

Town of East Lyme, Connecticut

Financial Report
June 30, 2019

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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 year ended June 30, 2019, 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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, 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 February 27, 2020 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
February 27, 2020

Town of East Lyme, Connecticut
Management's Discussion and Analysis - unaudited
June 30, 2019

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, 2019.

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 \$107.7 million (*net position*).

The Town's total net position increased by \$3.5 million.

As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$3.4 million, a decrease of \$7.5 million in comparison with the prior year.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$6.3 million or 8.7% of total general fund budgeted expenditures and transfers out of \$72 million.

The Town's total bond/note debt increased by \$22.151 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 \$107.8 million at the close of the fiscal year.

By far the largest portion of the Town's net position (100.7%) 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, 2019 and 2018

	June 30, 2019			June 30, 2018		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 30,757	\$ 344	\$ 31,101	\$ 25,317	\$ 382	\$ 25,699
Capital assets	134,525	43,789	178,314	113,415	44,460	157,875
Total assets	165,282	44,133	209,415	138,732	44,842	183,574
Deferred outflows of resources	3,011	-	3,011	897	-	897
Total deferred outflows of resources	3,011	-	3,011	897	-	897
Other liabilities	25,126	181	25,307	15,417	125	15,542
Long-term liabilities	76,519	-	76,519	63,655	-	63,655
Total liabilities	101,645	181	101,826	79,072	125	79,197
Deferred pension amounts	750	-	750	574	-	574
Deferred OPEB amounts	2,187	-	2,187	254	-	254
Advance tax collections	-	-	-	322	-	322
Total deferred inflows of resources	2,937	-	2,937	1,150	-	1,150
Net position:						
Net investment in capital assets	64,645	43,789	108,434	64,697	44,461	109,158
Restricted	32	-	32	26	-	26
Unrestricted (deficit)	(966)	163	(803)	(5,316)	256	(5,060)
Total net position	\$ 63,711	\$ 43,952	\$ 107,663	\$ 59,407	\$ 44,717	\$ 104,124

**TOWN OF EAST LYME, CONNECTICUT
SUMMARY STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 and 2018**

	Year Ended June 30, 2019			Year Ended June 30, 2018		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues:						
Program Revenues:						
Charge for services	\$ 10,891	\$ 1,949	\$ 12,840	\$ 11,436	\$ 2,002	\$ 13,438
Operating grants and contributions	11,431	-	11,431	16,543	-	16,543
Capital grants and contributions	4,281	-	4,281	607	-	607
General Revenues:						
Property Taxes	59,758	-	59,758	56,866	-	56,866
Grants, contributions not restricted to specific programs	1,104	-	1,104	1,120	-	1,120
Miscellaneous	-	-	-	57	-	57
Investment income	242	-	242	131	-	131
Total revenues	\$ 87,707	\$ 1,949	\$ 89,656	\$ 86,760	\$ 2,002	\$ 88,762
Expenses:						
Program Activities						
Primary Government:						
General government	\$ 9,861	\$ -	\$ 9,861	\$ 9,740	\$ -	\$ 9,740
Public safety	4,644	-	4,644	4,612	-	4,612
Public works	7,240	-	7,240	8,041	-	8,041
Health and welfare	263	-	263	259	-	259
Culture and recreation	2,679	-	2,679	2,651	-	2,651
Education	57,656	-	57,656	61,180	-	61,180
Interest expense	967	-	967	359	-	359
Business-Type Activities:						
Sewer department	-	2,807	2,807	-	2,732	2,732
Total expenses	83,310	2,807	86,117	86,842	2,732	89,574
Transfers in (out)	(93)	93	-	(254)	254	-
Change in net position	4,304	(765)	3,539	(336)	(476)	(812)
Net Position - beginning	\$ 59,407	\$ 44,717	104,124	\$ 59,743	\$ 45,193	104,936
Net Position - ending	\$ 63,711	\$ 43,952	\$ 107,663	\$ 59,407	\$ 44,717	\$ 104,124

Governmental Activities

For governmental activities, 68.1% of the revenues were derived from property taxes, followed by 17.9% from intergovernmental revenues and 12.4% for charges for services.

Major revenue factors included:

- Property tax increased \$2.9 million due to an increase in the grand list and in the mil rate
- Charges for services decreased \$.6 million primarily due to various decreases in services used
- Intergovernmental decreased by \$1.4 million due to declining grants received

For governmental activities, approximately 69.2% of the Town's expenses relate to education, 11.8% relate to general government, 8.7% relate to public works operations, 5.6% to public safety and the remaining 4.7% relate to interest expense, health and welfare, recreation and miscellaneous.

Major expense factors include:

- Public Works expenses decreased \$.801 million due to capital outlay.
- Education expenses decreased \$5 million due to pension credit for teachers' retirement OPEB of approximately \$(4) million.

Business-Type Activities

Business-type activities (Sewer Department) decreased the Town's net position by \$.765, or 1.7%. 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 \$6.2 million, while total fund balance reached \$7.4 million. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 8.7% of total general fund budgeted expenditures.

The fund balance for the Town's general fund increased by approximately \$0.488 million during the current fiscal year. A key factor in this is as follows:

Greater than estimated Tax Collections, receipt of a large commercial construction project building permit fee and additional tuition paying students. In addition, due to conservative spending practices, there were remaining budget appropriations at year-end.

The Sewer Assessments fund balance increased by \$.365 million due to the final Operating Transfer Out for debt service taking place in the prior year.

The Bonded Project Fund decreased \$6.9 million due to timing of short-term and long-term financing for the Elementary School projects.

The Capital Nonrecurring Fund decreased \$1.672 million due to capital outlay.

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 \$43.9 million, a decrease of \$.764 over the prior year. Unrestricted net position for the Sewer Department reflected \$.163 of total Net Position.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was \$.680 million

During the year, actual revenues, including transfers in, were \$72.7 million, which was greater than budgetary estimates by \$.259 million. Major contributors were:

- \$.094 million greater due to better than expected aggregate tax collections
- \$.648 million greater combined net effect for various local fees and charges for services estimates
- \$.057 million greater due to various intergovernmental grants

General Fund Budgetary Highlights

Expenditures

Special appropriations during the year totaled \$.676 as follows:

- \$598 thousand for Health Insurance for Town and Board of Education
- \$23 thousand new vehicle for the Building Official
- \$25 thousand for East Lyme High School Turf Field
- \$30 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, 2019, amounted to \$178 million (net of accumulated depreciation). This investment in capital assets includes land, building and system improvements, machinery and equipment, park facilities, roads, sewers and bridges. The total net increase in the Town's investment in capital assets for the current fiscal year was \$.020 million, an increase of 12.9%.

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

- Road reconstruction and improvement projects.
- The tenth year implementation of a vehicle acquisition program in accordance with a fleet plan
- Completion of Cini Park Restrooms.
- Completion of Park Improvements at 224 Main Street
- Purchase of Honeywell Building at 277 West Main Street for Public Safety Complex
- New Basketball Court at Peretz Park.
- Construction in progress of Town's three elementary schools

**TOWN OF EAST LYME, CONNECTICUT
CAPITAL ASSETS, NET OF DEPRECIATION
JUNE 30, 2019 AND 2018**

	June 30, 2019			June 30, 2018		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Land	\$ 15,199	\$ 608	\$ 15,807	\$ 14,488	\$ 608	\$ 15,096
Construction in progress	24,500	15	24,515	3,390	15	3,405
Water and Sewer distribution systems	15,980	40,259	56,239	16,581	40,847	57,428
Building and improvements	58,671	2,799	61,470	58,771	2,890	61,661
Vehicles	4,208	-	4,208	4,144	-	4,144
Machinery and equipment	5,210	108	5,318	5,118	100	5,218
Infrastructure	10,757	-	10,757	10,923	-	10,923
Total	\$ 134,525	\$ 43,789	\$ 178,314	\$ 113,415	\$ 44,460	\$ 157,875

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 \$70.4 million, all of which is backed by the full faith and credit of the Town government.

**TOWN OF EAST LYME, CONNECTICUT
CHANGES IN TOWN DEBT
JUNE 30, 2019 AND 2018**

	June 30, 2019			June 30, 2018		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ 41,435	\$ -	\$ 41,435	\$ 40,405	\$ -	\$ 40,405
Bond Anticipation Notes	23,000	-	23,000	\$ 1,605	-	1,605
Drinking water notes	5,965	-	5,965	6,238	-	6,238
Total	\$ 70,400	\$ -	\$ 70,400	\$ 48,248	\$ -	\$ 48,248

The Town's total bonded debt including bond anticipation notes increased by \$22.151 million during the 2019 fiscal year due to the net impact of debt retired and debt issued during the fiscal year. In addition, the town issued \$5.3 million bonds which was to permanently bond \$.950 million road rehabilitation work and \$4.4 million Elementary School Renovation and Improvement Project. The Town also has outstanding \$23 million in bond anticipation notes which were issued for the Elementary School Project (\$20 million) and for the Public Safety Building (\$3.0 million). 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 2020 budget tax rates, the primary factor being the economy and uncertainty at the State level of government. Unemployment in the Town is at 3.9% and 4.1% for 2018 and 2017. This compares with the State's average unemployment rate of 4.2 % and 4.7% and is .2% lower than the New London County average rate of 4.1%.

