "Town") and the Town will pledge its full faith and credit to pay the principal of and the interest on the Bonds when due. (See "Security and Remedies" herein).

The Bonds will bear interest payable semiannually on February 1 and August 1 in each year until maturity, commencing August 1, 2011.

The Bonds are issuable only as fully registered bonds, without coupons, and when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. So long as Cede & Co. is the Bondowner, as nominee of DTC, reference herein to the Bondowner or owners shall mean Cede & Co. as aforesaid, and shall not mean the Beneficial Owners (as described herein) of the Bonds. (See "Book-Entry Transfer System" herein).

**The Bonds are subject to optional redemption prior to maturity as described herein. (See "Optional Redemption" herein).**

The Certifying, Registrar, Transfer and Paying Agent for the Bonds will be U.S. Bank National Association, in Hartford, Connecticut.

The Bonds are being offered for sale in accordance with an official Notice of Sale dated January 14, 2011. Electronic bids via **PARITY®** for the Bonds will be received until 11:00 A.M. (E.S.T.) on January 25, 2011, at the office of the Director of Finance, Town Hall, 108 Pennsylvania Avenue, Niantic, Connecticut 06357, as described in the Notice of Sale. (See Appendix D herein.)

#### MATURITY SCHEDULE AND AMOUNTS

Maturity	Amount	Interest Rate	Yield	CUSIP	Maturity	Amount	Interest Rate	Yield	CUSIP
2014	\$ 175,000	%	%	273587***	2023	\$ 225,000	%	%	273587***
2015	175,000			273587***	2024	225,000			273587***
2016	175,000			273587***	2025	225,000			273587***
2017	175,000			273587***	2026	225,000			273587***
2018	175,000			273587***	2027	225,000			273587***
2019	225,000			273587***	2028	225,000			273587***
2020	225,000			273587***	2029	225,000			273587***
2021	225,000			273587***	2030	250,000			273587***
2022	225,000			273587***	2031	260,000			273587***

*The Bonds are offered for delivery when, as and if issued, subject to the final approving opinion of Robinson & Cole LLP, Bond Counsel, of Hartford, Connecticut. It is expected that delivery of the Bonds in book-entry form will be made to DTC on or about February 9, 2011.*

**Dated: January 14, 2011**

No dealer, broker, salesman or other person has been authorized by the Town of East Lyme, Connecticut (the "Town") to give any information or to make any representations, other than those contained in this Official Statement and if given or made, such other information or representation must not be relied upon as having been authorized by the Town. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained by the Town from sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness.

This Official Statement has been prepared only in connection with the initial offering and sale of the Bonds and may not be reproduced or used in whole or in part for any other purpose.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Town since the date of this Official Statement.

Other than as to matters expressly set forth in Appendix A – "Audited Financial Statements" hereto is a copy of the report of the independent auditors for the Town with respect to the financial statements of the Town included in that appendix. The report speaks only as of its date, and only to matters expressly set forth therein. The auditors have not been engaged to review this Official Statement or to perform audit procedures regarding the post-audit period, nor have the auditors been requested to give their consent to inclusion of their report in Appendix A. Except as stated in their report, the auditors have not been engaged to verify the financial information set out in Appendix A and are not passing upon and do not assume responsibility for sufficiency, accuracy or completeness of the financial information presented in that appendix.

Other than as to matters expressly set forth in Appendix B "Form of Opinion of Bond Counsel", herein, Bond Counsel are not passing on and does not assume any responsibility for the accuracy or adequacy of the statements made in this Official Statement and makes no representation that they has independently verified the same.

Independent Bond and Investment Consultants LLC, the Town's Financial Advisor, has assisted the Town in the preparation of this Official Statement from information supplied by Town officials and other sources. Independent Bond and Investment Consultants LLC does not assume responsibility for the adequacy or accuracy of the statements made herein and makes no representation that it has independently verified the same.

The Town deems this Official Statement to be "final" for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), but is subject to revision or amendment.

In accordance with the requirements of Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the Town will agree to provide, or cause to be provided (i) annual financial information and operating data, (ii) notice of the occurrence of certain material events within 10 days of the occurrence of such events; and (iii) timely notice of a failure by the Town to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement to be executed by the Town in substantially the form contained in Appendix C to this Official Statement.

The Town has previously undertaken in continuing disclosure agreements entered into for the benefit of holders of certain of its general obligation bonds and notes to provide certain annual financial information and event notices pursuant to Rule 15c2-12(b)(5). To date the Town has not failed to meet any of its undertakings under such agreements.

**BOND COUNSEL**

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## BOND SALE SUMMARY

The information in this Bond Sale Summary is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. The Official Statement speaks only as of its date and the information herein is subject to change.

<b>Date of Sale:</b>	Tuesday, January 25, 2011, at 11:00 A.M. (E.S.T).
<b>Location of Sale:</b>	The office of the Director of Finance, Town Hall, 108 Pennsylvania Avenue, Niantic, Connecticut 06357.
<b>Issuer:</b>	Town of East Lyme, Connecticut (the "Town").
<b>Issue:</b>	\$3,860,000 General Obligation Bonds, Issue of 2011 (the "Bonds").
<b>Dated Date:</b>	Date of Delivery.
<b>Interest Due:</b>	February 1 and August 1 in each year of maturity, commencing August 1, 2011.
<b>Principal Due:</b>	Serially, February 1, 2014 – 2031.
<b>Purpose and Authority:</b>	The Bonds are being issued to finance land acquisition, various road improvements and the acquisition of a fire pumper truck and as authorized by certain resolutions adopted at Special Town Meetings. See "Authorization and Use of Proceeds" herein.
<b>Redemption:</b>	The Bonds are subject to redemption prior to maturity, as more fully described herein.
<b>Security:</b>	The Bonds will be general obligations of the Town and the Town will pledge its full faith and credit to the payment of the principal of and interest on the Bonds when due.
<b>Credit Rating:</b>	The Town has applied for a rating on the Bonds with Moody's Investors Service, Inc. ("Moody's"). The Town's outstanding bonds are currently rated "Aa2" by Moody's. (See "Ratings" herein).
<b>Basis of Award:</b>	Lowest True Interest Cost ("TIC"), as of the dated date.
<b>Tax Exemption:</b>	See "Tax Matters" herein.
<b>Continuing Disclosure Agreement:</b>	In accordance with the requirements of Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the Town will agree to provide, or cause to be provided (i) annual financial information and operating data, (ii) timely notice of the occurrence of certain material events within 10 days of the occurrence of such events; and (iii) timely notice of a failure by the Town to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement to be executed by the Town in substantially the form contained in Appendix C to this Official Statement.
<b>Bank Qualification:</b>	The Bonds SHALL be designated by the Town as qualified tax-exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocation to the Bonds.
<b>Certifying Bank, Registrar, Transfer and Paying Agent:</b>	U.S. Bank National Association of Hartford, Connecticut.
<b>Legal Opinion:</b>	Robinson & Cole LLP, of Hartford, Connecticut will act as Bond Counsel.
<b>Delivery and Payment:</b>	It is expected that delivery of the Bonds in book-entry only form will be made on or about February 9, 2011, against payment in Federal Funds.
<b>Issuer Official:</b>	Questions regarding the Town and this Official Statement should be directed to Anna M. Johnson, Director of Finance, Town of East Lyme, Connecticut - Telephone (860) 691-4111.

## SECTION I - SECURITIES OFFERED

### Introduction

This Official Statement, including the cover page and appendices, is provided for the purpose of presenting certain information relating to the Town of East Lyme, Connecticut (the "Town") in connection with the issuance and sale of \$3,860,000 General Obligation Bonds, Issue of 2011 (the "Bonds") of the Town.

All quotations from the summaries and explanations of provisions of statutes, charters, or other laws and acts and proceedings of the Town contained herein do not purport to be complete and are qualified in their entirety by reference to the original official documents; and all references to the Bonds and the proceedings of the Town relating thereto are qualified in their entirety by reference to the definitive form of the Bonds and such proceedings.

The presentation of information is intended to show recent historical trends and is not intended to indicate future or continuing trends in the financial or other positions of the Town. Except for information expressly attributed to other sources, all financial and other information presented herein has been provided by the Town.

Bond Counsel is not passing upon and does not assume responsibility for the accuracy or adequacy of the statements made in this Official Statement (other than matters expressly set forth in its opinion) and it makes no representation that it has independently verified the same.

### Description of the Bonds

The Bonds will be dated the date of delivery and will mature in annual installments on February 1 in each of the years and in the principal amounts set forth on the cover page hereof. Interest on the Bonds will be payable on February 1 and August 1 in each year of maturity, commencing August 1, 2011. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

A book-entry system will be employed evidencing ownership of the Bonds with transfers of ownership effected on the records of The Depository Trust Company, New York, New York ("DTC"), and its participants pursuant to rules and procedures established by DTC and its participants. (See "Book-Entry Transfer System" herein). The Certifying, Registrar, Transfer and Paying Agent for the Bonds will be U.S. Bank National Association, in Hartford, Connecticut (email: [ctmuniservices@usbank.com](mailto:ctmuniservices@usbank.com)). The Bonds SHALL be designated by the Town as qualified tax-exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended for purposes of the deduction by financial institutions for interest expense allocable to the Bonds. The legal opinion on the Bonds will be rendered by Robinson & Cole LLP of Hartford, Connecticut. (See "Appendix B" herein). **The Bonds are subject to redemption prior to maturity. (See "Optional Redemption" herein).**

### Optional Redemption

The Bonds maturing on or before February 1, 2016 are not subject to redemption prior to maturity. The Bonds maturing on February 1, 2017 and thereafter are subject to redemption prior to maturity, at the option of the Town, on and after February 1, 2016, at any time, in whole or in part, and by lot within a maturity, in such amounts and in such order of maturity as the Town may determine at the following redemption price (expressed as a percentage of the principal amount of Bonds to be redeemed) set forth in the following table, plus accrued interest to the redemption date:

<u>Redemption Date</u>	<u>Redemption Price</u>
February 1, 2016 and thereafter	100%

## Notice of Redemption

Notice of redemption shall be given by the Town or its agent by mailing a copy of the redemption notice by first-class mail not less than thirty (30) days nor more than sixty (60) days prior to the redemption date to the registered owner of the Bonds at the address of such registered owner as it appears on the registration books for the Bonds kept for such purpose. Failure to give such notice by mailing to any registered owner, or any defect therein, shall not affect the validity of the redemption of any other Bonds. Upon the giving of such notice, if such funds available solely for redemption are on deposit with the Paying Agent, the Bonds or portions thereof so called for redemption will cease to bear interest after the specified redemption date. So long as Cede & Co., as nominee of the Depository Trust Company ("DTC"), is the registered owners of the Bonds, notice of redemption will be sent on to DTC (or a successor securities depository) or its nominee.

If less than all the Bonds of any one maturity shall be called for redemption, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot in such manner as the Town in its discretion may determine; provided, however, that the portion of any bond to be redeemed shall be in the principal amount of \$5,000 integral multiples, thereof and that, in selecting Bonds for redemption, each bond shall be considered as representing that number of Bonds which is obtained by dividing the principal amount of such bond by \$5,000.

The Town, so long as a book-entry system is used for the Bonds being called for redemption, will send any notice of redemption only to DTC (or a successor securities depository) or its nominee. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify any Indirect Participant or Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of such Bonds called for redemption. Redemption of portions of the Bonds of any maturity by the Town will reduce the outstanding principal amount of Bonds held by DTC. In such event it is the current practice of DTC to allocate by lot, through its book-entry system, among the interest held by DTC Participants in the Bonds to be redeemed, the interest to be reduced by such redemptions in accordance with its own rules or other agreements with DTC Participants. The DTC Participants and Indirect Participants may allocate reductions of the interests in the Bonds to be redeemed held by the Beneficial Owners. Any such allocation of interests in the Bonds to be redeemed will not be governed by the determination of the Town authorizing the issuance of the Bonds and will not be conducted by the Town, the Registrar or Paying Agent.

## Authorization and Use of Proceeds

Authorization. The Bonds are being issued pursuant to Title 7 of the Connecticut General Statutes, as amended, the Charter of the Town of East Lyme and certain bond resolutions adopted by the Town.

**Land Acquisition:** An appropriation and bond authorization in the amount of \$2,900,000 was adopted at a Special Town Meeting on September 23, 2009 for the acquisition of approximately three parcels of land comprising 3.84 acres located at 6 and 8 Capitol Drive and 11 Colton Road in the Town of East Lyme, Connecticut, along with the improvements thereon, and for architects' and engineers' fees and construction costs related to the reuse of certain buildings on the property for storage and maintenance of town vehicles and for construction of surface parking lots on vacant portions of the property, including financing, legal and related costs of issuance.

**Town Road Improvements:** An appropriation and bond authorization in the amount of \$500,000 was adopted at a Special Town Meeting on July 21, 2010 for the rehabilitation of various town roads in the Town of East Lyme, including reconstruction, grinding and overlay, micro paving and chip sealing as defined by the Pavement Management Program, including financing, legal and related costs of issuance.

**Fire Pumper Truck:** An appropriation and bond authorization in the amount of \$460,000 was adopted at a Special Town Meeting on August 18, 2010 for the acquisition of a Triple Combination Class A Pumper Apparatus, including financing, legal and related costs of issuance.

Use of Proceeds. Proceeds of the Bonds will be used to finance the following:

<u>Projects</u>	<u>Amount of Authorization</u>	<u>Notes Maturing February 9, 2011</u>	<u>Additions / (Reductions)</u>	<u>The Bonds</u>
Land Acquisition	\$ 2,900,000	\$ 2,900,000	\$ -	\$ 2,900,000
Town Road Improvements	500,000	-	500,000	500,000
Fire Pumper Truck	460,000	-	460,000	460,000
Total	<u>\$ 3,860,000</u>	<u>\$ 2,900,000</u>	<u>\$ 960,000</u>	<u>\$ 3,860,000</u>



## **Ratings**

The Town has applied for a rating on the Bonds with Moody's Investors Service, Inc. ("Moody's"). The Town's outstanding bonds are currently rated "Aa2" by Moody's. Such rating reflects only the views of such rating agency and any explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following address: Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Town's bonds.

## **Tax Matters**

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements which must be met at and subsequent to delivery of the Bonds in order that interest on the Bonds be and remains excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The Tax Regulatory Agreement, which will be executed and delivered by the Town concurrently with the Bonds, contains representations, covenants and procedures relating to the use, expenditure and investment of proceeds of the Bonds in order to comply with such requirements of the Code. Pursuant to the Tax Regulatory Agreement, the Town also covenants and agrees that it shall perform all things necessary or appropriate under any valid provision of law to ensure interest on the Bonds shall be excluded from gross income for federal income tax purposes under the Code.

In the opinion of Bond Counsel, based on existing statutes and court decisions and assuming continuing compliance by the Town with its covenants and the procedures contained in the Tax Regulatory Agreement, interest on the Bonds is excluded from gross income for federal income tax purposes and is not treated as an item of tax preference for purposes of computing the federal alternative minimum tax. Interest on the Bonds is, however, includable in adjusted current earnings for purposes of computing the federal alternative minimum tax imposed on certain corporations.

Ownership of the Bonds may also result in certain collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security and Railroad Retirement benefits, taxpayers utilizing the earned income credit and taxpayers who have or are deemed to have incurred indebtedness to purchase or carry tax exempt obligations, such as the Bonds. Prospective purchasers of the Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of ownership and disposition of, or receipt of interest on, the Bonds.

In the opinion of Bond Counsel, based on existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates, and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax. The opinion of Bond Counsel is rendered as of its date and is based on existing law, which is subject to change. Bond Counsel assumes no obligation to update or supplement its opinion to reflect any facts or circumstances that may come to their attention, or to reflect any changes in law that may thereafter occur or become effective.

Prospective purchasers of the Bonds are advised to consult their own tax advisors regarding other State and local tax consequences of ownership and disposition of and receipt of interest on the Bonds.

### ***Original Issue Discount***

The initial public offering price of certain maturities of the Bonds may be less than the principal amount payable on such Bonds at maturity. The excess of the principal amount payable at maturity over the initial public offering price at which a substantial amount of these Bonds are sold constitutes original issue discount. The prices set forth on the cover page of the Official Statement may or may not reflect the prices at which a substantial amount of the Bonds were ultimately sold to the public.

Under Section 1288 of the Code, the amount of original issue discount treated as having accrued with respect to any Bond during each day it is owned by a taxpayer is added to the owner's adjusted basis for purposes of determining gain or loss upon the sale or other disposition of such Bonds by such owner. Accrued original issue discount on the Bonds is excluded from gross income for federal income tax purposes. Original issue discount on any bond is treated as accruing on the basis of economic accrual for such purposes, computed by a constant semiannual compounding method using the yield to maturity on such bond. The original issue discount attributable to any bond for any particular semiannual period is equal to the excess of the product of (i) one-half of the yield to maturity of such bond, and (ii) the amount which would be the adjusted basis of the bond at the beginning of such semiannual period if held by the original owner and purchased by such owner at the initial public offering price, over the interest paid during such period. The amount so treated as accruing during each semiannual period is apportioned in equal amounts among the days in that period to determine the amount of original issue discount accruing for such purposes during each such day. Prospective purchasers of the Bonds should consult their own tax advisors with respect to the federal income tax consequences of the disposition of and receipt of interest on the Bonds.

### ***Original Issue Premium***

The initial public offering price of certain maturities of the Bonds may be greater than the principal amount payable on such Bonds at maturity. The excess of the initial public offering price at which a substantial amount of these Bonds are sold over the principal amount payable at maturity or on earlier call date constitutes original issue premium. The prices set forth on the cover page of the Official Statement may or may not reflect the prices at which a substantial amount of the Bonds were ultimately sold to the public.

Under Sections 1016 and 171 of the Code, the amount of original issue premium treated as amortizing with respect to any Bond during each day it is owned by a taxpayer is subtracted from the owner's adjusted basis for purposes of determining gain or loss upon the sale or other disposition of such Bonds by such owner. Amortized original issue premium on the Bonds is not treated as a deduction from gross income for federal income tax purposes. Original issue premium on any bond is treated as amortizing on the basis of the taxpayer's yield to maturity using the taxpayer's cost basis and a constant semiannual compounding method. Prospective purchasers of the Bonds should consult their own tax advisors with respect to the federal income tax consequences of the disposition of and receipt of interest on the Bonds.

### **Security and Remedies**

The Bonds will be general obligations of the Town, and the Town will pledge its full faith and credit to pay the principal of and interest on the Bonds when due. Unless paid from other sources, the Bonds are payable from general property tax revenues of the Town. The Town has the power under Connecticut statutes to levy ad valorem taxes on all taxable property in the Town without limit as to rate or amount, except as to certain classified property such as certified forest land taxable at a limited rate and dwelling houses of qualified elderly persons of low income or qualified disabled persons taxable at limited amounts. There was, however, no such classified property on the last completed grand list of the Town, and under existing statutes, the State of Connecticut is obligated to pay the Town the amount of tax revenue which the Town would have received except for the limitation on its power to tax such dwelling houses.

Payment of the Bonds is not limited to property tax revenues or any other revenue source, but certain revenues of the Town may be restricted as to use and therefore may not be available to pay debt service on the Bonds.

There are no statutory provisions for priorities in the payment of general obligations of the Town. There are no statutory provisions for a lien on any portion of the tax levy or other revenues to secure the Bonds, or judgments thereon, in priority to other claims.

The Town is subject to suit on its general obligation bonds and notes, and a court of competent jurisdiction has the power in appropriate proceedings to render a judgment against the Town. Courts of competent jurisdiction also have the power in appropriate proceedings to order payment of a judgment on such bonds or notes from funds lawfully available therefor or, in the absence thereof, to order the Town to take all lawful action to obtain the same, including the raising of the required amount in the next annual tax levy. In exercising their discretion as to whether to enter such an order, the courts may take into account all relevant factors including the current operating needs of the Town and the availability and adequacy of other remedies.

Enforcement of a claim for payment of principal of or interest on such bonds or notes would also be subject to the applicable provisions of Federal bankruptcy laws and to provisions of other statutes, if any, hereafter enacted by the Congress or the Connecticut General Assembly extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied. Under the Federal bankruptcy code, the Town may seek relief only, among other requirements, if it is specifically authorized, in its capacity as a municipality or by name, to be a debtor under Chapter 9, Title 11 of the United States Code, or by State law or by a governmental officer or organization empowered by State law to authorize such entity to become a debtor under such Chapter. Section 7-566 of the Connecticut General Statutes, as amended, provides that no Connecticut municipality shall file a petition in bankruptcy without the express prior written consent of the Governor. This prohibition applies to any town, city, borough, metropolitan district or any other political subdivision of the State having the power to levy taxes and issues bonds or other obligations.

**THE TOWN OF EAST LYME, CONNECTICUT HAS NEVER DEFAULTED IN THE PAYMENT OF PRINCIPAL OR INTEREST ON ITS BONDS OR NOTES.**

**Qualification for Financial Institutions**

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

**Book-Entry Transfer System**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its registered subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating of: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Town as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on, and redemption premium, if any, with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Town or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the Town, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest, and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Town or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Town or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Town may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been provided by DTC. The Town takes no responsibility for the accuracy thereof.

### **Replacement Bonds**

The determination of the Town authorizing the Bonds provides for issuance of fully registered Bond certificates directly to Beneficial Owners of the Bonds or their nominees in the event that: (a) DTC determines not to continue to act as securities depository for the Bonds, and the Town fails to identify another qualified securities depository for the Bonds to replace DTC; or (b) the Town determines to discontinue the book-entry system of evidence and transfer of ownership of the Bonds. A Beneficial Owner of the Bonds, upon registration of certificates held in such Beneficial Owner's name, will become the registered owner of the Bonds.

### **DTC Practices**

The Town can make no assurances that DTC, Direct Participants, Indirect Participants or other nominees of the Beneficial Owners of the Bonds will act in a manner described in this Official Statement. DTC is required to act according to rules and procedures established by DTC and its participants which are on file with the Securities and Exchange Commission.

## SECTION II - THE ISSUER

### **Description of the Town**

The Town of East Lyme is located five miles west of the City of New London and comprises approximately 34.8 square miles. The Town is bounded by Old Lyme and Lyme on the west, Salem on the north, Montville and Waterford on the east, and Long Island Sound on the south. Settled by early colonists in the 1640's, East Lyme was part of Lyme and Waterford until it separated and became an incorporated town in 1839. Population centers are the Village of Niantic at the mouth of the Niantic River, and Flanders lying inland to the North. The Niantic area is considered a summer resort area but also has a large number of year round residences.

