

Town of East Lyme, Connecticut

Financial Report
June 30, 2018

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RSM US LLP

Independent Auditor's Report

To the Board of Finance
Town of East Lyme, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Town of East Lyme, Connecticut (the Town) as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of East Lyme, Connecticut as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter—Adoption of Standards

As explained in the Summary of Significant Accounting Policies in the notes to the financial statements, the Town adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, which resulted in the Town restating beginning net position of the governmental activities for recognition of the Town's OPEB related activity incurred prior to July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2019 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

RSM US LLP

New Haven, Connecticut
May 22, 2019

Town of East Lyme, Connecticut
Management's Discussion and Analysis - unaudited
June 30, 2018

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, 2018.

Financial Highlights

The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$104.1 million (*net position*).

The Town's total net position decreased by \$0.8 million.

As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$10.9 million, a decrease of \$0.1 million in comparison with the prior year.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4.8 million or 6.9% of total general fund budgeted expenditures and transfers out of \$69.5 million.

The Town's total bond/note debt decreased by \$0.9 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 position presents information on all of the Town's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will 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 and welfare, culture and recreation and education. The business-type activities of the Town include the waste-operating facility.

The government-wide financial statements can be found on pages 13 and 14 of this report.

Fund Financial Statements

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

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

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

The Town maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, bonded projects fund, water department fund, capital nonrecurring fund and the sewer assessment fund, all of which are considered to be major funds. Data from the other four 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 a pension trust fund, private purpose trust funds and 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 position 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$104.1 million at the close of the fiscal year.

By far the largest portion of the Town's net position (109.6%) 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 are 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
SUMMARY STATEMENT OF NET POSITION
JUNE 30, 2018 and 2017

	June 30, 2018			June 30, 2017		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 25,316	\$ 381	\$ 25,697	\$ 20,162	\$ 277	\$ 20,439
Capital assets	113,415	44,460	157,875	113,199	45,158	158,357
Total assets	138,731	44,841	183,572	133,361	45,435	178,796
Deferred outflows of resources	897	-	897	1,363	-	1,363
Total deferred outflows of resources	897	-	897	1,363	-	1,363
Other liabilities	15,417	125	15,542	10,566	242	10,808
Long-term liabilities	63,655	-	63,655	63,723	-	63,723
Total liabilities	79,072	125	79,197	74,289	242	74,531
Deferred pension amounts	574	-	574	619	-	619
Deferred OPEB amounts	254	-	254	-	-	-
Advance tax collections	322	-	322	73	-	73
Total deferred inflows of resources	1,150	-	1,150	692	-	692
Net position:						
Net investment in capital assets	69,680	44,460	114,140	67,876	45,158	113,034
Restricted	26	-	26	29	-	29
Unrestricted (deficit)	(10,299)	256	(10,043)	(8,162)	35	(8,127)
Total net position	\$ 59,407	\$ 44,716	\$ 104,123	\$ 59,743	\$ 45,193	\$ 104,936

**TOWN OF EAST LYME, CONNECTICUT
SUMMARY STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

	Year Ended June 30, 2018			Year Ended June 30, 2017		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues:						
Program Revenues:						
Charge for services	\$ 11,436	\$ 2,002	\$ 13,438	\$ 10,365	\$ 1,915	\$ 12,280
Operating grants and contributions	16,543	-	16,543	16,583	-	16,583
Capital grants and contributions	607	-	607	77	-	77
General Revenues:						
Property Taxes	56,866	-	56,866	54,361	-	54,361
Grants, contributions not restricted to specific programs	1,120	-	1,120	1,587	-	1,587
Miscellaneous	57	-	57	40	-	40
Investment income	131	-	131	58	-	58
Total revenues	\$ 86,760	\$ 2,002	\$ 88,762	\$ 83,071	\$ 1,915	\$ 84,986
Expenses:						
Program Activities						
Primary Government:						
General government	\$ 9,740	\$ -	\$ 9,740	\$ 9,762	\$ -	\$ 9,762
Public safety	4,612	-	4,612	4,584	-	4,584
Public works	8,041	-	8,041	11,046	-	11,046
Health and welfare	259	-	259	270	-	270
Culture and recreation	2,651	-	2,651	2,649	-	2,649
Education	61,180	-	61,180	58,715	-	58,715
Interest expense	359	-	359	358	-	358
Business-Type Activities:						
Sewer department	-	2,732	2,732	-	2,803	2,803
Total expenses	86,842	2,732	89,574	87,384	2,803	90,187
Transfers in (out)	(254)	254	-	(52)	52	-
Change in net position	(336)	(476)	(812)	(4,365)	(836)	(5,201)
Net Position - beginning, restated	\$ 59,743	\$ 45,193	104,936	\$ 63,814	\$ 46,029	109,843
Restatement - GASB 75*	-	-	-	294	-	294
Net Position - ending	\$ 59,407	\$ 44,717	\$ 104,124	\$ 59,743	\$ 45,193	\$ 104,936

* Restated governmental activities unrestricted net position for implementation of GASB No. Statement 75.

Governmental Activities

For governmental activities, 65.5% of the revenues were derived from property taxes, followed by 19.8% from intergovernmental revenues and 13.2% for charges for services.

Major revenue factors included:

- Property tax increase \$2.5 million due to an increase in the grand list and in the mil rate
- Charges for services increased \$1.1 million primarily due to various actual revenues being greater than original estimates and increases in fees charged to services
- Intergovernmental decreased by \$.05 million for grants received

For governmental activities, approximately 70.4% of the Town's expenses relate to education, 11.2% relate to general government, 9.3% relate to public works operations, 5.3% to public safety and the remaining 3.8% relate to interest expense, health and welfare, recreation and miscellaneous.

Major expense factors include:

- Public Works expenses decreased \$3 million due to capital outlay.
- Education expenses increased \$2.4 million commensurate with budget increase.
- Public Safety expenses increased \$.028 million due to inaugural year of becoming an Independent Police Department.

Business-Type Activities

Business-type activities (Sewer Department) decreased the Town's net position by \$.477, or 1.1%. This decrease was due to depreciation expense.

Financial Analysis of the Fund Financial Statements

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

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

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4.8 million, while total fund balance reached \$6.9 million. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 6.9% of total general fund budgeted expenditures.

The fund balance for the Town's general fund increased by approximately \$0.942 million during the current fiscal year. A key factor in this is as follows:

Due to budget spending freezes implemented early in the fiscal year to mitigate uncertainty of the state budget. In addition, our tax collection rate was higher than our original budgeted amount; we had a shopping plaza sale that generated a one-time large conveyance fee and there were more out of district students than we planned paying tuition.

The Sewer Assessments fund balance increased by \$.009 there being no change in operations from the prior year.

The Water department fund balance increased slightly by \$.031 million due to overall budget operations.

The Bonded Project Fund decreased \$1.304 million due primarily to completion of funded projects .

The Capital Nonrecurring Fund increased \$.151 million due primarily to the issuance of bonds for projects completed and the receipt of State Grants.

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 Position of the Sewer Department at the end of the year was \$44.7 million, a decrease of \$476,467 over the prior year. Unrestricted net position for the Sewer Department reflected \$255,676 of total Net Position.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was \$.079 million

During the year, actual revenues, including transfers in, were \$69.7 million, which was less than budgetary estimates by \$1.1 million. Major contributors were:

- \$.449 million greater due to better than expected aggregate tax collections
- \$.357 million greater combined net effect for various local fee estimates
- \$1.3 million less due to various intergovernmental grants

General Fund Budgetary Highlights

Expenditures

Special appropriations during the year totaled \$78,566 as follows:

- \$37 thousand for repair of boilers at East Lyme Community Center carry-over
- \$18.9 thousand Energy Efficient Lights at Field Services Building
- \$17.5 thousand Police Portable Radios
- \$5.1 thousand NSEP Funds for equipment

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, 2018, amounted to \$157.9 million (net of accumulated depreciation). This investment in capital assets includes land, building and system improvements, machinery and equipment, park facilities, roads, sewers and bridges. The total net decrease in the Town's investment in capital assets for the current fiscal year was \$.482 million, a decrease of .3%.

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

- Road reconstruction and improvement projects.
- The ninth year implementation of a vehicle acquisition program in accordance with a fleet plan
- Purchase of a Bus for our Commission on Aging.
- Capitalization of purchase of town streetlights and converting to LED lights.
- Installation of a Water & Sewer line with STEAP funds to Cini Park to allow for restrooms.
- New Basketball Court at Peretz Park.
- New rowing docks at the Boat House for East Lyme High School rowing crews.
- Various building improvements.

**CAPITAL ASSETS, NET OF DEPRECIATION
JUNE 30, 2018 AND 2017**

	June 30, 2018			June 30, 2017		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Land	\$ 14,488	\$ 608	\$ 15,096	\$ 14,488	\$ 608	\$ 15,096
Construction in progress	3,390	15	3,405	874	15	889
Water and Sewer distribution systems	16,581	40,847	57,428	17,099	41,437	58,536
Building and improvements	58,771	2,890	61,661	60,865	2,982	63,847
Vehicles	4,144	-	4,144	3,447	-	3,447
Machinery and equipment	5,118	100	5,218	5,422	116	5,538
Infrastructure	10,923	-	10,923	11,004	-	11,004
Total	\$ 113,415	\$ 44,460	\$ 157,875	\$ 113,199	\$ 45,158	\$ 158,357

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 \$46.6 million, all of which is backed by the full faith and credit of the Town government.

**CHANGES IN TOWN DEBT
JUNE 30, 2018 AND 2017**

	June 30, 2018			June 30, 2017		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ 40,405	\$ -	\$ 40,405	\$ 41,340	\$ -	\$ 41,340
Drinking water notes	6,238	-	6,238	6,258	-	6,258
	\$ 46,643	\$ -	\$ 46,643	\$ 47,598	\$ -	\$ 47,598

The Town's total bonded debt decreased by \$.955 million during the 2018 fiscal year due to the net impact of scheduled pay down of debt during the fiscal year. In addition, the town issued \$3.2 million bonds which was to permanently bond road rehabilitation work, basketball court and rowing dock projects, fire engine pumper and Elementary School Renovation and Improvement Project. The Town received a S & P Global Rating Service rating of AA on the most recent bond issue. Additional information can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

The Town's elected and appointed officials considered many factors when setting the fiscal year 2019 budget tax rates, the primary factor being the economy and uncertainty at the State level of government. Unemployment in the Town is at 4.1% and 4.6% for 2017 and 2016. This compares with the State's average unemployment rate of 4.7% and 5.1% and is .5% lower than the New London County average rate of 4.6%.

Revenues

The Town adopted its budget estimating a reduction in state revenues in the amount of \$1.4 million. However, when the State adopted it's budget the Education Cost Share was \$597,484 more than the Town projected. Due to the need for a higher than planned Health Insurance increase related to the number of large claims, on October 17, 2018 the town appropriated the additional revenues increasing the Town and Board of Education health insurance budget accounts proportionately. During the budget process expenditure reductions were made and an overall increase in taxes of \$3.3 million. There was a modest increase in the grand list of 10/1/2017 of \$16 million or .765%. Significant revenue issues were as follows:

- Net decrease in State of Connecticut revenues of \$.8 million due to State of Connecticut budget deficits subsequent to the October 17, 2018 additional appropriation in the amount of \$597,484
- Decrease of \$357 thousand OTI from Sewer Assessment Fund as the Sewer obligation for debt service has been satisfied
- Out of district tuition fees decreased by \$181 thousand due to enrollment estimates
- Decrease of \$175 thousand for beach and recreation fees due to establishing a Special Revenue fund for beach operations
- Decrease in Building Permit fees of \$57 thousand due to department estimates
- Decrease of \$20 thousand for Extra Duty Police due to establishing a fund for the vehicle portion of this fee in the Capital non-recurring fund
- Increase of \$14 thousand for Animal Control fees due to a regional contribution for services
- The Town maintained various local fees collected based upon trend analysis

Expenditures

The wage increases for town employees was 2%. The Board of Education Secretarial Group received 2.5% and the Custodians received 2.3%. Administrators wage increases were 1.9% and teachers 1.2% plus steps. The Paraprofessional Group received 1.25%.

The Board of Education requested a budget increase of \$1.2 million; the Board of Finance reduced the bottom line by \$.200 million to \$1 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 amended.

All of these factors were considered in preparing the Town's budget for the 2019 fiscal year. During the current fiscal year, unassigned fund balance in the general fund increased to \$5.9 million. The Town did

appropriate \$675,000 of fund balance for spending in the 2019 fiscal year budget maintaining the prior year amount.

Overall, the fiscal year 2018 – 2019 budget was increased \$959 thousand or 1.35%. Town government decreased \$23 thousand (.13%) less than fiscal year 2018, debt service decreased \$3 thousand (.07%), and the Board of Education increased \$1 million (2.17%) from the prior year. Capital improvement expenditures were decreased \$22 thousand (2.84%).