Revenues

The Town adopted its budget estimating a reduction in state revenues in the amount of \$.612 million. However, when the State adopted its budget, the Education Cost Share was \$492,794 more than the Town projected. During the budget process, expenditure reductions were made and an overall increase in taxes of \$2.3 million. There was a modest increase in the grand list of 10/1/2018 of \$17 million or .79%. Significant revenue issues were as follows:

- Net decrease in State of Connecticut revenues of \$612 million due to ongoing State of Connecticut budget issues
- Out of district tuition fees increased by \$350 thousand due to enrollment estimates
- Decrease in Building Permit fees of \$15 thousand due to department estimates
- Increase of \$28 thousand for investment return on investments due to better rates than the prior year
- Increase of \$29 thousand for recycling fees due to negotiating a contract with higher rates than the previous one
- Increase of \$35 thousand for landfill fees due to changes in the fee structure to be more in line with the cost of disposal
- Increase of \$145 thousand for a subsidy from East Lyme Ambulance Association for two new night shift firefighters
- Decrease of \$500 thousand of applied fund balance due to the Town implementing support to work on growing undesignated fund balance

Expenditures

The wage increases for town employees was 2.25%. The Board of Education Secretarial Group received 2.5% and the Custodians received 2.3%. Administrators wage increases were 1.9% and teachers .74% if at below max salary, 1.25% if at max salary. The Paraprofessional Group received 1.25%.

The Board of Education requested a budget increase of \$49.5 million; the Board of Finance reduced the bottom line by \$.250 million to \$49.2 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 2020 fiscal year. During the current fiscal year, unassigned fund balance in the general fund increased to \$6.3 million. The Town did appropriate \$175,000 of fund balance for spending in the 2020 fiscal year budget reducing the prior year amount by \$500,000.

Overall, the fiscal year 2019 – 2020 budget was increased \$2.4 million or 3.34%. Town government increased \$446 thousand (2.47%) more than fiscal year 2019, debt service increased \$229 thousand (4.27%), and the Board of Education increased \$1.7 million (3.51%) from the prior year. Capital improvement expenditures were increased \$55 thousand (7.2%).

The following factors played a role in our setting the budget for fiscal year 2019 – 2020 both from revenue and from an expense point of view:

- The economic picture of slow, if any, growth, the uncertainty of State Aid to municipalities for fiscal year 2020 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 2018/19 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 2019/2020 budget totals \$74.2 million, which represents a 3.34% increase in expenditures from the fiscal year 2019 adopted budget. The Town's mill rate increased from 27.35 to 28.19 a .84 or a 3.07% 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, 2019

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 9,062,705	\$ 491,092	\$ 9,553,797
Investments	2,028,879	-	2,028,879
Receivables:			
Property taxes, net of allowance for collection losses	2,805,942	-	2,805,942
Assessments/use charges	3,617,360	374,439	3,991,799
Intergovernmental	3,390,620	-	3,390,620
Other	334,402	31,072	365,474
Internal balances	533,397	(565,632)	(32,235)
Other assets	552,716	12,518	565,234
Restricted cash	8,431,365	-	8,431,365
Capital assets, not being depreciated	39,699,043	623,015	40,322,058
Capital assets, net of accumulated depreciation	94,825,857	43,166,060	137,991,917
Total assets	165,282,286	44,132,564	209,414,850
Deferred outflows of resources:			
Deferred pension amounts	952,203	-	952,203
Deferred OPEB	1,576,358	-	1,576,358
Deferred charges on refundings	482,793	-	482,793
Total deferred outflows of resources	3,011,354	-	3,011,354
Liabilities			
Accounts payable and accruals	6,005,089	142,399	6,147,488
Accrued interest payable	419,785	-	419,785
Bond anticipation notes payable	13,000,000	-	13,000,000
Meter deposits	-	3,175	3,175
Unearned revenue	36,052	35,108	71,160
Long-term liabilities:			
Due within one year	5,665,107	-	5,665,107
Due in more than one year	76,519,352	-	76,519,352
Total liabilities	101,645,385	180,682	101,826,067
Deferred Inflows of resources:			
Deferred pension amounts	750,255	-	750,255
Deferred OPEB amounts	2,187,472	-	2,187,472
Total deferred inflows of resources	2,937,727	-	2,937,727
Net position:			
Net investment in capital assets	64,645,328	43,789,075	108,434,403
Restricted:			
Nonexpendable	534	-	534
Culture and recreation	31,154	-	31,154
Unrestricted (deficit)	(966,488)	162,807	(803,681)
Total net position	\$ 63,710,528	\$ 43,951,882	\$ 107,662,410

See notes to financial statements.

Town of East Lyme, Connecticut

Statement of Activities
For the Year Ended June 30, 2019

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	\$ 9,861,181	\$ 1,469,342	\$ -	\$ -	\$ (8,391,839)	\$ -	\$ (8,391,839)
Public safety	4,644,142	88,965	77,007	-	(4,478,170)	-	(4,478,170)
Public works	7,239,722	4,183,796	376,347	1,133,016	(1,546,563)	-	(1,546,563)
Health and welfare	262,940	-	25,233	-	(237,707)	-	(237,707)
Culture and recreation	2,678,857	854,418	4,500	-	(1,819,939)	-	(1,819,939)
Education	57,656,116	4,294,727	10,947,806	3,148,279	(39,265,304)	-	(39,265,304)
Interest expense	966,808	-	-	-	(966,808)	-	(966,808)
Total governmental activities	83,309,766	10,891,248	11,430,893	4,281,295	(56,706,330)	-	(56,706,330)
Business-type activities:							
Sewer department	2,806,585	1,949,102	-	-	-	(857,483)	(857,483)
Total business-type activities	2,806,585	1,949,102	-	-	-	(857,483)	(857,483)
Total primary government	\$ 86,116,351	\$ 12,840,350	\$ 11,430,893	\$ 4,281,295	(56,706,330)	(857,483)	(57,563,813)
General revenues:							
Property taxes					59,757,913	-	59,757,913
Grants and contributions not restricted to specific programs					1,103,706	-	1,103,706
Income from investments					241,941	-	241,941
Transfers					(93,293)	93,293	-
Total general revenues and transfers					61,010,267	93,293	61,103,560
Change in net position					4,303,937	(764,190)	3,539,747
Net position - beginning					59,406,591	44,716,072	104,122,663
Net position - ending					\$ 63,710,528	\$ 43,951,882	\$ 107,662,410

See notes to financial statements.

Town of East Lyme, Connecticut

Balance Sheet - Governmental Funds
June 30, 2019

	Major Funds				Other Nonmajor Governmental Funds	Total Governmental Funds
	General	Sewer Assessments Fund	Bonded Capital Projects	Capital Nonrecurring Fund		
Assets						
Cash and cash equivalents	\$ 5,360,147	\$ 1,793,850	\$ 7,232,666	\$ 1,198,699	\$ 1,464,569	\$ 17,049,931
Investments	2,028,879	-	-	-	-	2,028,879
Receivables (net of allowances for collection losses):						
Property taxes	2,805,942	-	-	-	-	2,805,942
Assessments/use charges	13,508	2,756,517	-	-	847,335	3,617,360
Intergovernmental	30,659	-	2,921,052	378,862	60,047	3,390,620
Other	-	119,533	-	13,413	-	132,946
Advances to other funds	-	561,294	-	-	-	561,294
Due from other funds	1,999,608	659,400	127,795	1,214,034	63,742	4,064,579
Other	517,476	-	-	-	35,240	552,716
Total assets	\$ 12,756,219	\$ 5,890,594	\$ 10,281,513	\$ 2,805,008	\$ 2,470,933	\$ 34,204,267
Liabilities						
Accounts payable and accruals	\$ 1,582,721	\$ -	\$ 2,200,079	\$ 45,174	\$ 543,084	\$ 4,371,058
Due to other funds	1,080,037	-	1,953,086	-	327,727	3,360,850
Unearned revenue	-	-	-	-	36,052	36,052
Bond anticipation notes payable	-	-	10,000,000	3,000,000	-	13,000,000
Advances from other funds	-	-	561,294	-	-	561,294
Total liabilities	2,662,758	-	14,714,459	3,045,174	906,863	21,329,254
Deferred inflows of resources:						
Unavailable revenue	2,693,521	2,826,089	2,921,052	378,862	696,262	9,515,786
Total deferred inflows of resources	2,693,521	2,826,089	2,921,052	378,862	696,262	9,515,786
Fund balances (deficits):						
Nonspendable	-	561,294	-	-	35,774	597,068
Restricted	-	-	-	-	216,230	216,230
Committed	-	2,503,211	-	-	615,804	3,119,015
Assigned	1,138,329	-	-	-	-	1,138,329
Unassigned	6,261,611	-	(7,353,998)	(619,028)	-	(1,711,415)
Total fund balances (deficits)	7,399,940	3,064,505	(7,353,998)	(619,028)	867,808	3,359,227
Total liabilities, deferred inflows of resources and fund balances (deficits)	\$ 12,756,219	\$ 5,890,594	\$ 10,281,513	\$ 2,805,008	\$ 2,470,933	

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.	134,524,900
Deferred inflows of resources - unavailable revenue	9,515,786
Deferred outflows of resources - deferred amounts on refunding	482,793
Deferred inflow of resources - pension credit	(750,255)
Deferred inflow of resources- OPEB	(2,187,472)
Deferred outflow of resources - pension expense	952,203
Deferred outflow of resources - OPEB	1,576,358
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(82,184,459)
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.	(1,158,768)
Accrued interest payable not recorded in the funds.	(419,785)