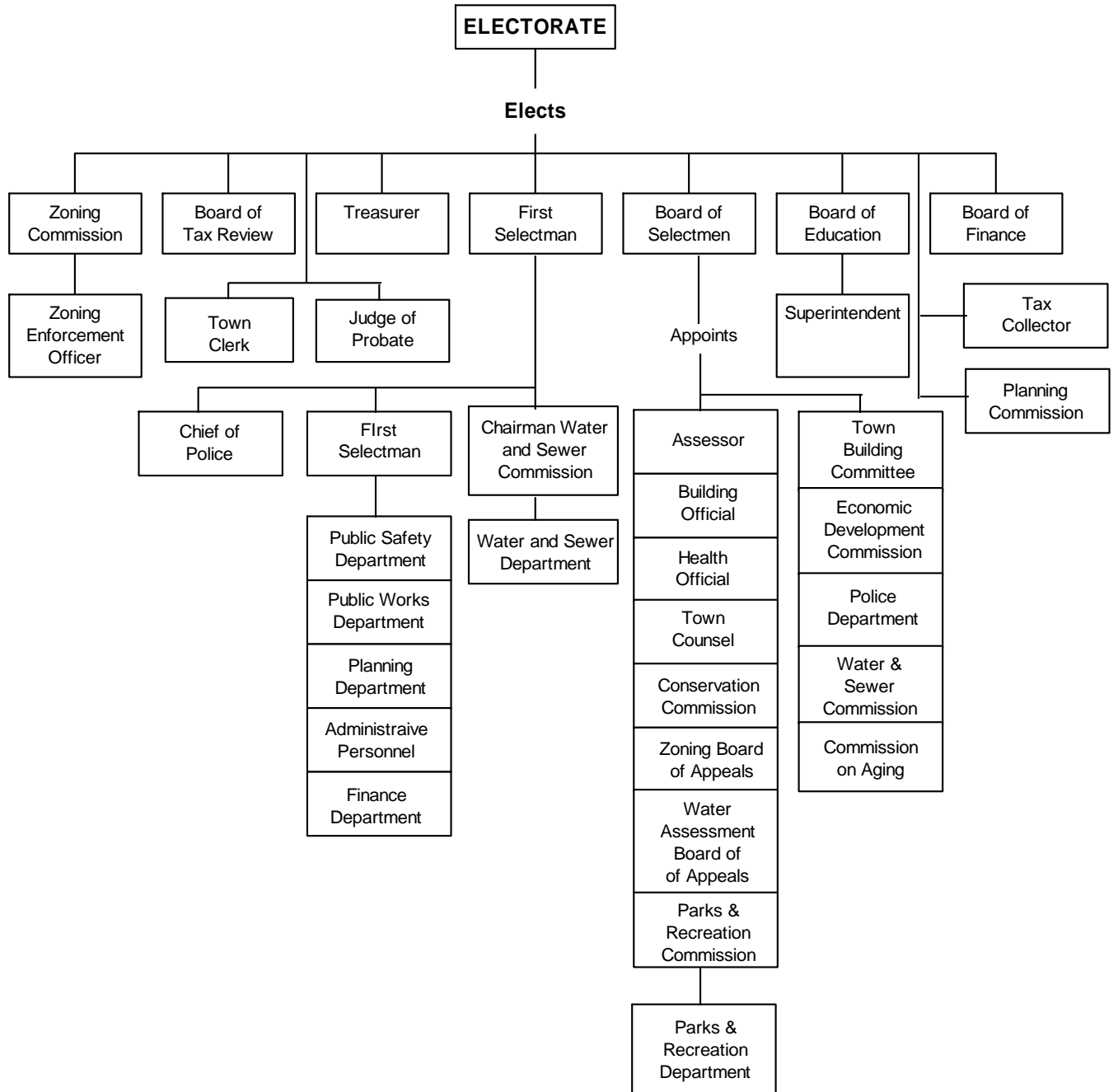
The Town is bisected by U.S. Route 1 and Interstate Route I-95 (the New York - Providence - Boston corridor) which has five exits to inland and shore points in East Lyme. Direct rail freight service is available locally via CSX Railroad Lines, and passenger service is available in New London via AMTRAK. The Groton-New London Airport in Groton, seven miles from East Lyme, is served by various airlines. Major airline service is available within 50 miles of East Lyme at Bradley International Airport in Windsor Locks, Connecticut or at T. F. Green Airport in Providence, Rhode Island. Freight transportation by sea is available via the deep water port in New London.

The Town consists of approximately 21,760 acres with 32.20% or 6,766 acres designated as tax-exempt. The State of Connecticut owns 5,917 acres of property which includes: Rocky Neck State Park with 512 acres, a recreational area which juts into Long Island Sound; Nehantic State Forest with 1,955 acres; Connecticut State Prison for Women with 651 acres, a facility of the State Department of Corrections; Stone's Ranch Military Reservation and Camp Niantic totaling 280 acres, both National Guard training facilities; and a number of smaller state properties totaling 760 acres. In addition to State-owned land in East Lyme, Yale University owns 1,759 acres for research and recreational purposes, which is also tax-exempt. Town property and other tax-exempt property total 1,080 acres.

### **Form of Government**

East Lyme has a Town Meeting form of government, with a six member Board of Selectmen. The Board of Selectmen acts as the legislative body for all matters, except those which have been left to the Town Meeting. The Town Meeting adopts the annual budget, and the Board of Finance is the budget-making authority of the Town. The First Selectman acts as the Chief of Police and Chairman of the Water and Sewer Commission, as well as Chief Administrative Officer of the Town.

# Organizational Chart



## Municipal Officials

Office	Name	Manner of Selection	Term
First Selectman	Paul M. Formica	Elected	12/09 - 12/11
Selectman	Rose Ann Hardy	Elected	12/09 - 12/11
Selectman	John E. Hogan	Elected	12/09 - 12/11
Selectman	John Birmingham	Elected	12/09 - 12/11
Selectman	Mark C. Nickerson	Elected	12/09 - 12/11
Selectman	Robert C. Wilson	Elected	12/09 - 12/11
Town Clerk	Esther Williams	Elected	12/09 - 12/13
Town Tax Collector	John H. McCulloch	Elected	12/09 - 12/13
Town Treasurer	Bruce R. Brailey	Elected	12/09 - 12/13
Chairman of the Board of Finance	Robert J. Kleinhans	Appointed	12/09 - 12/11
Member - Board of Finance	Raymond J. Hart	Elected	12/09 - 12/13
Member - Board of Finance	Stephen F. Harney	Elected	12/09 - 12/13
Member - Board of Finance	Steven J. Kelly	Elected	12/09 - 12/13
Member - Board of Finance	Lisa H. Picarazzi	Appointed	08/10 - 12/11
Member - Board of Finance	Stephen W. Larcen	Elected	12/07 - 12/11
Director of Finance	Anna M. Johnson	Appointed	Indefinite
Chairman of the Board of Education	Timothy Hagan	Elected	12/07 - 12/11
Superintendent of Schools	Dr. James Lombardo	Appointed	08/09 - 06/12

Source: Director of Finance's Office, Town of East Lyme

## Summary of Municipal Services

**Police:** Police protection is provided by one resident state trooper, twenty-one full-time town constables and two part-time town constables. Full-time constables have completed training at the Connecticut State Police Academy and the part-time constables have completed regional training courses equivalent to academy training conducted by the State Police. The Town maintains twelve cruisers which are replaced at the rate of one or two every year and a police boat.

**Fire:** Fire protection is provided by two separate volunteer fire departments; the Niantic and Flanders departments, funded by the Town. The Town owns the stations, apparatus and equipment, except for the ambulances, which are primarily funded by the East Lyme Ambulance Association and are available to the Town to operate. The Niantic Fire Department has two stations and Flanders Fire Department has one station. Fire department personnel consist of seven full-time and twenty-seven part-time firefighters, forty-five active volunteer firefighters, and one hundred ninety-eight reserves. Total membership for both departments is 276 persons. The fire departments' apparatus consists of two fire chief vehicles; a fire marshal van; two rescue vehicles; five pumpers; one ladder truck; one tower truck; one mini pumper; one fire alarm maintenance truck; a gator brush truck with forestry and medical attachments; and two rescue boats along with the three ambulances that provide ambulance service to the people of the community and are manned by department personnel who are emergency medical technicians.

**Public Works and Engineering:** The Highway, Sanitation and Engineering Departments employ a total of thirty people. The Highway Department has twelve dump-plow trucks, five sanitation / recycling trucks, five pickup trucks, one catch basin cleaner, one street sweeper, two pay loaders and various support equipment, such as a back hoe, small bulldozer, road side mower, sand spreaders, asphalt paving box, two curbing machines, brush chipper, and a compressor with pavement breaker and drills. The Town provides bi-weekly curb side pickup of recycling material and weekly pick-up of municipal solid waste. The Town operates a Transfer Station that handles recyclables, oversized bulky waste and the composting of leaves.

## Utilities

**Water:** The Town's municipally owned and operated water company provides service to approximately 85% of the population in the most populated areas of Town. Private wells supply water to users not served by the Town system.

The Town established its own water works system on a self-supporting basis in the early 1970's. The Town initially appropriated \$5,280,000 for the construction, extension, and enlargement of the system. Federal grants-in-aid were received in the amount of \$1,500,000, leaving \$3,780,000 to be financed by a 30 year bond issue in 1972. Construction of several water main extensions and an additional well in the amount of \$550,000 were financed in 1977 with a twenty year bond. Subsequent bond issues were in 1989 for \$800,000, \$2,200,000 in 1992 and \$385,000 in 2000, which financed additional water main extensions, three wells, three filtration plants and gravity feed stand pipes. In 2007 the Water Department authorized \$4,180,000 in projects including a new chlorination system, capital improvements, well replacements and additional water studies. The Town approved at a Special Town Meeting on February 18, 2009 an additional \$2,370,000 to develop new sources of water and to expand the scope of the 2007 projects.

The system currently has seven wells with a combined pumping rate of over four million gallons daily. Four wells have emergency generators for use in case of a power failure. The system has two gravity feed stand pipes with storage capacity of 2,800,000 gallons and 103 miles of distribution piping. The system is fluoridated and treated for pH adjustment. Filtration plants remove iron and manganese at five of the system wells.

The system serves approximately 6,000 customers for an estimated 15,600 people. Average daily demand during fiscal year 2007 was 2,109,000 gallons. Current water rates are based on a metered system with a minimum charge per year of \$83.20 or a minimum charge of \$41.60 semi-annually. The charge allows up to a maximum use of 3,500 gallons for each six month period. Water usage over 3,500 gallons per billing period is charged at \$3.36 per 1,000 gallons. Average consumption per metered residential customer is 153 gallons per day or 56,000 gallons per year. Additional charges are levied when water use exceeds 50,000 gallons.

**Sewers:** The Town's sewer system became operational on January 17, 1991. The system flows through the Town of Waterford and is processed in the City of New London's treatment plant. The system consists of 21 pumping stations covering 35 miles of gravity mainline pipe and 10 miles of force pipe. Currently there are 3,200 customers in the Town with an average flow of 1,148,000 gallons in the winter months and 1,149,000 gallons in the summer months. User rates are currently set at \$5.58 per 1,000 gallons.

**Solid Waste Services.** The Town of East Lyme has entered into a Municipal Solid Waste Management Services Contract, as amended (the "Service Contract"), with the Southeastern Connecticut Regional Resources Recovery Authority ("SCRRRA") pursuant to which it participates, with thirteen other southeastern Connecticut municipalities, in the Southeastern Connecticut system (the "System"). The facility consists of a mass-burn solid waste, disposal and electric generation facility located in the Town of Preston, Connecticut and various improvements and facilities related thereto (the "Facility").

Under the Service Contract, the Town is required to deliver or cause to be delivered to the System, solid waste generated within its boundaries with a minimum commitment of 7,249 tons annually and to pay a uniform per ton disposal service payment therefor ("Service Payment"). The aggregate minimum commitment of the participating municipalities is 144,078 tons per year. The Town's Service Payment commitment is a "Put-or-Pay" commitment, in that if the aggregate minimum commitment of the participating municipalities is not met by the total deliveries of all the participating municipalities in any year, the Town must pay the Service Payment for its full portion of the aggregate minimum commitment even if it did not deliver that full portion. For fiscal years 2009-10 and 2010-11 the Town paid \$60.00 per ton tipping fee. The current annual tipping tonnage is approximately 11,000 tons.

Service Payments are payable so long as the System is accepting solid waste delivered by or on behalf of the Town, whether or not such solid waste is processed at the Facility. The Town's obligation to pay the Service Payment, so long as the System is so accepting the Town's solid waste, is absolute and unconditional, is not subject to any setoff, counterclaim, recoupment, defense (other than payment itself) or other right which the Town may have against the System or any person for any reason whatsoever, and is not to be affected by any defect in title, design, fitness for use, loss or destruction of the System. The Town has pledged its full faith and credit to the payment of Service Payments and has also agreed to enforce or levy and collect all taxes, cost sharing or other assessments or charges and take all such other action as may be necessary to provide for the payment of the Service Payments.

**Gas:** Gas pipelines were installed in a portion of East Lyme in 2002. Service began in 2003. Liquid propane gas is available from a number of vendors.

**Electric:** The Connecticut Light & Power Company provides electric power for the Town of East Lyme.



## Educational System

The Town's school system consists of five schools for pupils in grades Pre-K through 12. The schools are governed by a ten-member Board of Education.

## Educational Facilities

<u>School</u>	<u>Grades</u>	<u>Date Occupied</u>	<u>Addition/ Renovation</u>	<u>No.of Classrooms</u>	<u>Enrollment 10/01/10</u>	<u>Capacity</u>
<u>Elementary Schools</u>						
Flanders School	K-4/Sp.Ed	1963	1977	25	365	564
Lillie B. Hayes School	Pre-K-	1959	1971/2002	31	409	682
Niantic School	K-4/Sp.	1947	1977	19	229	388
<u>Middle School</u>						
East Lyme Middle School	5-8	2002	NA	69	850	1200
<u>High School</u>						
East Lyme High School	9-12	1967	1973/2000	39	1,209	1,395
Total				<u>183</u>	<u>3,062</u>	<u>4,229</u>

Source: Superintendent of Schools, Town of East Lyme.

## School Enrollment History and Projections

<u>School Year</u>	<u>Actual Enrollments</u>						<u>Total</u>
	<u>Elementary School</u>	<u>Middle School</u>	<u>High School</u>	<u>Pre-School</u>	<u>External Placements</u>	<u>Magnet Schools</u>	
2002-03	1,060	982	1,197	29	17	27	3,312
2003-04	973	1,010	1,234	44	25	32	3,318
2004-05	943	970	1,276	46	24	30	3,289
2005-06	947	952	1,292	48	21	26	3,286
2006-07	938	942	1,283	55	26	34	3,278
2007-08	979	915	1,303	52	25	38	3,312
2008-09	981	870	1,247	50	28	39	3,215
2009-10	984	843	1,221	47	28	33	3,156
2010-11	959	850	1,209	44	27	35	3,124
<u>Projected Enrollments</u>							
2011-12	899	848	1,147	53	28	39	3,014
2012-13	867	872	1,119	54	28	39	2,979
2013-14	939	875	1,062	50	28	39	2,993
2014-15	923	876	1,061	51	28	39	2,978

Source: State of Connecticut Public School Information System for East Lyme Schools as of October 1 and the New England School Development Council ("NESDEC") for projections.

## Municipal Employment

Fiscal Year	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General Government	121	115	115	120	118	118	118	118	122	126	125
Board of Education	501	512	512	507	499	497	486	480	486	472	411
Total	<u>622</u>	<u>627</u>	<u>627</u>	<u>627</u>	<u>617</u>	<u>615</u>	<u>604</u>	<u>598</u>	<u>608</u>	<u>598</u>	<u>536</u>

Source: Town of East Lyme

## Municipal Employees Bargaining Organizations (1)

As of the date of this Official Statement the Town employed 621 full and part-time persons for general government and board of education. The following table sets forth a breakdown of employee representation by collective bargaining agent and the dates of expiration of the various collective bargaining agreements:

	Organization	Number of Employees	Current Contract Expiration
<b><u>General Government</u></b>			
Police	East Lyme Police Union Local 2693, AFSCME (AFL-CIO)	23	6/30/11
Highway and Clerical	East Lyme Town Employees Local 1303-229 of AFSCME (AFL-CIO)	62	6/30/12
Fire Department	International Association of Firefighters, Local 3377	7	6/30/13
Dispatchers	East Lyme Dispatchers Local 1303-436, Council 4, AFSCME	4	6/30/12
	Organized	96	
	Non-Union	25	
	General Government sub-total	<u>121</u>	
<b><u>Board of Education</u></b>			
Administrators	East Lyme Administrators & Supervisors Association (ELASA)	12	6/30/12
Teachers	East Lyme Education Association (ELTA)	273	8/31/13
Custodians & Maint.	East Lyme Custodians Local 1303-187 of AFSCME (AFL-CIO)	31	6/30/12
Secretaries	Educational Secretaries of East Lyme Local 1303-138 AFSCME (AFL-CIO)	34	6/30/12
	Organized	350	
	Non-Union	151	
	Board of Education sub-total	<u>501</u>	
	Total General Government and Board of Education	<u>622</u>	

Connecticut General Statutes Sections 7-473c, 7-474 and 10-153a - 10-153n provide for a procedure for binding arbitration of collective bargaining agreements between municipal employers and organizations representing municipal employees, including certified teachers and certain other employees. The legislative body of a municipality may reject an arbitration panel's decision by a two-thirds majority vote. The State of Connecticut and the employee's organization must be advised in writing of the reasons for rejection. The State then appoints a new panel of either one or three arbitrators to review the decisions on each of the rejected issues. The panel must accept the last best offer of either party. In reaching its determination, the arbitration panel gives priority to the public interest and the financial capability of the municipal employer, including consideration of other demands on the financial capability of the municipal employer. For binding arbitration of teacher's contracts, in assessing the financial capability of the municipality, there is an irrefutable presumption that a budget reserve of 5% or less is not available for payment of the cost of any item subject to arbitration. In light of the employer's financial capability, the panel considers prior negotiations between the parties, the interests and welfare of the employee group, changes in the cost of living, existing employment conditions, and wages, salaries, fringe benefits, and other conditions of employment prevailing in the labor market, including developments in private sector wages and benefits.

## SECTION III - ECONOMIC AND DEMOGRAPHIC DATA

### Population Trends

<u>Year</u>	<u>Town of East Lyme</u>	<u>New London County</u>	<u>State of Connecticut</u>
1960	6,782	185,745	2,535,234
1970	11,399	230,654	3,032,217
1980	13,870	238,409	3,107,564
1990	15,340	254,957	3,287,116
2000	18,118	259,088	3,405,565
2009	19,203	266,830	3,518,288

Source: U.S Department of Commerce, Bureau of Census.

### Age Characteristics of Population

<u>Age Group</u>	<u>Town of East Lyme</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Under 5	887	4.9	223,344	6.6
5-19	3,404	18.8	702,358	20.6
20-24	827	4.5	187,571	5.5
25-44	6,048	33.4	1,032,689	30.3
45-64	4,668	25.8	789,420	23.2
65 and over	<u>2,284</u>	<u>12.6</u>	<u>470,183</u>	<u>13.8</u>
Total	<u>18,118</u>	<u>100.0</u>	<u>3,405,565</u>	<u>100.0</u>

Source: U.S. Department of Commerce, Bureau of Census, Census 2000.

### Selected Wealth and Income Indicators

	<u>Median Family Income (1990)</u>	<u>Median Family Income (2000)</u>	<u>Per Capita Income (1990)</u>	<u>Per Capita Income (2000)</u>
Town of East Lyme	\$52,434	\$74,430	\$20,004	\$28,765
New London County	43,256	59,857	16,702	24,678
Connecticut	49,199	65,521	20,189	28,766
United States	35,353	49,600	14,617	21,690

Source: U.S. Department of Commerce, Bureau of Census, 1990 and 2000 Census.

### Income Distribution of Population

	<u>Town of East Lyme</u>		<u>State of Connecticut</u>	
	<u>Families</u>	<u>Percent</u>	<u>Families</u>	<u>Percent</u>
\$ 0 to 9,999	50	1.1	33,423	3.8
10,000 to 14,999	101	2.2	23,593	2.7
15,000 to 24,999	208	4.6	63,262	7.1
25,000 to 34,999	208	4.6	75,413	8.5
35,000 to 49,999	452	10.0	120,134	13.6
50,000 to 74,999	1,274	28.1	198,924	22.5
75,000 to 99,999	966	21.3	141,981	16.0
100,000 to 149,999	828	18.2	132,177	14.9
150,000 to 200,000	211	4.6	42,472	4.8
200,000 or more	<u>241</u>	<u>5.3</u>	<u>54,368</u>	<u>6.1</u>
Total	<u>4,539</u>	<u>100.0</u>	<u>885,747</u>	<u>100.0</u>

Source: U.S. Department of Commerce, Bureau of the Census, 2000 Census.

**Educational Attainment**  
**Years of School Completed, Age 25 & Over**

<u>Educational Attainment Group</u>	<u>Town of East Lyme</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than 9th grade	376	2.9	132,917	5.8
9th to 12th grade	984	7.6	234,739	10.2
High School graduate	3,423	26.4	653,300	28.5
Some college, no degree	2,714	20.9	402,741	17.5
Associates degree	889	6.8	150,926	6.6
Bachelor's degree	2,511	19.3	416,751	18.2
Graduate or professional degree	<u>2,094</u>	<u>16.1</u>	<u>304,243</u>	<u>13.2</u>
Total	<u>12,991</u>	<u>100.0</u>	<u>2,295,617</u>	<u>100.0</u>
Percentage of High School Graduates		89.5%		84.0%
Percentage of College Graduates or Higher		35.4%		31.4%

Source: U.S. Department of Commerce, Bureau of Census, Census 2000.

**Employment by Industry**

	<u>Town of East Lyme</u>		<u>New London County</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Agriculture, forestry, fisheries	91	1.1	1,056	0.8	7,445	0.5
Construction	501	6.1	7,902	6.3	99,913	6.0
Manufacturing	1,307	15.8	17,812	14.3	246,607	14.8
Wholesale trade	105	1.3	2,906	2.3	53,231	3.2
Retail trade	935	11.3	14,401	11.5	185,633	11.2
Transportation & warehousing, and utilities	408	4.9	5,903	4.7	64,662	3.9
Information	254	3.1	2,859	2.3	55,202	3.3
Finance, insurance, real estate	316	3.8	5,401	4.3	163,568	9.8
Professional, scientific, management, administrative, and waste management services	896	10.9	9,780	7.8	168,334	10.1
Educational, health & social services	1,905	23.1	26,027	20.8	366,568	22.0
Arts, entertainment, recreation, accommodation and food services	760	9.2	19,130	15.3	111,424	6.7
Other professional services	353	4.3	4,983	4.0	74,499	4.5
Public Administration	<u>420</u>	<u>5.1</u>	<u>7,034</u>	<u>5.6</u>	<u>67,354</u>	<u>4.0</u>
TOTAL	<u>8,251</u>	<u>100.0</u>	<u>125,194</u>	<u>100.0</u>	<u>1,664,440</u>	<u>100.0</u>

Source: U. S. Department of Commerce, Bureau of Census, 2000 Census.

**Major Employers**

<u>Employer</u>	<u>Nature of Business</u>	<u>Number of Employees</u>
Connecticut Department of Corrections	Correction Facility	719
Town of East Lyme	Government/Education	621
Mariner Health of Bride Brook	Skilled Nursing Facility	197
Stop and Shop	Grocery Store	150
Birk Manufacturing	Manufacturing	75
Crescent Point	Assisted Living Facility	73
Tri-Town Foods	Grocery Store	50
Design Label Manufacturing, Inc.	Manufacturing	38
Rings End Lumbar	Lumber/Hardware	33

Source: Town of East Lyme Finance Office.

## Unemployment Rate Statistics

Yearly Average	Town of East Lyme	Norwich - New London Labor Market (1)	State of Connecticut	United States
2000	1.7%	2.2%	2.3%	4.0 %
2001	2.1	2.8	3.3	4.8
2002	2.9	3.8	4.3	5.8
2003	3.2	4.9	5.5	5.8
2004	2.6	4.1	4.9	5.5
2005	3.8	4.6	4.9	5.1
2006	3.5	4.1	4.3	4.6
2007	3.5	4.3	4.6	4.6
2008	4.7	5.5	5.7	5.8
2009	6.7	7.8	8.0	9.3

### 2010 Monthly

January	7.8	9.0	9.8	10.6
February	7.9	9.1	9.8	10.4
March	7.4	8.7	9.3	10.2
April	7.5	8.1	8.5	9.5
May	7.1	8.4	8.8	9.3
June	7.1	8.6	8.9	9.6
July	7.5	8.9	9.4	9.7
August	7.4	8.8	9.3	9.5
September	7.0	8.5	8.8	9.2
October	7.0	8.4	8.5	9.0
November	7.1	8.4	8.5	9.3

(1) Includes Connecticut portion only, does not include Hopkinton and Westerly, Rhode Island.

Source: State of Connecticut, Department of Labor; United States Department of Labor, Bureau of Labor Statistics.

## Number and Value of Building Permits

Fiscal Year Ending 6/30	Residential		Commercial and Industrial		Total	
	Number	Value	Number	Value	Number	Value
2011 (1)	89	\$ 7,113,968	14	\$ 1,142,497	103	\$ 8,256,465
2010	320	19,418,669	54	5,499,986	374	24,918,655
2009	203	10,458,048	45 (2)	7,214,694	248	17,672,742
2008	422	27,194,190	55	3,071,520	477	30,265,710
2007	380	27,055,196	40	4,198,856	420	31,254,052
2006	247	31,892,753	23	4,764,571	270	36,657,324
2005	270	32,852,727	26	3,398,714	296	36,251,441
2004	271	32,139,372	17	5,802,428	288	37,941,800
2003	250	21,687,297	13	1,292,714	263	22,980,011
2002	228	15,128,857	16	1,554,425	244	16,683,282

(1) As of November 30, 2010.

(2) Includes Photo Voltaic System on East Lyme High School valued at \$4,092,000.