The following factors played a role in our setting the budget for fiscal year 2018 – 2019 both from 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 2019 and in future fiscal years with the increased need to replace stagnant and declining State Aid and declining local revenues with property taxes. In addition, the reality of the Town's picking up a share of the annual required contribution to the Teachers Pension is a topic in the State's annual legislative sessions.
- Emphasis was placed on maintaining existing public services and the prevailing quality-of-life within the town effectively doing more with less.
- Where possible, departmental operating costs have been kept to a bare minimum maintaining or decreasing the 2017/18 level of spending. Increases in operating costs are primarily due to health insurance premiums, contract issues and state mandates.
- The Town of East Lyme's 2018/2019 budget totals \$71.8 million, which represents a 1.35% increase in expenditures from the fiscal year 2018 adopted budget. The Town's mill rate increased from 26.16 to 27.35 a 1.11 or a 4.5% 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 Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 9,342,599	\$ 538,937	\$ 9,881,536
Investments	1,003,304	-	1,003,304
Receivables:			
Property taxes, net of allowance for collection losses	2,565,023	-	2,565,023
Assessments/use charges	3,723,037	448,231	4,171,268
Intergovernmental	961,111	-	961,111
Other	287,765	28,920	316,685
Internal balances	646,392	(646,392)	-
Other assets	1,119,546	11,628	1,131,174
Restricted cash	5,667,687	-	5,667,687
Capital assets, not being depreciated	17,877,735	623,015	18,500,750
Capital assets, net of accumulated depreciation	95,537,298	43,837,381	139,374,679
Total assets	138,731,497	44,841,720	183,573,217
Deferred outflows of resources:			
Deferred pension amounts	311,873	-	311,873
Deferred charges on refundings	585,613	-	585,613
Total deferred outflows of resources	897,486	-	897,486
Liabilities			
Accounts payable and accruals	7,024,692	83,258	7,107,950
Accrued interest payable	516,176	-	516,176
Meter deposits	-	3,175	3,175
Unearned revenue	140,751	39,215	179,966
Long-term liabilities:			
Due within one year	6,129,948	-	6,129,948
Due in more than one year	63,655,412	-	63,655,412
Total liabilities	79,071,979	125,648	79,197,627
Deferred Inflows of resources:			
Deferred pension amounts	573,763	-	573,763
Deferred OPEB amounts	254,399	-	254,399
Advance tax collections	322,251	-	322,251
Total deferred inflows of resources	1,150,413	-	1,150,413
Net position:			
Net investment in capital assets	69,680,075	44,460,396	114,140,471
Restricted:			
Culture and recreation	25,692	-	25,692
Unrestricted (deficit)	(10,299,176)	255,676	(10,043,500)
Total net position	\$ 59,406,591	\$ 44,716,072	\$ 104,122,663

See notes to financial statements.

Town of East Lyme, Connecticut

Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 9,740,412	\$ 1,186,787	\$ -	\$ -	\$ (8,553,625)	\$ -	\$ (8,553,625)
Public safety	4,612,391	74,399	67,512	-	(4,470,480)	-	(4,470,480)
Public works	8,040,796	4,797,180	409,840	606,606	(2,227,170)	-	(2,227,170)
Health and welfare	258,968	-	24,802	-	(234,166)	-	(234,166)
Culture and recreation	2,651,160	765,635	3,997	-	(1,881,528)	-	(1,881,528)
Education	61,179,479	4,612,132	16,036,577	-	(40,530,770)	-	(40,530,770)
Interest expense	359,306	-	-	-	(359,306)	-	(359,306)
Total governmental activities	86,842,512	11,436,133	16,542,728	606,606	(58,257,045)	-	(58,257,045)
Business-type activities:							
Sewer department	2,732,044	2,001,727	-	-	-	(730,317)	(730,317)
Total business-type activities	2,732,044	2,001,727	-	-	-	(730,317)	(730,317)
Total primary government	\$ 89,574,556	\$ 13,437,860	\$ 16,542,728	\$ 606,606	(58,257,045)	(730,317)	(58,987,362)
General revenues:							
Property taxes					56,866,220	-	56,866,220
Grants and contributions not restricted to specific programs					1,120,397	-	1,120,397
Income from investments					130,824	-	130,824
Miscellaneous					56,700	-	56,700
Transfers					(253,850)	253,850	-
Total general revenues and transfers					57,920,291	253,850	58,174,141
Change in net position					(336,754)	(476,467)	(813,221)
Net position - beginning, as restated (Note 1)					59,743,345	45,192,539	104,935,884
Net position - ending					\$ 59,406,591	\$ 44,716,072	\$ 104,122,663

See notes to financial statements.

Town of East Lyme, Connecticut

Balance Sheet - Governmental Funds
June 30, 2018

	Major Funds				Other Nonmajor Governmental Funds	Total Governmental Funds
	General	Sewer Assessments Fund	Bonded Capital Projects	Capital Nonrecurring Fund		
Assets						
Cash and cash equivalents	\$ 5,565,832	\$ 1,601,959	\$ 4,720,527	\$ 947,160	\$ 1,598,204	\$ 14,433,682
Investments	1,003,304	-	-	-	-	1,003,304
Receivables (net of allowances for collection losses):						
Property taxes	2,565,023	-	-	-	-	2,565,023
Assessments/use charges	20,787	2,974,417	-	-	727,833	3,723,037
Intergovernmental	52,219	-	45,282	806,194	57,416	961,111
Other	-	84,532	-	4,503	-	89,035
Advances to other funds	-	586,294	-	-	-	586,294
Due from other funds	1,564,734	694,401	132,780	428,647	47,474	2,868,036
Other	1,077,021	-	-	-	42,525	1,119,546
Total assets	\$ 11,848,920	\$ 5,941,603	\$ 4,898,589	\$ 2,186,504	\$ 2,473,452	\$ 27,349,068
Liabilities						
Accounts payable and accruals	\$ 2,080,178	\$ 197,690	\$ 1,773,100	\$ 265,405	\$ 531,631	\$ 4,848,004
Due to other funds	60,985	31	1,416,824	61,605	483,469	2,022,914
Unearned revenue	7,016	-	-	-	133,735	140,751
Bond anticipation notes payable	-	-	1,605,000	-	-	1,605,000
Advances from other funds	-	-	586,294	-	-	586,294
Total liabilities	2,148,179	197,721	5,381,218	327,010	1,148,835	9,202,963
Deferred inflows of resources:						
Unavailable revenue	2,466,705	3,043,988	-	806,194	615,777	6,932,664
Advance tax collections	322,251	-	-	-	-	322,251
Total deferred inflows of resources	2,788,956	3,043,988	-	806,194	615,777	7,254,915
Fund balances (deficits):						
Nonspendable	-	586,294	-	-	32,459	618,753
Restricted	-	-	-	-	164,869	164,869
Committed	-	2,113,600	-	1,053,300	511,512	3,678,412
Assigned	2,134,521	-	-	-	-	2,134,521
Unassigned	4,777,264	-	(482,629)	-	-	4,294,635
Total fund balances (deficits)	6,911,785	2,699,894	(482,629)	1,053,300	708,840	10,891,190
Total liabilities, deferred inflows of resources and fund balances (deficits)	\$ 11,848,920	\$ 5,941,603	\$ 4,898,589	\$ 2,186,504	\$ 2,473,452	

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

Capital assets, net of accumulated depreciation purchased in governmental funds are reported as expenditures, however, the statement of net position includes those capital assets among the assets of the Town as a whole.	113,415,033
Deferred inflows of resources - unavailable revenue	6,932,664
Deferred outflows of resources - deferred amounts on refunding	585,613
Deferred inflow of resources - pension credit	(573,763)
Deferred inflow of resources- OPEB	(254,399)
Deferred outflow of resources - pension expense	311,873
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(69,785,360)
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 position.	(1,600,084)
Accrued interest payable not recorded in the funds.	(516,176)

Net position of governmental activities

\$ 59,406,591

See notes to financial statements.

Town of East Lyme, Connecticut

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) - Governmental Funds
For the Year Ended June 30, 2018

	Major Funds				Other Nonmajor Governmental Funds	Total Governmental Funds
	General	Sewer Assessments Fund	Bonded Capital Projects	Capital Nonrecurring Fund		
Revenues						
Property tax assessments and lien fees	\$ 56,577,147	\$ -	\$ -	\$ -	\$ -	\$ 56,577,147
Intergovernmental	16,508,982	-	-	235,541	1,159,637	17,904,160
Other revenues	-	-	46,760	9,940	-	56,700
Charges for services	6,521,543	752,608	-	112,072	3,404,697	10,790,920
Investment income	76,270	13,846	38,762	1,414	532	130,824
Total revenues	79,683,942	766,454	85,522	358,967	4,564,866	85,459,751
Expenditures						
Current:						
General government	7,121,937	-	-	-	-	7,121,937
Public safety	4,236,167	-	-	-	-	4,236,167
Public works	3,504,406	203,066	600	-	2,210,143	5,918,215
Health and welfare	256,058	-	-	-	-	256,058
Culture and recreation	2,533,534	-	-	-	15,933	2,549,467
Education	55,307,084	-	-	-	1,731,639	57,038,723
Capital outlay	650,478	-	4,141,503	1,947,738	14,570	6,754,289
Debt Service:						
Principal retirements	4,085,048	-	-	-	366,369	4,451,417
Interest and other charges	1,285,969	-	49,081	29,851	116,342	1,481,243
Total expenditures	78,980,681	203,066	4,191,184	1,977,589	4,454,996	89,807,516
Excess (deficiency) of revenues over (under) expenditures	703,261	563,388	(4,105,662)	(1,618,622)	109,870	(4,347,765)
Other Financing Sources (Uses)						
Transfers in	402,245	-	-	163,389	-	565,634
Transfers out	(163,389)	(554,383)	-	(45,552)	(56,160)	(819,484)
Capital lease proceeds	-	-	850,135	-	-	850,135
Issuance of drinking water loan	-	-	296,365	-	-	296,365
Bond premium	-	-	60,131	46,312	-	106,443
Issuance of general obligation bonds	-	-	1,595,000	1,605,000	-	3,200,000
Total other financing sources (uses)	238,856	(554,383)	2,801,631	1,769,149	(56,160)	4,199,093
Change in fund balances (deficits)	942,117	9,005	(1,304,031)	150,527	53,710	(148,672)
Fund balances (deficits), beginning	5,969,668	2,690,889	821,402	902,773	655,130	11,039,862
Fund balances (deficits), ending	\$ 6,911,785	\$ 2,699,894	\$ (482,629)	\$ 1,053,300	\$ 708,840	\$ 10,891,190

See notes to financial statements.

Town of East Lyme, Connecticut

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018**

Net change in fund balances (deficits) – total governmental funds	\$ (148,672)
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.	216,403
Changes in revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,299,848
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 position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,099,601
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.	(1,849,278)
The net expense of certain activities of internal service funds is reported with governmental activities.	<u>(954,656)</u>
Change in net position of governmental activities	<u>\$ (336,754)</u>

See notes to financial statements.

Town of East Lyme, Connecticut

Statement of Net Position - Proprietary Funds
June 30, 2018

	Business-Type Activities <u>Enterprise Funds</u>	Governmental Activities <u>Internal Service Fund</u>
	Sewer Department	
Assets		
Current assets:		
Cash and cash equivalents	\$ 538,937	\$ 576,604
Receivables:		
User charges	448,231	-
Other	28,920	-
Due from other funds	94,867	-
Inventory	11,628	-
Total current assets	<u>1,122,583</u>	<u>576,604</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	44,460,396	-
Total noncurrent assets	<u>44,460,396</u>	<u>-</u>
Total assets	<u>45,582,979</u>	<u>576,604</u>
Liabilities		
Current liabilities:		
Accounts payable	43,951	1,365,193
Meter deposits	3,175	-
Claims payable	-	811,495
Unearned revenue	39,215	-
Due to other funds	741,259	-
Compensated absences	39,307	-
Total liabilities	<u>866,907</u>	<u>2,176,688</u>
Net position:		
Net investment in capital assets	44,460,396	-
Unrestricted (deficit)	255,676	(1,600,084)
Total net position (deficit)	<u>\$ 44,716,072</u>	<u>\$ (1,600,084)</u>

See notes to financial statements.

Town of East Lyme, Connecticut

Statement of Revenues, Expenses and Changes in
Fund Net Position (Deficit) - Proprietary Funds
For the Year Ended June 30, 2018

	Business-Type Activities Enterprise Funds	Governmental Activities
	Sewer Department	Internal Service Fund
Operating revenues:		
Charges for services and other	\$ 2,001,727	\$ 8,418,225
Total operating revenues	<u>2,001,727</u>	<u>8,418,225</u>
Operating expenses:		
General and administrative	75,782	920,328
Labor and maintenance	1,761,354	-
Claims	-	8,452,553
Depreciation	894,908	-
Total operating expenses	<u>2,732,044</u>	<u>9,372,881</u>
Operating (loss) before transfers	<u>(730,317)</u>	<u>(954,656)</u>
Transfers in	253,850	-
	<u>253,850</u>	<u>-</u>
Change in net position (deficit)	(476,467)	(954,656)
Net position (deficit), beginning	45,192,539	(645,428)
Net position (deficit), ending	<u>\$ 44,716,072</u>	<u>\$ (1,600,084)</u>

See notes to financial statements.

Town of East Lyme, Connecticut

Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2018

	Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Fund
	Sewer Department	
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,020,040	\$ -
Payments to suppliers	(1,548,506)	-
Payment to employees	(622,130)	-
Receipts from premiums	-	8,566,655
Cash paid for claims and administration	-	(8,198,941)
Net cash (used in) provided by operating activities	(150,596)	367,714
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(197,690)	-
Net cash used in capital and related financing activities	(197,690)	-
Cash flows from noncapital financing activities:		
Transfers in	253,850	-
Net cash provided by noncapital financing activities	253,850	-
Net (decrease) increase in cash and cash equivalents	(94,436)	367,714
Cash and cash equivalents:		
Beginning	633,373	208,890
Ending	\$ 538,937	\$ 576,604

(Continued)

Town of East Lyme, Connecticut

**Statement of Cash Flows - Proprietary Funds (Continued)
For the Year Ended June 30, 2018**

	Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Fund
	Sewer Department	
Reconciliation of operating loss to net		
Cash (used in) provided by operating activities:		
Operating loss	\$ (730,317)	\$ (954,656)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation	894,908	-
(Increase) decrease in:		
Inventory	1,000	-
Receivables	14,579	156,672
Due from other funds	(92,337)	60,860
Increase (decrease) in:		
Accounts and other payables	(120,601)	1,128,553
Unearned revenue	3,735	(8,242)
Due to other funds	(121,563)	(15,473)
Net cash (used in) provided by operating activities	\$ (150,596)	\$ 367,714

See notes to financial statements.

Town of East Lyme, Connecticut

Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2018

	Pension Trust Fund	Private Purpose Trusts	Agency Funds
Assets			
Cash	\$ -	\$ 100,101	\$ 1,218,160
Investments	24,338,612	-	-
Receivables	-	-	5,352
Total assets	24,338,612	100,101	1,223,512
Liabilities			
Due to other funds	-	-	198,730
Payable to others	-	-	541,511
Due to student groups	-	-	483,271
Total liabilities	-	-	1,223,512
Net position - restricted for pension benefits and other purposes	\$ 24,338,612	\$ 100,101	\$ -

See notes to financial statements.