Net position of governmental activities

\$ 63,710,528

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, 2019

	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	\$ 59,523,761	\$ -	\$ -	\$ -	\$ -	\$ 59,523,761
Intergovernmental	11,152,517	-	654,559	1,133,016	1,389,420	14,329,512
Charges for services	6,591,733	500,577	-	218,366	3,717,984	11,028,660
Investment income	145,345	27,290	67,870	1,436	-	241,941
Total revenues	77,413,356	527,867	722,429	1,352,818	5,107,404	85,123,874
Expenditures						
Current:						
General government	7,748,654	-	-	-	-	7,748,654
Public safety	4,306,874	-	-	-	-	4,306,874
Public works	3,867,394	117,808	-	-	2,262,463	6,247,665
Health and welfare	263,939	-	-	-	-	263,939
Culture and recreation	2,609,947	-	-	-	9,096	2,619,043
Education	52,077,895	-	-	-	1,922,836	54,000,731
Capital outlay	584,769	-	22,926,440	4,040,878	36,769	27,588,856
Debt Service:						
Principal retirements	4,091,104	-	-	-	522,595	4,613,699
Interest and other charges	1,304,699	-	106,488	4,194	111,832	1,527,213
Total expenditures	76,855,275	117,808	23,032,928	4,045,072	4,865,591	108,916,674
Excess (deficiency) of revenues over (under) expenditures	558,081	410,059	(22,310,499)	(2,692,254)	241,813	(23,792,800)
Other Financing Sources (Uses)						
Transfers in	44,195	-	-	114,121	-	158,316
Transfers out	(114,121)	(45,448)	-	(44,195)	(82,845)	(286,609)
Issuance of capital lease	-	-	804,000	-	-	804,000
Issuance of drinking water loan	-	-	44,916	-	-	44,916
Bond premium	-	-	40,414	-	-	40,414
BAN premium	-	-	199,800	-	-	199,800
Issuance of bond anticipation notes	-	-	10,000,000	-	-	10,000,000
Issuance of general obligation bonds	-	-	4,350,000	950,000	-	5,300,000
Total other financing sources (uses)	(69,926)	(45,448)	15,439,130	1,019,926	(82,845)	16,260,837
Change in fund balances (deficits)	488,155	364,611	(6,871,369)	(1,672,328)	158,968	(7,531,963)
Fund balances (deficits), beginning	6,911,785	2,699,894	(482,629)	1,053,300	708,840	10,891,190
Fund balances (deficits), ending	<u>\$ 7,399,940</u>	<u>\$ 3,064,505</u>	<u>\$ (7,353,998)</u>	<u>\$ (619,028)</u>	<u>\$ 867,808</u>	<u>\$ 3,359,227</u>

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, 2019**

Net change in fund balances (deficits) – total governmental funds	\$ (7,531,963)
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.	21,109,867
Changes in revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,583,122
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.	(10,507,647)
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.	(1,790,758)
The net activity of certain activities of internal service funds is reported with governmental activities.	<u>441,316</u>
Change in net position of governmental activities	<u>\$ 4,303,937</u>

See notes to financial statements.

Town of East Lyme, Connecticut

Statement of Net Position - Proprietary Funds
June 30, 2019

	Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Fund
	Sewer Department	
Assets		
Current assets:		
Cash and cash equivalents	\$ 491,092	\$ 444,139
Receivables:		
User charges	374,439	-
Other	31,072	-
Due from other funds	137,620	31,124
Inventory	12,518	-
Total current assets	<u>1,046,741</u>	<u>475,263</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	43,789,075	-
Total noncurrent assets	<u>43,789,075</u>	<u>-</u>
Total assets	<u>44,835,816</u>	<u>475,263</u>
Liabilities		
Current liabilities:		
Accounts payable	88,845	737,610
Meter deposits	3,175	-
Claims payable	-	896,421
Unearned revenue	35,108	-
Due to other funds	703,252	-
Compensated absences	53,554	-
Total liabilities	<u>883,934</u>	<u>1,634,031</u>
Net position:		
Net investment in capital assets	43,789,075	-
Unrestricted (deficit)	162,807	(1,158,768)
Total net position (deficit)	<u>\$ 43,951,882</u>	<u>\$ (1,158,768)</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, 2019**

	Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Fund
	Sewer Department	
Operating revenues:		
Charges for services and other	\$ 1,949,102	\$ 10,546,225
Total operating revenues	<u>1,949,102</u>	<u>10,546,225</u>
Operating expenses:		
General and administrative	67,750	1,043,042
Labor and maintenance	1,905,483	-
Claims	-	9,061,867
Depreciation	811,991	-
Total operating expenses	<u>2,785,224</u>	<u>10,104,909</u>
Operating (loss) income	<u>(836,122)</u>	<u>441,316</u>
Nonoperating revenues (expenses):		
Loss on disposal of capital assets	(21,361)	-
Total nonoperating revenues	<u>(21,361)</u>	<u>-</u>
Transfers in	128,293	-
Transfers out	(35,000)	-
	<u>93,293</u>	<u>-</u>
Change in net position (deficit)	(764,190)	441,316
Net position (deficit), beginning	<u>44,716,072</u>	<u>(1,600,084)</u>
Net position (deficit), ending	<u>\$ 43,951,882</u>	<u>\$ (1,158,768)</u>

See notes to financial statements.

Town of East Lyme, Connecticut

Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2019

	Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Fund
	Sewer Department	
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,016,635	\$ -
Payments to suppliers	(1,356,942)	-
Payment to employees	(638,800)	-
Receipts from premiums	-	10,515,101
Cash paid for claims and administration	-	(10,647,566)
Net cash provided by (used in) operating activities	<u>20,893</u>	<u>(132,465)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(162,031)	-
Net cash used in capital and related financing activities	<u>(162,031)</u>	<u>-</u>
Cash flows from noncapital financing activities:		
Transfers in	128,293	
Transfers out	(35,000)	-
Net cash provided by noncapital financing activities	<u>93,293</u>	<u>-</u>
Net decrease in cash and cash equivalents	(47,845)	(132,465)
Cash and cash equivalents:		
Beginning	<u>538,937</u>	<u>576,604</u>
Ending	<u>\$ 491,092</u>	<u>\$ 444,139</u>
Supplemental Noncash:		
Loss on disposal of assets	<u>21,361</u>	<u>-</u>

(Continued)

Town of East Lyme, Connecticut

**Statement of Cash Flows - Proprietary Funds (Continued)
For the Year Ended June 30, 2019**

	Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Fund
	Sewer Department	
<hr/>		
Reconciliation of operating (loss) income to net		
Cash provided by (used in) operating activities:		
Operating (loss) income	\$ (836,122)	\$ 441,316
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:		
Depreciation	811,991	-
(Increase) decrease in:		
Inventory	(890)	-
Receivables	71,640	-
Due from other funds	(42,753)	(31,124)
Increase (decrease) in:		
Accounts and other payables	59,141	(542,657)
Unearned revenue	(4,107)	-
Due to other funds	(38,007)	-
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	\$ 20,893	\$ (132,465)
	<hr/> <hr/>	<hr/> <hr/>

See notes to financial statements.

Town of East Lyme, Connecticut

Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2019

	Pension Trust Fund	Private Purpose Trusts	Agency Funds
Assets			
Cash	\$ -	\$ 103,773	\$ 1,237,638
Investments	26,589,214	-	-
Receivables	7,272	-	9,549
Total assets	26,596,486	103,773	1,247,187
Liabilities			
Due to other funds	-	-	201,456
Payable to others	-	-	570,593
Due to student groups	-	-	475,138
Total liabilities	-	-	1,247,187
Net position - restricted for pension benefits and other purposes	\$ 26,596,486	\$ 103,773	\$ -

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, 2019

	Pension Trust Fund	Private Purpose Trusts
Additions:		
Contributions:		
Employer	\$ 1,237,327	\$ -
Plan members	221,191	-
Other	-	3,441
Total contributions	1,458,518	3,441
Investment income:		
Net appreciation in fair value of investments	1,648,584	-
Interest income	-	1,082
Total investment income	1,648,584	1,082
Total additions	3,107,102	4,523
Deductions:		
Benefits	820,928	-
Administration	28,300	-
Other	-	851
Total deductions	849,228	851
Change in net position	2,257,874	3,672
Net position - restricted for pension benefits and other, beginning	24,338,612	100,101
Net position - restricted for pension benefits and other, ending	\$ 26,596,486	\$ 103,773

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.

Accounting standards adopted in the current year: GASB Statement No. 83, *Certain Asset Retirement Obligations*, was effective for the Town beginning July 1, 2018. The objective of this Statement is to set guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to asset retirement obligations. The adoption of this statement did not impact the Town's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, was effective for the Town beginning July 1, 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statement related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The adoption of GASB Statement No. 88 did not impact the Town's financial position or results of operations or disclosures.

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.