Source: Town of East Lyme Building Official.

## Number of Dwelling Units

<u>2000</u>	<u>1990</u>	<u>1980</u>	<u>1970</u>	% Increase <u>1990-2000</u>	% Increase <u>1980-2000</u>	% Increase <u>1970-2000</u>
7,459	6,772	5,487	3,941	10.1%	35.9%	89.3%

Source: U.S. Department of Commerce, Bureau of the Census.

## Characteristics of Housing Unites

Sales Price Category	Town of East Lyme		State of Connecticut	
	Number	Percent	Number	Percent
Less than \$50,000	15	0.3	5,996	0.8
50,000 to 99,999	179	4.0	85,221	11.7
100,000 to 149,999	1,562	35.0	212,010	29.1
150,000.to 199,999	1,214	27.2	156,397	21.5
200,000 to 299,999	858	19.2	137,499	18.9
300,000 to 499,999	588	13.2	79,047	10.9
500,000 to 999,999	51	1.1	38,168	5.2
1,000,000 and over	-0-	-0-	13,906	1.9
Total	<u>4,467</u>	<u>100.0</u>	<u>728,244</u>	<u>100.0</u>

Median Value

\$164,500

\$166,900

Source: U. S. Department of Commerce, Bureau of Census, 2000 Census.

## Age Distribution of Housing

Year Built	Town of East Lyme		State of Connecticut	
	Units	Percent	Units	Percent
1939 or earlier	1,236	16.6	308,896	22.3
1940 - 1959	1,695	22.7	359,042	25.9
1960 - 1969	1,238	16.6	212,176	15.3
1970 - 1979	1,508	20.3	203,377	14.7
1980 - 1989	830	11.1	183,405	13.2
1990 - 1994	442	5.9	56,058	4.0
1995 - 1998	365	4.9	47,028	3.4
1999 - March 2000	145	1.9	15,993	1.2
Total Housing	<u>7,459</u>	<u>100.0</u>	<u>1,385,975</u>	<u>100.0</u>

Source: U.S. Department of Commerce, Bureau of the Census, Census 2000.

## SECTION IV - INDEBTEDNESS

### Computation of Statutory Debt Limit

As of February 9, 2011 (Pro Forma)

Total Fiscal Year 2010 tax collections (including interest and lien fees)	\$ 43,966,955
Total Fiscal Year 2010 tax collections of Other Taxing Districts (including interest and lien fees)	216,701
State Reimbursement for Revenue Loss on:	
Tax Relief for the Elderly	103,425
Base for Establishing Debt Limit	<u>\$ 44,287,081</u>

### Debt Limit (1)

	General Purpose	Schools	Sewers	Urban Renewal	Pension Deficit	Total Debt
(2.25 times base)	\$ 99,645,932					
(4.50 times base)		\$ 199,291,865				
(3.75 times base)			\$ 166,076,554			
(3.25 times base)				\$ 143,933,013		
(3.00 times base)					\$ 132,861,243	
(7.00 times base)						\$ 310,009,567

### Indebtedness (Including the Bonds)

Bonds Payable (2)	\$ 2,768,000	\$ 21,693,000	\$ 9,282,000	\$ -	\$ -	\$ 33,743,000
The Bonds ( <i>This Issue</i> )	3,860,000	-	-	-	-	3,860,000
State of Connecticut Clean Water Fund ("CWF")						
Project Loan Obligation (PLO)	-	-	1,502,752	-	-	1,502,752
Authorized but Unissued Debt (3)	5,295,000	166,066	4,366,046	-	-	9,827,112
Total Indebtedness	<u>11,923,000</u>	<u>21,859,066</u>	<u>15,150,798</u>	<u>-</u>	<u>-</u>	<u>48,932,864</u>
Exclusions (4)	-	(166,066)	(7,619,403)	-	-	(7,785,469)
Total Net Indebtedness	<u>11,923,000</u>	<u>21,693,000</u>	<u>7,531,395</u>	<u>-</u>	<u>-</u>	<u>41,147,395</u>
Excess of Limit Over Outstanding and Authorized Debt	<u>\$ 87,722,932</u>	<u>\$ 177,598,865</u>	<u>\$ 158,545,159</u>	<u>\$ 143,933,013</u>	<u>\$ 132,861,243</u>	<u>\$ 268,862,172</u>

- (1) In no case, however, shall total indebtedness exceed seven times annual receipts from taxation (the "Base") or \$310,023,588.
- (2) Excludes \$4,807,000 of water debt, per Connecticut General Statutes. The Town currently has four bond issues that will be paid from a combination of user charges, property assessments and General Fund contributions, but are guaranteed by the full faith and credit of the Town. The Town also has a State of Connecticut Clean Water Fund Program Interim Funding Obligation outstanding in the amount of \$415,807 which is excluded per Connecticut General Statutes.
- (3) Excludes \$1,414,121 of authorized but unissued water debt, per Connecticut General Statutes. (See "Existing and Future Capital Project Financing" herein).
- (4) It is estimated that the Town will receive State of Connecticut School Construction grant progress payments in the amount of \$1,150,000 during the construction of the projects. As of February 9, 2011, the Town has received \$983,934 progress payments for this project. (See "School Projects" herein). The Town receives sewer assessment fees from benefiting owners over the term of sewer bonds, estimated as of June 30, 2010.

## Calculation of Net Direct Indebtedness

As of February 9, 2011 (Pro Forma)

<b>Long Term Indebtedness (1)</b>	
The Bonds ( <i>This Issue</i> )	\$ 3,860,000
General Purpose	2,768,000
Schools	21,693,000
Sewers	9,282,000
State of Connecticut Project Loan Obligation (CWF)	1,502,752
Water (2)	4,807,000
<b>Total Long-Term Indebtedness</b>	<u>43,912,752</u>
<b>Short Term Indebtedness</b>	
State of Connecticut Interim Funding Obligation (IFO)	<u>415,807</u>
<b>Total Direct Indebtedness</b>	<u>44,328,559</u>
<b>Exclusions:</b>	
Self-Supporting Water Debt	(4,807,000)
Sewer Assessments Receivable (3)	<u>(7,619,403)</u>
<b>Total Net Direct Indebtedness</b>	<u>\$ 31,902,156</u>

(1) Does not include authorized but unissued debt of \$11,241,233. (See "Existing and Future Capital Project Financing" herein).

(2) Includes \$4,807,000 of water debt which will be paid from a combination of user charges, property assessments and General Fund contributions, but are guaranteed by the full faith and credit of the Town.

(3) The Town receives sewer assessment fees from benefiting owners over the term of sewer bonds, estimated as of June 30, 2010.

## Current Debt Ratios

As of February 9, 2011 (Pro Forma)

Total Direct Indebtedness	\$44,328,559
Net Direct Indebtedness	\$31,902,156
Population (1)	19,203
Net Taxable Grand List (10/1/09)	\$2,310,845,271
Estimated Full Value	\$3,301,207,530
Equalized Net Taxable Grand List (2008) (2)	\$3,192,934,419
Per Capita Income (1999) (3)	\$28,756
<b>Total Direct Indebtedness:</b>	
Per Capita	\$2,308.42
To Net Taxable Grand List	1.92%
To Estimated Full Value	1.34%
To Equalized Net Taxable Grand List	1.39%
Per Capita to Per Capita Income	8.03%
<b>Net Direct Indebtedness:</b>	
Per Capita	\$1,661.31
To Net Taxable Grand List	1.38%
To Estimated Full Value	0.97%
To Equalized Net Taxable Grand List	1.00%
Per Capita to Per Capita Income	5.78%

(1) U.S. Bureau of Census.

(2) Office of Policy and Management, State of Connecticut

(3) U.S. Department of Commerce, Bureau of Census, Census 2000.



## Historical Debt Statement

	<u>2009-10</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2006-07</u>	<u>2005-06</u>
Population (1)	19,203	19,134	18,856	18,509	18,316
Net taxable grand list	\$2,294,385,950	\$2,277,922,273	\$2,245,262,203	\$1,412,978,344	\$1,371,341,168
Estimated full value	\$3,277,694,214	\$3,254,174,676	\$3,207,517,433	\$2,018,540,491	\$1,959,058,811
Equalized net taxable grand list (2)	\$3,192,934,419	\$3,396,007,522	\$3,210,848,344	\$3,375,105,334	\$3,146,338,300
Per capita income (3)	\$28,765	\$28,765	\$28,765	\$28,765	\$28,765
Short-term debt	\$ 2,900,000	\$ 3,960,000	\$ 2,995,000	\$ 1,695,000	\$ 1,715,000
Long-term debt	43,908,174	43,569,659	48,285,413	48,311,389	52,640,371
Total Direct debt	\$ 46,808,174	\$ 47,529,659	\$ 51,280,413	\$ 50,006,389	\$ 54,355,371
Net Direct debt	\$ 34,163,771	\$ 38,674,168	\$ 43,773,424	\$ 41,129,098	\$ 43,320,836

(1) U. S. Bureau of Census.

(2) Office of Policy and Management, State of Connecticut

(3) U.S. Department of Commerce, Bureau of Census, Census 2000.

## Historical Debt Ratios

	<u>2009-10</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2006-07</u>	<u>2005-06</u>
<b>Total Direct Indebtedness:</b>					
Per capita	\$2,437.54	\$2,484.04	\$2,719.58	\$2,701.73	\$2,967.64
To net taxable grand list	2.04%	2.09%	2.28%	3.54%	3.96%
To estimated full value	1.43%	1.46%	1.60%	2.48%	2.77%
To equalized net taxable grand list	1.47%	1.40%	1.60%	1.48%	1.73%
Debt per capita to per capita income	8.47%	8.64%	9.45%	9.39%	10.32%
<b>Net direct Indebtedness:</b>					
Per capita	\$1,779.09	\$2,021.23	\$2,321.46	\$2,222.11	\$2,365.19
To net taxable grand list	1.49%	1.70%	1.95%	2.91%	3.16%
To estimated full value	1.04%	1.19%	1.36%	2.04%	2.21%
To equalized net taxable grand list	1.07%	1.14%	1.36%	1.22%	1.38%
Debt per capita to per capita income	6.18%	7.03%	8.07%	7.73%	8.22%

## Outstanding Short-Term Indebtedness

The Town has \$2,900,000 in bond anticipation notes outstanding that mature on February 9, 2011 which will be retired with the proceeds of the Bonds. (See "Existing and Future Capital Project Financing" herein).

## Capital Leases

The Town has outstanding Lease Agreements in the amount of \$625,633 as of June 30, 2010. These payments are not included in the outstanding bonded debt.

## Overlapping and Underlying Indebtedness

The Town has no overlapping or underlying indebtedness. The following associations are located within Town and have the power to levy taxes for their individual purposes:

Attawan Beach Association  
 Brescent Beach Association  
 Giants Neck (Beach) Association  
 Pine Grove Niantic Association

Black Point Beach Club  
 Crescent Beach Association  
 Giants Neck Heights Association

## Clean Water Fund Program

The Town of East Lyme is a participant in the State of Connecticut Clean Water Fund Program (Connecticut General Statutes Section 22a-475 et seq., as amended) which provides financial assistance through a combination of grants and loans bearing interest at a rate of 2% per annum. All participating municipalities receive a grant of 20% and a loan of 80% of total eligible costs (with the exception of combined sewer overflow correction projects which are financed with a 50% grant and a 50% loan and denitrification projects which are funded by a 30% grant and 70% loan.)

Loans to each municipality are made pursuant to Project Grant and Project Loan Agreements (the "Loan Agreement"). Each municipality is obligated to repay only that amount which it draws down for the payment of project costs (Interim Funding Obligations). Each municipality must deliver to the State an obligation secured by the full faith and credit of the municipality, and/or a dedicated source of revenue of such municipality.

Amortization of each loan is required to begin one year from the earlier of the project completion date specified in the Loan Agreement or the actual project completion date. The final maturity of each loan is twenty years from the scheduled completion date. Principal and interest payments are made (1) in equal monthly installments commencing one month after the scheduled completion date, or (2) in single annual installments representing 1/20 of total principal not later than one year from the project completion date specified in the Loan Agreement repayable thereafter in monthly installments. Loans made under loan agreements entered into prior to July 1, 1989 are repayable in annual installments. Borrowers may elect to make level debt service payments or level principal payments. Borrowers may prepay their loans at any time prior to maturity without penalty.

The Town has the following Clean Water Fund loans outstanding:

<u>Project</u>	<u>Original 2% Loan Amount</u>	<u>Amount Outstanding As of February 9, 2011</u>
CWF PLO 175-C	\$ 1,907,103	\$ 95,355
CWF PLO 176-C	8,588,195	1,312,605
CWF PLO 177-C	598,686	94,792
	<u>\$ 11,093,984</u>	<u>\$ 1,502,752</u>

The Town has one Interim Funding Obligation ("IFO") outstanding in the amount of \$415,807 which matures December 31, 2011. At maturity, it is expected that the IFO will be converted to a permanent loan obligation.

## Legal Requirements for Approval of Borrowing

The Town has the power to incur indebtedness by issuing its bonds or notes as authorized by the Connecticut General Statutes subject to statutory debt limitations. Authorizations to incur indebtedness must be approved by the Board of Selectmen. Special appropriations which are financed by the issuance of bonds or notes must be approved by the Board of Selectmen and the Town Meeting, except refunding bonds which only need to be approved by the Board of Selectmen.

## Temporary Financing

When general obligation bonds have been authorized, bond anticipation notes may be issued maturing in not more than two years (CGS Sec. 7-378). Temporary notes may be renewed up to ten years from their original date of issue as long as all project grant payments are applied toward payment of project costs or temporary notes when they become due and payable, and the legislative body schedules principal reductions by the end of the third year and for each subsequent year during which such temporary notes remain outstanding, in an amount equal to a minimum of 1/20<sup>th</sup> (1/30<sup>th</sup> for sewer projects and certain school projects) of the estimated net project cost (CGS Sec. 7-378a). The term of the bond issue is reduced by the amount of time temporary financing exceeds two years.

Temporary notes must be permanently funded no later than ten years from their initial borrowing date, except sewer notes issued in anticipation of State and/or Federal grants. If written commitment exists, the municipality may renew the sewer notes from time to time in terms not to exceed six months until such time that the final grant payments are received (CGS Sec. 7-378b).

Temporary notes may also be issued for up to 15 years for certain capital projects associated with the operation of a waterworks system (CGS Sec. 7-244a) or a sewage system (CGS Sec. 7-264a). In the first year following the completion of the project(s), or in the sixth year following the original date of issue (whichever is sooner), and in each year thereafter, the notes must be reduced by 1/15<sup>th</sup> of the total amount of the notes issued by funds derived from sources of payment specified by statute. Temporary notes may be issued in one-year maturities for up to 15 years in anticipation of sewer assessments receivable, such notes to be reduced annually by the amount of assessments received during the preceding year (CGS Sec. 7-269a).

## School Projects

Pursuant to Section 10-287i of the Connecticut General Statutes, the State of Connecticut will provide proportional progress payments for eligible school construction expenses on projects approved after July 1, 1996. State grants will be paid directly to the municipality after it submits its request for progress payments, and accordingly, the municipality will issue its bonds only for the net share of project costs.

Under the current program, the State of Connecticut will make proportional progress payments for eligible construction costs during certain phases of construction. The following project will be reimbursed under this method:

<u>Project</u>	<u>Amount of Total Authorization</u>	<u>Estimated Non-reimbursable Costs</u>	<u>Estimated Eligible Cost For Reimbursement</u>	<u>Estimated Reimbursement Rate %</u> (2)	<u>Estimated Grants</u> (2)
School Renovations and Improvements Projects (1)	\$4,900,000	\$2,550,310	\$2,349,690	48.93%	\$1,150,000

(1) The Schools Renovations and Improvement Projects includes the following two authorizations 1) an appropriation and bond authorization in the amount of \$3,000,000 which was adopted at a Special Town Meeting on June 13, 2005 for the planning, design, acquisition and construction of school renovations and improvements consisting of (i) roof replacement and new air handling/conditioning equipment and distribution system at East Lyme High School - \$2,500,000, and (ii) new windows at L.B. Haynes Elementary School - \$500,000, and for administrative, printing, legal and financing costs and 2) an appropriation and bond authorization in the amount of \$1,900,000 was adopted at a Special Town Meeting on January 9, 2007 for the roof replacement at East Lyme High School, and for administrative, printing, legal and financing costs.

(2) Estimated grants receivable are based on eligibility of project costs for this project. Eligible costs to be determined at completion of the project.

Debt service reimbursement will continue under the prior reimbursement program for all projects approved prior to July 1, 1996. Under the prior program, a municipality issues bonds for the entire amount of the school construction project and the State of Connecticut reimburses the municipality for a portion of the principal and interest costs for eligible school construction expenses over the life of outstanding school bonds and the subsequent bond issues necessary to completely fund the school projects.

## Existing and Future Capital Project Financing

<u>Project</u>	<u>Amount Authorized</u>	<u>Previously Bonded</u>	<u>State of CT</u>			
			<u>Interim Funding Obligation (IFO)</u>	<u>Grants and Paydowns</u>	<u>The Bonds (This Issue)</u>	<u>Authorized But Unissued</u>
Sewer Construction	\$ 59,840,000	\$39,499,800	\$ -	\$(15,974,154)	\$ -	\$ 4,366,046
Solid Waste Collection Vehicles	705,000	-	-	(700,000)	-	5,000
Niantic Bay Overlook	3,800,000	-	-	-	-	3,800,000
Open Space Extensions Project	2,000,000	1,500,000	-	-	-	500,000
Schools Renovations and Improvements Projects (1)	4,900,000	3,750,000 (2)	-	(983,934)	-	166,066 (3)
Water System Improvements (4)	6,550,000	4,180,000	415,807	(540,072)	-	1,414,121
Town Wide Radio System Upgrade	1,355,000	1,105,000	-	-	-	250,000 (5)
Land Acquisition	2,900,000	-	-	-	2,900,000	-
224 Main Street Acquisition	740,000	-	-	-	-	740,000
Town Road Improvements	500,000	-	-	-	500,000	-
Fire Pumper Truck	460,000	-	-	-	460,000	-
<b>Total</b>	<b>\$ 83,750,000</b>	<b>\$50,034,800</b>	<b>\$ 415,807</b>	<b>\$(18,198,160)</b>	<b>\$ 3,860,000</b>	<b>\$11,241,233</b>

(1) The Schools Renovations and Improvement Projects includes the following two authorizations 1) an appropriation and bond authorization in the amount of \$3,000,000 which was adopted at a Special Town Meeting on June 13, 2005 for the planning, design, acquisition and construction of school renovations and improvements consisting of (i) roof replacement and new air handling/conditioning equipment and distribution system at East Lyme High School - \$2,500,000, and (ii) new windows at L.B. Haynes Elementary School - \$500,000, and for administrative, printing, legal and financing costs and 2) an appropriation and bond authorization in the amount of \$1,900,000 was adopted at a Special Town Meeting on January 9, 2007 for the roof replacement at East Lyme High School, and for administrative, printing, legal and financing costs.

(2) Approximately \$750,000 of unexpended bond proceeds from bonds issued July 21, 2005 was reallocated in July 2007 to finance the High School Roof Replacement Project.

(3) It is estimated that the Town will receive State of Connecticut School Construction grant progress payments in the amount of \$1,150,000 during the construction of the projects. As of February 9, 2011, the Town has received \$983,934 progress payments for these projects.

(4) The Water System Improvements authorization was amended at a Town Meeting on February 18, 2009 to increase the original authorization of \$4,180,000 to \$6,550,000. The amended amount of \$2,370,000 is to be funded through the State of Connecticut Drinking Water Revolving Fund.

(5) It is the Town's intention to finance this authorization through a combination of bonds, grants and funds provided by the Ambulance Association.

The Town is in the process of authorizing the acquisition, design and construction of the East Lyme / New London Regional Interconnection Project in the amount of \$10,971,000. The authorization will include but is not limited to (i) construction and installation of potable water transmission main between the northern terminus of the East Lyme water main on Route 161, and running in and along Route 161 and Route 85 for approximately 4.0 miles to the New London Water Treatment Plant, (ii) a booster/pressure reducing station, 1.0 million gallon plus water storage tank and water main from the tank to Route 161, meters, manhole structures, pumps, valves and related appurtenances and equipment, controls/SCADA interfacing, and improvements to the New London WTP, all to be completed in substantial accordance with East Lyme's approved 2005 Water Supply Plan Update, as amended from time to time, and related implementation plans and schedules, and (iii) engineering, administrative, printing, legal and costs of issuance related thereto, said appropriation to be inclusive of any and all State and Federal grants and/or subsidies-in-aid thereof. This project is expected to be funded by the State of Connecticut Drinking Water State Revolving Fund which provides financial assistance through loans at interest rates as determined by the State Bond Commission and subsidies.

The Town has a five year capital improvements program, which is available from the Director of Finance.

### Combined Schedule of Long Term Debt through Maturity – General Fund and Enterprise Fund

As of February 9, 2011 (Pro Forma)

Existing Indebtness					
Fiscal Year	Principal Payments (1,2)	Interest Payments (1,2)	Total Debt Service	<i>This Issue</i> Principal	ALL ISSUES Total Principal (1,2)
2010-11	\$ 4,150,326	\$ 1,737,737	\$ 5,888,063	\$ -	\$ 4,150,326
2011-12	4,029,971	1,488,495	5,518,466	-	4,029,971
2012-13	3,834,971	1,337,722	5,172,693	-	3,834,971
2013-14	3,802,906	1,194,150	4,997,056	175,000	3,977,906
2014-15	3,585,000	1,059,650	4,644,650	175,000	3,760,000
2015-16	3,570,000	929,038	4,499,038	175,000	3,745,000
2016-17	3,355,000	795,655	4,150,655	175,000	3,530,000
2017-18	3,340,000	661,055	4,001,055	175,000	3,515,000
2018-19	2,520,000	540,650	3,060,650	225,000	2,745,000
2019-20	1,980,000	450,525	2,430,525	225,000	2,205,000
2020-21	1,975,000	367,331	2,342,331	225,000	2,200,000
2021-22	1,285,000	297,913	1,582,913	225,000	1,510,000
2022-23	1,300,000	245,775	1,545,775	225,000	1,525,000
2023-24	1,300,000	193,275	1,493,275	225,000	1,525,000
2024-25	900,000	148,134	1,048,134	225,000	1,125,000
2025-26	900,000	110,119	1,010,119	225,000	1,125,000
2026-27	675,000	76,575	751,575	225,000	900,000
2027-28	675,000	47,503	722,503	225,000	900,000
2028-29	375,000	24,413	399,413	225,000	600,000
2029-30	355,000	7,988	362,988	250,000	605,000
2030-31	-	-	-	260,000	260,000
Total	<u>\$ 43,908,174</u>	<u>\$ 11,713,703</u>	<u>\$ 55,621,877</u>	<u>\$ 3,860,000</u>	<u>\$ 47,768,174</u>

(1) Includes \$5,025,000 of water debt which will be paid from a combination of user charges, property assessments and General Fund contributions, but are guaranteed by the full faith and credit of the Town.

(2) Does not reflect principal payments of \$3,854,982 made as of February 9, 2011.

Source: Annual audited financial statements.

**Schedule of Long Term Debt through Maturity – General Fund**

As of February 9, 2011 (Pro Forma)

Existing Indebtness					
Fiscal Year	Principal Payments (1,2)	Interest Payments (1,2)	Total Debt Service	<i>This Issue</i> Principal	ALL ISSUES Total Principal (1,2)
2010-11	\$ 3,932,326	\$ 1,445,044	\$ 5,377,370	\$ -	\$ 3,932,326
2011-12	3,818,971	1,292,167	5,111,138	-	3,818,971
2012-13	3,550,971	1,151,623	4,702,594	-	3,550,971
2013-14	3,517,906	1,020,782	4,538,688	175,000	3,692,906
2014-15	3,297,000	899,158	4,196,158	175,000	3,472,000
2015-16	3,280,000	780,103	4,060,103	175,000	3,455,000
2016-17	3,132,000	656,255	3,788,255	175,000	3,307,000
2017-18	3,117,000	530,575	3,647,575	175,000	3,292,000
2018-19	2,297,000	419,090	2,716,090	225,000	2,522,000
2019-20	1,780,000	337,425	2,117,425	225,000	2,005,000
2020-21	1,775,000	262,231	2,037,231	225,000	2,000,000
2021-22	1,085,000	200,813	1,285,813	225,000	1,310,000
2022-23	1,100,000	156,675	1,256,675	225,000	1,325,000
2023-24	1,100,000	112,175	1,212,175	225,000	1,325,000
2024-25	600,000	77,222	677,222	225,000	825,000
2025-26	600,000	51,769	651,769	225,000	825,000
2026-27	375,000	30,975	405,975	225,000	600,000
2027-28	375,000	14,841	389,841	225,000	600,000
2028-29	75,000	5,063	80,063	225,000	300,000
2029-30	75,000	1,688	76,688	250,000	325,000
2030-31				260,000	260,000
Total	<u>\$ 38,883,174</u>	<u>\$ 9,445,672</u>	<u>\$ 48,328,846</u>	<u>\$ 3,860,000</u>	<u>\$ 42,743,174</u>

(1) Excludes the obligations of the Water Department which were issued with the guarantee of the full faith and credit of the Town but will be paid from a combination of user charges, assessments and General Fund contributions.