Town of East Lyme, Connecticut

Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2018

	Pension Trust Fund	Private Purpose Trusts
Additions:		
Contributions:		
Employer	\$ 1,245,132	\$ -
Plan members	215,884	-
Other	-	4,192
Total contributions	1,461,016	4,192
Investment income:		
Net appreciation in fair value of investments	1,540,398	-
Interest income	-	890
Total investment income	1,540,398	890
Total additions	3,001,414	5,082
Deductions:		
Benefits	689,013	-
Administration	38,801	-
Other	-	11,244
Total deductions	727,814	11,244
Change in net position	2,273,600	(6,162)
Net position - restricted for pension benefits and other, beginning	22,065,012	106,263
Net position - restricted for pension benefits and other, ending	\$ 24,338,612	\$ 100,101

See notes to financial statements.

Town of East Lyme, Connecticut

Notes to Financial Statements

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 and welfare, culture and recreation, education and general government.

Accounting principles generally accepted in the United States of America (GAAP) 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 (GASB) have been considered and there are no agencies or entities which should be presented with the Town.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, was implemented on July 1, 2017. This statement revised and established new financial reporting requirements for most governments that provide their employees with postemployment benefits other than pensions. Among other requirements, Statement No. 75 required governments to report a liability on the face of the financial statements for the OPEB that they provide: 1) Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments. 2) Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. 3) Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees.

The effects of the implementation of this statement are as follows: The beginning governmental activities net position was increased by \$294,142, a total OPEB liability of \$8,439,858 was added, a net OPEB obligation of \$8,734,000 was removed. Details can be found in Note 12.

Government-wide and fund financial statements: The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the 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.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement focus, basis of accounting, and financial statement presentation: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds do not have a measurement focus but are accounted for on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing related to 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 recognized when a liability is incurred as under accrual accounting. However, debt service expenditures and expenditures related to compensated absences, pension liabilities, other post-employment benefit liabilities and claims and judgments are recognized only when payment is due (matured).

Property taxes when levied for, intergovernmental revenue when eligibility requirements are met, assessments, licenses, and interest associated with the current fiscal period are all considered to be measurable and so have been recognized as revenues of the current fiscal period, if available. All other revenue items are considered to be measurable only when cash is received by the Town.

Governmental Funds

The Town reports the following major governmental funds:

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

The **Sewer Assessments Fund**, a special revenue fund, accounts for the resources that are used to finance sewer system improvements.

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

The **Capital Nonrecurring Fund** is used to account for resources 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.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Additionally, the Town reports the following fund types:

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

Capital Project Funds account for and report all financial resources that are restricted, committed or assigned to expenditure for capital outlay excluding projects related to proprietary funds.

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

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

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

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

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.

For "Advances To/From Other Funds," the assets reported in the governmental fund financial statements are offset by non-spendable fund balance to indicate that they 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.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets/deferred outflows of resources and liabilities/deferred inflows of 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.

Restricted cash: Certain assets are classified as restricted because their availability is limited. Restricted cash is to be used for debt service, capital leases and construction purposes.

Allowance for doubtful accounts: Property tax, user charges and assessments 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. 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. These investments are carried at amortized cost. The Town also invests in certificates of deposits which are recorded at amortized cost.

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

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Fair value measurements focus on exit prices in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

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

The three categories within the hierarchy are as follows:

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

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

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

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 acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

Assets	Years
Buildings and improvements	33-100
Infrastructure	25-75
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 expenditure and no depreciation expense is reported.

Compensated absences: Town employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. Vacation and sick leave expenses to be paid in future periods are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only for amounts that have become due. The general fund is typically used to liquidate the liability.

Long-term obligations: In the government-wide 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 position. Bond principal premiums and discounts 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. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received and principal payments, are reported as debt service expenditures.

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

Total OPEB liability: The total OPEB liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total OPEB liability). The Town has accumulated no assets to fund the OPEB liability and therefore does not have a fiduciary fund to pay OPEB benefits. The total OPEB liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period. The total OPEB liability is reported in the statement of net position.

Note 1. Summary of Significant Accounting Policies (Continued)

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports a deferred inflow of resources related to pensions, OPEB and advance tax collections in the government-wide statement of net position. A deferred inflow of resources related to pension and OPEB results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension and OPEB expense in a systematic and rational manner.

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

Net position: In the Government-Wide and Proprietary Fund Financial Statements, net position is classified in the following categories:

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

Restricted net position: These amounts are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislations.

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

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

Nonspendable fund balance: Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted fund balance: These amounts are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislations.

Committed fund balance: This represents amounts constrained prior to year-end for a specific purpose by a government using its highest level of decision-making authority (Town of East Lyme Board of Finance). Amounts remain committed until action is taken by the Board of Finance (resolution) to remove or revise the limitations.

Assigned fund balance: Amounts constrained for the intent to be used for a specific purpose by the Director of Finance that has been delegated authority to assign amounts by the Board of Finance.

Unassigned fund balance: The residual amount not allocated to any other fund balance category in the General Fund and any residual deficit balance of any other governmental funds.

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

Town of East Lyme, Connecticut

Notes to Financial Statements

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

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

Bonds payable	\$ (40,405,000)
Drinking water notes	(6,238,226)
Bond premium	(1,466,921)
Total OPEB liability	(8,509,773)
Compensated absences	(3,883,581)
Capital leases payable	(2,535,950)
Claims and other	(400,000)
Early retirement incentive	(552,831)
Net pension liability	(5,667,208)
Landfill closure	(125,870)
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ (69,785,360)</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 reconciliation between net changes in fund balances - total governmental funds, and changes in net position 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	\$ 5,652,637
Depreciation expense	(5,436,234)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 216,403</u>

Town of East Lyme, Connecticut

Notes to Financial Statements

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

Another element of that reconciliation states "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 position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Debt issued or incurred:

Issuance of general obligation debt	\$ (3,200,000)
Issuance of clean water interim funding obligation	(296,365)
Bond premium	(106,443)
Issuance of capital lease	(850,135)

Principal repayments and amortizations:

General obligation debt	4,135,000
Capital lease	1,021,785
Amortization of deferred charges	(224,093)
Amortization of bond premium	303,435
Drinking water notes	<u>316,417</u>

Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 1,099,601</u>
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Another element of that reconciliation states "Some expenses/liabilities 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:

Total OPEB liability	\$ (69,915)
Compensated absences	(2,057,475)
Early retirement incentives	252,035
Accrued interest	20,820
Net pension liability	142,469
Pension credit	(537,656)
Pension expense	340,843
OPEB credit	(254,399)
Claims and other	300,000
Landfill closure	<u>14,000</u>

Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (1,849,278)</u>
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Town of East Lyme, Connecticut

Notes to Financial Statements

Note 3. Cash, Cash Equivalents and Investments

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 Plan do not have a custodial credit risk policy for investments. The Town and the Pension Plan 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. These investments are carried at amortized cost.

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

Concentrations: The Town and the Pension Plan do not have a policy that limits the amounts invested in any one issuer. However, their practice is to maintain a diversified portfolio to minimize the risk of loss resulting from over-concentration of assets in a specific issuer.

Custodial credit risk:

Deposits: This is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2018, \$13,340,117 of the Town's bank balance of \$16,353,195 was uninsured and uncollateralized.

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

Town of East Lyme, Connecticut

Notes to Financial Statements

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

Cash, cash equivalents and investments of the Town consist of the following at June 30, 2018:

Cash and cash equivalents:	
Deposits with financial institutions	\$ 15,668,942
State of Connecticut - Short-Term Investment Fund	1,198,542
Total cash and cash equivalents	<u>16,867,484</u>
Investments:	
Pension trust funds:	
Fixed income mutual funds	6,770,209
Mutual funds	17,568,403
	<u>24,338,612</u>
General fund:	
Certificates of deposits	1,003,304
Total investments	<u>25,341,916</u>
Total cash, cash equivalents and investments	<u>\$ 42,209,400</u>

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

Statement of net position:	
Cash and cash equivalents	\$ 15,549,223
Investments	1,003,304
	<u>16,552,527</u>
Fiduciary funds:	
Cash and cash equivalents	1,318,261
Investments	24,338,612
	<u>25,656,873</u>
Total cash, cash equivalents and investments	<u>\$ 42,209,400</u>

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	1-5 Years	6-10 Years
Fixed income funds	\$ 6,770,209	\$ 6,770,209	\$ -	\$ -

Town of East Lyme, Connecticut

Notes to Financial Statements

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

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

Average Rating	Fixed Income Funds	Pooled Fixed Income
AAA	\$ 997,271	\$ -
AAAm	-	1,198,542
AA	109,967	-
A	218,836	-
BBB	579,402	-
BB	999,659	-
B	912,220	-
Below B	311,562	-
Other	2,641,292	-
	\$ 6,770,209	\$ 1,198,542

Fair value: The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following recurring fair value measurements as of June 30, 2018:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets June 30, 2018	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
Investments by fair value level:			
Fixed income	\$ 6,770,209	\$ -	\$ 6,770,209
Mutual funds	17,568,403	-	17,568,403
Total investments by fair value level	\$ 24,338,612	\$ -	\$ 24,338,612

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 14,488,047	\$ -	\$ -	\$ 14,488,047
Construction in progress	874,063	3,389,688	(874,063)	3,389,688
Total capital assets, not being depreciated	15,362,110	3,389,688	(874,063)	17,877,735
Capital assets, being depreciated:				
Buildings and improvements	125,949,013	76,854	-	126,025,867
Machinery and equipment	8,586,652	1,084,272	-	9,670,924
Vehicles	10,309,031	216,038	-	10,525,069
Infrastructure	31,834,338	1,656,962	-	33,491,300
Water distribution systems	30,879,778	102,886	-	30,982,664
Total capital assets, being depreciated	207,558,812	3,137,012	-	210,695,824
Total capital assets	222,920,922	6,526,700	(874,063)	228,573,559
Less accumulated depreciation for:				
Buildings and improvements	65,083,689	2,171,210	-	67,254,899
Machinery and equipment	5,140,055	386,503	-	5,526,558
Vehicles	4,886,917	519,883	-	5,406,800
Infrastructure	20,831,121	1,737,456	-	22,568,577
Water distribution systems	13,780,510	621,182	-	14,401,692
Total accumulated depreciation	109,722,292	5,436,234	-	115,158,526
Total capital assets, being depreciated, net	97,836,520	(2,299,222)	-	95,537,298
Governmental activities capital assets, net	\$ 113,198,630	\$ 1,090,466	\$ (874,063)	\$ 113,415,033

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 4. Capital Assets (Continued)

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 608,210	\$ -	\$ -	\$ 608,210
Construction in progress	14,805	-	-	14,805
Total capital assets, not being depreciated	<u>623,015</u>	-	-	<u>623,015</u>
Capital assets, being depreciated:				
Buildings and improvements	5,090,394	-	-	5,090,394
Machinery and equipment	694,735	-	-	694,735
Sewer distribution systems	59,121,453	197,690	-	59,319,143
Total capital assets, being depreciated	<u>64,906,582</u>	<u>197,690</u>	-	<u>65,104,272</u>
Total capital assets	<u>65,529,597</u>	<u>197,690</u>	-	<u>65,727,287</u>
Less accumulated depreciation for:				
Buildings and improvements	2,108,612	91,627	-	2,200,239
Machinery and equipment	578,698	16,311	-	595,009
Sewer distribution systems	17,684,673	786,970	-	18,471,643
Total accumulated depreciation	<u>20,371,983</u>	<u>894,908</u>	-	<u>21,266,891</u>
Total capital assets, being depreciated, net	<u>44,534,599</u>	<u>(697,218)</u>	-	<u>43,837,381</u>
Total business-type activities capital assets, net	<u>\$ 45,157,614</u>	<u>\$ (697,218)</u>	<u>\$ -</u>	<u>\$ 44,460,396</u>

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

Governmental activities:	
General government	\$ 2,086,318
Public safety	328,077
Public works	967,664
Culture and Recreation	72,716
Education	1,981,459
Total depreciation expense - governmental activities	<u>\$ 5,436,234</u>
Business-type activities:	
Sewer	\$ 894,908
Total depreciation expense - business-type activities	<u>\$ 894,908</u>

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 5. Interfund Receivables, Payables and Transfers

A summary of interfund balances as of June 30, 2018 is presented below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 1,564,734	\$ 60,985
Sewer Assessments Fund	694,401	31
Bonded Capital Projects Fund	132,780	1,416,824
Capital Nonrecurring Fund	428,647	61,605
Non-Major Governmental Funds and other	47,474	483,469
Enterprise Funds	94,867	741,259
Agency Funds	-	198,730
Grand total	<u>\$ 2,962,903</u>	<u>\$ 2,962,903</u>

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

\$586,294 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, 2018 were as follows:

	Transfers From Other Funds	Transfers To Other Funds
General Fund	\$ 402,245	\$ 163,389
Sewer Assessments Fund	-	554,383
Capital Nonrecurring Fund	163,389	45,552
Other Nonmajor Funds	-	56,160
Enterprise Funds	253,850	-
Grand total	<u>\$ 819,484</u>	<u>\$ 819,484</u>

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. Other Nonmajor Funds transfers to Enterprise Funds are for construction of capital assets.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 6. Unearned Revenue/Deferred Inflows of Resources

Governmental funds report deferred inflows of resources 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 report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue and deferred inflows of resources reported in the governmental funds and governmental activities were as follows:

	Unavailable Revenues	Unearned Revenues
General Fund:		
Delinquent property taxes receivable and interest	\$ 2,455,974	\$ -
Intergovernmental	5,309	-
Other	5,422	7,016
Sewer Assessments Fund:		
Sewer assessments not yet due	3,043,988	-
Capital Nonrecurring Fund:		
Intergovernmental	806,194	-
Other Nonmajor Governmental Funds:		
Water usage unbilled	615,777	-
Grant drawdowns prior to meeting all eligibility requirements	-	133,735
Total deferred inflows/unearned revenue	<u>\$ 6,932,664</u>	<u>\$ 140,751</u>