Town of East Lyme, Connecticut

Notes to Financial Statements

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 and OPEB 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:

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.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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, "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	\$ (41,435,000)
Bond anticipation note payable	(10,000,000)
Drinking water notes	(5,964,650)
Bond premium	(1,267,819)
Total OPEB liability	(8,058,031)
Compensated absences	(4,072,141)
Capital leases payable	(2,383,455)
Claims and other	(550,000)
Early retirement incentive	(721,305)
Net pension liability	(6,275,760)
Retainage payable	(1,344,028)
Landfill closure	(112,270)
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ (82,184,459)</u>

Town of East Lyme, Connecticut

Notes to Financial Statements

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

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 "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	\$ 26,789,717
Loss on disposal of assets	(4,632)
Depreciation expense	<u>(5,675,218)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 21,109,867</u>

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	\$ (5,300,000)
Issuance of bond anticipation notes	(10,000,000)
Issuance of clean water interim funding obligation	(394,921)
Bond premium	(40,414)
Issuance of capital lease	(804,000)
Principal repayments and amortizations:	
General obligation debt	4,270,000
Capital lease	956,495
Amortization of deferred charges	(102,820)
Amortization of bond premium	239,516
Drinking water notes	<u>668,497</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (10,507,647)</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, "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	\$	451,742
Compensated absences		(188,560)
Early retirement incentives		(168,474)
Accrued interest		96,391
Net pension liability		(608,552)
Pension deferred outflows/inflows		463,838
OPEB deferred outflows/inflows		(356,715)
Claims and other		(150,000)
Retainage payable		(1,344,028)
Landfill closure		13,600
		<hr/>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	\$	<u>(1,790,758)</u>

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.

Town of East Lyme, Connecticut

Notes to Financial Statements

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

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, 2019, \$17,674,596 of the Town's bank balance of \$21,173,052 was uninsured and uncollateralized.

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

Cash, cash equivalents and investments of the Town consist of the following at June 30, 2019:

Cash and cash equivalents:	
Deposits with financial institutions	\$ 17,442,274
State of Connecticut - Short-Term Investment Fund	1,884,299
Total cash and cash equivalents	<u>19,326,573</u>
Investments:	
Pension trust funds:	
Fixed income mutual funds	7,722,928
Mutual funds	18,866,286
	<u>26,589,214</u>
General fund:	
Certificates of deposits	<u>2,028,879</u>
Total investments	<u>28,618,093</u>
Total cash, cash equivalents and investments	<u>\$ 47,944,666</u>

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

Statement of net position:	
Cash and cash equivalents	\$ 17,985,162
Investments	2,028,879
	<u>20,014,041</u>
Fiduciary funds:	
Cash and cash equivalents	1,341,411
Investments	26,589,214
	<u>27,930,625</u>
Total cash, cash equivalents and investments	<u>\$ 47,944,666</u>

Town of East Lyme, Connecticut

Notes to Financial Statements

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

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	\$ 7,722,928	\$ -	\$ 2,088,214	\$ 5,634,714

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	\$ 1,299,680	\$ -
AAA _m	-	1,884,299
AA	182,892	-
A	522,594	-
BBB	775,842	-
BB	900,017	-
B	554,825	-
Below B	161,666	-
Other	3,325,412	-
	<u>\$ 7,722,928</u>	<u>\$ 1,884,299</u>

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, 2019:

Investments by fair value level:	Fair Value Measurements Using			
	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
Fixed income	\$ 7,722,928	\$ -	\$ 7,722,928	\$ -
Mutual funds	18,866,286	-	18,866,286	-
Total investments by fair value level	<u>\$ 26,589,214</u>	<u>\$ -</u>	<u>\$ 26,589,214</u>	<u>\$ -</u>

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 14,488,047	\$ 711,400	\$ -	\$ 15,199,447
Construction in progress	3,389,688	21,109,908	-	24,499,596
Total capital assets, not being depreciated	17,877,735	21,821,308	-	39,699,043
Capital assets, being depreciated:				
Buildings and improvements	126,025,867	2,078,537	-	128,104,404
Machinery and equipment	9,670,924	492,753	(20,468)	10,143,209
Vehicles	10,525,069	669,830	(65,526)	11,129,373
Infrastructure	33,491,300	1,706,364	-	35,197,664
Water distribution systems	30,982,664	20,925	-	31,003,589
Total capital assets, being depreciated	210,695,824	4,968,409	(85,994)	215,578,239
Total capital assets	228,573,559	26,789,717	(85,994)	255,277,282
Less accumulated depreciation for:				
Buildings and improvements	67,254,899	2,178,380	-	69,433,279
Machinery and equipment	5,526,558	427,317	(18,421)	5,935,454
Vehicles	5,406,800	575,603	(62,941)	5,919,462
Infrastructure	22,568,577	1,872,067	-	24,440,644
Water distribution systems	14,401,692	621,851	-	15,023,543
Total accumulated depreciation	115,158,526	5,675,218	(81,362)	120,752,382
Total capital assets, being depreciated, net	95,537,298	(706,809)	(4,632)	94,825,857
Governmental activities capital assets, net	\$ 113,415,033	\$ 21,114,499	\$ (4,632)	\$ 134,524,900

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 4. Capital Assets (Continued)

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
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	47,825	(26,050)	716,510
Sewer distribution systems	59,319,143	114,206	-	59,433,349
Total capital assets, being depreciated	<u>65,104,272</u>	<u>162,031</u>	<u>(26,050)</u>	<u>65,240,253</u>
Total capital assets	<u>65,727,287</u>	<u>162,031</u>	<u>(26,050)</u>	<u>65,863,268</u>
Less accumulated depreciation for:				
Buildings and improvements	2,200,239	91,627	-	2,291,866
Machinery and equipment	595,009	18,198	(4,689)	608,518
Sewer distribution systems	18,471,643	702,166	-	19,173,809
Total accumulated depreciation	<u>21,266,891</u>	<u>811,991</u>	<u>(4,689)</u>	<u>22,074,193</u>
Total capital assets, being depreciated, net	<u>43,837,381</u>	<u>(649,960)</u>	<u>(21,361)</u>	<u>43,166,060</u>
Total business-type activities capital assets, net	<u>\$ 44,460,396</u>	<u>\$ (649,960)</u>	<u>\$ (21,361)</u>	<u>\$ 43,789,075</u>

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

Governmental activities:	
General government	\$ 2,248,971
Public safety	353,565
Public works	994,297
Culture and Recreation	69,724
Education	2,008,661
Total depreciation expense - governmental activities	<u>\$ 5,675,218</u>
Business-type activities:	
Sewer	\$ 811,991
Total depreciation expense - business-type activities	<u>\$ 811,991</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, 2019 is presented below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 1,999,608	\$ 1,080,037
Sewer Assessments Fund	659,400	-
Bonded Capital Projects Fund	127,795	1,953,086
Capital Nonrecurring Fund	1,214,034	-
Non-Major Governmental Funds and other	63,742	327,727
Enterprise Funds	137,620	703,252
Internal Service Fund	31,124	-
Agency Funds	-	201,456
Grand total	<u>\$ 4,233,323</u>	<u>\$ 4,265,558</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.

\$561,294 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, 2019 were as follows:

	Transfers From Other Funds	Transfers To Other Funds
General Fund	\$ 44,195	\$ 114,121
Sewer Assessments Fund	-	45,448
Capital Nonrecurring Fund	114,121	44,195
Other Nonmajor Funds	-	82,845
Enterprise Funds	128,293	-
Grand total	<u>\$ 286,609</u>	<u>\$ 286,609</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
	<u> </u>	<u> </u>
General Fund:		
Delinquent property taxes receivable and interest	\$ 2,690,126	\$ -
Other	3,395	-
Sewer Assessments Fund:		
Sewer assessments not yet due	2,826,089	-
Bonded Capital Projects:		
Intergovernmental	2,921,052	-
Capital Nonrecurring Fund:		
Intergovernmental	378,862	-
Other Nonmajor Governmental Funds:		
Water usage unbilled	696,262	-
Grant drawdowns prior to meeting all eligibility requirements	-	36,052
Total deferred inflows/unearned revenue	<u>\$ 9,515,786</u>	<u>\$ 36,052</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, 2019 is as follows:

Description	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 40,405,000	\$ 5,300,000	\$ 4,270,000	\$ 41,435,000	\$ 3,980,000
Bond anticipation notes	-	10,000,000	-	10,000,000	-
Drinking water notes	6,238,226	394,921	668,497	5,964,650	343,806
Bond premium	1,466,921	40,414	239,516	1,267,819	-
	<u>48,110,147</u>	<u>15,735,335</u>	<u>5,178,013</u>	<u>58,667,469</u>	<u>4,323,806</u>
Other long-term liabilities:					
Total OPEB liability	8,509,773	-	451,742	8,058,031	-
Compensated absences	3,883,581	188,560	-	4,072,141	200,000
Capital lease obligations	2,535,950	804,000	956,495	2,383,455	817,873
Claims and other	400,000	150,000	-	550,000	-
Early retirement incentives	552,831	478,749	310,275	721,305	309,428
Net pension liability	5,667,208	608,552	-	6,275,760	-
Landfill closure	125,870	-	13,600	112,270	14,000
Retainage	-	1,344,028	-	1,344,028	-
Total other long-term liabilities	<u>21,675,213</u>	<u>3,573,889</u>	<u>1,732,112</u>	<u>23,516,990</u>	<u>1,341,301</u>
Governmental activities long-term liabilities	<u>\$ 69,785,360</u>	<u>\$ 19,309,224</u>	<u>\$ 6,910,125</u>	<u>\$ 82,184,459</u>	<u>\$ 5,665,107</u>