(2) Does not reflect principal payments of \$3,636,982 made as of February 9, 2011.

Source: Annual audited financial statements.

**Schedule of Long Term Debt through Maturity – Enterprise Fund**

As of February 9, 2011 (Pro Forma)

<u>Existing Indebtness</u>			
<u>Fiscal Year</u>	<u>Principal Payments (1)</u>	<u>Interest Payments</u>	<u>Total Debt Service (1)</u>
2010-11	\$ 218,000	\$ 292,692	\$ 510,692
2011-12	211,000	196,329	407,329
2012-13	284,000	186,099	470,099
2013-14	285,000	173,368	458,368
2014-15	288,000	160,493	448,493
2015-16	290,000	148,935	438,935
2016-17	223,000	139,400	362,400
2017-18	223,000	130,480	353,480
2018-19	223,000	121,560	344,560
2019-20	200,000	113,100	313,100
2020-21	200,000	105,100	305,100
2021-22	200,000	97,100	297,100
2022-23	200,000	89,100	289,100
2023-24	200,000	81,100	281,100
2024-25	300,000	70,913	370,913
2025-26	300,000	58,350	358,350
2026-27	300,000	45,600	345,600
2027-28	300,000	32,663	332,663
2028-29	300,000	19,350	319,350
2029-30	280,000	6,300	286,300
Total	<u>\$ 5,025,000</u>	<u>\$ 2,268,030</u>	<u>\$ 7,293,030</u>

(1) Does not reflect principal payments of \$218,000 made as of February 9, 2011.

Source: Annual audited financial statements.

## SECTION V - FINANCIAL DATA

### Accounting Policies

The Town's accounting policies are summarized in Note 1 "Summary of Significant Accounting Policies" in the Notes to Financial Statements.

### Basis of Accounting

See Note 1 "Measurement Focus, Basis of Accounting and Financial Statement Presentation" in the Notes to Financial Statements (Appendix A).

### Audit

Pursuant to the provisions as delineated in the Municipal Auditing Act (Chapter 111 of the Connecticut General Statutes), the Town is obligated to undergo an annual examination by an independent certified public accountant. The firm of McGladrey and Pullen, LLP, of New Haven, Connecticut, is the auditor, and is required to conduct an examination under the guidelines issued by the State of Connecticut, Office of Policy & Management, who receive a copy of said audit report when completed.

The Town's Department of Finance is responsible for the keeping of accounts and financial records, the assessment and collection of taxes, special assessments and other revenues, the custody and disbursement of Town funds and money, the control over expenditures and such other powers and duties as may be required by the Charter and by ordinance or resolution of the Board of Selectmen. Accounts are kept by the Department of Finance showing financial transactions for all departments and agencies. Financial reports are prepared for each month and each fiscal year and such other periods as may be required by the Board of Selectmen.

### Budgetary Procedures

The Board of Finance is the budget-making authority for the Town. Departments submit their budgets to the Board of Selectmen, which then make recommendations to the Board of Finance. The Board of Finance submits the budget to public hearing and recommends the revised budget to the Town Meeting. The table below reflects the budgetary process and the timing of preparation.

Departments submit to the <u>Board of Selectmen</u> 90 days prior to the Annual Town Meeting	Board of Selectmen submits to the <u>Board of Finance</u> 60 days prior to the Annual Town Meeting	Board of Finance <u>Review</u> Prior to the Public Hearing	Public Budget <u>Hearing</u> 14 days prior to the Annual Town Meeting	Annual Town <u>Meeting</u> 2nd Monday in May	<u>Referendum</u> 10 days after Town Meeting
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### Employee Pension Systems

The Town of East Lyme has one pension plan covering substantially all full-time employees and non-certified 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 this plan. The Town has also established a 401(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 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, 2010, there were 12 plan members. The Town contributed \$54,792.

The Town of East Lyme contributes to a single-employer pension employees' retirement system ("PERS") administered by the Hartford Life Insurance Company.

Based upon a January 1, 2010 actual valuation, the actuarial value of assets and actuarial liabilities for the PERS plan were as follows:

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (a-b)	Funded Ratio (a/b)
6/30/2003	\$ 7,382,367	\$ 7,382,367	\$ -	100.0%
6/30/2004	8,053,415	8,053,415	-	100.0%
6/30/2005	6,423,706	6,423,706	-	100.0%
6/30/2006	6,850,721	6,850,721	-	100.0%
6/30/2007	6,876,025	9,761,154	(2,885,129)	70.4%
6/30/2008	7,189,058	10,727,282	(3,538,224)	67.0%
6/30/2009	7,616,354	13,299,312	(5,682,958)	57.3%
6/30/2010	8,357,352	13,315,443	(4,958,091)	62.8%

**Schedule of Employer Contributions**

Year Ended June 30	Actuarial Required Contribution	Percentage Contributed
2002	\$ 336,975	100.0%
2003	350,096	100.0%
2004	387,097	100.0%
2005	387,178	100.1%
2006	469,903	100.0%
2007	531,455	100.0%
2008	605,163	100.0%
2009	675,251	100.0%
2010	750,941	100.0%
2011 (1)	850,037	100.0%

(1) As budgeted for fiscal year 2010-11.

For further information and descriptions of the plan see Appendix "A", Notes to Financial Statements, Note 12, "Retirement Plans" herein.

**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.

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.

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, 2008. The post-retirement plan does not issue stand-alone financial reports.



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 funding excess) over a period not to exceed thirty years. The actuarial accrued liability as of July 1, 2008 is estimated to be \$12,751,400. The Town's contributions represent payments made for premiums for insured individuals on a pay-as-you-go method.

For further information and descriptions of the plan see Appendix "A", Notes to Financial Statements, Note 12, "Other Post-Employment Benefits" herein.

### **Investment Policies and Procedures**

Connecticut General Statutes ("CGS") Sections 7-400 and 7-402 govern the investments the Town is permitted to acquire. Generally, the Town Treasurer invests operating and working capital funds in the following short-term investments: (1) various certificates of deposit with Connecticut banks (prior to acquiring a certificate of deposit the Treasurer requires that prospective bank depositories provide written evidence that the bank meets the collateral, risk based capital and other requirements of qualified public depositories as defined in Section 36-382 of the CGS); (2) the State of Connecticut Short Term Investment Fund ("STIF") established pursuant to Section 3-27d of the CGS (municipal funds deposited with STIF may be used by the State to acquire the investments set forth in Section 3-27d of the CGS); (3) MBIA Class (an investment fund managed by MBIA Municipal Investors Service Corporation which according to MBIA Class invests in only (i) high grade short-term federal securities and variable rate obligations backed by federal agencies having monthly or quarterly assets based on indices like the prime rate, LIBOR, or a combination of the two, and (ii) very short-term (usually overnight) repurchase agreements secured by high quality collateral which is valued daily and fully delivered to the program's custodial bank to be held for the benefit of the pool's participants.

Refer to Appendix "A", Notes to Financial Statements, Note 3, for a description of the Town's cash and cash equivalent investments and investment practices as of June 30, 2010.

### **Assessment Practices**

The Town of East Lyme last revalued its real property effective October 1, 2006. The October 1, 2011 revaluation is currently in progress. Under Section 12-62 of the Connecticut General Statutes, the Town must revalue all real estate by physical inspection no later than ten years following the preceding physical inspection. The Town must conduct a statistical revaluation no later than five years after the last physical inspection. The maintenance of an equitable tax base and the location and appraisal of all real and personal property within the Town for inclusion on the Grand List is the responsibility of the Assessor. The Grand List represents the total of assessed value for all taxable real and personal property located within the Town as of October 1. A Board of Assessment Appeals determines whether adjustments to the Assessor's list on assessments under appeal are warranted. Assessments are computed at seventy percent (70%) of market value at the time of the last general revaluation.

When a new structure or modification to an existing structure is undertaken, the Assessor's Office receives a copy of the permit issued by the Building Inspector. A physical appraisal is then completed and the structure classified and priced from a schedule developed as of the revaluation. Property depreciation and obsolescence factors are also considered when arriving at an equitable value.

Motor vehicle lists are furnished to the Town by the State of Connecticut and appraisals of motor vehicles are accomplished in accordance with an automotive price schedule as recommended by the State Office of Policy and Management and the Assessor. Section 12-71b of the Connecticut General Statutes provides that motor vehicles which are registered with the Commissioner of Motor Vehicles after the October 1 assessment date but before the next August 1 are subject to a property tax as if the motor vehicle had been included on the October 1 Grand List. The tax is prorated, and the pro-ration is based on the number of months of ownership between October 1 and the following July 31. Cars purchased in August and September are not taxed until the next October 1 Grand list. If the motor vehicle replaces a motor vehicle that was taxed on the October Grand List, the taxpayer is entitled to certain credits.

All business personal property (furniture, fixtures, equipment, machinery and leased equipment) is assessed annually. An assessor's clerk and audit is completed periodically. Assessments for both personal property and motor vehicles are computed at seventy (70%) of present market value.

Section 12-124a of the Connecticut General Statutes permits a municipality, upon approval of its legislative body, to abate property taxes on owner-occupied residences to the extent that the taxes exceed eight percent of the owner's total income, from any source, adjusted for self-employed persons to reflect expenses allowed in determining adjusted gross income. The owner must agree to pay the amount of taxes abated with interest at 6% per annum, or at such rate approved by the legislative body, at such time that the residence is sold or transferred or on the death of the last surviving owner. A lien for such amounts is recorded in the land records but does not take precedence over any mortgage recorded before the lien. The Town has approved the use of this abatement provision.

### Tax Collection Procedures

Taxes for the fiscal year are paid on the grand list of the prior October 1, and are due July 1, payable in two installments, one half on July 1 and one half on January 1. Payments not received by August 1 and February 1 become delinquent. Motor vehicle taxes must be paid in a single installment due July 1. Real estate and personal property taxes of less than \$100 are due in full in July. Supplemental motor vehicle taxes (those vehicles registered between October 2 and July 31) are due in one installment in January.

According to Connecticut General Statutes, delinquent property taxes are subject to interest at the rate of 1.5% per month for all delinquent property taxes. Real estate is liened for delinquent taxes within one year after the tax due date.

### Property Tax Levies and Collections

Fiscal Year Ending 6/30	Taxable Grand List (1)	Tax Rate (In Mills)	Adjusted Tax Levy	% Annual Levy Collected	Uncollected Taxes	
					End of Each Fiscal Year (2)	As of 6/30/10
2011 (Adopted Budget)	\$ 2,310,845,271	19.55	\$ 44,699,260	In process	In process	In process
2010	2,294,385,950	19.18	43,868,665	98.6	\$ 597,118	\$ 597,118
2009	2,277,922,273	19.18	43,667,884	98.7	588,369	209,017
2008	2,245,262,203	18.41	41,811,304	98.7	555,737	82,721
2007	1,412,978,344	28.39	40,451,698	98.8	465,797	56,779
2006	1,371,341,168	26.84	37,126,584	99.0	353,600	22,149
2005	1,327,005,487	25.95	34,774,795	98.9	365,935	10,574
2004	1,310,062,510	24.35	32,126,818	98.8	389,892	8,301
2003	1,276,361,798	22.90	29,493,836	98.6	408,352	5,719
2002	915,770,850	30.30	27,592,744	98.4	448,726	4,823

- (1) According to Connecticut General Statutes, towns are required to revalue real property by physical inspection at least every ten years. East Lyme completed the revaluation effective October 1, 2006. The October 1, 2011 revaluation is currently in progress.
- (2) Taxes for the fiscal year on the Grand List of October 1, payable in two installments: one-half July 1 and one-half January 1. If the first installment is not paid by August 1 and the second installment is not paid by February 1, the tax becomes delinquent and a penalty of 1 1/2% per month (18% per annum) is charged from the due date on the tax. Real estate is liened for delinquent taxes within one year after the due date. The amount collected to the end of each fiscal year represents collections of twelve months.

Source: Town of East Lyme, Office of the Assessor.

### Taxable Grand List

Grand List Dated	Real Property %	Personal Property %	Motor Vehicle Property %	Gross Taxable Grand List	Less Exemptions	Net Taxable Grand List
10/01/09	93.4	1.8	4.8	\$ 2,323,703,371	\$ 12,858,100	\$ 2,310,845,271
10/01/08	93.5	1.7	4.8	2,307,226,230	12,840,280	2,294,385,950
10/01/07	93.3	1.7	5.0	2,289,999,493	12,077,220	2,277,922,273
10/01/06	93.4	1.6	5.0	2,257,640,828	12,378,625	2,245,262,203
10/01/05	89.8	2.3	7.9	1,419,471,974	6,493,630	1,412,978,344
10/01/04	90.0	2.3	7.7	1,379,788,578	8,447,410	1,371,341,168
10/01/03	90.5	2.0	7.5	1,335,177,857	8,172,370	1,327,005,487
10/01/02	90.2	2.1	7.7	1,318,480,760	8,418,250	1,310,062,510
10/01/01	90.5	1.9	7.5	1,285,088,153	8,726,355	1,276,361,798
10/01/00	87.0	3.0	10.0	924,411,255	8,640,405	915,770,850

Source: Town of East Lyme, Office of the Assessor.

## Real Property Breakdown by Category

Grand List Dated	Residential Property %	Industrial & Commercial Property %	Land and Other Property %	Total Real Property %
10/1/2009	82.6	7.9	2.9	93.4
10/1/2008	83.0	8.1	2.8	93.5
10/1/2007	82.3	7.9	3.1	93.3
10/1/2006	82.2	7.9	3.2	93.3
10/1/2005	79.9	7.3	2.9	89.8
10/1/2004	79.6	7.3	3.1	90.0
10/1/2003	80.2	7.2	3.1	90.5
10/1/2002	78.5	9.4	2.3	90.2
10/1/2001	80.1	7.3	2.3	89.7
10/1/2000	75.9	9.7	2.2	87.8

Source: Town of East Lyme, Office of the Assessor.

## Largest Taxpayers

The following table sets forth the ten largest taxpayers in the Town per the Grand List dated October 1, 2009:

Name	Nature of Business	Valuation as of 10/01/09	Estimated Taxes Due
Connecticut Light & Power	Utility	\$ 12,614,300	\$ 246,610
L & L East Lyme LLC	Grocery Store	11,187,400	218,714
Benchmark GPT Niantic LLC	Assisted Living	9,587,970	187,445
Mitchell Trust LLC	Various	5,684,010	111,122
East Lyme Housing Ventures LLC	Residential Lots	4,915,470	96,097
Orchard II Ventures LLC	Residential Lots	4,782,960	93,507
JV Hope Street LLC	Apartments	4,613,680	90,197
Wolanic, Peter B Etal	Various	4,452,280	87,042
SMV Niantic LLC	Nursing Home & Rehab Center	4,135,390	80,847
HTD Aerospace, Inc.	Manufacturer	4,047,190	79,123
Total		<u>\$ 66,020,650</u> (1)	<u>\$ 1,290,704</u> (2)

(1) Represents 2.86% of the net taxable grant list of \$2,310,845,271 dated October 1, 2009.

(2) Represents 2.89% of the total adjusted tax levy of \$44,699,260 for fiscal year 2010-11 Adopted Budget.

## Revenues

The Town derives its revenues from a direct tax levy on property, State and federal aid, various fees and charges, and certain miscellaneous sources. Town revenues are summarized for fiscal years ended 2006-2010 in "Statement of Revenues, Expenditures and Changes in Fund Balance General Fund (GAAP)" herein. The prior year's appropriated surplus is also available to support current operating expenditures.

## Property Tax Revenues

<u>Fiscal Year</u>	<u>General Fund Revenues</u>	<u>Property Tax Revenues</u>	<u>Property Tax As a % of General Fund Revenues</u>
2011 (Adopted Budget)	\$ 58,702,169	\$ 45,239,260	77.1
2010	59,648,534	43,941,520	73.7
2009	61,540,684	43,711,314	71.0
2008	59,274,050 <sup>(1)</sup>	41,888,394	70.7
2007	56,726,941	40,626,355	71.6
2006	53,495,779	37,424,788	70.0
2005	49,380,455	35,543,137	72.0
2004	46,582,619	32,602,862	70.0
2003	43,553,882	29,865,962	68.6
2002	41,985,037	28,265,742	67.3

(1) Includes one-time pass-through state funding for the teachers' retirement system pension liability in the amount of \$10,139,000 an increase of \$8,794,000.

Source: Annual audited financial statements; fiscal year 2010-11 adopted budget.

## Intergovernmental Revenues

<u>Fiscal Year</u>	<u>General Fund Revenues</u>	<u>State and Federal Aid</u>	<u>Aid As % of General Fund Revenue</u>
2011 (Adopted Budget)	\$ 58,702,169	\$ 8,878,715	15.1
2010	59,648,534	11,178,281	18.7
2009	61,540,684	12,748,779	20.7
2008	59,274,050 <sup>(1)</sup>	11,736,954 <sup>(1)</sup>	19.8
2007	56,726,941	10,439,767	18.4
2006	53,495,779	10,446,197	19.5
2005	49,380,455	9,319,129	18.9
2004	46,582,619	9,367,574	20.1
2003	43,553,882	10,097,331	23.2
2002	41,985,037	10,656,538	25.4

(1) Includes one-time pass-through state funding for the teachers' retirement system pension liability in the amount of \$10,139,000 an increase of \$8,794,000.

Source: Annual audited financial statements; fiscal year 2010-11 adopted budget.

## Expenditures

<u>Fiscal Year</u>	<u>Board of Education %</u>	<u>Debt Service %</u>	<u>General Government %</u>	<u>Public Works %</u>	<u>Public Safety %</u>
2011 (Adopted Budget)	65.7	9.0	10.0	5.6	5.4
2010	65.4	10.5	9.8	5.3	4.9
2009	66.8	10.1	9.1	5.6	4.5
2008	66.3	10.0	10.3	4.6	4.7
2007	65.1	10.9	10.6	4.7	4.7
2006	66.7 <sup>(1)</sup>	9.4	9.7	5.5	5.0
2005	65.2	10.7	10.0	5.1	5.0
2004	65.0	10.8	8.3	6.1	5.0
2003	64.3	10.8	8.3	5.9	5.0
2002	63.2	11.3	8.4	6.1	5.3

(1) Includes one-time pass-through state funding for the teachers' retirement system pension liability in the amount of \$10,139,000 an increase of \$8,794,000.

Source: Annual audited financial statements; fiscal year 2010-11 adopted budget.

**Comparative General Fund Operating Statement**  
(Budget and Actual – Budgetary Basis)

	<b>Fiscal Year 2009-10</b>			<b>FY 2010-11 Adopted Budget</b>
	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>	
<b>REVENUES</b>				
Property taxes	\$ 44,113,555	\$ 43,941,520	\$ (172,035)	\$ 45,340,231
Intergovernmental revenue	9,006,769	7,885,281	(1,121,488)	8,878,715
Licenses and permits	986,775	998,614	11,839	799,624
Fines and forfeits	25,100	44,121	19,021	26,000
Interest income	200,000	76,609	(123,391)	75,000
Charges for current services and other	3,538,112	3,409,389	(128,723)	3,582,599
<b>TOTAL REVENUES</b>	<b>57,870,311</b>	<b>56,355,534</b>	<b>(1,514,777)</b>	<b>58,702,169</b>
<b>EXPENDITURES</b>				
General government	5,981,179	5,693,920	287,259	6,052,481
Public safety	3,003,132	2,859,309	143,823	3,266,466
Public works	3,516,223	3,082,118	434,105	3,417,037
Health and welfare	271,726	218,528	53,198	260,854
Culture and recreation	1,877,901	1,868,381	9,520	1,741,605
Education	39,201,715	38,134,641	1,067,074	39,917,597
Capital outlay	498,563	363,303	135,260	658,003
Debt service	6,126,947	6,122,761	4,186	5,456,688
<b>TOTAL EXPENDITURES</b>	<b>60,477,386</b>	<b>58,342,961</b>	<b>2,134,425</b>	<b>60,770,731</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES:</b>	<b>(2,607,075)</b>	<b>(1,987,427)</b>	<b>619,648</b>	<b>(2,068,562)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Appropriation of fund balance	350,000	-	(350,000)	
Sewer assessment fund	2,148,562	2,068,562	(80,000)	2,068,562
Transfers out	(105,000)	(105,000)	-	
<b>OTHER FINANCING SOURCES (USES):</b>	<b>2,393,562</b>	<b>1,963,562</b>	<b>(430,000)</b>	<b>2,068,562</b>
<b>NET CHANGES IN FUND BALANCE</b>	<b>\$ (213,513)</b>	<b>\$ (23,865)</b>	<b>\$ 189,648</b>	<b>\$ -</b>

Source: Annual audited financial statements and fiscal year 2010-11 budget document.

**Comparative Balance Sheets - General Fund**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 8,862,217	\$ 4,564,826	\$ 8,968,331	\$ 7,693,977	\$ 6,635,299
Receivables:					
Intergovernmental	786,709	976,515	607,835	118,704	91,024
Property taxes	569,765	689,083	1,334,991	1,137,338	1,207,045
Assessments / use charges / other	138,772	88,646	261,928	202,830	208,069
Due from other funds	<u>188,641</u>	<u>1,598,118</u>	<u>579,518</u>	<u>224,784</u>	<u>150,482</u>
<b>TOTAL ASSETS</b>	<u>\$ 10,546,104</u>	<u>\$ 7,917,188</u>	<u>\$ 11,752,603</u>	<u>\$ 9,377,633</u>	<u>\$ 8,291,919</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 791,328	\$ 1,346,312	\$ 1,276,762	\$ 1,701,056	\$ 1,838,889
Accrued payroll	201,685	172,951	-	-	-
Due to other funds	715,062	476,981	3,982,697	2,336,085	898,415
Unearned revenue	2,830,522	633,601	282,991	218,629	157,136
Deferred revenue	<u>-</u>	<u>-</u>	<u>1,867,261</u>	<u>1,166,304</u>	<u>1,305,201</u>
<b>TOTAL LIABILITIES</b>	<u>4,538,597</u>	<u>2,629,845</u>	<u>7,409,711</u>	<u>5,422,074</u>	<u>4,199,641</u>
<b>FUND BALANCE (DEFICITS)</b>					
Reserved for encumbrances	969,819	525,032	610,186	128,683	289,266
Unreserved:					
Designated for subsequent year budget	520,863	700,000	350,000	350,000	-
Undesignated	<u>4,516,825</u>	<u>4,062,311</u>	<u>3,382,706</u>	<u>3,476,876</u>	<u>3,803,012</u>
<b>TOTAL FUND BALANCES</b>	<u>6,007,507</u>	<u>5,287,343</u>	<u>4,342,892</u>	<u>3,955,559</u>	<u>4,092,278</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 10,546,104</u>	<u>\$ 7,917,188</u>	<u>\$ 11,752,603</u>	<u>\$ 9,377,633</u>	<u>\$ 8,291,919</u>

Source: Annual audited financial statements.

**Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>REVENUES</b>					
Taxes, interest and liens	\$ 37,424,788	\$ 40,626,355	\$ 41,888,394	\$ 43,711,314	\$ 43,941,520
Intergovernmental revenues	10,446,197	10,439,767	11,736,954	12,748,779	11,178,281
Interest income	466,551	630,140	433,182	211,860	76,609
Charges for services	5,158,243	5,030,679	5,215,520	4,868,731	4,452,124
<b>TOTAL REVENUES</b>	<u>53,495,779</u>	<u>56,726,941</u>	<u>59,274,050</u>	<u>61,540,684</u>	<u>59,648,534</u>
<b>EXPENDITURES</b>					
Current:					
General government	5,260,042	6,188,790	6,253,428	5,761,804	5,692,422
Public safety	2,680,742	2,740,111	2,879,237	2,838,521	2,858,823
Public works	2,949,274	2,742,309	2,782,357	3,564,191	2,952,242
Health and welfare	298,384	360,135	214,135	209,533	231,630
Culture and recreation	1,465,887	1,553,122	1,717,074	1,782,296	1,869,247
Education	36,033,192	38,111,914	40,271,673	42,299,028	41,427,641
Capital outlay	256,942	509,304	559,646	504,734	787,183
Debt Services	5,104,111	6,367,772	6,070,937	6,370,107	6,338,461
<b>TOTAL EXPENDITURES</b>	<u>54,048,574</u>	<u>58,573,457</u>	<u>60,748,487</u>	<u>63,330,214</u>	<u>62,157,649</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(552,795)</u>	<u>(1,846,516)</u>	<u>(1,474,437)</u>	<u>(1,789,530)</u>	<u>(2,509,115)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of capital leases	29,684	30,746	78,915	(48,167)	466,571
Operating transfers in	2,349,672	2,050,649	2,073,987	2,067,567	2,068,562
Operating transfers out	(1,548,212)	(955,043)	(697,383)	(617,203)	(105,000)
Bond premium	-	-	-	-	967,761
Issuance of bonds	-	-	-	-	15,585,000
Payment to escrow	-	-	-	-	(16,337,060)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>831,144</u>	<u>1,126,352</u>	<u>1,455,519</u>	<u>1,402,197</u>	<u>2,645,834</u>
<b>EXTRAORDINARY ITEM</b>					
State teachers' on-behalf revenue	-	-	10,139,000	-	-
State teachers' on-behalf payments	-	-	(10,139,000)	-	-
<b>CHANGE IN FUND BALANCE</b>	278,349	(720,164)	(18,918)	(387,333)	136,719
Fund Balance - Beginning of year	<u>4,478,800</u>	<u>4,757,149</u>	<u>4,361,810</u>	<u>4,342,892</u>	<u>3,955,559</u>
Fund Balance - End of year	<u>\$ 4,757,149</u>	<u>\$ 4,036,985</u>	<u>\$ 4,342,892</u>	<u>\$ 3,955,559</u>	<u>\$ 4,092,278</u>

(1) As restated.

Source: Annual audited financial statements.

## Comparative Balance Sheets – Enterprise Funds

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010 (1)</u>
<b>ASSETS</b>					
Cash	\$ 628,791	\$ 384,103	\$ 1,998,219	\$ 1,588,146	\$ 491,475
Investments	422,724	404,225	-	-	-
Receivables:					
User charges	597,645	746,653	965,027	804,751	298,686
Assessments	158,996	153,501	-	-	-
Due from other funds	444,379	449,164	166,754	3,467	31,257
Inventory	68,091	68,091	54,047	54,047	21,110
Restricted assests - cash	374,085	337,552	-	-	-
Restricted assests - user charges receivables	2,660	-	-	-	-
Plant, property and equipment	59,215,024	60,505,627	62,840,838	62,326,939	49,432,534
<b>TOTAL ASSETS</b>	<u>\$ 61,912,395</u>	<u>\$ 63,048,916</u>	<u>\$ 66,024,885</u>	<u>\$ 64,777,350</u>	<u>\$ 50,275,062</u>
<b>LIABILITIES</b>					
Cash overdraft	\$ -	\$ 61,345	\$ -	\$ -	\$ -
Accounts payable	248,084	106,278	285,722	48,916	25,984
Accrued interest payable	35,437	38,307	24,506	24,506	-
Due to other funds	340,355	10,739	318,215	444,398	311,465
Meter deposits	376,955	337,552	344,001	346,345	3,429
Compensated absences	49,896	22,065	56,902	66,558	29,291
Bond and notes payable	1,806,166	1,572,057	1,336,397	1,079,514	-
<b>TOTAL LIABILITIES</b>	<u>2,856,893</u>	<u>2,148,343</u>	<u>2,365,743</u>	<u>2,010,237</u>	<u>370,169</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	57,408,858	58,933,570	61,452,797	61,247,425	49,432,534
Unreserved	1,646,644	1,967,003	2,206,345	1,519,688	472,359
<b>TOTAL NET ASSETS</b>	<u>59,055,502</u>	<u>60,900,573</u>	<u>63,659,142</u>	<u>62,767,113</u>	<u>49,904,893</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 61,912,395</u>	<u>\$ 63,048,916</u>	<u>\$ 66,024,885</u>	<u>\$ 64,777,350</u>	<u>\$ 50,275,062</u>

(1) As of July 1, 2009, the Water Department Fund was transferred to a special revenue fund and will follow the modified accrual basis of accounting. Operations were formally reported in the Water Department Fund on the accrual basis of accounting and therefore resulted in a Special Item the Government-wide Financial Statements and the Water Department Enterprise Fund of \$12,506,069, which primarily represents the transfer of capital assets and debt. The Special Item also increased the non-major governmental fund balance by \$620,740.

Source: Annual audited financial statements.



**Statement of Revenues, Expenditures and Changes in Fund Balance – Enterprise Funds**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010 (1)</u>
<b>OPERATING REVENUES</b>					
Charges for services	\$ 2,801,566	\$ 3,353,235	\$ 3,745,324	\$ 3,453,641	\$ 1,456,439
<b>OPERATING EXPENSES</b>					
General and administrative	751,435	732,271	1,134,275	1,171,564	314,769
Labor and maintenance	2,067,830	2,019,817	1,917,908	2,475,624	1,145,350
Depreciation	1,150,743	1,160,192	1,148,963	1,312,745	841,237
Other expenditures	15,324	2,650	4,797	-	-
<b>TOTAL OPERATING EXPENSES</b>	<u>3,985,332</u>	<u>3,914,930</u>	<u>4,205,943</u>	<u>4,959,933</u>	<u>2,301,356</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(1,183,766)</u>	<u>(561,695)</u>	<u>(460,619)</u>	<u>(1,506,292)</u>	<u>(844,917)</u>
<b>NON OPERATING REVENUES</b>					
<b>EXPENSES</b>					
Investment income	37,807	46,108	15,222	13,324	1,230
Loss on disposal of fixed assets	-	-	-	-	-
Debt service - interest	(130,740)	(137,420)	(59,262)	(195,666)	-
<b>NET NON OPERATING REVENUES (EXPENSES)</b>	<u>(92,933)</u>	<u>(91,312)</u>	<u>(44,040)</u>	<u>(182,342)</u>	<u>1,230</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	(1,276,699)	(653,007)	(504,659)	(1,688,634)	(843,687)
<b>TRANSFERS IN / CONTRIBUTED CAPITAL</b>	<u>739,964</u>	<u>2,452,010</u>	<u>3,263,228</u>	<u>796,605</u>	<u>487,536</u>
<b>CHANGE IN NET ASSETS</b>	(536,735)	1,799,003	2,758,569	(892,029)	(356,151)
<b>Special Item, See footnote 2 below</b>	-	-	-	-	(12,506,069)
Fund Balance - Beginning of Year	<u>59,592,237</u> (2)	<u>59,101,570</u> (2)	<u>60,900,573</u>	<u>63,659,142</u>	<u>62,767,113</u>
Fund Balance - End of Year	<u>\$ 59,055,502</u>	<u>\$ 60,900,573</u>	<u>\$ 63,659,142</u>	<u>\$ 62,767,113</u>	<u>\$ 49,904,893</u>

(1) As of July 1, 2009, the Water Department Fund was transferred to a special revenue fund and will follow the modified accrual basis of accounting. Operations were formally reported in the Water Department Fund on the accrual basis of accounting and therefore resulted in a Special Item the Government-wide Financial Statements and the Water Department Enterprise Fund of \$12,506,069, which primarily represents the transfer of capital assets and debt. The Special Item also increased the non-major governmental fund balance by \$620,740.

(2) Restated.

Source: Annual audited financial statements.

**Statement Cash Flows – Enterprise Funds**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010 (1)</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ (1,183,766)	\$ (561,695)	\$ (460,619)	\$ (1,506,292)	\$ (844,917)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	1,150,743	1,160,192	1,148,963	1,312,745	841,237
(Increase) decrease in:					
Assessments receivable	142,385	(146,180)	(64,873)	160,276	(45,087)
Due from other funds	16,400	(4,785)	282,410	163,287	(27,790)
Inventory	(3,322)	1,215	14,044	-	1,082
Increase (decrease) in:					
Accounts payable	209,963	(160,312)	139,135	(227,150)	5,701
Due to other funds	(223,699)	(326,949)	307,476	126,183	1,093
Meter deposits	-	-	6,449	2,344	-
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>108,704</u>	<u>(38,514)</u>	<u>1,372,985</u>	<u>31,393</u>	<u>(68,681)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Principal payments	(820,775)	(239,998)	(235,660)	(262,772)	-
Proceeds of debt issuance	606,000	-	-	-	-
Interest payments	(168,062)	(128,661)	(59,262)	(189,777)	-
Purchases of capital assets	(802,844)	-	(1,174,174)	(798,846)	(472,036)
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(1,185,681)</u>	<u>(368,659)</u>	<u>(1,469,096)</u>	<u>(1,251,395)</u>	<u>(472,036)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfers in	739,964	-	953,228	796,605	487,536
<b>CASH FLOWS INVESTMENT ACTIVITIES:</b>					
Investment income	37,807	46,108	15,222	13,324	1,230
<b>NET INCREASE (DECREASE) IN CASH</b>	<u>(299,206)</u>	<u>(361,065)</u>	<u>872,339</u>	<u>(410,073)</u>	<u>(51,951)</u>
<b>CASH – JULY 1 (INCLUDING RESTRICTED CASH)</b>	<u>1,724,806</u>	<u>1,425,600</u>	<u>1,125,880</u> (2)	<u>1,998,219</u>	<u>543,426</u>
<b>CASH – JUNE 30 (INCLUDING RESTRICTED CASH)</b>	<u>\$ 1,425,600</u>	<u>\$ 1,064,535</u>	<u>\$ 1,998,219</u>	<u>\$ 1,588,146</u>	<u>\$ 491,475</u>

(1) As of July 1, 2009, the Water Department Fund was transferred to a special revenue fund and will follow the modified accrual basis of accounting. Operations were formally reported in the Water Department Fund on the accrual basis of accounting and therefore resulted in a Special Item the Government-wide Financial Statements and the Water Department Enterprise Fund of \$12,506,069, which primarily represents the transfer of capital assets and debt. The Special Item also increased the non-major governmental fund balance by \$620,740.

(2) Restated.

Source: Annual audited financial statements.

## SECTION VI – ADDITIONAL INFORMATION

### **Litigation**

The Town of East Lyme, its officers, employees, boards and commissions are defendants in various lawsuits. The Town Attorney is of the opinion that all pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the Town which would materially adversely affect its financial position.

### **Availability of Continuing Disclosure Information**

The Town of East Lyme prepares, in accordance with State Law, annual independent audited financial statements and operating statements and files such annual audits with the State Office of Policy and Management within six months of the end of its fiscal year. The Town provides, and will continue to provide Moody's Investors Service ongoing disclosure in the form of annual financial reports, adopted budgets and other materials relating to its management and financial condition, as may be necessary or requested.

The Town will enter into a Continuing Disclosure Agreement with respect to the Bonds, substantially in the form attached as Appendix C to this Official Statement (the "Continuing Disclosure Agreement"), to provide or cause to be provided, in accordance with the requirements of SEC Rule 15c2-12, (i) annual financial information and operating data, (ii) notice of the occurrence of certain material events within 10 days of the occurrence of such events; and (iii) timely notice of a failure by the Town to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement.

The Town has previously undertaken in continuing disclosure agreements entered into for the benefit of holders of certain of its general obligation bonds and notes to provide certain annual financial information and event notices pursuant to Rule 15c2-12(b)(5). To date the Town has not failed to meet any of its undertakings under such agreements.

### **Financial Advisor**

The Town has retained Independent Bond and Investment Consultants LLC ("IBIC LLC") of Madison, Connecticut, as financial advisor in connection with the issuance and sale of the Bonds. Although IBIC LLC has assisted in the preparation of the Official Statement, IBIC LLC is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement. IBIC LLC is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

### **Documents Accompanying Delivery of the Bonds**

Upon delivery of the Bonds, the winning bidder will be furnished with the following:

1. Signature and No Litigation Certificate stating that at the time of delivery, no litigation is pending or threatened affecting the validity of the Bonds or the levy or collection of taxes to pay them;
2. A certificate on behalf of the Town, signed by the First Selectman and Town Treasurer, which will be dated the date of delivery and attached to a signed copy of the Official Statement, and which will certify, to the best of said officials' knowledge and belief, as of the date of the Official Statement and the date of the closing, the descriptions and statements in the Official Statement, relating to the Town and its finances were true and correct in all material respects and did not contain any untrue statement of a material fact or omit to state a material fact, necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and that there has been no material adverse change in the financial condition of the Town from that set forth in or contemplated by the Official Statement;
3. Approving opinion of Robinson & Cole LLP, Bond Counsel, in substantially the form attached hereto as Appendix B,
4. A receipt for the purchase price of the Bonds, and

5. An executed Continuing Disclosure Agreement for the Bonds in substantially the form attached hereto as Appendix C.

The Town will provide the winning bidder of the Bonds 100 copies of the final Official Statement, as prepared for this issue at the Town's expense and delivered not later than seven business days after the bid opening. Additional copies may be obtained by the winning bidder at its own expense by arrangement with the printer. If the Issuers financial advisor is provided with the necessary information from the winning bidder by 12:00 p.m. (noon) on the day after the bid opening, the copies of the final Official Statement will include an additional cover page and other pages, if necessary, indicating the interest rates, rating(s), yields or reoffering prices, the name of the managing underwriter, and the name of the insurer, if any on the Bonds.

A transcript of the proceedings taken by the Town in authorizing the Bonds will be kept on file at the office of U.S. Bank, National Association, Hartford, Connecticut and will be available for examination upon reasonable request.

### **Concluding Statement**

Additional information may be obtained upon request from the Office of the Director of Finance at (860) 691-4111 or from Independent Bond and Investment Consultants LLC at (203) 245-8715.

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Official Statement is not to be construed as a contract or agreement between the Town and the purchasers or holders of any of the Bonds.

This Official Statement is submitted only in connection with the sale of the Bonds by the Town and may not be reproduced or used in whole or part for any other purpose.

## **TOWN OF EAST LYME, CONNECTICUT**

By: \_\_\_\_\_  
**PAUL M. FORMICA**  
*First Selectman*

By: \_\_\_\_\_  
**BRUCE R. BRAILEY**  
*Town Treasurer*

**Dated: January 14, 2011**

APPENDIX A – AUDITED FINANCIAL STATEMENTS

TOWN OF EAST LYME, CONNECTICUT

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June 30, 2010

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Appendix A - Financial Statements - is taken from the Annual Report of the Town of East Lyme, Connecticut for the Fiscal Year ending June 30, 2010 as presented by the Auditors and does not include all of the schedules or management letter made in such report. A copy of the complete report is available upon request to the Director of Finance, Town of East Lyme, Connecticut.



## 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, 2010, 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, 2010, 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.

In accordance with "Government Auditing Standards," we have also issued our report dated December 23, 2010 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 23, 2010

## **Town of East Lyme, Connecticut Management's Discussion and Analysis June 30, 2010**

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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, 2010. 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 net assets of the Town exceeded its liabilities at the close of the fiscal year by \$124.4 million (*net assets*).
- The Town's total net assets increased by \$1.5 million.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$12.4 million, a decrease of \$1.8 million in comparison with the prior year. Of this total amount, \$10.7 million is *available for spending* at the Town's discretion (*unreserved/ undesignated fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3.8 million or 6.3% of total general fund budgeted expenditures and transfers out of \$60.6 million.
- The Town's total bond/note debt decreased by \$3.6 million 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 15 and 16 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 11 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, capital nonrecurring fund and the sewer assessment fund, all of which are considered to be major funds. Data from the other seven 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%) 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, 2010**

	June 30, 2010			June 30, 2009		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 31,222	\$ 531	\$ 31,753	\$ 27,295	\$ 2,006	\$ 29,301
Capital assets	100,715	49,433	150,148	86,502	62,327	148,829
<b>Total Assets</b>	<b>131,937</b>	<b>49,964</b>	<b>181,901</b>	<b>113,797</b>	<b>64,333</b>	<b>178,130</b>
Other liabilities	8,789	59	8,848	3,950	487	4,437
Long-term liabilities	48,668	-	48,668	49,757	1,079	50,836
<b>Total Liabilities</b>	<b>57,457</b>	<b>59</b>	<b>57,516</b>	<b>53,707</b>	<b>1,566</b>	<b>55,273</b>
Net assets:						
Invested in capital assets, net of related debt	51,200	49,433	100,633	39,804	61,247	101,051
Unrestricted	23,280	472	23,752	20,286	1,520	21,806
<b>Total Net Assets</b>	<b>\$ 74,480</b>	<b>\$ 49,905</b>	<b>\$ 124,385</b>	<b>\$ 60,090</b>	<b>\$ 62,767</b>	<b>\$ 122,857</b>

**TOWN OF EAST LYME, CONNECTICUT  
CHANGES IN NET ASSETS  
JUNE 30, 2010**

	Year Ended June 30, 2010			Year Ended June 30, 2009		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charge for services	\$ 8,494	\$ 1,458	\$ 9,952	\$ 8,157	\$ 3,454	\$ 11,611
Operating grants and contributions	11,928	-	11,928	10,895	-	10,895
Capital grants and contributions	1,515	-	1,515	726	-	726
<b>General Revenues:</b>						
Property Taxes	45,652	-	45,652	45,218	-	45,218
Grants, contributions not restricted to specific programs	1,565	-	1,565	1,917	-	1,917
Investment income	119	-	119	354	13	367
Recovery of Loss	1,525	-	1,525	415	-	415
Special item	12,506	(12,506)	-	-	-	-
<b>Total Revenues</b>	<b>\$ 83,304</b>	<b>\$ (11,048)</b>	<b>\$ 72,256</b>	<b>\$ 67,682</b>	<b>\$ 3,467</b>	<b>\$ 71,149</b>
<b>Expenses:</b>						
<b>Program Activities</b>						
<b>Primary Government:</b>						
General government	\$ 8,117	-	\$ 8,117	\$ 7,804	\$ -	\$ 7,804
Public safety	3,118	-	3,118	3,133	-	3,133
Public works	4,387	-	4,387	4,179	-	4,179
Health and welfare	230	-	230	211	-	211
Culture and recreation	1,893	-	1,893	1,819	-	1,819
Education	48,690	-	48,690	48,190	-	48,190
Interest expense	1,992	-	1,992	1,818	-	1,818
<b>Business-Type Activities:</b>						
Sewer department	-	2,301	2,301	-	2,896	2,896
Water department	-	-	-	-	2,260	2,260
<b>Total Expenses</b>	<b>68,427</b>	<b>2,301</b>	<b>70,728</b>	<b>67,154</b>	<b>5,156</b>	<b>72,310</b>
Transfers in (out)	(487)	487	-	(797)	797	-
<b>Change in net assets</b>	<b>14,390</b>	<b>(12,862)</b>	<b>1,528</b>	<b>(269)</b>	<b>(892)</b>	<b>(1,161)</b>
<b>Net assets - beginning</b>	<b>60,090</b>	<b>62,767</b>	<b>122,857</b>	<b>60,359</b>	<b>63,659</b>	<b>124,018</b>
<b>Net assets - ending</b>	<b>\$ 74,480</b>	<b>\$ 49,905</b>	<b>\$ 124,385</b>	<b>\$ 60,090</b>	<b>\$ 62,767</b>	<b>\$ 122,857</b>

## **Governmental Activities**

For governmental activities, 64.5% of the revenues were derived from property taxes, followed by 21.2% from intergovernmental revenues. These percentages exclude the Special Item of \$12,506.

Major revenue factors included:

- Capital grants and contributions increased due to new construction projects during the year.
- Operating grants and contributions increased due to prior year recovery.

For governmental activities, approximately 71.2% of the Town's expenses relate to education, 11.9% relate to general government, 6.4% relate to public works operations, 4.6% to public safety and the remaining 5.9% relate to interest expense, health and welfare, social services, recreation and miscellaneous.

Major expense factors include:

- Public Works increased by 27.5% due to transferring the Water Department Fund to a special revenue fund (refer to Special Item note #13).
- Capital outlay increased by 141% due to the implementation program for vehicles acquisition as well as Capital Improvement Program projects moving forward.

## **Business-Type Activities**

Business-type activities decreased the Town's net assets by \$ .4 million. This decrease was due primarily to depreciation expense.

The Sewer Fund net assets decreased by .07%.

## **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.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$12.4 million. Approximately 86.3%, or \$10.7 million, constitutes unreserved fund balance that is available for spending at the Town's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was \$3.8 million, while total fund balance reached \$4.1 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 6.1% of total general fund budgeted expenditures.

The fund balance for the Town's general fund increased by approximately \$.137 million during the current fiscal year. A key factor in this is as follows:

- A decrease in transfers out to the carryforward and other funds.

The Sewer Assessments fund balance decreased \$.8 million as a result of the transfer out to the general fund of \$2 million for the purpose of debt service, reimbursement to the Sewer Operations Fund in the amount of \$.160 million for infrastructure improvements and a loan to Sewer Operations Fund in the amount of \$.305 million due to unplanned increased costs.

The Bonded Project Fund increased \$1.6 million due primarily to the recovery of settlement in the Niantic Overlook Boardwalk.

The Capital Nonrecurring Fund decreased \$3.1 million due to the issuance of \$2.9 million Bond Anticipation Notes and unearned revenue in the amount of \$.759 million.

***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 \$50 million, a decrease of \$.356 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 \$.213 million.

During the year, actual revenues, including transfers in, were \$58.4 million, which was less than budgetary estimates by \$1.6 million. Major contributors were:

The continuing face of changes in the economy which directly impacts preparing reliable revenue center estimates including taxes, local license and permit fees, local 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.
- \$.2 million lower than estimated tax collections due to a continuing slow economy.
- \$.1 million less than estimated in tuition revenues due to lower actual enrollments.
- \$.1 million lower than estimated investment revenues due to low interest rates.
- \$.1 million less than estimated in recycling and landfill fees due the decrease in the market for recyclables and not as frequent use of the landfill because of the slow economy.

## **General Fund Budgetary Highlights**

### **Expenditures**

Special appropriations during the year totaled \$85,664 as follows:

- \$28 thousand for Technical assistance Grant for Housing for Economic Growth
- \$2 thousand for the construction of a real stormwater component at the Hole-in-the-Wall facility
- \$14 thousand for DUI Police overtime grant
- \$9 thousand for JAG Police equipment grant
- \$25 thousand for various Emergency Service NSEP Equipment Grants
- \$2 thousand for a Commission on Aging Grant
- \$6 thousand for a Youth Service Grant

### **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, 2010, amounted to \$150.1 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 increase in the Town's investment in capital assets for the current fiscal year was \$1.3 million, an increase of less than 1%.

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

- Capitalization of the acquisition of three contiguous properties inclusive of a facility to be renovated for the Public Works and Parks and Recreation maintenance staff and for overnight vehicle storage.
- Rescue fire apparatus for Flanders Fire Department.
- 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.
- Additions to the water distribution system (please refer to note #13 Special Item).
- New vehicle for the water department.
- Capitalization of the additions to the sewer distribution system.