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 7. Long-Term Liabilities

A summary of changes in outstanding long-term obligations during the year ended June 30, 2018 is as follows:

Description	Balance July 1, 2017 *	Additions	Deductions	Balance June 30, 2018	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 41,340,000	\$ 3,200,000	\$ 4,135,000	\$ 40,405,000	\$ 4,270,000
Drinking water notes	6,258,278	296,365	316,417	6,238,226	344,710
Bond premium	1,663,913	106,443	303,435	1,466,921	-
	<u>49,262,191</u>	<u>3,602,808</u>	<u>4,754,852</u>	<u>48,110,147</u>	<u>4,614,710</u>
Other long-term liabilities:					
Total OPEB liability*	8,439,858	69,915	-	8,509,773	-
Compensated absences	1,826,106	2,057,475	-	3,883,581	220,000
Capital lease obligations	2,707,600	850,135	1,021,785	2,535,950	925,617
Claims and other	700,000	-	300,000	400,000	-
Early retirement incentives	804,866	-	252,035	552,831	355,621
Net pension liability	5,809,677	-	142,469	5,667,208	-
Landfill closure	139,870	-	14,000	125,870	14,000
Total other long-term liabilities	<u>20,427,977</u>	<u>2,977,525</u>	<u>1,730,289</u>	<u>21,675,213</u>	<u>1,515,238</u>
Governmental activities long-term liabilities	<u>\$ 69,690,168</u>	<u>\$ 6,580,333</u>	<u>\$ 6,485,141</u>	<u>\$ 69,785,360</u>	<u>\$ 6,129,948</u>

* As restated for GASB No. 75

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 7. Long-Term Liabilities (Continued)

General obligation bonds - governmental activities: As of June 30, 2018, 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, 2017	Additions	Deductions	Balance June 30, 2018
General Purpose								
CIP Var, Darrow, Roads	\$ 6,970,000	7/26/12	7/25/32	2.0-4.0%	\$ 3,015,000	\$ -	\$ 315,000	\$ 2,700,000
Open Space & Radio Upgrade	1,295,000	2/2/12	7/15/29	2.0-3.0%	1,228,000	-	30,000	1,198,000
Open Space	918,000	2/10/10	7/15/26	2.0-5.0%	562,000	-	77,000	485,000
Ref Var, Athletic Complex	6,930,000	7/24/14	7/15/30	2.0-4.0%	6,745,000	-	340,000	6,405,000
Var Cl,Rds, Peretz FFD Ap	5,120,000	7/23/15	7/15/35	2.0-4.0%	5,120,000	-	-	5,120,000
Ref GP 11-12 CIP,Darrow,Var R	3,244,000	7/21/16	7/15/33	2.5 - 3.0%	3,244,000	-	-	3,244,000
224 Main, Var Rds, Bush Hill	2,360,000	7/21/16	7/15/27	2.0 - 5.0%	2,360,000	-	-	2,360,000
FireEng,BB Court, Rds	1,605,000	8/31/17	8/31/37	2.0 - 5.0%	-	1,605,000	-	1,605,000
Total general purpose					22,274,000	1,605,000	762,000	23,117,000
Schools								
CIP Culinary, Music Wall, Var	750,000	7/26/12	7/15/32	.65% - 3.1%	280,000	-	35,000	245,000
HS Roof & School Reno	1,693,000	2/2/12	7/15/28	2.0-3.0%	1,683,000	-	7,000	1,676,000
ELMS, HS Roof & Ren Ref	7,785,000	2/10/10	7/15/24	2.0-5.0%	4,240,000	-	765,000	3,475,000
ELHS & Pool Refunding	3,969,000	7/16/09	7/15/19	3.0-4.0%	866,000	-	435,000	431,000
CO Roof, Tennis Court, Network	1,774,000	7/24/14	7/15/30	2.0-4.0%	1,070,000	-	-	1,070,000
Ref Schools Var Project	3,154,000	7/21/16	7/15/33	2.5 - 3.0%	3,154,000	-	1,183,000	1,971,000
Elementary Schools	1,595,000	8/31/17	8/31/37	2.0 - 5.0%	-	1,595,000	-	1,595,000
Total schools					11,293,000	1,595,000	2,425,000	10,463,000
Sewer								
Pine Grove Sewer	580,000	2/2/12	7/15/28	2.0-3.0%	577,000	-	2,000	575,000
Pine Grove Sewer Refund	2,182,000	2/10/10	7/15/26	2.0-5.0%	1,363,000	-	178,000	1,185,000
Logger Hill, Ref	916,000	7/24/14	7/15/30	2.0-4.0%	795,000	-	88,000	707,000
Refund 4/18/11 Ref 92&95	776,000	7/21/16	7/15/21	2.5 - 3.0%	776,000	-	332,000	444,000
Total sewers					3,511,000	-	600,000	2,911,000
Water Bonds								
DWSRF 2012-7010	360,516	6/30/13	12/31/32	2.0%	288,762	-	16,053	272,709
Various Water Projects	1,000,000	7/26/12	7/15/32	2.0-4.0%	550,000	-	215,000	335,000
2012 Ref Bonds 2009	3,762,000	2/12/12	7/15/29	2.0-3.0%	3,522,000	-	111,000	3,411,000
DWSRF/ARRA 2010-8003	401,454	12/29/11	6/30/31	2.06%	293,693	-	18,369	275,324
Refunding	90,000	7/24/14	7/15/30	2.0-4.0%	44,000	-	22,000	22,000
DWSRF 2013-7022	6,526,492	6/30/15	6/30/34	2.0%	5,675,823	-	281,995	5,393,828
2016 Ref 2012 Bonds	146,000	7/21/16	7/15/28	2.0-4.0%	146,000	-	-	146,000
Interim Funding Obligation	390,000	5/9/17	N/A	2.0-4.0%	-	296,365	-	296,365
Total water					10,520,278	296,365	664,417	10,152,226
Total bonds/notes - governmental activities					\$ 47,598,278	\$ 3,496,365	\$ 4,451,417	\$ 46,643,226

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 7. Long-Term Liabilities (Continued)

The following is a summary as of June 30, 2018, of the future principal and interest requirements for the Town's bond indebtedness - governmental activities excluding the drinking water notes:

Fiscal Year Ending	Principal	Interest	Total
2019	\$ 4,270,000	\$ 1,201,269	\$ 5,471,269
2020	3,605,000	1,073,369	4,678,369
2021	3,605,000	946,494	4,551,494
2022	2,965,000	832,494	3,797,494
2023	2,980,000	732,869	3,712,869
2024-2028	12,860,000	2,383,866	15,243,866
2029-2033	7,705,000	896,419	8,601,419
2034-2038	2,415,000	133,936	2,548,936
Total	<u>\$ 40,405,000</u>	<u>\$ 8,200,716</u>	<u>\$ 48,605,716</u>

Bond anticipation notes: Bond anticipation note transactions for the year ended June 30, 2018 were as follows:

Outstanding, July 1, 2017	\$ -
New borrowings	1,605,000
Repayments	-
Outstanding, June 30, 2018	<u>\$ 1,605,000</u>

On August 17, 2017, the Town issued \$1,605,000 of general obligation bond anticipation notes. The general obligation notes mature on August 15, 2018. The notes are recorded as bond anticipation notes payable in the Bonded Capital Projects Fund as they are short term.

Subsequent event: On July 31, 2018, the Town issued \$5,300,000 of general obligation bonds and \$20,000,000 in general obligation bond anticipation notes. The general obligation bonds have interest rates ranging from 3% to 5% and have a final maturity of August 15, 2038. The general obligation bond anticipation notes mature on August 15, 2019.

On April 30, 2019, the Town issued \$3,000,000 of general obligation bond anticipation notes. The notes are set to mature on August 15, 2019.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 7. Long-Term Liabilities (Continued)

Drinking water fund notes: The Town has drinking water notes in the amount of \$5,941,861. The notes bear interest at 2.0%, are payable in equal monthly installments and mature on December 31, 2034. The following is a summary as of June 30, 2018, of the future principal and interest requirements for the Town's drinking water notes - governmental activities, excluding the interim funding obligation:

Fiscal Year Ending	Principal	Interest	Total
2019	\$ 344,710	\$ 115,613	\$ 460,323
2020	329,383	109,084	438,467
2021	336,042	102,425	438,467
2022	342,837	95,631	438,468
2023	349,769	88,699	438,468
2024-2028	1,857,845	334,492	2,192,337
2028-2033	1,993,015	150,776	2,143,791
2034	388,260	4,251	392,511
Total	<u>\$ 5,941,861</u>	<u>\$ 1,000,971</u>	<u>\$ 6,942,832</u>

The Town had an interim funding obligation outstanding of \$296,365 as of June 30, 2018. Subsequent to year-end, the interim funding obligation was permanently financed in the amount of \$345,643 and is due in monthly principal and interest installments with final payment due on March 30, 2039.

Bonds authorized but unissued: Total authorized but unissued debt at June 30, 2018 consists of the following:

General purpose	\$ 5,819,522
Schools	36,166,066
Sewer	4,366,046
	<u>\$ 46,351,634</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	\$ 127,637,631	\$ 28,936,522	\$ 98,701,109
Schools	255,275,262	46,629,066	208,646,196
Sewers	212,729,385	7,277,046	205,452,339
Urban renewal	184,365,467	-	184,365,467
Pension deficit	170,183,508	-	170,183,508

The total overall statutory debt limit for the Town is equal to seven times annual receipts from taxation, or approximately \$397,095,000.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 7. Long-Term Liabilities (Continued)

Capital lease: At June 30, 2018, the Town and the Board of Education are 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 \$8,329,000 with approximately \$5,619,000, in accumulated depreciation.

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

2019	\$	855,789
2020		687,549
2021		523,619
2022		337,889
2023		219,354
Total		<u>2,624,200</u>
Less amount representing interest		<u>(88,250)</u>
	\$	<u><u>2,535,950</u></u>

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 either 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, 2018, \$252,035 was paid for these benefits. At June 30, 2018, approximately \$552,831 is accrued in the governmental activities. The liability is liquidated out of the general fund.

Note 8. Landfill 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. The estimated liability for landfill post-closure care costs has a balance of \$125,870 as of June 30, 2018. The liability is accrued in the governmental activities. Actual cost may be higher due to inflation, changes in technology or changes in regulations. These costs will be paid from the General Fund.

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 Workers Compensation program is fully insured and the Town does not retain any risk of loss. The coverage is as follows: Part One-Workers Compensation Insurance – policy applies to the Workers Compensation Law of Connecticut. Part Two – Employers Liability – limits are Bodily Injury by Accident \$1,000,000 Each Accident, Bodily Injury by Disease \$1,000,000 Each Employee and Bodily Injury by Disease \$1,000,000 Policy Limit. The Town pays an annual premium for its coverage. The Town had no claims in excess of coverage amounts during the year.

The Town purchases commercial insurance for all other risks of loss other than employee health insurance, 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

Note 9. Risk Management (Continued)

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 and aggregate stop loss policy for individual claims exceeding \$125,000 for combined hospital and major medical.

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

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,
2016-2017	\$ 907,323	\$ 7,879,822	\$ 7,919,264	\$ 867,881
2017-2018	867,881	8,396,167	8,452,553	811,495

Note 10. Contingent Liabilities

The Town has been named as defendant in several claims and legal actions. The Town's management, based upon consultation with legal counsel, estimates that the potential losses against the Town are approximately \$400,000, and therefore have been accrued for as claims long-term liability in the governmental activities.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans

Statement of Plan Net Position
June 30, 2018

	Pension Trust funds		
	Retirement Pension Trust	Defined Contribution Trust	Total Pension Trust Funds
Assets			
Investments:			
Mutual funds	\$ 15,912,100	\$ 1,656,303	\$ 17,568,403
Fixed income funds	6,770,209	-	6,770,209
Total assets	<u>22,682,309</u>	<u>1,656,303</u>	<u>24,338,612</u>
Total net position	<u>22,682,309</u>	<u>1,656,303</u>	<u>24,338,612</u>
Net position - restricted for pension benefits	<u>\$ 22,682,309</u>	<u>\$ 1,656,303</u>	<u>\$ 24,338,612</u>

Statement of Changes in Plan Net Position
Year Ended June 30, 2018

	Pension Trust funds		
	Retirement Pension Trust	Defined Contribution Trust	Total Pension Trust Funds
Additions:			
Contributions:			
Employer	\$ 1,125,805	\$ 119,327	\$ 1,245,132
Plan members	147,853	68,031	215,884
Total contributions	<u>1,273,658</u>	<u>187,358</u>	<u>1,461,016</u>
Investments:			
Net appreciation in fair value of investments	1,403,759	136,639	1,540,398
Total investment loss	<u>1,403,759</u>	<u>136,639</u>	<u>1,540,398</u>
Total additions	<u>2,677,417</u>	<u>323,997</u>	<u>3,001,414</u>
Deductions:			
Benefits	689,013	-	689,013
Administration	38,801	-	38,801
Total deductions	<u>727,814</u>	<u>-</u>	<u>727,814</u>
Changes in net position	1,949,603	323,997	2,273,600
Restricted net position, beginning	<u>20,732,706</u>	<u>1,332,306</u>	<u>22,065,012</u>
Restricted net position, ending	<u>\$ 22,682,309</u>	<u>\$ 1,656,303</u>	<u>\$ 24,338,612</u>

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans (Continued)

Defined benefit plan (PERS):

Plan description

Summary: The Town participates in a single employer, defined benefit pension plan covering substantially all full-time employees of the Town and noncertified Board of Education employees.

Classes of employees covered: At January 1, 2018, the date of the last actuarial valuation, membership in the plan consisted of the following:

Retirees and beneficiaries currently receiving benefits		55
Terminated employees entitled to benefits but not yet receiving them		21
Inactive participants		-
Current employees		
Vested	103	
Nonvested	79	182
		<u>258</u>

Benefit provisions:

Eligibility Employees other than Police Officers and Firefighters become participants on the first month following 6 months of service and age 25. Police Officers and Firefighters become participants on the first of the month after hire if they make contributions. Effective 7/11/2005, Police Officers contribute 8% of pay. Effective 7/1/2006 Firefighters contribute 5.5% of pay.