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 7. Long-Term Liabilities (Continued)

General obligation bonds - governmental activities: As of June 30, 2019, 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, 2018	Additions	Deductions	Balance June 30, 2019
General Purpose								
CIP Var, Darrow, Roads	\$ 6,970,000	7/26/12	7/25/32	2.0 - 4.0%	\$ 2,700,000	\$ -	\$ 365,000	\$ 2,335,000
Open Space & Radio Upgrade	1,295,000	2/2/12	7/15/29	2.0 - 3.0%	1,198,000	-	117,000	1,081,000
Open Space	918,000	2/10/10	7/15/26	2.0 - 5.0%	485,000	-	50,000	435,000
Ref Var, Athletic Complex	6,930,000	7/24/14	7/15/30	2.0 - 4.0%	6,405,000	-	390,000	6,015,000
Var Cl, Rds, Peretz FFD Ap	5,120,000	7/23/15	7/15/35	2.0 - 4.0%	5,120,000	-	272,000	4,848,000
Ref GP 11-12 CIP,Darrow,Var Rd	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	-	400,000	1,960,000
FireEng,BB Court, Rds	1,605,000	8/31/17	8/31/37	2.0 - 5.0%	1,605,000	-	80,000	1,525,000
Reconstruction Var Roads	950,000	8/16/18	8/15/38	3.0 - 5.0%	-	950,000	-	950,000
Total general purpose					23,117,000	950,000	1,674,000	22,393,000
Schools								
CIP Culinary, Music Wall, Var	750,000	7/26/12	7/15/32	.65% - 3.1%	245,000	-	35,000	210,000
HS Roof & School Reno	1,693,000	2/2/12	7/15/28	2.0 - 3.0%	1,676,000	-	20,000	1,656,000
ELMS, HS Roof & Ren Ref	7,785,000	2/10/10	7/15/24	2.0 - 5.0%	3,475,000	-	580,000	2,895,000
ELHS & Pool Refunding	3,969,000	7/16/09	7/15/19	3.0 - 4.0%	431,000	-	431,000	-
CO Roof, Tennis Court, Network	1,774,000	7/24/14	7/15/30	2.0 - 4.0%	1,070,000	-	53,000	1,017,000
Ref Schools Var Project	3,154,000	7/21/16	7/15/33	2.5 - 3.0%	1,971,000	-	531,000	1,440,000
Elementary Schools	1,595,000	8/31/17	8/31/37	2.0 - 5.0%	1,595,000	-	80,000	1,515,000
Elementary Schools	4,350,000	8/16/18	8/15/38	3.0 - 5.0%	-	4,350,000	-	4,350,000
Elementary Schools	10,000,000	8/13/19	7/15/39	2.5 - 5.0%	-	10,000,000	-	10,000,000
Total schools					10,463,000	14,350,000	1,730,000	23,083,000
Sewer								
Pine Grove Sewer	580,000	2/2/12	7/15/28	2.0 - 3.0%	575,000	-	7,000	568,000
Pine Grove Sewer Refund	2,182,000	2/10/10	7/15/26	2.0 - 5.0%	1,185,000	-	140,000	1,045,000
Logger Hill, Ref	916,000	7/24/14	7/15/30	2.0 - 4.0%	707,000	-	87,000	620,000
Refund 4/18/11 Ref 92&95	776,000	7/21/16	7/15/21	2.5 - 3.0%	444,000	-	149,000	295,000
Total sewers					2,911,000	-	383,000	2,528,000
Water Bonds								
DWSRF 2012-7010	360,516	6/30/13	12/31/32	2.0%	272,709	-	16,377	256,332
Various Water Projects	1,000,000	7/26/12	7/15/32	2.0-4.0%	335,000	-	35,000	300,000
2012 Ref Bonds 2009	3,762,000	2/12/12	7/15/29	2.0-3.0%	3,411,000	-	426,000	2,985,000
DWSRF/ARRA 2010-8003	401,454	12/29/11	6/30/31	2.06%	275,324	-	18,751	256,573
Refunding	90,000	7/24/14	7/15/30	2.0-4.0%	22,000	-	22,000	-
DWSRF 2013-7022	6,526,492	6/30/15	6/30/34	2.0%	5,393,828	-	287,726	5,106,102
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	49,278	345,643	-
DWSRF 2017-7057	345,643	9/28/18	3/30/38	2.0%	-	345,643	-	345,643
Total water					10,152,226	394,921	1,151,497	9,395,650
Total bonds/notes - governmental activities					\$ 46,643,226	\$ 15,694,921	\$ 4,938,497	\$ 57,399,650

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 7. Long-Term Liabilities (Continued)

The following is a summary as of June 30, 2019, 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
2020	\$ 3,980,000	\$ 1,254,088	\$ 5,234,088
2021	3,855,000	1,111,588	4,966,588
2022	3,315,000	982,588	4,297,588
2023	3,180,000	869,213	4,049,213
2024	3,200,000	764,266	3,964,266
2025-2029	12,945,000	2,539,750	15,484,750
2030-2034	8,005,000	1,009,753	9,014,753
2035-2039	2,955,000	173,563	3,128,563
Total	<u>\$ 41,435,000</u>	<u>\$ 8,704,809</u>	<u>\$ 50,139,809</u>

Bond anticipation notes: Bond anticipation note transactions for the year ended June 30, 2019 were as follows:

Outstanding, July 1, 2018	\$ 1,605,000
New borrowings	23,000,000
Repayments	(1,605,000)
Outstanding, June 30, 2019	<u>\$ 23,000,000</u>
Reported as:	
Long-term debt	<u>\$ 10,000,000</u>
Short-term debt	<u>\$ 13,000,000</u>

On July 31, 2018, the Town issued \$20,000,000 in general obligation bond anticipation notes. The general obligation bond anticipation notes had an interest rate of 3.00%. The general obligation bond anticipation notes matured on August 1, 2019. Of which \$10,000,000 were rolled into new general obligation bonds and \$10,000,000 rolled into new bond anticipation notes as noted below.

On April 30, 2019, the Town issued \$3,000,000 of general obligation bond anticipation notes. The notes matured on August 1, 2019 and were rolled over to new bond anticipation notes included in \$24,825,000 noted below.

Subsequent event: On August 1, 2019, \$17,450,000 in general obligation bonds were issued along with \$24,825,000 of bond anticipation notes. The general obligation bonds have a maturity date of August 1, 2029; with interest ranging from 2.50% to 5.00%. The general obligation bond anticipation notes have an interest rate of 2.00%. The general obligation bond anticipation notes mature on August 13, 2020.

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 \$5,964,650. 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, 2019, of the future principal and interest requirements for the Town's drinking water notes - governmental activities:

Fiscal Year Ending	Principal	Interest	Total
2020	\$ 343,806	\$ 115,449	\$ 459,255
2021	350,756	108,498	459,254
2022	357,848	101,407	459,255
2023	365,083	94,172	459,255
2024	372,467	86,788	459,255
2025-2029	1,978,388	317,887	2,296,275
2030-2034	2,100,418	123,211	2,223,629
2035-2038	95,884	2,912	98,796
Total	<u>\$ 5,964,650</u>	<u>\$ 950,324</u>	<u>\$ 6,914,974</u>

Bonds authorized but unissued: Total authorized but unissued debt at June 30, 2019 consists of the following:

General purpose	\$ 7,419,522
Schools	35,905,000
Water	7,386,966
	<u>\$ 50,711,488</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	\$ 127,674,533	\$ 32,812,522	\$ 94,862,011
Schools	255,349,067	68,988,000	186,361,067
Sewers	212,790,889	2,528,000	210,262,889
Urban renewal	184,418,770	-	184,418,770
Pension deficit	170,232,711	-	170,232,711

The total overall statutory debt limit for the Town is equal to seven times prior year 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, 2019, 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 \$9,133,000 with approximately \$6,500,000, in accumulated depreciation.

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

2020	\$	861,211
2021		697,281
2022		511,551
2023		393,016
2024		14,431
Total		<u>2,477,490</u>
Less amount representing interest		<u>(94,035)</u>
	\$	<u><u>2,383,455</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, 2019, \$310,275 was paid for these benefits. At June 30, 2019, \$721,305 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 \$112,270 as of June 30, 2019. 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,
2017-2018	\$ 867,881	\$ 8,396,167	\$ 8,452,553	811,495
2018-2019	811,495	9,146,793	9,061,867	896,421

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 \$550,000, 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, 2019

	Pension Trust funds		
	Retirement Pension Trust	Defined Contribution Trust	Total Pension Trust Funds
Assets			
Investments:			
Mutual funds	\$ 16,891,079	\$ 1,975,207	\$ 18,866,286
Fixed income funds	7,722,928	-	7,722,928
Due from other funds	-	7,272	7,272
Total assets	<u>24,614,007</u>	<u>1,982,479</u>	<u>26,596,486</u>
Total net position	<u>24,614,007</u>	<u>1,982,479</u>	<u>26,596,486</u>
Net position - restricted for pension benefits	<u>\$ 24,614,007</u>	<u>\$ 1,982,479</u>	<u>\$ 26,596,486</u>