**TOWN OF EAST LYME, CONNECTICUT  
CAPITAL ASSETS, NET OF DEPRECIATION  
JUNE 30, 2010 AND 2009**

	June 30, 2010			June 30, 2009		
	Primary Government			Primary Government		
	Governmental Business-type			Governmental Business-type		
	Activities	Activities	Total	Activities	Activities	Total
Land	\$ 8,994	\$ 608	\$ 9,602	\$ 8,574	\$ 608	\$ 9,182
Construction in progress	3,124	15	3,139	30	1,083	1,113
Water and Sewer distribution systems	11,054	45,119	56,173	-	56,797	56,797
Building and improvements	66,655	3,624	70,279	67,286	3,716	71,002
Vehicles	3,788	-	3,788	2,821	-	2,821
Machinery and equipment	1,838	66	1,904	1,959	123	2,082
Infrastructure	5,262	-	5,262	5,832	-	5,832
<b>Total</b>	<b>\$ 100,715</b>	<b>\$ 49,432</b>	<b>\$ 150,147</b>	<b>\$ 86,502</b>	<b>\$ 62,327</b>	<b>\$ 148,829</b>

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 \$43.9 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, 2010 AND 2009**

	June 30, 2010			June 30, 2009		
	Primary Government			Primary Government		
	Governmental Business-type			Governmental Business-type		
	Activities	Activities	Total	Activities	Activities	Total
General obligation bonds	\$ 43,908	\$ -	\$ 43,908	\$ 42,444	\$ 1,125	\$ 43,569

The Town's total bonded debt decreased by \$.3 million during the 2010 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 2011 budget tax rates, the primary factor being the economy. Unemployment in the Town is at 6.7% and 4.7% for 2009 and 2008. This compares with the State's average unemployment rate of 8.0% and 5.7% and is 1.0% lower than the New London County average rate of 7.7%.



## 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 \$1.1 million (as a result of a modest increase in our grand list) to \$44.7 million. Significant revenue issues were as follows:

- Continued flat and declining State grant funding at levels without long-term inflationary growth, most significantly the reduction of \$.160 million one-time PILOT State-Owned Property revenue from \$.924 to \$.764. Educational Cost Sharing (ECS) grants (\$7.1 million) of which (\$1 million) is from Federal Stimulus Funds.
- We maintained various local fees collected by the building, planning and zoning departments and decreased Conveyance Taxes by \$69 thousand due to the sluggish housing market.
- A decrease of \$181 thousand in Recreation Program Fees due to establishing a Special Revenue Fund for this purpose.
- A decrease of tipping, recycling and landfill receipts of \$127 thousand because of the economy and implementation of a single stream recycling program.
- A decrease of \$350 thousand as management did not use fund balance to plan ahead for subsequent more difficult budget years.
- A decrease in investment earnings of \$123 due to low rates.

## Expenditures

The average wage increases for town employees was 3.25%, with the Police contract increases allocated to beginning and mid-year year as a budget savings measure. All Board of Education employees except for Custodial staff did not receive a wage increase. The Custodians increase is 3%.

The Board of Education requested a budget increase of \$.773 million; the Board of Finance reduced the bottom line by \$.57 thousand to \$39.9 million. 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 2011 fiscal year. During the current fiscal year, unreserved fund balance in the general fund increased to \$3.8 million. The Town did not appropriate any fund balance for spending in the 2011 fiscal year budget.

Actual expenditures and transfers out on a budgetary basis totaled \$60.8 million.

Overall, the fiscal year 2010 – 2011 budget increased \$.401 million or .67%. Town government increased \$204 thousand (1.4%) over fiscal year 2010, debt service decreased \$670 thousand (10.9%), and the Board of Education increased \$716 thousand (1.8%) from the prior year. Capital improvement expenditures were increased \$152 thousand (29.9%).

The following factors played a role in our setting the budget for fiscal year 2010 – 2011 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 2011 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 2009/10 level of spending. Increases in operating costs are primarily due to health insurance premiums (12%), contract issues, state mandates, one new full-time dispatch employee and the Capital Improvement Program.
- The Town of East Lyme's 2010/2011 budget totals \$60.8 million, which represents a .67% increase in expenditures from the fiscal year 2010 adopted budget. The Town's mill rate increased from 19.186 to 19.551 a .365 or a 1.95% increase. 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.

## **Basic Financial Statements**

TOWN OF EAST LYME, CONNECTICUT

STATEMENT OF NET ASSETS

June 30, 2010

	Governmental Type Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 19,320,954	\$ 491,475	\$ 19,812,429
Receivables:			
Property taxes, net of allowance for collection losses	1,207,045	-	1,207,045
Assessments/use charges	7,961,097	298,686	8,259,783
Intergovernmental	1,852,647	-	1,852,647
Internal balances	280,208	(280,208)	-
Bond issue costs	360,360	-	360,360
Net pension asset	37,713	-	37,713
Other assets	201,709	21,110	222,819
Capital assets, not being depreciated	12,119,022	623,015	12,742,037
Capital assets, net of accumulated depreciation	88,596,643	48,809,519	137,406,162
<b>Total assets</b>	<b>131,937,398</b>	<b>49,963,597</b>	<b>181,900,995</b>
<b>Liabilities</b>			
Accounts payable and accruals	3,747,838	55,275	3,803,113
Accrued interest payable	1,032,263	-	1,032,263
Meter deposits		3,429	3,429
BANS payable	2,900,000	-	2,900,000
Unearned revenue	1,108,646	-	1,108,646
Noncurrent liabilities:			
Due within one year	5,015,617	-	5,015,617
Due in more than one year	43,652,786	-	43,652,786
<b>Total liabilities</b>	<b>57,457,150</b>	<b>58,704</b>	<b>57,515,854</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	51,200,205	49,432,534	100,632,739
Unrestricted	23,280,043	472,359	23,752,402
<b>Total net assets</b>	<b>\$ 74,480,248</b>	<b>\$ 49,904,893</b>	<b>\$ 124,385,141</b>

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, 2010

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	\$ 8,117,367	\$ 565,206	\$ 114	\$ -	\$ (7,552,047)	\$ -	\$ (7,552,047)
Public safety	3,117,793	41,695	15,009	-	(3,061,089)	-	(3,061,089)
Public works	4,386,403	2,626,200	180,352	1,514,893	(64,958)	-	(64,958)
Health and welfare	230,331	52,074	14,466	-	(163,791)	-	(163,791)
Culture and recreation	1,892,899	341,337	28,751	-	(1,522,811)	-	(1,522,811)
Education	48,690,321	4,867,060	11,688,876	-	(32,134,385)	-	(32,134,385)
Interest expense	1,992,198	-	-	-	(1,992,198)	-	(1,992,198)
<b>Total governmental activities</b>	<b>68,427,312</b>	<b>8,493,572</b>	<b>11,927,568</b>	<b>1,514,893</b>	<b>(46,491,279)</b>	<b>-</b>	<b>(46,491,279)</b>
Business-type activities:							
Sewer Department	2,301,356	1,456,439	-	-	-	(844,917)	(844,917)
<b>Total business-type activities</b>	<b>2,301,356</b>	<b>1,456,439</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(844,917)</b>	<b>(844,917)</b>
Total primary government	<b>\$ 70,728,668</b>	<b>\$ 9,950,011</b>	<b>\$ 11,927,568</b>	<b>\$ 1,514,893</b>	<b>(46,491,279)</b>	<b>(844,917)</b>	<b>(47,336,196)</b>
		General revenues:					
					45,652,686	-	45,652,686
					1,565,148	-	1,565,148
					119,524	1,230	120,754
					1,525,000	-	1,525,000
					(487,536)	487,536	-
					12,506,069	(12,506,069)	-
					<u>60,880,891</u>	<u>(12,017,303)</u>	<u>48,863,588</u>
					14,389,612	(12,862,220)	1,527,392
					60,090,636	62,767,113	122,857,749
					<u>\$ 74,480,248</u>	<u>\$ 49,904,893</u>	<u>\$ 124,385,141</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, 2010

	Major Funds				Other Nonmajor Governmental Funds	Total Governmental Funds
	General	Sewer Assessments Fund	Bonded Capital Projects	Capital Nonrecurring Fund		
<b>Assets</b>						
Cash and cash equivalents	\$ 6,635,299	\$ 3,242,240	\$ 4,681,213	\$ 1,635,963	\$ 1,758,255	\$ 17,952,970
Receivables (net of allowances for collection losses):						
Property taxes	1,207,045	-	-	-	-	1,207,045
Assessments/use charges	45,439	7,619,403	-	-	-	7,664,842
Intergovernmental	91,024	-	320,940	758,901	681,782	1,852,647
Advances from other funds	-	810,000	-	-	-	810,000
Due from other funds	150,482	306,166	877,390	854,550	12,387	2,200,975
Other	162,630	8,579	-	-	30,500	201,709
<b>Total assets</b>	<b>\$ 8,291,919</b>	<b>\$ 11,986,388</b>	<b>\$ 5,879,543</b>	<b>\$ 3,249,414</b>	<b>\$ 2,482,924</b>	<b>\$ 31,890,188</b>
<b>Liabilities</b>						
Accounts payable and accruals	\$ 1,838,889	\$ 1,290	\$ 558,386	\$ 475,875	\$ 454,231	\$ 3,328,671
Due to other funds	898,415	-	702,925	156,652	162,775	1,920,767
Unearned revenue	157,136	-	-	758,901	192,609	1,108,646
Deferred revenue	1,305,201	7,619,403	-	-	501,442	9,426,046
BANS payable	-	-	-	2,900,000	-	2,900,000
Advances to other funds	-	-	810,000	-	-	810,000
<b>Total liabilities</b>	<b>4,199,641</b>	<b>7,620,693</b>	<b>2,071,311</b>	<b>4,291,428</b>	<b>1,311,057</b>	<b>19,494,130</b>
<b>Fund balances (deficits)</b>						
Reserved for:						
Encumbrances	289,266	-	117,977	481,172	-	888,415
Endowments	-	-	-	-	500	500
Advances	-	810,000	-	-	-	810,000
Unreserved, undesignated:						
General fund	3,803,012	-	-	-	-	3,803,012
Special revenue funds	-	3,555,695	-	-	1,170,068	4,725,763
Capital projects funds	-	-	3,690,255	(1,523,186)	-	2,167,069
Permanent funds	-	-	-	-	1,299	1,299
<b>Total fund balances (deficits)</b>	<b>4,092,278</b>	<b>4,365,695</b>	<b>3,808,232</b>	<b>(1,042,014)</b>	<b>1,171,867</b>	<b>12,396,058</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 8,291,919</b>	<b>\$ 11,986,388</b>	<b>\$ 5,879,543</b>	<b>\$ 3,249,414</b>	<b>\$ 2,482,924</b>	

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.	100,715,665
Deferred revenues are not available and therefore not recognized in the funds.	9,426,046
Bond Issue Costs	360,360
Net pension asset	37,713
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(48,668,403)
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.	1,245,072
Accrued interest payable not recorded in the funds.	(1,032,263)

Net assets of governmental activities \$ 74,480,248

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, 2010

	Major Funds				Other	Total Governmental Funds
	General	Sewer	Bonded	Capital	Nonmajor Governmental Funds	
		Assessments Fund	Capital Projects	Nonrecurring Fund		
<b>REVENUES</b>						
Property tax assessments and lien fees	\$43,941,520	\$1,616,927	\$ -	\$ -	\$ -	\$45,558,447
Intergovernmental	11,178,281	-	387,749	1,085,644	2,311,277	14,962,951
Charges for services	4,452,124	-	-	-	4,152,267	8,604,391
Investment income	76,609	15,792	11,375	11,003	4,745	119,524
<b>Total revenues</b>	<b>59,648,534</b>	<b>1,632,719</b>	<b>399,124</b>	<b>1,096,647</b>	<b>6,468,289</b>	<b>69,245,313</b>
<b>EXPENDITURES</b>						
Current:						
General government	5,692,422	-	-	-	-	5,692,422
Public safety	2,858,823	-	-	-	-	2,858,823
Public works	2,952,242	363,671	-	-	1,750,909	5,066,822
Health and welfare	231,630	-	-	-	-	231,630
Culture and recreation	1,869,247	-	-	-	-	1,869,247
Education	41,427,641	-	-	-	4,554,483	45,982,124
Capital outlay	787,183	-	1,396,477	4,592,079	7,837	6,783,576
Debt service:						
Principal retirements	4,504,216	-	-	-	314,863	4,819,079
Interest and other charges	1,834,245	-	-	-	-	1,834,245
<b>Total expenditures</b>	<b>62,157,649</b>	<b>363,671</b>	<b>1,396,477</b>	<b>4,592,079</b>	<b>6,628,092</b>	<b>75,137,968</b>
<b>Revenues over (under) expenditures</b>	<b>(2,509,115)</b>	<b>1,269,048</b>	<b>(997,353)</b>	<b>(3,495,432)</b>	<b>(159,803)</b>	<b>(5,892,655)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Note proceeds	-	-	298,531	-	-	298,531
Capital leases	466,571	-	-	-	-	466,571
Transfers in	2,068,562	-	-	105,000	-	2,173,562
Transfers (out)	(105,000)	(2,084,062)	(472,036)	-	-	(2,661,098)
Bond premium	967,761	-	51,939	125,524	-	1,145,224
Issuance of bonds	15,585,000	-	4,180,000	1,105,000	-	20,870,000
Payment to escrow	(16,337,060)	-	-	-	-	(16,337,060)
Payments - bond anticipation notes	-	-	(2,995,000)	(965,000)	-	(3,960,000)
Recovery of settlement	-	-	1,525,000	-	-	1,525,000
<b>Total other financing sources (uses)</b>	<b>2,645,834</b>	<b>(2,084,062)</b>	<b>2,588,434</b>	<b>370,524</b>	<b>-</b>	<b>3,520,730</b>
<b>Change in fund balances (deficits)</b>	<b>136,719</b>	<b>(815,014)</b>	<b>1,591,081</b>	<b>(3,124,908)</b>	<b>(159,803)</b>	<b>(2,371,925)</b>
Special Item, Note 13	-	-	-	-	620,740	620,740
<b>FUND BALANCES, beginning</b>	<b>3,955,559</b>	<b>5,180,709</b>	<b>2,217,151</b>	<b>2,082,894</b>	<b>710,930</b>	<b>14,147,243</b>
<b>FUND BALANCES (DEFICITS), ending</b>	<b>\$ 4,092,278</b>	<b>\$4,365,695</b>	<b>\$3,808,232</b>	<b>\$ (1,042,014)</b>	<b>\$ 1,171,867</b>	<b>\$12,396,058</b>

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, 2010

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Net change in fund balances – total governmental funds	\$ (2,371,925)
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.	1,688,233
Changes in revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	28,078
Change in net pension asset	(1,336)
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.	3,124,110
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.	(891,326)
The net revenue of certain activities of internal service funds is reported with governmental activities.	307,709
Special Item (See Note 13)	<u>12,506,069</u>
Change in net assets of governmental activities	<u>\$ 14,389,612</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, 2010

	Business-Type Activities Enterprise Funds		Governmental Activities
	Sewer Department	Water Department	Internal Service Fund
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 491,475	\$ -	\$ 1,367,984
Receivables:			
User charges	298,686	-	296,255
Due from other funds	31,257	-	-
Inventory	21,110	-	-
<b>Total current assets</b>	<b>842,528</b>	<b>-</b>	<b>1,664,239</b>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	49,432,534	-	-
<b>Total noncurrent assets</b>	<b>49,432,534</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>50,275,062</b>	<b>-</b>	<b>1,664,239</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	25,984	-	523
Meter deposits	3,429	-	-
Claims payable	-	-	418,644
Due to other funds	311,465	-	-
Compensated absences	29,291	-	-
<b>Total liabilities</b>	<b>370,169</b>	<b>-</b>	<b>419,167</b>
<b>NET ASSETS</b>			
Invested in capital assets	49,432,534	-	-
Unrestricted	472,359	-	1,245,072
<b>Total net assets</b>	<b>\$ 49,904,893</b>	<b>\$ -</b>	<b>\$ 1,245,072</b>

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, 2010

	Business-Type Activities Enterprise Funds		Governmental Activities
	Sewer Department	Water Department	Internal Service Fund
<b>OPERATING REVENUES</b>			
Charges for services and other	\$ 1,456,439	\$ -	\$ 6,885,409
<b>Total operating revenues</b>	<u>1,456,439</u>	<u>-</u>	<u>6,885,409</u>
<b>OPERATING EXPENSES</b>			
General and administrative	314,769	-	666,426
Labor and maintenance	1,145,350	-	-
Claims incurred	-	-	5,911,732
Depreciation	841,237	-	-
<b>Total operating expenses</b>	<u>2,301,356</u>	<u>-</u>	<u>6,578,158</u>
<b>Operating (loss) income</b>	<u>(844,917)</u>	<u>-</u>	<u>307,251</u>
<b>NONOPERATING REVENUES</b>			
Investment income	1,230	-	458
<b>Total nonoperating revenues</b>	<u>1,230</u>	<u>-</u>	<u>458</u>
<b>Net (loss) income before transfers</b>	<u>(843,687)</u>	<u>-</u>	<u>307,709</u>
<b>TRANSFERS</b>			
Transfers in	487,536	-	-
<b>Change in net assets</b>	<u>(356,151)</u>	<u>-</u>	<u>307,709</u>
Special Item, see Note 13.	-	(12,506,069)	-
<b>NET ASSETS, beginning</b>	<u>50,261,044</u>	<u>12,506,069</u>	<u>937,363</u>
<b>NET ASSETS, ending</b>	<u>\$ 49,904,893</u>	<u>\$ -</u>	<u>\$ 1,245,072</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, 2010

	Business-Type Activities Enterprise Funds		Governmental Activities
	Sewer Department	Water Department	Internal Service Fund
<b>Cash Flows From Operating Activities</b>			
Receipts from customers and users	\$ 1,411,355	\$ -	\$ -
Payments to suppliers	(1,026,476)	-	-
Payment to employees	(453,560)	-	-
Receipts from premiums	-	-	6,622,083
Cash paid for claims and administration	-	-	(6,685,727)
<b>Net cash used in operating activities</b>	<b>(68,681)</b>	<b>-</b>	<b>(63,644)</b>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(472,036)	-	-
<b>Net cash used in capital and related financing activities</b>	<b>(472,036)</b>	<b>-</b>	<b>-</b>
<b>Cash Flows From Noncapital Financing Activities</b>			
Transfers in	487,536	-	-
<b>Net cash provided by noncapital financing activities</b>	<b>487,536</b>	<b>-</b>	<b>-</b>
<b>Cash Flows Provided by Investing Activities</b>			
Investment income	1,230	-	458
<b>Net cash provided by investing activities</b>	<b>1,230</b>	<b>-</b>	<b>458</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(51,951)</b>	<b>-</b>	<b>(63,186)</b>
<b>Cash and Cash Equivalents</b>			
Beginning	543,426	-	1,431,170
Ending	\$ 491,475	\$ -	\$ 1,367,984

(Continued)

TOWN OF EAST LYME, CONNECTICUT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS, Continued  
For the Year Ended June 30, 2010

	Business-Type Activities Enterprise Funds		Governmental Activities
	Sewer Department	Water Department	Internal Service Fund
<b>Reconciliation of Operating (Loss) Income to Net Cash Used in Operating Activities</b>			
Operating (loss) income	\$ (844,917)	\$ -	\$ 307,251
Adjustments to reconcile operating (loss) income to net cash used in operating activities			
Depreciation	841,237	-	-
(Increase) decrease in:			
Inventory	1,082	-	-
Receivables	(45,087)	-	(263,326)
Due from other funds	(27,790)	-	19,913
Increase (decrease) in:			
Accounts and other payables	5,701	-	(127,438)
Due to other funds	1,093	-	(44)
<b>Net cash used in operating activities</b>	<b>\$ (68,681)</b>	<b>\$ -</b>	<b>\$ (63,644)</b>
<b>Schedule of Noncash and Related Financing Activities</b>			
Special Item, Note 13	\$ -	\$ (12,506,069)	\$ -

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, 2010

	Pension Trust Fund	Private Purpose Trusts	Agency Funds
<b>ASSETS</b>			
Cash	\$ -	\$ 25,611	\$ 2,705,689
Investments	8,925,738	-	-
<b>Total assets</b>	<b>8,925,738</b>	<b>25,611</b>	<b>2,705,689</b>
<b>LIABILITIES</b>			
Payable to others	-	265	2,146,347
Due to student groups	-	-	559,342
<b>Total liabilities</b>	<b>-</b>	<b>265</b>	<b>2,705,689</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES</b>			
	<b>\$ 8,925,738</b>	<b>\$ 25,346</b>	<b>\$ -</b>

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, 2010

	Pension Trust Fund	Private Purpose Trusts
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 805,733	\$ -
Plan members	153,068	-
Other	-	3,478
Total contributions	958,801	3,478
Investment income:		
Net appreciation in fair value of investments	33,108	-
Interest income	279,449	105
Total investment income	312,557	105
<b>Total additions</b>	1,271,358	3,583
<b>DEDUCTIONS</b>		
Benefits	314,194	-
Administration	495	-
Total deductions	314,689	-
<b>Change in net assets</b>	956,669	3,583
<b>NET ASSETS, July 1, 2009</b>	7,969,069	21,763
<b>NET ASSETS, June 30, 2010</b>	\$ 8,925,738	\$ 25,346

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

# TOWN OF EAST LYME, CONNECTICUT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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### 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.

## TOWN OF EAST LYME, CONNECTICUT

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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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 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.

The Town reports the following major governmental funds.

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

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

The *Bonded Capital Projects Fund* accounts for the financial revenues to be used for major capital asset construction and/or purchases.

The *Capital Nonrecurring Fund* accounts for revenue and expenditures associated with nonrecurring capital items.

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:

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



## TOWN OF EAST LYME, CONNECTICUT

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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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.

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.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

## TOWN OF EAST LYME, CONNECTICUT

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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#### 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.

#### 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.

## TOWN OF EAST LYME, CONNECTICUT

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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

#### 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.

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

<u>Assets</u>	<u>Years</u>
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.

## TOWN OF EAST LYME, CONNECTICUT

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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#### 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 a reservation of fund balance as they do not constitute either expenditures or liabilities.

All other General Fund appropriations lapse at year-end.

#### 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.

## TOWN OF EAST LYME, CONNECTICUT

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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#### **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 7/1/08, 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.

#### Fund Equity and 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 reduces this category.

# TOWN OF EAST LYME, CONNECTICUT

## NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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**Unrestricted Net Assets** - 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.

In the fund financial statements, fund balances are classified in three separate categories. The categories, and their general meanings, are as follows:

**Reserved fund balance** - indicates that portion of fund equity which has been legally segregated for specific purposes or not available for appropriation.

**Unreserved/Designated fund balance** - indicates that portion of fund equity for which the Town has made tentative plans.

**Unreserved/Undesignated fund balance** - indicates that portion of fund equity which is available for appropriation and expenditure in future periods, or if a deficit for which future funding will be required.

### 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	\$ 43,908,174
Bond premium	968,154
OPEB obligations	1,971,100
Compensated absences	1,251,685
Early retirement incentive	827,963
Deferred charges for issuance costs	(1,398,359)
Capital leases payable	625,633
Landfill closure	233,370
SCRRA loan	<u>280,683</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 48,668,403</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

## TOWN OF EAST LYME, CONNECTICUT

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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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	\$ 5,507,902
Depreciation expense	(3,800,638)
Loss on disposal	<u>(19,031)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 1,688,233</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, 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	\$ (20,870,000)
Capital lease	(466,571)
Bond Premium	(967,761)
Principal repayments:	
General obligation debt	20,531,485
Payment of BANS	3,960,000
Capital lease	134,196
Deferred gain on refunding	587,061
Bond issuance costs	<u>215,700</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 3,124,110</u>

## TOWN OF EAST LYME, CONNECTICUT

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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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	\$ (860,600)
Compensated absences	519,492
Early retirement incentives	301
Accrued interest	(157,953)
SCRRA loan	(280,683)
Landfill closure	12,500
Amortization of deferred charges	(149,520)
Amortization of bond premium	55,024
Amortization of bond issue costs	(29,887)
	<hr/>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<hr/> <u>\$ (891,326)</u>

#### **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.



# TOWN OF EAST LYME, CONNECTICUT

## NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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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, 2010, \$16,350,000 of the Town's bank balance of \$18,167,000 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.

Cash, cash equivalents and investments of the Town consist of the following at June 30, 2010:

<b>Cash and Cash Equivalents</b>	
Deposits with financial institutions	\$ 18,463,801
State of Connecticut Short-Term Investment Fund	2,728,701
Cutwater-Connecticut Class Plus Account	1,351,227
<b>Total cash and cash equivalents</b>	<u>22,543,729</u>
<b>Investments</b>	
Pension Trust Funds:	
Certificates of Deposit	470,996
Guaranteed investment contracts	8,454,742
<b>Total pension investments</b>	<u>8,925,738</u>
<b>Total cash, cash equivalents and investments</b>	<u>\$ 31,469,467</u>

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

<b>Statement of Net Assets</b>	
Cash and cash equivalents	\$ 19,812,429
<b>Fiduciary Funds</b>	
Cash and cash equivalents	2,731,300
Investments	8,925,738
<b>Total cash, cash equivalents and investments</b>	<u>\$ 31,469,467</u>

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2010

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
Certificates of deposit	\$ 3,000,000	\$ 3,000,000	\$ -
Guaranteed investment contract	8,454,742	-	8,454,742
Pooled fixed income	4,079,928	4,079,928	-
<b>TOTAL</b>	<b>\$ 15,534,670</b>	<b>\$ 7,079,928</b>	<b>\$ 8,454,742</b>

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. The Guaranteed Investment Contract is with one issuer.