Normal retirement date For Firefighters, the later of age 50 or the completion of 25 years of service. For Police Officers, the later of age 50 or the completion of 25 years of service. For other participants, age 65 or, if later, 10 years of service. However, in no event will any Participant's Normal Retirement Date be greater than age 71.

Normal retirement benefit:

Firefighters: 1% of three-year final average earnings times years of service prior to 8/1/1986, plus 2% of three year final average earnings times years of service after 8/1/1986.

Firefighter COLA: For Retirees whose benefits start on or after 7/1/2010, as of the date which is one year following a Participant's retirement date, his retirement benefit shall be subject to an annual cost of living adjustment of one percent (1%).

Police officers: 1% of three-year final average earnings times years of service prior to 7/1/1986, plus 2% of three year final average earnings times years of service after 7/1/1986. Maximum of 80% of base pay at retirement.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans (Continued)

<i>Police COLA:</i>	For Retirees whose benefits start on or after 7/1/2006, as of the date which is one year following a Participant's retirement date, his retirement benefit shall be subject to an annual cost of living adjustment of one percent (1%).
<i>Other participants:</i>	1% of five-year final average earnings times years of service.
<i>Accrued benefit</i>	Normal Retirement Benefit based on earnings and service to date.
<i>Normal form of benefit</i>	Life Annuity.
<i>Delayed retirement</i>	Upon the death of a participant after his NRD but before his actual retirement date, it will be presumed he had retired at his NRD and elected a benefit payable for 120 months certain and life thereafter.
<i>Normal form of benefits</i>	Single life annuity.
<i>Accrued benefit</i>	Normal Retirement Benefit assuming service to NRD multiplied by the number of years of continuous service at termination divided by service projected to NRD.
<i>Continuous service</i>	A Participant's employment with the Employer from the date he most recently entered such service until the date such service ends due to a Participant's retirement, death or of service.
<i>Eligible employee</i>	An employee who is classified as a regular full-time employee with one year of Continuous Service. This excludes temporary employees, part-time employees, and any seasonal employee whose customary employment is for less than five months a year.
<i>Benefit accrual service</i>	All Continuous Service while an employee computed as whole years and 1/12th fraction for each completed month of Continuous Service.
Early retirement benefit:	Minimum Age: 55
<i>Minimum service</i>	15 Years
<i>Benefit amount</i>	Accrued Benefit, reduced by 1/15 for each of the first five years and 1/30 for each of the next five years by which early retirement precedes normal retirement. Participants age 62 with 15 years of service or age 55 with 25 years of service are eligible for an unreduced benefit.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans (Continued)

Pre-retirement death benefit: Minimum Age: 45 (Prior to 1/1/2009, age 55)

Minimum service 10 Years (Prior to 1/1/2009, 15 Years)

It will be assumed that an eligible participant, who dies before his NRD, had retired on the day prior to death and elected a 100% (50% prior to January 2009) Joint & Survivor Annuity.

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.

Summary of significant accounting policies and plan asset matters:

Basis of accounting: The Retirement Pension Trust's financial statements are accounted for using the accrual basis of accounting. Contributions are recognized when they are due, pursuant to formal commitments and contractual requirements. Investment income is recognized when earned. Expenses (benefits, administration, and refunds) are recognized when they are due and payable in accordance with the terms of the plan. There are no stand-alone financial statements issued for the Plan.

Investments: The Retirement Pension Trust's policy in regard to the allocation of invested assets is established and may be amended by the Town of East Lyme. It is the policy of the Town to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. Investments are reported at fair value.

Plan administration: The Retirement Pension Trust is separately administered by its own respective pension board. The First Selectman serves as a permanent member on the pension board. The non-permanent Pension Board members are appointed by the First Selectman and must be active employees of their respective pension plan. The pension board typically meet monthly or as needed to review retirement/disability requests and/or investment recommendations. The pension board meets at least quarterly with the Town's Investment Advisor to review and modify investments accordingly. Changes in investments are not effective until voted favorably by each of the pension board.

Investment concentrations: The Town does have a formal policy; 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.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans (Continued)

The following represents the investments of the pension plans that represent more than 5% of the plan's net position as of June 30, 2018:

Amer Fds Fundamental Investors INV OPT	\$ 1,704,463
T. Rowe Price Equity Income	2,007,064
Oppenheimer Money Market Inv Opt	1,245,925
MFS International Value Inv Opt	1,653,815
Janus Balanced Inv Opt	1,380,589
American Century Eq Income Inv Opt	1,750,106
Putnam High Yield Advantage A	1,582,364
Franklin Conservative Alloc Inv Opt	1,862,572
MFS Total Return Inv Opt	1,839,019
Loomis Sayles Bond Inv. Opt.	1,575,471

Net pension liability of the Town: The components of the net pension liability of the Town at June 30, 2018 were as follows:

Retirement Pension Trust	2018
Total pension liability	\$ 28,349,517
Plan fiduciary net position	<u>22,682,309</u>
Net pension liability	<u>\$ 5,667,208</u>
Plan fiduciary net position as a percentage of total pension liability	80.01%

Money-weighted rate of return: For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 6.74%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, which was projected forward to the measurement date of June 30, 2018:

Actuarial Method Used:	Entry Age Normal Cost Method
Amortization Method:	Level Amortization, Closed
Mortality Basis:	RP2000 Generational Mortality Table using Scale AA.
Investment Return:	7.00% per year, including 2.4% for inflation
Salary Scale:	4.50% per annum

The Town's funding policy is to contribute the actuary's recommended contribution each year. The contribution is calculated as the normal cost under the projected unit credit funding method, plus an amortization of the plan's unfunded liability over 20 years from January 1, 2018, as a level percentage of pay.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Weighting
US Equity - Large Cap	35.00%	6.10%	2.13%
Non- US Equity - Developed	20.00%	6.81%	1.36%
US Corporate Bonds- Core	35.00%	2.10%	0.73%
Non- US Debt- Emerging	0.00%	4.26%	0.00%
US Treasuries (Cash Equivalents)	10.00%	0.60%	0.06%
	100.00%		4.28%
Long-Term Inflation Assumption			2.40%
Long-Term Expected Nominal Rate of Return			6.68%

Discount rate: The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Town contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the Town's Retirement Pension Trust, calculated using the discount rate of 7.00% as well as what the Town's Retirement Pension Trust net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

Retirement Pension Trust	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net Pension Liability	\$ 9,123,307	\$ 5,667,208	\$ 2,750,996

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans (Continued)

Changes in the Net Pension Liability

	Retirement Pension Trust		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/17	\$ 26,542,383	\$ 20,732,706	\$ 5,809,677
Changes for the year:			
Service cost	707,948	-	707,948
Interest	1,883,816	-	1,883,816
Difference between expected and actual experience	(95,617)	-	(95,617)
Contributions - employer	-	1,125,805	(1,125,805)
Contributions - members	-	147,853	(147,853)
Net investment income	-	1,403,759	(1,403,759)
Benefit payments, including refunds of employee contributions	(689,013)	(689,013)	-
Administrative expense	-	(38,801)	38,801
Other	-	-	-
Net changes	1,807,134	1,949,603	(142,469)
Balances at 6/30/18	<u>\$ 28,349,517</u>	<u>\$ 22,682,309</u>	<u>\$ 5,667,208</u>

For the year ended June 30, 2018, the Town recognized pension expense of \$1,165,946. As of June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions in the statement of net position from the following sources:

Retirement Pension Trust	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 141,638	\$ (573,763)
Net difference between projected and actual earnings on pension plan investments	170,235	-
Total	<u>\$ 311,873</u>	<u>\$ (573,763)</u>

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans (Continued)

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

	<u>Retirement Pension Trust</u>
Year ending June 30:	
2019	\$ 153,305
2020	(41,006)
2021	(293,689)
2022	(68,230)
2023	(1,354)
Thereafter	(10,916)

Plan Description – 401(a) Plan

Summary

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

In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. Employees are eligible to participate after one year of service. Participants are not required to contribute to the Plan. The Town's contributions for each employee and interest allocated to the employee's account are fully vested after five years of continuous service. Under the Plan's provisions, the Town is required to contribute 5%. At June 30, 2018, there were 22 plan members. The Town contributed \$119,327.

Connecticut State Teachers' Retirement System:

Teachers, principals, superintendents or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers' Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement Board. Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the Teachers Retirement Board. The Teachers Retirement Board issues a publicly available financial report that can be obtained at www.ct.gov.

Benefit provisions: The Plan provides retirement, disability and death benefits. Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.

Normal retirement: Retirement benefits for employees are calculated as 2 percent of the average annual salary times the years of credited service (maximum benefit is 75 percent of average annual salary during the 3 years of highest salary).

Early retirement: Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service with reduced benefit amounts.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans (Continued)

Disability retirement: Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for nonservice-related disability eligibility. Disability benefits are calculated as 2 percent of average annual salary times credited service to date of disability, but not less than 15 percent of average annual salary, nor more than 50 percent of average annual salary.

Contributions: Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut are approved, amended and certified by the State Teachers Retirement Board and appropriated by the General Assembly.

Employer (school districts): School District employers are not required to make contributions to the plan.

The statutes require the State of Connecticut to contribute 100 percent of each school districts' required contributions, which are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability.

Employees: Effective July 1, 1992, each teacher is required to contribute 6 percent of salary for the pension benefit.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions: At June 30, 2018, the Town reports no amounts for its proportionate share of the net pension liability, and related deferred outflows and inflows, due to the statutory requirement that the State pay 100 percent of the required contribution. The portion of the State net pension liability that was associated with the Town was \$69,820,814 and 100% of the collective net pension liability is allocated to the State. The Town has no proportionate share of the liability.

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. At June 30, 2018, the Town has no proportionate share of the net pension liability.

For the year ended June 30, 2018, the Town recognized pension expense and revenue of \$8,076,229 in the General Fund in the Statement of Revenues, Expenditures and Changes in Fund Balances for on-behalf amounts for the benefits provided by the State.

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.25%-6.50%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to year 2020 using BB improvement scales.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015.

Future cost-of-living increases for members who retire on or after September 1, 1992 are assumed to be an annual cost-of-living adjustment of 2 percent.

Changes from prior valuation: Since the prior valuation, the State adopted new assumptions based on the 2015 Experience Study. The changes in assumptions are summarized below:

Economic assumptions:

1. Reduce the inflation assumption from 3.00% to 2.75%.
2. Reduce the real rate of return assumption from 5.50% to 5.25% which, when combined with the inflation assumption change results in a decrease in the investment rate of return assumption from 8.50% to 8.00%.
3. Reduce the annual rate of wage increase assumption from 0.75% to 0.50%.
4. Slightly modify the merit portion of the salary scale.
5. Reduce the payroll growth assumption from 3.75% to 3.25%.

Demographic assumptions:

6. Update mortality tables to projected versions of the RPH-2014 mortality tables.
7. Increase normal retirement rates for females at most ages and proratable retirement rates for males at most ages. Decrease early retirement rates for both males and females.
8. Increase rates of withdrawal.
9. Decrease rates of disability for males.

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

Teachers' Retirement

Asset Class	Target Allocation	Expected Rate of Return
Large cap U.S. equities	21.00%	5.80%
Developed non-U.S. equities	18.00%	6.60%
Emerging markets (non-U.S.)	9.00%	8.30%
Real estate	7.00%	5.10%
Private equity	11.00%	7.60%
Alternative investments	8.00%	4.10%
Core fixed income	7.00%	1.30%
High yield bonds	5.00%	3.90%
Emerging markets bond	5.00%	3.70%
Inflation linked bond fund	3.00%	1.00%
Cash	6.00%	0.04%
	<u>100.00%</u>	

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans (Continued)

Discount rate: The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that State contributions will be made at the actuarially determined contribution rates in the future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The Town's proportionate share of the net pension liability is \$0 and, therefore, the change in the discount rate would only impact the amount recorded by the State of Connecticut.

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
State's portion of the NPL associated with the Town	\$ 87,395,011	\$ 69,820,814	\$ 54,962,843

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued financial statements available at www.ct.gov.

Other information: Additional information is included in the required supplementary information section of the financial statements. A schedule of contributions is not presented, as the Town has no obligation to contribute to the plan.

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.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 12. Other Post-Employment Benefits (Continued)

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. The latest actuarial valuation was made July 1, 2016. The post-retirement plan does not issue stand-alone financial reports.

Membership in the plan consisted of the following at July 1, 2016, the date of the last actuarial valuation.

Inactive plan members or beneficiaries currently receiving benefits	41
Active plan members	445
Total	<u>486</u>

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

Valuation Date:	July 1, 2016
Actuarial Cost Method:	Entry Age Normal Actuarial Cost Method
Actuarial Assumptions:	
Interest	3.87%
Inflation	2.60%
Health cost trend rates	Starts at 7.5% in 2016, decrease by 0.5% per year down to 4.6% in 2022 and beyond.
Mortality	RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016

Discount rate: The discount rate used to measure the total OPEB liability was 3.87% from the Bond Buyer GO 20-Bond Municipal Index effective as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed the town will cover payments for current active and inactive employees on a pay-as-you-go basis.

Total OPEB liability of the Town: The Town's total OPEB liability of \$8,509,773 was measured as of June 30, 2018, as determined by an actuarial valuation as of July 1, 2016, which was projected forward to June 30, 2018. The Town has not accumulated any assets in a fiduciary trust for payment of benefits.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 12. Other Post-Employment Benefits (Continued)

Changes in the Total OPEB Liability:

	Changes in the Total OPEB Liability Increase (Decrease)
	Total OPEB Liability
Changes in the total OPEB liability:	
Balances at June 30, 2017	\$ 8,439,858
Changes for the year:	
Service cost	266,546
Interest	307,734
Differences between expected and actual experience	(13,313)
Changes of assumptions	(268,150)
Benefit payments	(222,902)
Net changes	69,915
Balances at June 30, 2018	<u>\$ 8,509,773</u>

Changes in assumptions: The discount rate changed from the July 1, 2016 valuation rate of 3.58% to 3.87% as of June 30, 2018.