Statement of Changes in Plan Net Position
Year Ended June 30, 2019

	Pension Trust funds		
	Retirement Pension Trust	Defined Contribution Trust	Total Pension Trust Funds
Additions:			
Contributions:			
Employer	\$ 1,094,494	\$ 142,833	\$ 1,237,327
Plan members	141,872	79,319	221,191
Total contributions	<u>1,236,366</u>	<u>222,152</u>	<u>1,458,518</u>
Investments:			
Net appreciation in fair value of investments	1,544,560	104,024	1,648,584
Total investment loss	<u>1,544,560</u>	<u>104,024</u>	<u>1,648,584</u>
Total additions	<u>2,780,926</u>	<u>326,176</u>	<u>3,107,102</u>
Deductions:			
Benefits	820,928	-	820,928
Administration	28,300	-	28,300
Total deductions	<u>849,228</u>	<u>-</u>	<u>849,228</u>
Changes in net position	1,931,698	326,176	2,257,874
Restricted net position, beginning	<u>22,682,309</u>	<u>1,656,303</u>	<u>24,338,612</u>
Restricted net position, ending	<u>\$ 24,614,007</u>	<u>\$ 1,982,479</u>	<u>\$ 26,596,486</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, 2019, the date of the last actuarial valuation, membership in the plan consisted of the following:

Retirees and beneficiaries currently receiving benefits		73
Terminated employees entitled to benefits but not yet receiving them		20
Inactive participants		-
Current employees		
Vested	108	
Nonvested	59	167
		<hr/>
		260

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.
<u>Accrued benefit</u>	Normal Retirement Benefit based on earnings and service to date.
<u>Normal form of benefit</u>	Life Annuity.
<u>Delayed retirement</u>	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.
<u>Normal form of benefits</u>	Single life annuity.
<u>Accrued benefit</u>	Normal Retirement Benefit assuming service to NRD multiplied by the number of years of continuous service at termination divided by service projected to NRD.
<u>Continuous service</u>	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.
<u>Eligible employee</u>	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.
<u>Benefit accrual service</u>	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, 2019:

Invesco Oppnhm Govt MM Inv Opt	\$ 2,192,204
T. Rowe Price Equity Income	2,203,081
MFS International Value Inv Opt	1,845,648
Janus Balanced Inv Opt	1,583,418
American Century Eq Income Inv Opt	2,052,669
Putnam High Yield Advantage A	1,331,132
Franklin Conservative Alloc Inv Opt	2,017,717
Nuveen Santa Barbara Dividend Growth Inv. Opt	1,384,705
Loomis Sayles Bond Inv. Opt.	1,759,892
Eatn Vnc Alt Cap SMID-Cap Inv Opt	1,766,149

Net pension liability of the Town: The components of the net pension liability of the Town at June 30, 2019 were as follows:

Retirement Pension Trust	2019
Total pension liability	\$ 30,889,767
Plan fiduciary net position	24,614,007
Net pension liability	\$ 6,275,760
Plan fiduciary net position as a percentage of total pension liability	79.68%

Money-weighted rate of return: For the year ended June 30, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 6.75%. 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, 2019, using the following actuarial assumptions, which was projected forward to the measurement date of June 30, 2019:

Actuarial Method Used:	Entry Age Normal Cost Method
Amortization Method:	Level Amortization, Closed
Mortality Basis:	Current Year – Base Table: SOA PUBS.H-2010 – headcount-weighted Safety Employees Table for Police and Fire Participants. All other participants, SOA PUBG.H-2010 – headcount-weighted General Employees Table Improvement Scale: Scale MP-2018 Projection Period: Fully Generational
Investment Return:	7.00% per annum
Salary Scale:	4.50% per annum

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans (Continued)

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, 2019, as a level percentage of pay.

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, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Weighting
U.S. Equity - Large Cap	35.00%	5.91%	2.07%
Non- U.S. Equity - Developed	20.00%	6.85%	1.37%
U.S. Corporate Bonds- Core	35.00%	2.12%	0.74%
U.S. Treasuries (Cash Equivalents)	10.00%	0.76%	0.08%
	100.00%		4.26%
Long-Term Inflation Assumption			2.29%
Long-Term Expected Nominal Rate of Return			6.55%

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	\$ 10,073,430	\$ 6,275,760	\$ 3,086,755

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 6/30/18	\$ 28,349,517	\$ 22,682,309	\$ 5,667,208
Changes for the year:			
Service cost	680,281	-	680,281
Interest	2,003,839	-	2,003,839
Difference between expected and actual experience	(315,256)	-	(315,256)
Changes of assumptions	992,314	-	992,314
Contributions - employer		1,094,494	(1,094,494)
Contributions - members	-	141,872	(141,872)
Projected Earnings on pension plan investments		1,601,082	(1,601,082)
Differences between projected and actual earnings		(56,522)	56,522
Benefit payments, including refunds of employee contributions	(820,928)	(820,928)	-
Administrative expense	-	(28,300)	28,300
Other	-	-	-
Net changes	2,540,250	1,931,698	608,552
Balances at 6/30/19	<u>\$ 30,889,767</u>	<u>\$ 24,614,007</u>	<u>\$ 6,275,760</u>

For the year ended June 30, 2019, the Town recognized pension expense of \$1,239,208. As of June 30, 2019, 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	\$ 113,975	\$ (699,615)
Changes of assumptions	838,228	
Net difference between projected and actual earnings on pension plan investments	-	(50,640)
Total	<u>\$ 952,203</u>	<u>\$ (750,255)</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:

	Retirement Pension Trust
Year ending June 30:	
2020	\$ 75,431
2021	(177,252)
2022	48,207
2023	115,085
2024	94,893
Thereafter	45,584

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, 2019, there were 27 plan members. The Town contributed \$142,833 in 2019 and \$119,327 in 2018.

Connecticut State Teachers' Retirement System:

Description of system: Certified personnel within the Town's school system participate in a retirement system administered by the Connecticut State Teachers' Retirement Board. This Connecticut State Teachers' Retirement System (the System) is a cost sharing multiple employer defined benefit pension system with a special funding situation. The Town has no liability associated with the State Teachers' Retirement System.

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

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

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans (Continued)

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

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

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

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

Contribution requirements: The pension contributions made by the State to the System are determined on an actuarial reserve basis as described in CGS Sections 10-1831 and 10-183z. The Town is not required to contribute to the Plan.

Eligible employees are required to contribute 6.0% of their annual salary rate to the System as required by CGS Section 10-183b (7). The estimated covered payroll for the Town is approximately \$22,494,064.

Effective January 1, 2018, the required contribution increased to 7% of pensionable salary.

Actuarial assumptions: The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2010 – June 30, 2015. The total pension liability was determined by an actuarial valuation as of June 30, 2018, using the following key actuarial assumptions:

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

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

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

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans (Continued)

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%
	100.00%	

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

Sensitivity of the proportionate share of the net pension liability (NPL) to changes in the discount rate: The following presents the State's proportionate share of the net pension liability associated with the Town, calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate.

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
State's portion of the NPL associated with the Town	\$ 86,596,125	\$ 68,519,467	\$ 53,232,553

Pension liabilities, pension expense, and deferred inflows/outflows of resources: The State makes all contributions to the System on behalf of employees of the participating districts. Therefore, participating employers are considered to be in a special funding situation as defined by Governmental Accounting Standards Board Statement No. 68 and the State is treated as a non-employer contributing entity in the System. Since the employers do not contribute directly to the System, there is no net pension liability or deferred inflows or outflows to report in the financial statements of the Town. The portion of the net pension liability that was associated with the Town was \$68,519,467 and 100% of the collective net pension liability is allocated to the State.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 11. Retirement Plans (Continued)

The Town recognized the total pension expense associated with the Town as well as revenue in an amount equal to the non-employer contributing entities' total proportionate share of the collective pension expense associated with the Town. For the fiscal year ended June 30, 2019, the Town recognized \$7,690,099 reported as intergovernmental revenue in the General fund, as the amount expended by the State on behalf of the Town to meet the State's funding requirements.

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. 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 2.75% to 2.50%.
2. Reduce the real rate of return assumption from 5.25% to 4.40 % which, when combined with the inflation assumption change results in a decrease in the investment rate of return assumption from 8.00% to 6.90%.
3. Increase the annual rate of wage increase assumption from 0.50% to 0.75%.

Demographic assumptions:

None

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.

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, 2018. The post-retirement plan does not issue stand-alone financial reports.

Membership in the plan consisted of the following at July 1, 2018, the date of the last actuarial valuation.

Inactive plan members or beneficiaries currently receiving benefits	42
Active plan members	<u>581</u>
Total	<u><u>623</u></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, 2018
Actuarial Cost Method:	Entry Age Normal Actuarial Cost Method
Actuarial Assumptions:	
Interest	3.51%
Inflation	2.60%
Health cost trend rates	Starts at 7.0% in 2018, decrease by 0.5% per year down to 4.6% in 2023 and beyond.
Mortality	RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2019

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 12. Other Post-Employment Benefits (Continued)

Discount rate: The discount rate used to measure the total OPEB liability was 3.51% from the Bond Buyer GO 20-Bond Municipal Index effective as of June 30, 2019. 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 \$8,058,031 is measured as of June 30, 2019, as determined by an actuarial valuation as of July 1, 2018, which was projected forward to June 30, 2019. The Town has not accumulated any assets in a fiduciary trust for payment of benefits.