Average Rating	Guaranteed Investment Contract	Pooled Fixed Income
AAA	\$ 8,454,742	\$ -
AAAm	-	4,079,928
	<b>\$ 8,454,742</b>	<b>\$ 4,079,928</b>

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2010

**Note 4. Capital Assets**

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Special Item From Water Fund	Increases	Decreases	Balance June 30, 2010
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 8,573,862	\$ -	\$ 421,000	\$ -	\$ 8,994,862
Construction in progress	29,510	1,068,094	2,026,556	-	3,124,160
Total capital assets, not being depreciated	8,603,372	1,068,094	2,447,556	-	12,119,022
Capital assets, being depreciated:					
Buildings and Improvements	116,397,518	-	1,152,121	-	117,549,639
Machinery and equipment	5,253,507	372,687	58,235	-	5,684,429
Vehicles	5,515,991	-	1,275,657	(190,308)	6,601,340
Infrastructure	17,975,424	-	454,333	-	18,429,757
Water distribution systems	-	20,930,767	120,000	-	21,050,767
Total capital assets, being depreciated	145,142,440	21,303,454	3,060,346	(190,308)	169,315,932
Total capital assets	153,745,812	22,371,548	5,507,902	(190,308)	181,434,954
Less accumulated depreciation for:					
Buildings and Improvements	49,111,587	-	1,783,658	-	50,895,245
Machinery and equipment	3,294,234	321,769	230,777	-	3,846,780
Vehicles	2,694,507	-	289,550	(171,277)	2,812,780
Infrastructure	12,143,256	-	1,024,495	-	13,167,751
Water distribution systems	-	9,524,575	472,158	-	9,996,733
Total accumulated depreciation	67,243,584	9,846,344	3,800,638	(171,277)	80,719,289
Total capital assets, being depreciated, net	77,898,856	11,457,110	(740,292)	(19,031)	88,596,643
Governmental activities capital assets, net	\$ 86,502,228	\$ 12,525,204	\$ 1,707,264	\$ (19,031)	\$100,715,665

**TOWN OF EAST LYME, CONNECTICUT**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2010**

	Balance July 1, 2009	Special Item to Governmental- Wide	Increases	Decreases	Balance June 30, 2010
<b>Business-type activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 608,210	\$ -	\$ -	\$ -	\$ 608,210
Construction in progress	1,082,899	(1,068,094)	-	-	14,805
Total capital assets, not being depreciated	1,691,109	(1,068,094)	-	-	623,015
Capital assets, being depreciated:					
Buildings and Improvements	5,090,394	-	-	-	5,090,394
Machinery and equipment	993,101	(372,687)	-	-	620,414
Water and sewer distribution systems	77,866,932	(20,930,767)	472,036	-	57,408,201
Total capital assets, being depreciated	83,950,427	(21,303,454)	472,036	-	63,119,009
Total capital assets	85,641,536		472,036	-	63,742,024
Less accumulated depreciation for:					
Buildings and Improvements	1,374,406	-	91,627	-	1,466,033
Machinery and equipment	870,308	(321,769)	6,048	-	554,587
Water and sewer distribution systems	21,069,883	(9,524,575)	743,562	-	12,288,870
Total accumulated depreciation	23,314,597	(9,846,344)	841,237	-	14,309,490
Total capital assets, being depreciated, net	60,635,830	(11,457,110)	(841,237)	-	48,809,519
Total business-type activities capital assets, net	\$ 62,326,939	\$ (12,525,204)	\$ (369,201)	\$ -	\$ 49,432,534

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

<b>Governmental activities:</b>	
General government	\$ 1,228,684
Public safety	249,431
Public works	624,795
Recreation	25,763
Education	1,671,965
<b>Total depreciation expense - governmental activities</b>	<b>\$ 3,800,638</b>
<b>Business-type activities:</b>	
Sewer	841,237
<b>Total depreciation expense - business-type activities</b>	<b>\$ 841,237</b>

**TOWN OF EAST LYME, CONNECTICUT**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2010**

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**Note 5. Interfund Receivables, Payables and Transfers**

A summary of interfund balances as of June 30, 2010 is presented below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 150,482	\$ 898,415
Sewer Assessments Fund	306,166	-
Bonded Capital Projects Fund	877,390	702,925
Capital Nonrecurring Fund	854,550	156,652
Non-Major Governmental Funds	12,387	162,775
Enterprise Funds	31,257	311,465
<b>Grand Total</b>	<b>\$ 2,232,232</b>	<b>\$ 2,232,232</b>

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.

\$810,000 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, 2010 were as follows:

	Transfers From Other Funds	Transfers To Other Funds
General Fund	\$ 2,068,562	\$ 105,000
Sewer Assessments Fund	-	2,084,062
Bonded Capital Projects Fund	-	472,036
Capital Nonrecurring Fund	105,000	-
Enterprise Funds	487,536	-
<b>Grand Total</b>	<b>\$ 2,661,098</b>	<b>\$ 2,661,098</b>

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, 2010

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**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>
<b>General Fund:</b>		
Delinquent property taxes receivable	\$ 1,134,760	\$ -
Advance tax collections	-	157,136
Intergovernmental	47,117	-
Other	123,324	-
<b>Sewer Assessments Fund:</b>		
Sewer assessments not yet due	7,619,403	-
<b>Capital Nonrecurring Fund:</b>		
Grant drawdowns prior to meeting all eligibility requirements	-	758,901
<b>Other Nonmajor Governmental Funds:</b>		
Water usage unbilled	501,442	-
Grant drawdowns prior to meeting all eligibility requirements	-	192,609
<b>Total deferred/unearned revenue</b>	<u>\$ 9,426,046</u>	<u>\$ 1,108,646</u>

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2010

**Note 7. Long-Term Liabilities**

A summary of changes in outstanding long-term obligations during the year ended June 30, 2010 is as follows:

Description	Balance July 1, 2009	Special Item Water Fund	Additions	Deductions	Balance June 30, 2010	Due Within One Year
<b>Governmental activities:</b>						
Bonds payable:						
General obligation bonds	\$ 42,444,390	\$ 1,125,269	\$ 20,870,000	\$ 20,531,485	\$ 43,908,174	\$ 4,150,326
Bond anticipation notes	3,960,000	-	-	3,960,000	-	-
Bond premium	55,417	-	967,761	55,024	968,154	117,689
Deferred gains/losses	(915,063)	(45,755)	(587,061)	(149,520)	(1,398,359)	116,323
	<u>45,544,744</u>	<u>1,079,514</u>	<u>21,250,700</u>	<u>24,396,989</u>	<u>43,477,969</u>	<u>4,384,338</u>
Other long-term liabilities:						
OPEB obligations	1,110,500	-	860,600	-	\$ 1,971,100	-
Compensated absences	1,733,877	37,300	66,147	585,639	1,251,685	82,646
SCRRA Loan	-	-	295,000	14,317	280,683	14,317
Capital lease obligations	293,258	-	466,571	134,196	625,633	202,340
Early retirement incentives	828,264	-	241,968	242,269	827,963	317,976
Landfill closure	245,870	-	-	12,500	233,370	14,000
<b>Total other long-term liabilities</b>	<u>4,211,769</u>	<u>37,300</u>	<u>1,930,286</u>	<u>988,921</u>	<u>5,190,434</u>	<u>631,279</u>
<b>Governmental activity long-term liabilities</b>	<u>\$ 49,756,513</u>	<u>\$ 1,116,814</u>	<u>\$ 23,180,986</u>	<u>\$ 25,385,910</u>	<u>\$ 48,668,403</u>	<u>\$ 5,015,617</u>

# TOWN OF EAST LYME, CONNECTICUT

## NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

### General Obligation Bonds - Governmental Activities

As of June 30, 2010, 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, 2009	Additions	Deductions	Balance June 30, 2010
<b>General Purpose:</b>								
Open Space	\$ 918,000	2/10/2010	7/15/2026	2.0 - 5.0%	\$ -	\$ 918,000	\$ -	918,000
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%	500,000	-	125,000	375,000
Open Space	1,000,000	7/15/2005	7/15/2025	3.87%	950,000	-	850,000	100,000
Muni Comp Refund	2,502,000	6/1/1998	6/1/2010	4.25%	237,408	-	237,408	-
Capital Improvement-Refund	768,000	7/15/2005	7/15/2015	3.98%	668,000	-	98,000	570,000
General Govt - Refund	346,800	7/15/2003	7/15/2015	3.98%	301,000	-	45,000	256,000
General Govt - Refund	4,757,000	7/15/2003	7/15/2019	2.0-4.05%	4,492,000	-	4,492,000	-
Muni Complex Bds	1,607,733	7/15/2001	7/15/2012	4.25-5.125%	454,500	-	143,500	311,000
Total General Purpose					7,602,908	2,023,000	5,990,908	3,635,000
<b>Schools:</b>								
ELMS, HS Roof & Ren Ref	7,785,000	2/10/2010	7/15/2024	2.0 - 5.0%	-	7,785,000	-	7,785,000
ELHS & Pool Refunding	3,969,000	7/16/2009	7/15/2019	3.0-4.0%	-	3,969,000	-	3,969,000
High School Roof	2,780,000	7/15/2007	7/15/2028	4.25%	2,780,000	-	750,000	2,030,000
School Renovations Projects	220,000	7/15/2007	7/15/2028	4.25%	220,000	-	50,000	170,000
Middle School Construction	10,500,000	7/15/2005	7/15/2025	3.87%	8,800,000	-	7,650,000	1,150,000
School Construction	525,000	6/1/1998	6/1/2010	4.25%	49,795	-	49,795	-
School Cap Plan	420,000	6/1/1998	6/1/2010	4.25%	39,872	-	39,872	-
New Middle School Ren	11,000,000	5/1/2001	7/15/2021	4.25-5.125%	1,750,000	-	500,000	1,250,000
Middle School Refunding	6,954,200	7/15/2005	7/15/2020	3.98%	6,800,000	-	65,000	6,735,000
Total Schools					20,439,667	11,754,000	9,104,667	23,089,000
<b>Sewer:</b>								
Pine Grove Sewer Refund	2,182,000	2/10/2010	7/15/2026	2.0 - 5.0%	-	2,182,000	-	2,182,000
Sewer Const (Colton Rd)-Ref	531,000	7/16/2009	7/15/2019	3.00%	-	531,000	-	531,000
Pine Grove Sewer	1,000,000	7/15/2007	7/15/2028	4.25%	1,000,000	-	250,000	750,000
Sewer Refunding	2,500,000	7/15/2005	7/15/2025	3.87%	2,375,000	-	2,075,000	300,000
Sewer Refunding	729,000	6/1/1998	6/1/2010	4.25%	69,153	-	69,153	-
Sewer Refunding	639,000	7/15/2003	7/15/2019	2.0-4.05%	602,000	-	602,000	-
Sewer Const.-Refinance	11,692,600	5/1/2001	7/15/2018	4.25-5.125%	5,781,000	-	712,000	5,069,000
Sewer Const.-Refinance	2,839,632	5/1/2001	7/15/2018	4.25-5.125%	1,685,000	-	141,000	1,544,000
Clean Water Phase I	8,860,816	12/31/1990	3/1/2010	2.00%	531,162	-	531,162	-
Clean Water Phase II	1,907,103	11/26/1991	5/31/2011	2.00%	190,710	-	95,355	95,355
Clean Water Phase III	8,588,195	12/30/1994	12/21/2014	2.00%	2,025,603	-	450,037	1,575,566
Clean Water Phase IV	598,686	3/31/1995	3/31/2014	2.00%	142,187	-	29,934	112,253
Total Sewers					14,401,815	2,713,000	4,955,641	12,159,174
<b>Water Bonds</b>								
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	-	200,000
Water Bonds	531,468	6/1/1998	6/1/2010	4.25%	48,769	-	48,769	-
Water Bonds-Refunding	606,000	7/15/2005	7/15/2015	3.98%	526,000	-	77,000	449,000
Water Bonds-Refinance	239,000	7/15/2003	7/15/2009	2.0-4.05%	226,000	-	226,000	-
Water Bonds-Refinance	1,346,737	5/1/2001	7/15/2002	4.25-5.125%	324,500	-	128,500	196,000
Total Water					1,125,269	4,380,000	480,269	5,025,000
Total bonds/notes - governmental activities					\$43,569,659	\$20,870,000	\$20,531,485	\$43,908,174



## TOWN OF EAST LYME, CONNECTICUT

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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The following is a summary as of June 30, 2010, 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
2011	\$ 4,150,326	\$ 1,737,737	\$ 5,888,063
2012	4,029,971	1,488,495	5,518,466
2013	3,834,971	1,337,722	5,172,693
2014	3,802,906	1,194,150	4,997,056
2015	3,585,000	1,059,650	4,644,650
2016	3,570,000	929,038	4,499,038
2017	3,355,000	795,655	4,150,655
2018	3,340,000	661,055	4,001,055
2019	2,520,000	540,650	3,060,650
2020	1,980,000	450,525	2,430,525
2021	1,975,000	367,331	2,342,331
2022	1,285,000	297,913	1,582,913
2023	1,300,000	245,775	1,545,775
2024	1,300,000	193,275	1,493,275
2025	900,000	148,134	1,048,134
2026	900,000	110,119	1,010,119
2027	675,000	76,575	751,575
2028	675,000	47,503	722,503
2029	375,000	24,413	399,413
2030	355,000	7,988	362,988
Total	<u>\$ 43,908,174</u>	<u>\$ 11,713,703</u>	<u>\$ 55,621,877</u>

## TOWN OF EAST LYME, CONNECTICUT

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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#### 2009/2010 General Obligation Bond – In-substance Defeasance

On July 8, 2009 and February 10, 2010, the Town issued \$4,700,000 and \$10,885,000 of general obligation 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 15, 2003, July 21, 2005 and July 15, 2007 (the "Refunding Bonds"). Of the net proceeds of \$16,552,761 (after payment of \$15,700 in underwriters fees and other costs), \$16,337,061 was placed in an irrevocable trust fund under an Escrow Agreement dated July 2010 and February 2010 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 \$373,202 and cash savings of \$395,533.

The balance in the escrow was approximately \$16,337,000 at June 30, 2010. The balance of the defeased bonds was approximately \$15,750,000 at June 30, 2010. As a result, the refunded bonds are considered defeased and the liability has been removed from the basic financial statements. As of June 30, 2010, the amount of defeased debt outstanding, but removed from the Town's government-wide financial statements, amounted to the following:

July 2009 Refunding	\$ 4,775,000
February 2010 Refunding	10,975,000

Changes in bond anticipation note activity was as follows:

Outstanding, July 1, 2009	\$ 3,960,000
New borrowings	2,900,000
Repayments	<u>(3,960,000)</u>
Outstanding, June 30, 2010	<u><u>\$ 2,900,000</u></u>

## TOWN OF EAST LYME, CONNECTICUT

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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#### Bonds Authorized But Unissued

Total authorized but unissued debt at June 30, 2010 consists of the following:

General purpose	\$	4,555,000
Schools		166,066
Sewer		4,366,046
	\$	<u>9,087,112</u>

#### 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:

Category	Debt Limit	Indebtedness	Balance
General purpose	\$ 99,207,113	\$ 11,090,000	\$ 88,117,113
Schools	198,414,227	23,255,066	175,159,161
Sewers	165,345,189	16,494,770	148,850,419
Urban renewal	143,299,164	-	143,299,164
Pension deficit	132,276,151	-	132,276,151

The total overall statutory debt limit for the Town is equal to seven times annual receipts from taxation, or approximately \$308,644,353.

#### Capital Lease

At June 30, 2010, 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 \$1,153,298, with approximately \$148,904 in accumulated depreciation.

## TOWN OF EAST LYME, CONNECTICUT

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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

2011	\$	223,928
2012		139,655
2013		118,638
2014		103,348
2015		91,732
Total		<u>677,301</u>
Less amount representing interest		<u>(51,668)</u>
	\$	<u>625,633</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.

#### 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, 2010, \$242,000 was paid for these benefits. At June 30, 2010, approximately \$828,000 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 approximately \$233,370 as of June 30, 2010, 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, 2010. However, post-closure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

**TOWN OF EAST LYME, CONNECTICUT**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2010**

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**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 \$100,000 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.

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,
2008-2009	\$ 514,923	\$ 6,069,789	\$ 6,038,107	\$ 546,605
2009-2010	546,605	5,911,732	6,039,693	418,644

The Town currently is a member in Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool established for the purpose of administering an interlocal risk management program pursuant to the provisions of Section 7-479a et. seq. of Connecticut General Statutes, for workers' compensation and employer liability coverage. CIRMA currently has 233 members in the workers' compensation pool. The Town pays an annual premium for its coverage. CIRMA is to be self-sustaining through members' premiums but reinsures in excess of \$250,000 for each insured occurrence.

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.

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2010

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**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.

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 Commission 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		3
Terminated employees entitled to benefits but not yet receiving them		23
Inactive participants		-
Current employees		
Vested	101	
Nonvested	89	190
		<u>216</u>

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2010

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**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
6/30/2008	\$ 606,618	99.80%	\$ (40,861)
6/30/2009	677,063	99.00%	(39,049)
6/30/2010	752,277	99.82%	(37,713)

**Actuarial Assumptions**

The annual required contribution for the current year was determined as part of the January 1, 2010 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

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2010

**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	\$ 750,941
Interest on net pension obligation	(2,733)
Adjustment to annual required contribution	4,069
Annual pension cost	<u>752,277</u>
Contributions made	750,941
Decrease in net pension asset	1,336
Net pension asset July 1, 2009	<u>(39,049)</u>
Net pension asset June 30, 2010	<u><u>\$ (37,713)</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)
1/01/10	\$ 8,357,352	\$13,315,443	\$ 4,958,091	62.8%	\$ 7,641,981	(64.9) %

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.

**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.



**TOWN OF EAST LYME, CONNECTICUT**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2010**

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, 2010, there were 12 plan members. The Town contributed \$54,792.

**SCHEDULE OF PLAN NET ASSETS**  
**June 30, 2010**

	Pension Trust funds		
	Retirement Pension Trust	Defined Contribution Trust	Total Pension Trust Funds
<b>ASSETS</b>			
Investments:			
Certificates of deposit	\$ -	\$ 470,996	\$ 470,996
Guaranteed interest contracts	8,454,742	-	8,454,742
<b>Total investments</b>	<b>8,454,742</b>	<b>470,996</b>	<b>8,925,738</b>
<b>Total assets</b>	<b>8,454,742</b>	<b>470,996</b>	<b>8,925,738</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>\$ 8,454,742</b>	<b>\$ 470,996</b>	<b>\$ 8,925,738</b>

TOWN OF EAST LYME, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2010

SCHEDULE OF CHANGES IN PLAN NET ASSETS  
For the Year Ended June 30, 2010

	Pension Trust funds		
	Retirement Pension Trust	Defined Contribution Trust	Total Pension Trust Funds
<b>ADDITIONS</b>			
Contributions:			
Employer	\$ 750,941	\$ 54,792	\$ 805,733
Plan members	118,615	34,453	153,068
<b>Total contributions</b>	<b>869,556</b>	<b>89,245</b>	<b>958,801</b>
Investments:			
Net appreciation in fair value of investments	33,108	-	33,108
Interest income	231,148	48,301	279,449
<b>Total investment income</b>	<b>264,256</b>	<b>48,301</b>	<b>312,557</b>
<b>Total additions</b>	<b>1,133,812</b>	<b>137,546</b>	<b>1,271,358</b>
<b>DEDUCTIONS</b>			
Benefits	301,392	12,802	314,194
Administration	-	495	495
<b>Total deductions</b>	<b>301,392</b>	<b>13,297</b>	<b>314,689</b>
<b>Changes in net assets</b>	<b>832,420</b>	<b>124,249</b>	<b>956,669</b>
<b>NET ASSETS, July 1, 2009</b>	<b>7,622,322</b>	<b>346,747</b>	<b>7,969,069</b>
<b>NET ASSETS, June 30, 2010</b>	<b>\$ 8,454,742</b>	<b>\$ 470,996</b>	<b>\$ 8,925,738</b>

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, 2010

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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 \$3,293,000 for the year ended June 30, 2010.

#### **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, 2008. 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.

**TOWN OF EAST LYME, CONNECTICUT**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2010**

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Membership in the plan consisted of the following at July 1, 2008, the date of the last actuarial valuation.

Retirees and beneficiaries receiving benefits	46
Active plan members	483
<b>Total</b>	<u><u>529</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 funding excess) over a period not to exceed thirty years. The actuarial accrued liability as of July 1, 2008 is estimated to be \$12,751,400. 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
6/30/10	\$ 1,083,400	\$ 222,800	20.56%	\$ 1,971,100
6/30/09	\$ 1,129,500	\$ 19,000	13.20%	\$ 1,110,500

***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	\$0.00	\$24,900,000	51.2%

## TOWN OF EAST LYME, CONNECTICUT

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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#### OPEB Obligation

Annual required contribution	\$ 1,146,300
Interest on net pension obligation	42,600
Adjustment to ARC	(105,500)
Annual OPEB cost	<u>1,083,400</u>
Contributions made	<u>222,800</u>
Increase in net OPEB liability	860,600
Net OPEB obligation, beginning of year	<u>1,110,500</u>
Net OPEB obligation, end of year	<u><u>\$ 1,971,100</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 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, 2008
Actuarial Cost Method:	Projected Unit Credit
Asset Valuation Method:	N/A
Amortization Method:	Level Percent of Pay
Remaining Amortization Period	30 Years - Closed
Actuarial Assumptions:	
Interest	4%

**TOWN OF EAST LYME, CONNECTICUT**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2010**

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Health cost trend rates

Average annual healthcare cost trend rates are assumed to be as follows:

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

**Note 13. Special Item**

As of July 1, 2009, the Water Department Fund was transferred to a special revenue fund and will follow the modified accrual basis of accounting. Operations were formally reported in the Water Department Fund on the accrual basis of accounting and therefore resulted in a special item in the Government-wide Financial Statements and the Water Department Enterprise Fund of \$12,506,069, which primarily represents the transfer of capital assets and debt. The Special Item also increased nonmajor governmental fund fund balance by \$620,740.

**Note 14. Fund Deficits**

The following fund had a fund deficit as of June 30, 2010:

School Lunch Fund	\$ 30,474
Capital Nonrecurring	\$1,042,014

The School Lunch Fund deficit is expected to be eliminated through transfers from the Town's general fund and from other revenue sources. The Capital Nonrecurring Fund deficit will be eliminated through permanent financing.

## TOWN OF EAST LYME, CONNECTICUT

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

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#### **Note 15. Pronouncements Issued, Not Yet Effective**

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

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Town:

##### **Statement No. 54**

##### ***Fund Balance Reporting and Governmental Fund Type Definitions***

GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions* will be implemented by the Town as required by the GASB during the fiscal year ending June 30, 2011. This statement establishes accounting and financial reporting standards for all governments that report governmental funds. This statement establishes the criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types.

##### **Statement No. 57**

##### ***OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans***

The provisions of Statement No. 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011.

##### **Statement No. 59**

##### ***Financial Instrument Omnibus***

The objective of Statement No. 59 is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010.