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates: The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease (6.50% decreasing 3.60%)	Trend Rates (7.50% decreasing to 4.60%)	1% Increase (8.50% decreasing to 5.60%)
Total OPEB liability as of June 30, 2018	\$ 7,434,435	\$ 8,509,773	\$ 9,790,964

Sensitivity of estimates used in calculating the total OPEB liability: The following presents the total OPEB liability, calculated using the discount rate of 3.87% as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the rate utilized.

	1% Decrease 2.87%	Current Discount Rate 3.87%	1% Increase 4.87%
Total OPEB liability as of June 30, 2018	\$ 9,486,534	\$ 8,509,773	\$ 7,668,414

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 12. Other Post-Employment Benefits (Continued)

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB: For the year ended June 30, 2018, the Town recognized OPEB expense of \$497,607. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net
Differences between expected and actual experience	\$ -	\$ (12,033)	\$ (12,033)
Changes of assumptions	-	(242,366)	(242,366)
	<u>\$ -</u>	<u>\$ (254,399)</u>	<u>\$ (254,399)</u>

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:	
2019	\$ (27,064)
2020	(27,064)
2021	(27,064)
2022	(27,064)
2023	(27,064)
Thereafter	(119,079)
	<u>\$ (254,399)</u>

Connecticut State Teachers' Retirement System - Retiree Health Insurance Plan

Plan description: Teachers, principals, superintendents or supervisors engaged in service of public schools plus professional employees at State Schools of higher education are eligible to participate in the Connecticut State Teachers' Retirement System Retiree Health Insurance Plan (TRS-RHIP), a cost sharing multiple-employer defined benefit other post-employment benefit plan administered by the Teachers' Retirement Board (TRB), if they choose to be covered.

Chapter 167a Section 10-183 (t) of the State Statutes grants authority to establish and amend the benefit terms to the TRB. TRS-RHIP issues a publicly available financial report that can be obtained at www.ct.gov/trb.

Benefit provisions: There are two types of the health care benefits offered through the system. Subsidized Local School District Coverage provides a subsidy paid to members still receiving coverage through their former employer and the CTRB Sponsored Medicare Supplemental Plans provide coverage for those participating in Medicare, but not receiving Subsidized Local School District Coverage.

Any member that is not currently participating in Medicare Parts A & B is eligible to continue health care coverage with their former employer. A subsidy of up to \$110 per month for a retired member plus an additional \$110 per month for a spouse enrolled in a local school district plan is provided to the school district to first offset the retiree's share of the cost of coverage, any remaining portion is used to offset the district's cost. The subsidy amount is set by statute, and has not increased since July of 1996. A subsidy amount of \$220 per month may be paid for a retired member, spouse or the surviving spouse of a member who has attained the normal retirement age to participate in Medicare, is not eligible for Part A of Medicare without cost, and contributes at least \$220 per month towards coverage under a local school district plan.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 12. Other Post-Employment Benefits (Continued)

Any member that is currently participating in Medicare Parts A & B is eligible to either continue health care coverage with their former employer, if offered, or enroll in the plan sponsored by the System. If they elect to remain in the plan with their former employer, the same subsidies as above will be paid to offset the cost of coverage.

If a member participating in Medicare Parts A & B so elects, they may enroll in one of the CTRB Sponsored Medicare Supplemental Plans. Active members, retirees, and the State pay equally toward the cost of the basic coverage (medical and prescription drug benefits). There are three choices for coverage under the CTRB Sponsored Medicare Supplemental Plans. The choices and 2017 calendar year premiums charged for each choice are shown in the table below:

• Medicare Supplement with Prescriptions	\$ 92
• Medicare Supplement with Prescriptions and Dental	136
• Medicare Supplement with Prescriptions, Dental, Vision & Hearing	141

Those participants electing vision, hearing, and/or dental are required by the System's funding policy to pay the full cost of coverage for these benefits, and no liability is assumed by the Plan for these benefits.

Survivor health care coverage: Survivors of former employees or retirees remain eligible to participate in the Plan and continue to be eligible to receive either the \$110 monthly subsidy or participate in the TRB - Sponsored Medicare Supplemental Plans, as long as they do not remarry.

Eligibility: Any member that is currently receiving a retirement or disability benefit is eligible to participate in the Plan.

Credited service: One month for each month of service as a teacher in Connecticut public schools, maximum 10 months for each school year. Ten months of credited service constitutes one year of Credited Service. Certain other types of teaching services, State employment, or wartime military service may be purchased prior to retirement, if the Member pays one-half the cost.

Normal retirement: Age 60 with 20 years of Credited Service in Connecticut, or 35 years of Credited Service including at least 25 years of service in Connecticut.

Early retirement: 25 years of Credited Service including 20 years of Connecticut service, or age 55 with 20 years of Credited Service including 15 years of Connecticut service.

Proratable retirement: Age 60 with 10 years of credited service.

Disability retirement: 5 years of Credited Service in Connecticut if not incurred in the performance of duty and no service requirement if incurred in the performance of duty.

Termination of employment: 10 or more years of Credited Service.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 12. Other Post-Employment Benefits (Continued)

Contributions:

State of Connecticut

Per Connecticut General Statutes Section 10-183t, contribution requirements of active employees and the State of Connecticut are approved, amended and certified by the State Teachers Retirement Board and appropriated by the General Assembly. The State contributions are not currently actuarially funded. The State appropriates from the General Fund one third of the annual costs of the Plan. Administrative costs of the Plan are financed by the State. Based upon Chapter 167a, Subsection D of Section 10-183t of the Connecticut statutes, it is assumed the State will pay for any long-term shortfall arising from insufficient active member contributions.

Employer (School Districts)

School District employers are not required to make contributions to the plan.

Employees

Each member is required to contribute 1.25% of their annual salary up to \$500,000. Contributions in excess of \$500,000 will be credited to the Retiree Health Insurance Plan.

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB: At June 30, 2018, the Town reports no amounts for its proportionate share of the net OPEB liability, and related deferred outflows and inflows, due to the statutory requirement that the State pay 100% of the required contribution. The amount recognized by the Town as its proportionate share of the net OPEB liability, the related state support, and the total portion of the net OPEB liability that was associated with the Town was as follows:

Town's proportionate share of the net OPEB liability	\$ -
State's proportionate share of the net OPEB liability associated with the Town	17,971,073
	<u>\$ 17,971,073</u>

The net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as June 30, 2016. At June 30, 2018, the Town has no proportionate share of the net OPEB liability.

For the year ended June 30, 2018, the Town recognized OPEB expense and revenue of \$832,870 in the the General Fund in the Statement of Revenues, Expenditures and Changes in Fund Balances for on-behalf amounts for the benefits provided by the State.

Actuarial assumptions: The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Health care costs trend rate	7.25% decreasing to 5.00% by 2022
Salary increases	3.25-6.50%, including inflation
Investment rate of return	3.56%, net of OPEB plan investment expense, including inflation
Year fund net position will Be depleted	2018

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 12. Other Post-Employment Benefits (Continued)

Mortality rates were based on the RPH-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale, and further adjusted to grade in increases (5% for females and 8% for males) over age 80. For disabled retirees, the RPH-2014 Disabled Mortality Table projected to 2017 using the BB improvement scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the GASB 74 valuation process. Several factors are considered in evaluating the long-term rate of return assumption, including the Plan's current asset allocations and a log-normal distribution analysis using the best-estimate ranges of expected future real rates of return (expected return, net investment expense and inflation) for each major asset class. The long-term expected rate of return was determined by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The plan is 100% invested in U.S. Treasuries (Cash Equivalents) for which the expected 10-Year Geometric Real Rate of Return is (0.02%).

Discount rate: The discount rate used to measure the total OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current member contribution rate and that contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members. No future State contributions were assumed to be made. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be depleted in 2018 and, as a result, the Municipal Bond Index Rate was used in the determination.

Sensitivity of the net OPEB liability to changes in the health care cost trend rate and the discount rate: The Town's proportionate share of the net OPEB liability is \$-0- and, therefore, the change in the health care cost trend rate or the discount rate would only impact the amount recorded by the State of Connecticut.

The following presents the State's portion of the net OPEB liability associated with the Town, calculated using the discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate:

	1% Decrease 2.56%	Current Discount Rate 3.56%	1% Increase 4.56%
State's portion of the net OPEB liability associated with the Town	\$ 21,658,021	\$ 17,971,073	\$ 15,072,070

The following presents the State's portion of the net OPEB liability associated with the Town, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Lower Trend Rates (6.25% decreasing to 4.00%)	Current Trend Rate 7.25 decreasing to 5.00%	1% Lower Trend Rates 8.25% decreasing to 6.00%
State's portion of the net OPEB liability associated with the Town	\$ 14,796,677	\$ 17,971,073	\$ 22,245,009

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 12. Other Post-Employment Benefits (Continued)

Other information: Additional information is included in the required supplementary information section of the financial statements. A schedule of contributions is not presented as the Town has no obligation to contribute to the plan. Detailed information about the Connecticut State Teachers' OPEB Plan fiduciary net position is available in the separately issued State of Connecticut Comprehensive Annual Financial Report at www.ct.gov.

Note 13. Fund Balance

Below is a table of fund balance categories and classifications at June 30, 2018 for the Town governmental funds:

	General Fund	Sewer Assessments Fund	Bonded Capital Projects	Capital Nonrecurring Fund	Nonmajor Governmental Funds
Fund balances:					
Non-spendable:					
Permanent	\$ -	\$ -	\$ -	\$ -	\$ 534
Advance	-	586,294	-	-	-
Inventory	-	-	-	-	31,925
	-	586,294	-	-	32,459
Restricted:					
Public works	-	-	-	-	-
Recreation	-	-	-	-	25,692
Education	-	-	-	-	139,177
	-	-	-	-	164,869
Committed:					
Public works	-	2,113,600	-	-	511,512
Capital projects	-	-	-	1,053,300	-
	-	2,113,600	-	1,053,300	511,512
Assigned:					
Future appropriations	675,000				
Public works	225,916	-	-	-	-
Public safety	294	-	-	-	-
Recreation	153,920	-	-	-	-
General government	22,704	-	-	-	-
Capital projects	10	-	-	-	-
Education	1,056,677	-	-	-	-
	2,134,521	-	-	-	-
Unassigned:	4,777,264	-	(482,629)	-	-
Total fund balances	\$ 6,911,785	\$ 2,699,894	\$ (482,629)	\$ 1,053,300	\$ 708,840

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 14. Governmental Accounting Standards Board (GASB) Statements

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

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

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, is effective for reporting periods beginning after June 15, 2018. The statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in the statement. The Town is aware of this statement and will assess its impact to ensure timely implementation.
- GASB Statement No. 84, *Fiduciary Activities*, is effective for reporting periods beginning after December 15, 2018. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Town is aware of this statement and will assess its impact to ensure timely implementation.
- GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset, which should result in the recognition and reporting of leased assets and the liability associated with subsequent lease payments, which have historically been classified as operating leases of the current reporting period only. The new statement requires a Lessee to recognize a lease liability and an intangible right-to-use lease asset, with the lessor required to recognize a lease receivable and a deferred inflow of resources. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, defines debt purposes of disclosure in the notes to financial statements as a liability that arises from a contractual obligation to pay cash, or other assets in lieu of cash, to settle a fixed amount established at the date of obligation. The statement requires additional information related to debt to be disclosed in the notes to financial statements, including unused lines of credit, assets pledged as collateral for the debt, and specified terms in debt agreements related to significant events of default and the resulting financial consequences. The statement also requires disclosure be provided for direct borrowings and direct placements of debt separate from other forms of debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.
- GASB Statement No. 90, *Majority Equity Interests*—an amendment of GASB Statements No. 14 and No. 61. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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**Required Supplementary
Information - Unaudited**

**Required Supplementary Information - Unaudited
Schedules of Employer Contributions
Last Ten Fiscal Years**

	Schedule of Employer Contributions - Retirement Pension Trust									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined employer contribution	\$ 1,110,149	\$ 1,074,721	\$ 938,749	\$ 1,076,823	\$ 1,050,824	\$ 953,049	\$ 835,942	\$ 850,037	\$ 750,941	\$ 675,251
Contributions in relation to the actuarially determined employer contribution	1,125,805	1,023,637	926,720	1,076,823	1,031,092	953,049	835,942	850,037	750,941	675,251
Contribution deficiency (excess)	\$ (15,656)	\$ 51,084	\$ 12,029	\$ -	\$ 19,732	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 9,159,153	\$ 9,173,350	\$ 8,524,401	\$ 8,573,798	\$ 8,559,474	\$ 8,484,665	\$ 7,920,142	\$ 7,318,648	\$ 7,641,981	\$ 7,219,904
Contribution as a % of covered payroll	12.29%	11.16%	10.87%	12.56%	12.05%	11.23%	10.55%	11.61%	9.83%	9.35%

Notes to Schedule

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Individual Entry Age Normal, level percentage of compensation
Amortization method:	Level amortization, closed
Remaining amortization period:	19 years; amortizing initial liability over a twenty-year period, gains and losses over a five-year period and assumption changes over a ten-year period.
Asset valuation method:	Five-year asset average method
Salary increases:	4.50%
Investment rate of return:	7.00%
Retirement age:	Normal Retirement Age
Mortality:	RP2000 Generational Mortality Table using Scale AA