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, 2018	\$ 8,509,773
Changes for the year:	
Service cost	275,567
Interest	327,749
Differences between expected and actual experience	1,709,948
Changes of assumptions	(2,126,250)
Benefit payments	(638,756)
Net changes	(451,742)
Balances at June 30, 2019	<u>\$ 8,058,031</u>

Changes in assumptions: The discount rate changed from the July 1, 2018 valuation rate of 3.87% to 3.51% as of June 30, 2019. The mortality tables were projected using Scale MP-2019 compared to Scale MP-2016 in 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 (6.00% decreasing 3.60%)	Trend Rates (7.50% decreasing to 4.60%)	1% Increase (8.00% decreasing to 5.60%)
Total OPEB liability as of June 30, 2019	\$ 7,100,427	\$ 8,058,031	\$ 9,203,597

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 12. Other Post-Employment Benefits (Continued)

Sensitivity of estimates used in calculating the total OPEB liability: The following presents the total OPEB liability, calculated using the discount rate of 3.51% 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 2.51%	Current Discount Rate 3.51%	1% Increase 4.51%
Total OPEB liability as of June 30, 2019	\$ 9,035,048	\$ 8,058,031	\$ 7,232,290

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB: For the year ended June 30, 2019, the Town recognized OPEB expense of \$483,281. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net
Differences between expected and actual experience	\$ 1,576,358	\$ (10,753)	1,565,605
Changes of assumptions	-	(2,176,719)	(2,176,719)
	<u>\$ 1,576,358</u>	<u>\$ (2,187,472)</u>	<u>\$ (611,114)</u>

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

Year ending June 30:	
2020	\$ (59,587)
2021	(59,587)
2022	(59,587)
2023	(59,587)
2024	(59,587)
Thereafter	(313,179)
	<u>\$ (611,114)</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.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 12. Other Post-Employment Benefits (Continued)

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.

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.

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 either receive 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.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 12. Other Post-Employment Benefits (Continued)

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

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, 2019, 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	<u>13,697,495</u>
	<u>\$ 13,697,495</u>

The net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as June 30, 2018. At June 30, 2019, the Town has no proportionate share of the net OPEB liability.

For the year ended June 30, 2019, the Town recognized OPEB expense and (revenue) of \$(4,550,300) in General Fund intergovernmental revenue, 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, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Health care costs trend rate	5.95% decreasing to 4.75% by 2022
Salary increases	3.25-6.50%, including inflation
Investment rate of return	3.00%, net of OPEB plan investment expense, including inflation
Year fund net position will Be depleted	2019

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, 2018 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 3.87%. 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 2019 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.

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.

Town of East Lyme, Connecticut

Notes to Financial Statements

Note 13. Fund Balance

Below is a table of fund balance categories and classifications at June 30, 2019 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	-	561,294	-	-	-
Inventory	-	-	-	-	35,240
	-	561,294	-	-	35,774
Restricted:					
Recreation	-	-	-	-	31,154
Education	-	-	-	-	185,076
	-	-	-	-	216,230
Committed:					
Public works	-	2,503,211	-	-	615,804
	-	2,503,211	-	-	615,804
Assigned:					
Future appropriations	175,000				
Public works	79,309	-	-	-	-
Recreation	165,808	-	-	-	-
General government	23,079	-	-	-	-
Education	695,133	-	-	-	-
	1,138,329	-	-	-	-
Unassigned:					
	6,261,611	-	(7,353,998)	(619,028)	-
Total fund balances	\$ 7,399,940	\$ 3,064,505	\$ (7,353,998)	\$ (619,028)	\$ 867,808

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.

The impact of the following accounting pronouncements are currently being assessed by the Town as to the impact to the financial statements. Other recently issued financial statements are not expected to have a material effect to the Town's financial statements.

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. 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.

GASB Statement No. 91, *Conduit Debt Obligations*. In May 2019, the GASB issued Statement No. 91, Conduit Debt Obligations. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The Town is not an issuer of conduit debt; therefore, this Statement will have no effect on its financial statements.

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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									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined employer contribution	\$ 1,276,988	\$ 1,110,149	\$ 1,074,721	\$ 938,749	\$ 1,076,823	\$ 1,050,824	\$ 953,049	\$ 835,942	\$ 850,037	\$ 750,941
Contributions in relation to the actuarially determined employer contribution	1,094,494	1,125,805	1,023,637	926,720	1,076,823	1,031,092	953,049	835,942	850,037	750,941
Contribution deficiency (excess)	\$ 182,494	\$ (15,656)	\$ 51,084	\$ 12,029	\$ -	\$ 19,732	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 8,151,781	\$ 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
Contribution as a % of covered payroll	13.43%	12.29%	11.16%	10.87%	12.56%	12.05%	11.23%	10.55%	11.61%	9.83%

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:	18 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:	SOA PUBS.H-2010 for fire, police - SOA PUBG.H - 2010 for all others

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

Retirement Pension Trust	2019	2018	2017	2016	2015	2014
Changes in Net Pension Liability						
Total pension liability:						
Service cost	\$ 680,281	\$ 707,948	\$ 665,420	\$ 619,574	\$ 620,611	\$ 607,102
Interest on total pension liability	2,003,839	1,883,816	1,735,683	1,651,380	1,541,759	1,516,865
Differences between expected and actual experience	(315,256)	(95,617)	272,190	(651,845)	(256,503)	-
Changes of assumptions	992,314	-	-	-	-	-
Benefit payments	(820,928)	(689,013)	(513,255)	(409,749)	(270,218)	(254,567)
Net change in total pension liability	2,540,250	1,807,134	2,160,038	1,209,360	1,635,649	1,869,400
Total pension liability, beginning	28,349,517	26,542,383	24,382,345	23,172,985	21,537,336	19,667,936
Total pension liability, ending (a)	30,889,767	28,349,517	26,542,383	24,382,345	23,172,985	21,537,336
Fiduciary net position:						
Employer contributions	1,094,494	1,125,805	1,023,637	926,720	1,076,823	1,031,092
Member contributions	141,872	147,853	140,290	132,826	172,854	133,430
Investment income net of investment expenses	1,544,560	1,403,758	2,301,834	(36,983)	220,349	2,037,638
Benefit payments	(820,928)	(689,013)	(513,255)	(409,749)	(270,218)	(254,567)
Administrative expenses	(28,300)	(38,800)	(26,550)	(13,850)	(39,500)	(2,900)
Other	-	-	-	(517,746)	-	-
Net change in plan fiduciary net position	1,931,698	1,949,603	2,925,956	81,218	1,160,308	2,944,693
Fiduciary net position, beginning	22,682,309	20,732,706	17,806,750	17,725,532	16,565,224	13,620,531
Fiduciary net position, ending (b)	24,614,007	22,682,309	20,732,706	17,806,750	17,725,532	16,565,224
Net pension liability, ending = (a) - (b)	\$ 6,275,760	\$ 5,667,208	\$ 5,809,677	\$ 6,575,595	\$ 5,447,453	\$ 4,972,112
Fiduciary net position as a % of total pension liability	79.68%	80.01%	78.11%	73.03%	76.49%	76.91%
Covered payroll	\$ 8,151,781	\$ 9,159,153	\$ 9,173,350	\$ 8,524,401	\$ 8,573,798	\$ 8,559,474
Net pension liability as a % of covered payroll	76.99%	61.87%	63.33%	77.14%	63.54%	58.09%

**Required Supplementary Information - Unaudited
Schedule of Investment Returns
Last Six Fiscal Years ***

	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	6.75%	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 - Teachers' Retirement System
Last Five Fiscal Years ***

	2019	2018	2017	2016	2015
Town's proportion of the net pension liability	0.00%	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	\$ 68,519,467	\$ 69,820,814	\$ 73,661,444	\$ 57,467,120	\$ 53,116,835
Total	\$ 68,519,467	\$ 69,820,814	\$ 73,661,444	\$ 57,467,120	\$ 53,116,835
Town's covered payroll	\$ 22,494,064	\$ 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%	0.00%
System fiduciary net position as a percentage of the total pension liability	57.69%	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

Actuarial cost method	Entry age
Amortization method	Level percent of pay, closed
Single equivalent amortization period	17.6 years
Asset valuation method	Four-year smoothed market
Inflation	2.75 percent
Salary increase	3.25-6.50 percent, including inflation
Investment rate of return	8.00 percent, net of investment related expense

Changes in benefit terms: Beginning January 1, 2018, member contributions increased from 6% to 7% of salary.

Changes in Assumptions: In 2018, inflation, real estate rate of return, and assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five year period ended June 30, 2015 in combination with current economic conditions.

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

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

	2019	2018
Changes in Total OPEB Liability		
Total OPEB liability:		
Service cost	\$ 275,567	\$ 266,546
Interest	327,749	307,734
Change of benefit terms	-	-
Differences between expected and actual experience	1,709,948	(13,313)
Changes of assumptions	(2,126,250)	(268,150)
Benefit payments	(638,756)	(222,902)
Net change in total OPEB liability	(451,742)	69,915
Total OPEB liability, beginning	8,509,773	8,439,858
Total OPEB liability, ending (a)	\$ 8,058,031	\$ 8,509,773
Covered payroll	\$ 33,348,776	\$ 32,503,680
Total OPEB liability as a % of covered payroll	24.16%	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: 3.51 % (Prior: 3.87%)

Mortality: RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2019 (Prior: RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016)

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

	2019	2018
Town's proportion of the net OPEB liability	0.00%	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>\$ 13,697,495</u>	<u>\$ 17,971,073</u>
Total	<u>\$ 13,697,495</u>	<u>\$ 17,971,073</u>
Town's covered payroll	<u>\$ 21,215,466</u>	<u>\$ 22,130,699</u>
Town's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	1.49%	1.79%

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

Notes to Schedule

Changes in benefit terms

The Plan was amended by the Board, effective July 1, 2018, during the January 11, 2018 meeting. The Board action added the Anthem Medicare Advantage Plan to the available options under the Plan, changed the "base plan" to the Medicare Advantage Plan for the purposes of determining retiree subsidies and/or cost sharing amount(s), and introduced a two year waiting period for re-enrollment in a System sponsored healthcare plan for those who cancel their coverage or choose not to enroll in a healthcare coverage option on or after the effective date. These changes were communicated to retired members during the months leading up to a special open enrollment period that preceded the July 1, 2018 implementation date.