**Required Supplementary  
Information**



TOWN OF EAST LYME, CONNECTICUT

REQUIRED SUPPLEMENTARY INFORMATION  
PENSION TRUST AND OPEB  
June 30, 2010

**Schedule of Funding Progress - Pension**

Fiscal Year	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2)-(1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) UAAL As a % of Payroll ((2)-(1))/(5)
* 06/30/2005	6,423,706	6,423,706	-	100.0%	5,811,981	-
* 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)%

**Schedule of Employer Contributions**

Year Ended June 30,	Annual Required Contribution	Actual Contribution	Percentage Contributed
2005	\$ 387,178	\$ 387,178	100.0%
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%

\* 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	\$0.00	\$24,900,000	51.2%

**Schedule of Employer Contributions - OPEB**

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
06/30/09	\$ 1,129,500	2.00%
06/30/10	1,146,300	19.90%

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, 2010

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes, interest and lien fees	\$ 44,113,555	\$ 44,113,555	\$ 43,941,520	\$ (172,035)
Intergovernmental	9,006,769	9,006,769	7,885,281	(1,121,488)
Charges for services	4,549,987	4,549,987	4,452,124	(97,863)
Income from investments	200,000	200,000	76,609	(123,391)
<b>Total revenues</b>	<b>57,870,311</b>	<b>57,870,311</b>	<b>56,355,534</b>	<b>(1,514,777)</b>
<b>EXPENDITURES</b>				
Current:				
General government	6,022,213	5,981,179	5,693,920	287,259
Public safety	2,943,583	3,003,132	2,859,309	143,823
Public works	3,441,550	3,516,223	3,082,118	434,105
Health and welfare	255,841	271,726	218,528	53,198
Culture and recreation	1,870,784	1,877,901	1,868,381	9,520
Education	39,201,715	39,201,715	38,134,641	1,067,074
Capital outlay	401,240	498,563	363,303	135,260
Debt service	6,126,947	6,126,947	6,122,761	4,186
<b>Total expenditures</b>	<b>60,263,873</b>	<b>60,477,386</b>	<b>58,342,961</b>	<b>2,134,425</b>
<b>Revenues over (under) expenditures</b>	<b>(2,393,562)</b>	<b>(2,607,075)</b>	<b>(1,987,427)</b>	<b>619,648</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,148,562	2,148,562	2,068,562	(80,000)
Transfers (out)	(105,000)	(105,000)	(105,000)	-
<b>Total other financing sources (uses)</b>	<b>2,043,562</b>	<b>2,043,562</b>	<b>1,963,562</b>	<b>(80,000)</b>
<b>Total</b>	<b>\$ (350,000)</b>	<b>\$ (563,513)</b>	<b>\$ (23,865)</b>	<b>\$ 539,648</b>

See note to required supplementary information

## TOWN OF EAST LYME, CONNECTICUT

### NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

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#### 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, 2010 aggregated approximately \$214,000 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, 2010**

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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	\$ 58,424,096	\$ 58,447,961
State Teachers Retirement payments made by State Department of Education on behalf of the Town, not recognized for budgetary purposes	3,293,000	3,293,000
Capital lease	466,571	466,571
Refunded bonds	15,585,000	16,337,060
Bond issuance costs	-	215,700
Bond premium	967,761	-
Encumbrances:		
June 30, 2009	-	128,683
June 30, 2010	-	(289,266)
Balance, GAAP basis	<u>\$ 78,736,428</u>	<u>\$ 78,599,709</u>

ROBINSON & COLE LLP

280 Trumbull Street  
 Hartford, CT 06103-3597  
 Main (860) 275-8200  
 Fax (860) 275-8299

February \_\_, 2011

Town of East Lyme  
 Niantic, Connecticut

Ladies and Gentlemen:

We have examined certified copies of the proceedings of the Town of East Lyme, Connecticut (the “Town”), a Tax Regulatory Agreement of the Town, dated February 9, 2011 (the “Tax Regulatory Agreement”), and other proofs submitted to us relative to the issuance and sale of \$3,860,000 Town of East Lyme, Connecticut General Obligation Bonds, Issue of 2011, dated as of the date of delivery (the “Bonds”), maturing on February 1 in each of the years, in the principal amounts and bearing interest payable August 1, 2011 and semiannually thereafter on February 1 and August 1 in each year until maturity or earlier redemption, at the rates per annum as follows:

<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate Per Annum</u>	<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate Per Annum</u>
2014	\$175,000	%	2023	\$225,000	%
2015	175,000		2024	225,000	
2016	175,000		2025	225,000	
2017	175,000		2026	225,000	
2018	175,000		2027	225,000	
2019	225,000		2028	225,000	
2020	225,000		2029	225,000	
2021	225,000		2030	250,000	
2022	225,000		2031	260,000	

with principal payable at the principal office of U.S. Bank National Association, in Hartford, Connecticut, and with interest payable to the registered owner as of the close of business on the fifteenth day of January and July in each year, or the preceding business day if such fifteenth day is not a business day, by check mailed to such registered owner at his address as shown on the registration books of the Town kept for such purpose. The Bonds are subject to redemption prior to maturity as therein provided.

The Bonds are originally registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), to effect a book-entry system for the ownership and transfer of the Bonds. So long as DTC or its nominee is the registered owner, principal and interest payments on the Bonds will be made to DTC.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds, and we express no opinion relating thereto, excepting only the matters set forth as our opinion in the Official Statement.

We are of the opinion that such proceedings and proofs show lawful authority for the issuance and sale of the Bonds under authority of the Constitution and General Statutes of Connecticut and that the Bonds are a valid general obligation of the Town the principal of and interest on which is payable from ad valorem taxes which may be levied on all taxable property subject to taxation by the Town without limitation as to rate or amount except as to classified property, such as certified forest lands taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts. We are further of the opinion that the Tax Regulatory Agreement is a valid and binding agreement of the Town.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income for federal income tax purposes. The Town has covenanted in the Tax Regulatory Agreement that it will at all times perform all acts and things necessary or appropriate under any valid provision of law to ensure that interest paid on the Bonds shall be excluded from gross income for federal income tax purposes under the Code.

In our opinion, under existing statutes and court decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not treated as an item of tax preference for purposes of computing the federal alternative minimum tax. Interest on the Bonds is, however, includible in adjusted current earnings for purposes of computing the federal alternative minimum tax imposed on certain corporations. We express no opinion regarding any other federal income tax consequences caused by ownership or disposition of, or receipt of interest on, the Bonds.

In rendering the foregoing opinions regarding the federal tax treatment of interest on the Bonds, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and expectations, and certifications of fact contained in the Tax Regulatory Agreement, and (ii) the compliance by the Town with the covenants and procedures set forth in the Tax Regulatory Agreement as to such tax matters.

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

The rights of owners of the Bonds and the enforceability of the Bonds and the Tax Regulatory Agreement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by application of equitable principles, whether considered at law or in equity.

Very truly yours,

ROBINSON & COLE LLP

**APPENDIX C – FORM OF CONTINUING DISCLOSURE AGREEMENT**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

**CONTINUING DISCLOSURE AGREEMENT**

Town of East Lyme, Connecticut  
\$3,860,000 General Obligation Bonds, Issue of 2011  
Dated as of the date of delivery

February \_\_, 2011

WHEREAS, the Town of East Lyme, Connecticut (the “Town”) has heretofore authorized the issuance of \$3,860,000 in aggregate principal amount of its General Obligation Bonds, Issue of 2011, dated as of the date of delivery (the “Bonds”), and to mature on the dates and in the amounts and set forth in the Town’s Official Statement dated January 25, 2011 describing the Bonds (the “Official Statement”); and

WHEREAS, the Bonds have been sold by a competitive bid pursuant to a Notice of Sale, dated January 14, 2011 (the “Notice of Sale”); and

WHEREAS, in the Notice of Sale, the Town has heretofore acknowledged that an underwriter may not purchase or sell the Bonds unless it has reasonably determined that the Town has undertaken in a written agreement for the benefit of the beneficial owners of the Bonds to provide certain continuing disclosure information as required by Securities and Exchange Commission Rule 15c2-12(b)(5), as amended from time to time (the “Rule”), and the Town desires to assist the underwriter of the Bonds in complying with the Rule; and

WHEREAS, the Town is authorized pursuant to Section 3-20e of the General Statutes of Connecticut to make such representations and agreements for the benefit of the beneficial owners of the Bonds to meet the requirements of the Rule; and

WHEREAS, in order to assist the underwriter of the Bonds in complying with the Rule, this Continuing Disclosure Agreement (this “Agreement”) is to be made, executed and delivered by the Town in connection with the issuance of the Bonds and to be described in the Official Statement, all for the benefit of the beneficial owners of the Bonds, as they may be from time to time;

NOW, THEREFORE, the Town hereby represents, covenants and agrees as follows:

Section 1. Definitions. In addition to the terms defined above, the following capitalized terms shall have the meanings ascribed thereto:

“Annual Report” shall mean any Annual Report provided by the Town pursuant to, and as described in, Sections 2 and 3 of this Agreement.

“Fiscal Year End” shall mean the last day of the Town’s fiscal year, currently June 30.

“Listed Events” shall mean any of the events listed in Section 4 of this Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended, or any successor thereto.

“Repository” shall mean the Electronic Municipal Market Access system as described in 1934 Act Release No. 57577 for purposes of the Rule, the MSRB or any other nationally recognized municipal securities information repository or organization recognized by the SEC from time to time for purposes of the Rule.

“SEC” shall mean the Securities and Exchange Commission of the United States or any successor thereto.

Section 2. Annual Reports.

(a) The Town shall provide or cause to be provided to the Repository in electronic format, accompanied by identifying information, as prescribed by the MSRB, the following annual financial information and operating data regarding the Town:

(i) Audited financial statements as of and for the year ending on its Fiscal Year End prepared in accordance with accounting principles generally accepted in the United States, as promulgated by the Governmental Accounting Standards Board from time to time or mandated state statutory principles as in effect from time to time; and

(ii) Financial information and operating data as of and for the year ending on its Fiscal Year End of the following type to the extent not included in the audited financial statements described in (i) above:

(A) the amounts of the gross and net taxable grand list;

(B) a listing of the ten largest taxpayers on the grand list, together with each such taxpayer's taxable valuation thereon;

(C) the percentage and amount of the annual property tax levy collected and uncollected;

(D) a schedule of the annual debt service on outstanding long-term bonded indebtedness;

(E) a calculation of the net direct debt, total direct debt, and total overall net debt (reflecting overlapping and underlying debt);

(F) the total direct debt, total net direct debt and total overall net debt of the Town per capita;

(G) the ratios of total direct debt and total overall net debt of the Town to the Town's net taxable grand list;

(H) a statement of statutory debt limitations and debt margins; and

(I) the funding status of the Town's pension benefit obligations.

(b) The above-referenced information is expected to be provided by the filing of and cross reference to the Town's audited financial statements. The information may be provided in whole or in part by cross-reference to other documents previously provided to the Repository, including official statements of the Town which will be available from the MSRB.

(c) Subject to the requirements of Section 8 hereof, the Town reserves the right to modify from time to time the type of financial information and operating data provided or the format of the presentation of such financial information and operating data, to the extent necessary or appropriate; provided that the Town agrees that any such modification will be done in a manner consistent with the Rule. The Town also reserves the right to modify the preparation and presentation of financial statements described herein as may be required to conform with changes in Connecticut law applicable to municipalities or any changes in generally accepted accounting principles, as promulgated by the Governmental Accounting Standards Board from time to time.

Section 3. Timing. The Town shall provide the financial information and operating data referenced in Section 2(a) not later than eight months after each Fiscal Year End subsequent to the date of issuance of the Bonds, provided, however, that if such financial information and operating data for the Fiscal Year End preceding the date of issuance of the Bonds is not contained in the Official Statement for the Bonds or has not otherwise been previously provided, the Town shall provide such financial information and operating data no later than eight months after the close of such preceding Fiscal Year End. The Town agrees that if audited financial statements are not available eight months after the close of any Fiscal Year End, it shall submit unaudited financial statements by such time and will submit audited financial statements information when and if available.



Section 4. Event Notices. The Town agrees to provide, or cause to be provided, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice to the Repository in electronic format, accompanied by identifying information, as prescribed by the MSRB, of the occurrence of any of the following events:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions; the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) modifications to rights of bondholders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership, or similar event of any obligated person;
- (xiii) the consummation of a merger, consolidation, or acquisition involving any obligated person or the sale of all or substantially all of the assets of any obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake any such an action or the termination of a definitive agreement relating to such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if any, if material.

Section 5. Notice of Failure. The Town agrees to provide, or cause to be provided, in a timely manner to the Repository in electronic format, accompanied by identifying information, as prescribed by the MSRB, notice of any failure by the Town to provide the annual financial information described in Section 2(a) of this Agreement on or before the date described in Section 3 of this Agreement.

Section 6. Termination of Reporting Obligation. The Town's obligations under this Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

Section 7. Agent. The Town may, from time to time, appoint or engage an agent to assist it in carrying out its obligations under this Agreement, and may discharge any such agent, with or without appointing a successor agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Agreement, the Town may amend this Agreement, and any provision of this Agreement may be waived, if such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of the Town, and is supported by an opinion of counsel expert in federal securities laws, to the effect that (i) such amendment or waiver would not materially adversely affect the beneficial owners of the Bonds and (ii) this Agreement, as so amended, would have complied with the requirements of the Rule as of the date of this Agreement, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances. A copy of any such amendment will be filed in a timely manner with the Repository in electronic format. The Annual Report provided on the first date following adoption of any such amendment will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of financial information or operating data provided.

Section 9. Additional Information. Nothing in this Agreement shall be deemed to prevent the Town from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Report or providing notice of the occurrence of any other event, in addition to that which is required by this Agreement. If the Town chooses to include any other information in any Annual Report or provide notice of the occurrence of any other event in addition to that which is specifically required by this Agreement, the Town shall have no obligation under this Agreement to update such information or include or provide such information or notice of the occurrence of such event in the future.

Section 10. Indemnification. The Town agrees, pursuant to applicable law, to indemnify and save its officials, officers and employees harmless against any loss, expense or liability which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability hereunder, but excluding any loss, expense or liability due to any such person's malicious, wanton, or willful act. The obligations of the Town under this Section shall survive termination of this Agreement.

Section 11. Enforceability. The Town agrees that its undertaking pursuant to the Rule set forth in this Agreement is intended to be for the benefit of and enforceable by the beneficial owners of the Bonds. In the event the Town shall fail to perform its duties hereunder, the Town shall have the option to cure such failure after its receipt of written notice from any beneficial owner of the Bonds of such failure. In the event the Town does not cure such failure, the right of any beneficial owner of the Bonds to enforce the provisions of this undertaking shall be limited to a right to obtain specific performance of the Town's obligations hereunder. No monetary damages shall arise or be payable hereunder, nor shall any failure to comply with this Agreement constitute a default of the Town with respect to the Bonds.

**IN WITNESS WHEREOF**, the Town has caused this Continuing Disclosure Agreement to be executed in its name by its undersigned officers, duly authorized, all as of the date first above written.

**TOWN OF EAST LYME, CONNECTICUT**

By: \_\_\_\_\_  
Paul M. Formica  
First Selectman

By: \_\_\_\_\_  
Bruce R. Brailey  
Town Treasurer

**APPENDIX D – NOTICE OF SALE**

**NOTICE OF SALE**

**\$3,860,000**

**TOWN OF EAST LYME, CONNECTICUT  
GENERAL OBLIGATION BONDS, ISSUE OF 2011  
(BANK QUALIFIED)**

Electronic bids (as described herein) will be received by the **TOWN OF EAST LYME**, Connecticut (the “Town”), until 11:00 A.M. (E.S.T.) Tuesday,

**January 25, 2011**

for the purchase of all, but not less than all, of the \$3,860,000 Town of East Lyme, Connecticut General Obligation Bonds, Issue of 2011 (the “Bonds”). Electronic bids must be submitted via **PARITY**<sup>®</sup>. (See “Electronic Bidding Procedures”).

**The Bonds**

The Bonds will be dated as of the date of delivery, mature in principal amounts of \$175,000 on February 1 in each of the years 2014-2018, both inclusive, \$225,000 on February 1 in each of the years 2019-2029, both inclusive, \$250,000 on February 1, 2030, and \$260,000 on February 1, 2031, bear interest payable on August 1, 2011 and semiannually thereafter on February 1 and August 1 in each year until maturity, or earlier redemption, as further described in the Preliminary Official Statement for the Bonds dated January 14, 2011 (the “Preliminary Official Statement”).

The Bonds maturing on or before February 1, 2016 are not subject to redemption prior to maturity. The Bonds maturing on February 1, 2017 and thereafter are subject to redemption prior to maturity, at the election of the Town, on or after February 1, 2016, at any time, in whole or in part and by lot within a maturity, in such amounts and in such order of maturity as the Town may determine, at the respective prices (expressed as percentages of the principal amounts of Bonds to be redeemed) set forth in the following table, together with interest accrued and unpaid to the redemption date:

<u>Redemption Date</u>	<u>Redemption Price</u>
February 1, 2016 and thereafter	100%

**Nature of Obligation**

The full faith and credit of the Town will be pledged for the prompt payment of the principal of and interest on the Bonds when due. The Bonds will be general obligations of the Town payable, unless paid from other sources, from ad valorem taxes which may be levied on all taxable property subject to taxation by the Town without limitation as to rate or amount except as to classified property such as certified forest lands taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts.

**Bank Qualification**

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

## Registration

The Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates made to the public. The Bonds will be issued in registered form and one bond certificate for each maturity will be issued to The Depository Trust Company, New York, New York (“DTC”), registered in the name of its nominee, Cede & Co., and immobilized in their custody. A book-entry system will be employed, evidencing ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures adopted by DTC and its participants. The winning bidder, as a condition to delivery of the Bonds, will be required to deposit the bond certificates with DTC, or its custodian, registered in the name of Cede & Co. Principal of and interest on the Bonds will be payable by the Town or its agent in Federal funds to DTC or its nominee as registered owner of the Bonds. Principal and interest payments to participants of DTC will be the responsibility of DTC. Principal and interest payments to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The Town will not be responsible or liable for payments by DTC to its participants or by DTC participants to beneficial owners or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

## Electronic Bidding Procedures

Any prospective bidder intending to submit an electronic bid must submit its electronic bid through the facilities of **PARITY®**. Subscription to i-Deal LLC’s BiDCOMP Competitive Bidding System is required in order to submit an electronic bid and the Town will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe.

An electronic bid made through the facilities of **PARITY®** shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in this Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the Town. The Town shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, **PARITY®**, the use of such facilities being the sole risk of the prospective bidder.

If any provisions of this Notice of Sale shall conflict with information provided by **PARITY®** as the approved provider of electronic bidding services, this Notice of Sale shall control. Further information about **PARITY®**, including any fee charged, may be obtained from **PARITY®**, 1359 Broadway, 2nd Floor, New York, New York 10018, Attention: Customer Service Department (telephone: (212) 849-5021 - email notice: [parity@i-deal.com](mailto:parity@i-deal.com)).

For purposes of the electronic bidding process, the time as maintained by **PARITY®** shall constitute the official time. For information purposes only, bidders are requested to state in their electronic bids the true interest cost to the Town, computed and rounded to six decimal places, as described under “Bid Specifications/Basis of Award” below. All electronic bids shall be deemed to incorporate the provisions of this Notice of Sale.

## Bid Specifications/Basis of Award

Each bid must be for the entire \$3,860,000 of Bonds and must specify the rate or rates of interest therefor in a multiple of 1/20 or 1/8 of 1% per annum. Bids shall not state (a) more than one interest rate for any Bonds having the same maturity date, or (b) any interest rate for any Bonds which exceeds the interest rate stated in the proposal for any other Bonds by more than 3%. Interest shall be computed on the basis of twelve 30 day months and a 360 day year. No bid for less than all of the Bonds or for less than par and accrued interest will be considered.

For the purpose of determining the successful bidder, the true interest cost to the Town will be the annual interest rate, compounded semiannually, which, when used to discount all payments of principal and interest payable on the Bonds to February 9, 2011, the date of the Bonds, results in an amount equal to the purchase price for the Bonds, not including interest accrued to February 9, 2011, the delivery date of the Bonds. It is requested that each bid be accompanied by a statement of the percentage of true interest cost computed and rounded to six decimal places. Such statement shall not be considered as a part of the proposal. The Bonds will be awarded or all bids will be rejected promptly after the bid opening but not later than 4:00 P.M. (E.S.T.) on January 25, 2011. The purchase price must be paid in Federal funds.

The Town reserves the right to reject any and all bids and to waive any irregularity or informality with respect to any proposal. The Town further reserves the right to postpone the sale to another time and date in its sole and absolute discretion for any reason, including, without limitation, internet difficulties. The Town will use its best efforts to notify prospective bidders in a timely manner of any need for a postponement. Unless rejected, the Bonds will be awarded to the bidder offering to purchase them at the lowest true interest cost.

## **Closing Documents and Legal Opinion**

The Bonds will be certified by U.S. Bank National Association, Hartford, Connecticut. The legality of the Bonds will be passed upon by Robinson & Cole LLP, Bond Counsel, Hartford, Connecticut, and the winning bidder will be furnished with their opinion without charge. The winning bidder will also be furnished with a signature and no litigation certificate, a receipt of payment satisfactory in form to Bond Counsel, a signed copy of the final Official Statement prepared for the Bonds, a certificate signed by the appropriate officials of the Town relating to the accuracy and completeness of information contained in the final Official Statement, and an executed continuing disclosure agreement.

The legal opinion will further state that, (i) under existing statutes and court decisions interest on the Bonds is excluded from gross income for federal income tax purposes, (ii) such interest is not treated as an item of tax preference for purposes of computing the federal alternative minimum tax, but is, however, includible in adjusted current earnings for purposes of computing the alternative minimum tax imposed on certain corporations, (iii) under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates, and (iv) such interest is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay federal alternative minimum tax. . In rendering the legal opinion, Robinson & Cole LLP will rely upon and assume the material accuracy of the representations and statements of expectation contained in the Tax Regulatory Agreement entered into by the Town for the benefit of the owners of the Bonds, and further, will assume compliance by the Town with the covenants and procedures set forth in such Tax Regulatory Agreement. A copy of the opinion will be printed upon each of the Bonds, and a signed opinion and transcript of proceedings will be filed with U.S. Bank National Association, in Hartford, Connecticut, and will be available for examination upon request.

## **Settlement of the Bonds**

It shall be the responsibility of the winning bidder to certify to the Town before delivery of the Bonds the prices at which a substantial amount of the Bonds of each maturity were initially offered and sold to the public.

The Bonds will be available for delivery on or about February 9, 2011. The deposit of the Bonds with DTC or its custodian under a book-entry system requires the assignment of CUSIP numbers prior to delivery. It shall be the responsibility of the winning bidder to obtain CUSIP numbers for the Bonds prior to delivery, and the Town will not be responsible for any delay occasioned by the failure of the winning bidder to obtain such numbers and to supply them to the Town in a timely manner. The Town assumes no responsibility for any CUSIP Service Bureau charge or other charge that may be imposed for the assignment of such numbers, which charges shall be the responsibility of and shall be paid for by the winning bidder.

The Preliminary Official Statement is in a form “deemed final” by the Town for purposes of SEC Rule 15c2-12(b)(1). The winning bidder will be furnished 100 copies of the final Official Statement prepared for the Bonds at the Town’s expense. Additional copies may be obtained by the winning bidder at its own expense by arrangement with the printer. The copies of the final Official Statement will be made available to the winning bidder no later than seven business days after the bid opening at the office of the Town’s financial advisor. If the Town’s financial advisor is provided with the necessary information from the winning bidder by 12:00 p.m. (noon) on the day after the bid opening, the copies of the final Official Statement will include an additional cover page and other pages, if necessary, indicating the interest rates, rating(s), yields or reoffering prices, the name of the managing underwriter, and the name of the insurer, if any, of the Bonds.

## **Continuing Disclosure**

The Town will undertake in a Continuing Disclosure Agreement entered into in accordance with the requirements of Rule 15c2-12(b)(5), promulgated by the Securities and Exchange Commission, to provide (i) certain annual financial information and operating data, including audited financial statements; (ii) notice of the occurrence of certain material events within 10 days of the occurrence of such events and; and (iii) timely notice of its failure to provide such annual financial information. The winning bidder’s obligation to purchase the Bonds shall be conditioned upon its receiving, at or prior to the delivery of the Bonds, an executed copy of the Continuing Disclosure Agreement for the Bonds.

**Related Information**

For more information regarding the Bonds and the Town, reference is made to the Preliminary Official Statement. Copies of the Preliminary Official Statement dated January 14, 2011, may be obtained from the undersigned, or from Mark N. Chapman, Director, Independent Bond & Investment Consultants LLC, 129 Samson Rock Drive, Suite A, Madison, Connecticut 06443, Telephone. No. (203) 245-8715.

PAUL M. FORMICA  
First Selectman

BRUCE R. BRAILEY  
Town Treasurer

January 14, 2011