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

Retirement Pension Trust	2018	2017	2016	2015	2014
Changes in Net Pension Liability					
Total pension liability:					
Service cost	\$ 707,948	\$ 665,420	\$ 619,574	\$ 620,611	\$ 607,102
Interest on total pension liability	1,883,816	1,735,683	1,651,380	1,541,759	1,516,865
Differences between expected and actual experience	(95,617)	272,190	(651,845)	(256,503)	-
Benefit payments	(689,013)	(513,255)	(409,749)	(270,218)	(254,567)
Net change in total pension liability	1,807,134	2,160,038	1,209,360	1,635,649	1,869,400
Total pension liability, beginning	26,542,383	24,382,345	23,172,985	21,537,336	19,667,936
Total pension liability, ending (a)	28,349,517	26,542,383	24,382,345	23,172,985	21,537,336
Fiduciary net position:					
Employer contributions	1,125,805	1,023,637	926,720	1,076,823	1,031,092
Member contributions	147,853	140,290	132,826	172,854	133,430
Investment income net of investment expenses	1,403,758	2,301,834	(36,983)	220,349	2,037,638
Benefit payments	(689,013)	(513,255)	(409,749)	(270,218)	(254,567)
Administrative expenses	(38,800)	(26,550)	(13,850)	(39,500)	(2,900)
Other	-	-	(517,746)	-	-
Net change in plan fiduciary net position	1,949,603	2,925,956	81,218	1,160,308	2,944,693
Fiduciary net position, beginning	20,732,706	17,806,750	17,725,532	16,565,224	13,620,531
Fiduciary net position, ending (b)	22,682,309	20,732,706	17,806,750	17,725,532	16,565,224
Net pension liability, ending = (a) - (b)	\$ 5,667,208	\$ 5,809,677	\$ 6,575,595	\$ 5,447,453	\$ 4,972,112
Fiduciary net position as a % of total pension liability	80.01%	78.11%	73.03%	76.49%	76.91%
Covered payroll	\$ 9,159,153	\$9,173,350	\$8,524,401	\$8,573,798	\$8,559,474
Net pension liability as a % of covered payroll	61.87%	63.33%	77.14%	63.54%	58.09%
Required Supplementary Information - Unaudited Schedule of Investment Returns Last Five Fiscal Years *					
	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	6.74%	12.70%	-0.21%	1.30%	14.90%

*Note: This schedule is intended to show information for ten years. Additional information will be added when it becomes available

**Required Supplementary Information - Unaudited
Schedule of the Town's Proportionate Share of the Net Pension Liability - Teacher' Retirement System
Last Four Fiscal Years ***

	2018	2017	2016	2015
Town's proportion of the net pension liability	0.00%	0.00%	0.00%	0.00%
Town's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the Town	\$ 69,820,814	\$ 73,661,444	\$ 57,467,120	\$ 53,116,835
Total	\$ 69,820,814	\$ 73,661,444	\$ 57,467,120	\$ 53,116,835
Town's covered payroll	\$ 22,130,699	\$ 21,330,799	\$ 20,059,000	\$ 20,060,000
Town's proportionate share of the net pension liability as a percentage of its covered payroll	0.00%	0.00%	0.00%	0.00%
System fiduciary net position as a percentage of the total pension liability	55.93%	52.26%	59.50%	61.51%

*Note: This schedule is intended to show information for ten years. Additional information will be added when it becomes available

Required Supplementary Information - Unaudited
Schedule of Changes in the Town's Total OPEB Liability and Related Ratios
Last Fiscal Year*

Changes in Total OPEB Liability

Total pension liability:		
Service cost	\$	266,546
Interest		307,734
Change of benefit terms		-
Differences between expected and actual experience		(13,313)
Changes of assumptions		(268,150)
Benefit payments		(222,902)
Net change in total OPEB liability		<u>69,915</u>
Total OPEB liability, beginning		<u>8,439,858</u>
Total OPEB liability, ending (a)	\$	<u><u>8,509,773</u></u>
Covered payroll	\$	<u><u>32,503,680</u></u>
Total OPEB liability as a % of covered payroll		26.18%

*Note: This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

Notes to Schedule

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:
 Interest: 3.87 % (Prior: 3.58%)

**Required Supplementary Information - Unaudited
Schedule of the Town's Proportionate Share of the Net OPEB Liability - Teachers Retiree Health Plan
Last Fiscal Year***

	2018
Town's proportion of the net OPEB liability	0.00%
Town's proportionate share of the net OPEB liability	-
State's proportionate share of the net OPEB liability associated with the Town	<u>\$ 17,971,073</u>
Total	<u>\$ 17,971,073</u>
Town's covered payroll	<u>\$ 22,130,699</u>
Town's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	1.79%

Notes to Schedule

Changes in benefit terms	None
Changes of assumptions	The discount rate was increased from 3.01% to 3.56% to reflect the change in the Municipal Bond Index Rate Changes were made to the assumed initial per capita health care costs, rates of health care inflation used to project the per capita costs, and the rates of Plan participation based upon recent experience and current expectations. As a result of the experience study for the five-year period ending June 30, 2015, the long-term rate of return was lowered from 4.50% to 4.25% to reflect the decrease in the rate of inflation. Similarly, the payroll growth rate assumption was decreased from 3.75% to 3.25% to reflect the decrease in the rate of inflation and the decrease in the rate of real wage increase. Last, the salary growth assumption, the payroll growth rate, the rates of withdrawal, the rates of retirement, the rates of mortality, and the rates of disability incidence were adjusted based upon the experience study's findings and their adoption by the Board.
Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Remaining amortization period	30 years, open
Asset valuation method	Market value of assets
Investment rate of return	4.25%, net of investment related expense including price inflation

Note: This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

**Required Supplementary Information - Unaudited
Statement of Revenues and Expenditures - Budgetary Basis - Budget and Actual -
General Fund
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget
	Original	Final		
Revenues:				
Taxes, interest and lien fees	\$ 56,127,950	\$ 56,127,950	\$ 56,577,147	\$ 449,197
Intergovernmental	8,870,549	8,875,656	7,589,883	(1,285,773)
Charges for services	4,707,334	4,743,751	5,100,649	356,898
Income from investments	36,000	36,000	76,270	40,270
Total revenues	69,741,833	69,783,357	69,343,949	(439,408)
Expenditures:				
Current:				
General government	7,584,720	7,483,160	7,099,843	383,317
Public safety	4,306,409	4,363,697	4,236,463	127,234
Public works	3,824,704	3,890,465	3,717,847	172,618
Health and welfare	276,383	278,078	256,058	22,020
Culture and recreation	2,101,809	2,115,667	2,044,883	70,784
Education	46,568,609	46,568,609	45,972,881	595,728
Capital outlay	791,646	833,170	813,866	19,304
Debt service	5,373,526	5,373,526	5,371,017	2,509
Total expenditures	70,827,806	70,906,372	69,512,858	1,393,514
Excess (deficiency) of revenues over (under) expenditures	(1,085,973)	(1,123,015)	(168,909)	954,106
Other financing sources:				
Transfers in	410,973	410,973	409,951	(1,022)
Use of Fund Balance	675,000	675,000	-	(675,000)
Total other financing sources	1,085,973	1,085,973	409,951	(676,022)
Total	\$ -	\$ (37,042)	\$ 241,042	\$ 278,084

See notes to required supplementary information - unaudited.

Town of East Lyme, Connecticut

Note to Required Supplementary Information – Unaudited

Note 1. Budgets and Budgetary Accounting

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 appropriations for the year ended June 30, 2018 aggregated approximately \$79,000 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 – Unaudited (Continued)

Note 1. Budgets and Budgetary Accounting (Continued)

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	\$ 69,753,900	\$ 69,512,858
State Teachers Retirement pension and OPEB payments made by State Department of Education on behalf of the Town, not recognized for budgetary purposes	8,909,099	8,909,099
GASB 54 effect	1,423,188	1,427,074
Change in encumbrances	-	(704,961)
Balance, GAAP basis	<u>\$ 80,086,187</u>	<u>\$ 79,144,070</u>

**Combining and Individual
Fund Financial Statements and Other Schedules**

General Fund

General Fund

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

Town of East Lyme, Connecticut

**General Fund Revenues and Other Financing Sources - Budgetary Basis -
Budget and Actual
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Taxes, interest and lien fees:				
Current taxes	\$ 55,337,150	\$ 55,337,150	\$ 55,794,763	\$ 457,613
Prior taxes	500,000	500,000	458,543	(41,457)
Interest and lien fees	290,800	290,800	323,841	33,041
Total taxes, interest and lien fees	56,127,950	56,127,950	56,577,147	449,197
Intergovernmental:				
Education cost sharing	6,918,462	6,918,462	5,971,838	(946,624)
Town aid roads	340,837	340,837	344,629	3,792
Local capital Improvement	118,000	118,000	-	(118,000)
Youth service bureau	-	-	24,802	24,802
Tax relief-telephone taxes	50,000	50,000	44,260	(5,740)
PILOT - state owned property	862,360	862,360	176,267	(686,093)
Pequot fund	320,180	320,180	320,180	-
PILOT - hospital and colleges	40,179	40,179	16,445	(23,734)
Municipal stabilization grant	-	-	566,642	566,642
Tax relief for elderly	91,753	91,753	-	(91,753)
Tax relief for disabled	1,314	1,314	1,379	65
Civil preparedness	33,562	33,562	38,245	4,683
Tax relief for veterans	19,552	19,552	17,684	(1,868)
State grant - DUI	73,350	73,350	58,671	(14,679)
Other grants	1,000	6,107	8,841	2,734
Total intergovernmental	8,870,549	8,875,656	7,589,883	(1,285,773)
Charges for services:				
Licenses and permits:				
Building permits	357,700	357,700	265,462	(92,238)
Beach and recreation town funds	183,300	183,300	210,343	27,043
ZBA and planning commission	5,290	5,290	4,406	(884)
Conveyance tax	250,000	250,000	374,238	124,238
Dog licenses	12,000	12,000	10,314	(1,686)
Town clerk fees	138,000	138,000	132,937	(5,063)
Zoning commission - maps and permits	25,000	25,000	29,059	4,059
Solid waste removal license	1,000	1,000	1,100	100
Shellfish permits	-	-	528	528
Wetland Fees	5,150	5,150	5,482	332

(Continued)

Town of East Lyme, Connecticut

**General Fund Revenues and Other Financing Sources - Budgetary Basis -
Budget and Actual (Continued)
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Charges for services (Continued)				
Licenses and permits (Continued)				
Pistol, fire, & loading	\$ 11,000	\$ 11,000	\$ 9,650	\$ (1,350)
Mooring permits	7,250	7,250	7,250	-
Total licenses and permits	995,690	995,690	1,050,769	55,079
Fines and forfeits:				
Parking fees	10,000	10,000	3,922	(6,078)
Extra duty - police and fire	50,000	50,000	50,163	163
TC office fees	5,000	5,000	8,000	3,000
TC fish and game fees	300	300	263	(37)
Total fines and forfeits	65,300	65,300	62,348	(2,952)
Charges for services:				
Tuition - other districts	2,881,945	2,881,945	3,115,633	233,688
Rent - Cini park	15,000	15,000	16,020	1,020
Debt payment - Salem	86,705	86,705	86,705	-
Tipping fees commercial	288,300	288,300	271,003	(17,297)
Transportation subsidy	39,000	39,000	42,235	3,235
Recycling - other	15,750	15,750	43,574	27,824
Recycling - newspaper/cardboard	4,600	4,600	2,776	(1,824)
MSW containers	5,000	5,000	5,510	510
Ambulance fund	10,000	10,000	10,000	-
Insurance rebate	30,440	30,440	50,924	20,484
Assessor	3,000	3,000	2,003	(997)
Aging	21,500	21,500	19,658	(1,842)
Landfill deposits	125,000	125,000	136,939	11,939
Financial department	70,000	70,000	88,599	18,599
Tax collector	700	700	-	(700)
Miscellaneous other	40,679	59,596	73,156	13,560
Selectman's office	100	100	110	10
Smith-Harris commission	850	850	50	(800)
Town miscellaneous	1,000	18,500	22,637	4,137
Water and sewer services	6,775	6,775	-	(6,775)
Total charges for services	3,646,344	3,682,761	3,987,532	304,771
Total charges for services	4,707,334	4,743,751	5,100,649	356,898
Income from investments:				
Interest income	36,000	36,000	76,270	40,270
Total revenues	69,741,833	69,783,357	69,343,949	(439,408)

(Continued)

Town of East Lyme, Connecticut

**General Fund Revenues and Other Financing Sources - Budgetary Basis -
Budget and Actual (Continued)
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Other financing sources:				
Use of fund balance	\$ 675,000	\$ 675,000	\$ -	\$ (675,000)
Transfers in	410,973	410,973	409,951	(1,022)
	<u>1,085,973</u>	<u>1,085,973</u>	<u>409,951</u>	<u>(676,022)</u>
Total revenues and other financing sources	\$ 70,827,806	\$ 70,869,330	\$ 69,753,900	\$ (1,115,430)

(Concluded)

Town of East Lyme, Connecticut

**General Fund Expenditures and Other Financing Uses - Budgetary Basis -
Budget and Actual
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
General government:				
First selectman	\$ 195,953	\$ 197,430	\$ 192,935	\$ 4,495
Assessor's office	200,915	206,859	204,819	2,040
Tax collector	169,590	176,720	170,503	6,217
Building official	213,019	221,054	211,150	9,904
Town engineer	213,395	223,556	223,128	428
Town clerk	185,301	186,946	175,160	11,786
Health department	142,558	142,558	142,558	-
Information technology	124,688	126,177	120,250	5,927
Registrars	98,885	100,145	85,365	14,780
Judge of probate	14,846	14,846	14,846	-
Maintenance of town buildings	697,501	742,724	731,439	11,285
General government and benefits	4,354,129	4,365,710	4,248,918	116,792
Community services	25,101	25,101	25,101	-
Zoning commission	97,937	102,431	99,790	2,641
Planning department	81,153	82,792	79,785	3,007
Finance department	286,772	295,121	290,880	4,241
Contingency funds	385,251	174,854	-	174,854
Board of finance	37,800	37,800	37,633	167
Board of assessment appeals	1,530	1,530	745	785
Zoning board of appeals	780	780	282	498
Inlands Wetlands Agency	22,901	23,311	19,378	3,933
Conservation of natural resources commission	1,150	1,150	781	369
Waterford/ East Lyme shellfish commission	2,500	2,500	2,500	-
Smith-Harris commission	16,200	16,200	11,336	4,864
Town building committee	875	875	875	-
Harbor management commission	10,000	10,000	5,923	4,077
	3,990	3,990	3,763	227
Total general government	7,584,720	7,483,160	7,099,843	383,317
Public safety:				
Dispatch	393,348	425,176	421,605	3,571
Police department	2,571,897	2,595,300	2,527,698	67,602
Niantic fire department	529,829	547,130	545,194	1,936
Flanders fire department	385,806	385,806	364,374	21,432
Emergency management	335,129	319,885	297,960	21,925
Animal Control	90,400	90,400	79,632	10,768
Total public safety	4,306,409	4,363,697	4,236,463	127,234

(Continued)

Town of East Lyme, Connecticut

**General Fund Expenditures and Other Financing Uses - Budgetary Basis -
Budget and Actual (Continued)
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Public works:				
Highways and sanitation	\$ 3,824,704	\$ 3,890,465	\$ 3,717,847	\$ 172,618
Total public works	3,824,704	3,890,465	3,717,847	172,618
Health and welfare:				
Commission on aging	267,023	268,718	246,698	22,020
Visiting nurses association	9,360	9,360	9,360	-
Total health and welfare	276,383	278,078	256,058	22,020
Board of Education	46,568,609	46,568,609	45,972,881	595,728
Culture and recreation:				
East Lyme public library	1,148,922	1,148,922	1,127,269	21,653
Parks and recreation	952,887	966,745	917,614	49,131
Total culture and recreation	2,101,809	2,115,667	2,044,883	70,784
Capital outlay:				
Town - Capital improvement program	791,646	791,646	782,727	8,919
Town - Special Appropriations	-	41,524	31,139	10,385
Total capital outlay	791,646	833,170	813,866	19,304
Debt service:				
Redemption of debt - principal	4,085,087	4,085,048	4,085,048	-
Interest payments	1,288,439	1,288,478	1,285,969	2,509
Total debt service	5,373,526	5,373,526	5,371,017	2,509
Total expenditures and encumbrances	\$ 70,827,806	\$ 70,906,372	\$ 69,512,858	\$ 1,393,514

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Nonmajor Governmental Funds

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

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

Water Department Fund – accounts for revenues for water usage.

Permanent Fund

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

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

Town of East Lyme, Connecticut

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2018

	Special Revenue				Permanent	Total Nonmajor Funds
	School Lunch Fund	Special Education Grant Fund	Historic Preservation Fund	Water Department	McCook Memorial Fund	
Assets						
Cash	\$ 105,492	\$ 365,233	\$ -	\$ 1,126,945	\$ 534	\$ 1,598,204
Intergovernmental receivables	57,195	-	-	221	-	57,416
Assessments/user charges	-	-	-	727,833	-	727,833
Inventory	10,600	-	-	31,925	-	42,525
Due from other funds	-	-	25,692	21,782	-	47,474
Total assets	\$ 173,287	\$ 365,233	\$ 25,692	\$ 1,908,706	\$ 534	\$ 2,473,452
Liabilities						
Accounts payable	\$ 34,110	\$ 29,498	\$ -	\$ 468,023	\$ -	\$ 531,631
Due to other funds	-	202,000	-	281,469	-	483,469
Unearned revenue	-	133,735	-	-	-	133,735
Total liabilities	34,110	365,233	-	749,492	-	1,148,835
Deferred Inflows of resources:						
Unavailable revenues	-	-	-	615,777	-	615,777
Total deferred inflows of resources	-	-	-	615,777	-	615,777
Fund balances:						
Nonspendable	-	-	-	31,925	534	32,459
Restricted	139,177	-	25,692	-	-	164,869
Committed	-	-	-	511,512	-	511,512
Total fund balances	139,177	-	25,692	543,437	534	708,840
Total liabilities, deferred inflows of resources and fund balances	\$ 173,287	\$ 365,233	\$ 25,692	\$ 1,908,706	\$ 534	\$ 2,473,452

Town of East Lyme, Connecticut

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ending June 30, 2018**

	Special Revenue				Permanent Fund	Total Nonmajor Funds
	School Lunch Fund	Special Education Grant Fund	Historic Preservation Fund	Water Department	McCook Memorial Funds	
Revenues:						
Intergovernmental	\$ 273,076	\$ 882,564	\$ 3,997	\$ -	\$ -	\$ 1,159,637
Charges for services	601,453	-	9,094	2,794,150	-	3,404,697
Interest income	-	-	-	-	532	532
Total revenues	874,529	882,564	13,091	2,794,150	532	4,564,866
Expenditures:						
Current:						
Culture and recreation	-	-	15,933	-	-	15,933
Public works	-	-	-	2,210,143	-	2,210,143
Education	849,075	882,564	-	-	-	1,731,639
Debt service	-	-	-	482,711	-	482,711
Capital outlay	-	-	-	14,570	-	14,570
Total expenditures	849,075	882,564	15,933	2,707,424	-	4,454,996
Excess (deficiency) of revenues over (under) expenditures	25,454	-	(2,842)	86,726	532	109,870
Other financing:						
Uses						
Transfers out	-	-	-	(56,160)	-	(56,160)
Total other financing uses	-	-	-	(56,160)	-	(56,160)
Change in fund balances	25,454	-	(2,842)	30,566	532	53,710
Fund balances						
Beginning	113,723	-	28,534	512,871	2	655,130
Ending	\$ 139,177	\$ -	\$ 25,692	\$ 543,437	\$ 534	\$ 708,840

Fiduciary Funds

Fiduciary Funds

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

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

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

Student activity fund is used to receive student funds and promote the educational and student activities of students.

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

Town of East Lyme, Connecticut

Combining Statement of Net Position - Fiduciary Funds
June 30, 2018

	Private-Purpose Trust Funds		
	N. Parahus Senior Citizens Fund	Clarence A. Haynes Fund	Total Private Purpose Trust Funds
Assets			
Cash	\$ 96,981	\$ 3,120	\$ 100,101
Total assets	<u>96,981</u>	<u>3,120</u>	<u>100,101</u>
Net position held in trust for Other purposes	<u>\$ 96,981</u>	<u>\$ 3,120</u>	<u>\$ 100,101</u>

Town of East Lyme, Connecticut

Combining Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2018

	Private-Purpose Trust Funds		
	N. Parahus Senior Citizens Fund	Clarence A. Haynes Fund	Total Private Purpose Trust Funds
Additions:			
Contributions			
Private	\$ 4,192	\$ -	\$ 4,192
Total contributions	4,192	-	4,192
Investments:			
Interest income	888	2	890
Total investment income	888	2	890
Deductions:			
Expense	11,244	-	11,244
Changes in net position	(6,164)	2	(6,162)
Net position, beginning	103,145	3,118	106,263
Net position, ending	\$ 96,981	\$ 3,120	\$ 100,101

Town of East Lyme, Connecticut

Combining Statement of Changes in Assets and Liabilities -
Agency Funds
June 30, 2018

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Assets				
Cash and cash equivalents:				
Student activity fund	\$ 486,583	\$ 971,811	\$ 975,123	\$ 483,271
Pool fund	170,365	573,795	621,649	122,511
Performance bonds	1,217,349	-	604,971	612,378
Accounts Receivable:				
Pool fund	-	5,352	-	5,352
Total assets	\$ 1,874,297	\$ 1,550,958	\$ 2,201,743	\$ 1,223,512
Liabilities				
Payable:				
Student Activity Fund	\$ 486,583	\$ 971,811	\$ 975,123	\$ 483,271
Pool fund	170,365	579,147	621,649	127,863
Performance Bonds	1,067,619	-	653,971	413,648
Due to other funds:				
Performance Bonds	149,730	49,000	-	198,730
Total liabilities	\$ 1,874,297	\$ 1,599,958	\$ 2,250,743	\$ 1,223,512

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

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

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

Town of East Lyme, Connecticut

**Capital Assets Used in the Operation of Governmental Funds
Schedule by Category
June 30, 2018**

Governmental funds capital assets:	
Land	\$ 14,488,047
Construction in progress	3,389,688
Buildings and improvements	126,025,867
Machinery and equipment	9,670,924
Vehicles	10,525,069
Infrastructure	33,491,300
Water distribution system	<u>30,982,664</u>
Total governmental funds capital assets	<u><u>\$ 228,573,559</u></u>

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Other Schedules

Town of East Lyme, Connecticut

Balance Sheet - By Account - General Fund
June 30, 2018

	General Fund	Board of Education Special Fund	Regional Probate District 32	Parks and Recreation Fund	Eliminate Interfund Receivables	Totals
Assets						
Cash	\$ 5,211,233	\$ 354,599	\$ -	\$ -	\$ -	\$ 5,565,832
Investments	1,003,304	-	-	-	-	1,003,304
Intergovernmental Receivables	52,219	-	-	-	-	52,219
Property Taxes	2,565,023	-	-	-	-	2,565,023
Assessments/User Charges	20,787	-	-	-	-	20,787
Other	1,077,021	-	-	-	-	1,077,021
Due from Other Funds	1,564,734	-	20,983	185,575	(206,558)	1,564,734
Total assets	\$ 11,494,321	\$ 354,599	\$ 20,983	\$ 185,575	\$ (206,558)	\$ 11,848,920
Liabilities						
Accounts payable	\$ 2,040,797	\$ -	\$ 106	\$ 39,275	\$ -	\$ 2,080,178
Due to other funds	267,543	-	-	-	(206,558)	60,985
Unearned revenue	7,016	-	-	-	-	7,016
Total liabilities	2,315,356	-	106	39,275	(206,558)	2,148,179
Deferred inflows of resources:						
Unavailable revenues	2,466,705	-	-	-	-	2,466,705
Advance tax collections	322,251	-	-	-	-	322,251
Total deferred inflows of resources	2,788,956	-	-	-	-	2,788,956
Fund balances:						
Assigned	1,612,745	354,599	20,877	146,300	-	2,134,521
Unassigned	4,777,264	-	-	-	-	4,777,264
Total fund balances	6,390,009	354,599	20,877	146,300	-	6,911,785
Total liabilities, deferred inflows of resources and fund balances	\$ 11,494,321	\$ 354,599	\$ 20,983	\$ 185,575	\$ (206,558)	\$ 11,848,920

Town of East Lyme, Connecticut

Schedule of Revenues, Expenditures and Changes in Fund Balance - By Account -
 General Fund
 For the Year Ended June 30, 2018

	General Fund	Board of Education Special Fund	Regional Probate District 32	Parks and Recreation Fund	Eliminate Interfund Transfers	Totals
Revenues:						
Property taxes	\$ 56,577,147	\$ -	\$ -	\$ -	\$ -	\$ 56,577,147
Intergovernmental	16,508,982	-	-	-	-	16,508,982
Charges for services	5,090,649	895,046	39,144	496,704	-	6,521,543
Interest income	76,270	-	-	-	-	76,270
Total revenues	78,253,048	895,046	39,144	496,704	-	79,683,942
Expenditures:						
Current:						
Culture and recreation	2,037,263	-	-	496,271	-	2,533,534
Public works	3,504,406	-	-	-	-	3,504,406
Education	54,391,979	915,105	-	-	-	55,307,084
General government	7,098,533	-	23,404	-	-	7,121,937
Public safety	4,236,167	-	-	-	-	4,236,167
Health and welfare	256,058	-	-	-	-	256,058
Capital outlay	650,478	-	-	-	-	650,478
Debt service:						
Principal	4,085,048	-	-	-	-	4,085,048
Interest	1,285,969	-	-	-	-	1,285,969
Total expenditures	77,545,901	915,105	23,404	496,271	-	78,980,681
Excess (deficiency) of revenues over (under) expenditures	707,147	(20,059)	15,740	433	-	703,261
Other financing sources (uses):						
Transfers in	409,951	-	-	-	(7,706)	402,245
Transfers (out)	(163,389)	-	(7,706)	-	7,706	(163,389)
Total other financing sources (uses)	246,562	-	(7,706)	-	-	238,856
Change in fund balances	953,709	(20,059)	8,034	433	-	942,117
Fund balances, beginning	5,436,300	374,658	12,843	145,867	-	5,969,668
Fund balances, ending	\$ 6,390,009	\$ 354,599	\$ 20,877	\$ 146,300	\$ -	\$ 6,911,785

Town of East Lyme, Connecticut

**Schedule of Property Taxes Levied, Collected and Outstanding
For the Year Ended June 30, 2018**

Grand List Year	Balance Uncollected July 1, 2017	Current Levy	Lawful Corrections			Transfers to Suspense	Balance to be Collected	Collections				Balance Uncollected June 30, 2018
			Additions	Deletions				Taxes	Interest and Lien Fees	Total	Refunds	
2002	\$ 5,102	\$ -	\$ -	\$ -	\$ -	\$ 5,102	\$ -	\$ -	\$ -	\$ -	\$ -	5,102
2003	4,418	-	-	-	-	4,418	-	-	-	-	-	4,418
2004	4,940	-	-	-	-	4,940	-	-	-	-	-	4,940
2005	11,317	-	-	-	260	11,057	-	-	-	-	-	11,057
2006	17,336	-	-	-	509	16,827	1,483	293	1,776	-	-	15,344
2007	23,125	-	-	-	2,431	20,694	1,705	2,922	4,627	-	-	18,989
2008	29,687	-	-	-	2,506	27,181	1,709	2,639	4,348	-	-	25,472
2009	57,462	-	-	-	2,917	54,545	5,195	4,474	9,669	-	-	49,350
2010	88,318	-	-	-	3,461	84,857	10,845	9,221	20,066	300	-	74,312
2011	102,670	-	-	-	4,705	97,965	10,178	10,004	20,182	20	-	87,807
2012	156,320	-	-	88	5,926	150,306	22,401	21,212	43,613	170	-	128,075
2013	222,618	-	-	-	6,928	215,690	44,570	27,084	71,654	170	-	171,290
2014	311,114	-	2,413	999	4,504	308,024	92,321	40,847	133,168	100	-	215,803
2015	623,478	-	3,748	6,202	4,516	616,508	300,123	64,170	364,293	1,066	-	317,451
2016	-	56,552,743	41,935	265,575	3,800	56,325,303	55,918,468	135,974	56,054,442	226,740	-	633,575
	<u>\$ 1,657,905</u>	<u>\$ 56,552,743</u>	<u>\$ 48,096</u>	<u>\$ 272,864</u>	<u>\$ 42,463</u>	<u>\$ 57,943,417</u>	<u>\$ 56,408,998</u>	<u>\$ 318,840</u>	<u>\$ 56,727,838</u>	<u>\$ 228,566</u>		<u>\$ 1,762,985</u>

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