Changes of assumptions

The expected rate of return on assets was changed from 2.75% to 3.00% to better reflect the anticipated returns on cash and other high quality short-term fixed income investments.

Based on the procedure described in GASB 75, the discount rate used to measure Plan obligations for financial accounting purposes as of June 30, 2018 was updated to equal the Municipal Bond Index Rate as of June 30, 2018. The System selected the 3.87% discount rate used to measure the TOL as of the June 30, 2018 measurement date.

Expected annual per capita claims costs were updated to better reflect anticipated medical and prescription drug claim experience both before and after the plan change that became effective on July 1, 2018.

The assumed age related annual percentage increases in expected annual per capita healthcare claim costs were updated to better reflect the expected differences between the Medicare Supplement and Medicare Advantage Plan amounts as part of the plan change that became effective on July 1, 2018.

Long-term healthcare cost trend rates were updated to better reflect the anticipated impact of changes in medical inflation, utilization, leverage in the plan design, improvements in technology, and fees and charges on expected claims and retiree contributions in future periods.

The percentage of retired members who are not currently participating in the Plan, but are expected to elect coverage for themselves and their spouses under a System-sponsored healthcare plan option in the future, was updated to better reflect anticipated plan experience.

The participating retirees who are expected to enroll in the Medicare Supplement Plan and the Medicare Advantage Plan options, as well as the portion who are expected to migrate to the Medicare Advantage Plan over the next several years, were updated to better reflect anticipated plan experience after the plan change that became effective on July 1, 2018.

The post-disablement mortality table was updated to extend the period of projected mortality improvements from 2017 to 2020. This change was made to better reflect anticipated post-disablement plan experience.

The percentages of deferred vested members who will become ineligible for future healthcare benefits because they are expected to withdraw their contributions from the System was updated to better reflect anticipated plan experience.

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

3.00%, 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, 2019

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget
	Original	Final		
Revenues:				
Taxes, interest and lien fees	\$ 59,430,221	\$ 59,430,221	\$ 59,523,761	\$ 93,540
Intergovernmental	7,323,674	7,956,131	8,012,716	56,585
Charges for services	4,262,471	4,285,277	4,933,406	648,129
Income from investments	41,500	41,500	145,345	103,845
Total revenues	71,057,866	71,713,129	72,615,228	902,099
Expenditures:				
Current:				
General government	7,872,987	8,000,619	7,746,224	254,395
Public safety	4,312,192	4,377,692	4,310,111	67,581
Public works	3,703,698	3,673,901	3,671,870	2,031
Health and welfare	271,502	273,130	263,939	9,191
Culture and recreation	1,910,646	1,923,371	1,897,937	25,434
Education	47,576,943	47,970,984	47,970,983	1
Capital outlay	769,186	851,905	717,888	134,017
Debt service	5,369,986	5,395,802	5,395,803	(1)
Total expenditures	71,787,140	72,467,404	71,974,755	492,649
Excess (deficiency) of revenues over (under) expenditures	(729,274)	(754,275)	640,473	1,394,748
Other financing sources:				
Transfers in	54,274	54,275	111,299	57,024
Use of Fund Balance	675,000	700,000	-	(700,000)
Total other financing sources	729,274	754,275	111,299	(642,976)
Total	\$ -	\$ -	\$ 751,772	\$ 751,772

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, 2019 aggregated approximately \$680,000 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
	<u> </u>	<u> </u>
Balance, budgetary basis	\$ 72,726,527	\$ 71,974,755
State Teachers Retirement pension and OPEB payments made by State Department of Education on behalf of the Town, not recognized for budgetary purposes	3,139,799	3,139,799
GASB 54 effect	1,573,229	1,634,601
Change in encumbrances	17,996	220,241
Balance, GAAP basis	<u>\$ 77,457,551</u>	<u>\$ 76,969,396</u>

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**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, 2019**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Taxes, interest and lien fees:				
Current taxes	\$ 58,639,271	\$ 58,639,271	\$ 58,758,950	\$ 119,679
Prior taxes	500,000	500,000	439,961	(60,039)
Interest and lien fees	290,950	290,950	324,850	33,900
Total taxes, interest and lien fees	59,430,221	59,430,221	59,523,761	93,540
Intergovernmental:				
Education cost sharing	5,851,652	6,449,196	6,423,087	(26,109)
Town aid roads	344,629	344,629	341,444	(3,185)
Local capital Improvement	-	-	-	-
Youth service bureau	-	-	25,233	25,233
Tax relief-telephone taxes	50,000	50,000	42,239	(7,761)
PILOT - state owned property	176,267	176,267	192,581	16,314
Pequot fund	270,204	270,204	270,204	-
PILOT - hospital and colleges	16,445	16,445	28,062	11,617
Municipal stabilization grant	504,349	504,349	524,097	19,748
Tax relief for elderly	1,314	1,314	1,413	99
Tax relief for disabled	33,562	33,562	37,874	4,312
Civil preparedness	19,552	19,552	14,987	(4,565)
Tax relief for veterans	-	34,913	34,488	(425)
State grant - DUI	55,700	55,700	76,054	20,354
Other grants	-	-	953	953
Total intergovernmental	7,323,674	7,956,131	8,012,716	56,585
Charges for services:				
Licenses and permits:				
Building permits	300,000	322,806	517,119	194,313
Beach and recreation town funds	4,600	4,600	4,000	(600)
ZBA and planning commission	7,250	7,250	12,334	5,084
Conveyance tax	250,000	250,000	342,713	92,713
Dog licenses	11,000	11,000	9,708	(1,292)
Town clerk fees	138,000	138,000	140,718	2,718
Zoning commission - maps and permits	25,000	25,000	38,435	13,435
Solid waste removal license	800	800	500	(300)
Shellfish permits	-	-	664	664
Wetland Fees	5,150	5,150	9,108	3,958

(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, 2019**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Charges for services (Continued)				
Licenses and permits (Continued)				
Pistol, fire, & loading	\$ 11,000	\$ 11,000	\$ 20,126	\$ 9,126
Mooring permits	7,250	7,250	5,820	(1,430)
Total licenses and permits	760,050	782,856	1,101,245	318,389
Fines and forfeits:				
Parking fees	10,000	10,000	5,619	(4,381)
Extra duty - police and fire	30,000	30,000	63,638	33,638
TC office fees	250	250	-	(250)
TC fish and game fees	-	-	241	241
Total fines and forfeits	40,250	40,250	69,498	29,248
Charges for services:				
Tuition - other districts	2,700,000	2,700,000	2,892,770	192,770
Rent - Cini park	15,000	15,000	9,525	(5,475)
Debt payment - Salem	86,705	86,705	86,705	-
Tipping fees commercial	279,000	279,000	216,614	(62,386)
Transportation subsidy	40,000	40,000	43,169	3,169
Recycling - other	15,750	15,750	46,899	31,149
Recycling - newspaper/cardboard	4,600	4,600	835	(3,765)
MSW containers	5,000	5,000	8,637	3,637
Ambulance fund	10,000	10,000	10,000	-
Insurance rebate	30,440	30,440	59,265	28,825
Assessor	2,500	2,500	1,400	(1,100)
Aging	23,951	23,951	21,246	(2,705)
Landfill deposits	115,000	115,000	162,717	47,717
Financial department	70,000	70,000	92,784	22,784
Tax collector	800	800	147	(653)
Miscellaneous other	54,700	54,700	103,976	49,276
Selectman's office	100	100	10	(90)
Smith-Harris commission	850	850	-	(850)
Town miscellaneous	1,000	1,000	5,964	4,964
Water and sewer services	6,775	6,775		(6,775)
Total charges for services	3,462,171	3,462,171	3,762,663	300,492
Total charges for services	4,262,471	4,285,277	4,933,406	648,129
Income from investments:				
Interest income	41,500	41,500	145,345	103,845
Total revenues	71,057,866	71,713,129	72,615,228	902,099

(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, 2019**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Other financing sources:				
Use of fund balance	\$ 675,000	\$ 700,000	\$ -	\$ (700,000)
Transfers in	54,274	54,275	111,299	57,024
	<u>729,274</u>	<u>754,275</u>	<u>111,299</u>	<u>(642,976)</u>
Total revenues and other financing sources	\$ 71,787,140	\$ 72,467,404	\$ 72,726,527	\$ 259,123

(Concluded)

Town of East Lyme, Connecticut

**General Fund Expenditures and Other Financing Uses - Budgetary Basis -
Budget and Actual
For the Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
General government:				
First selectman	\$ 196,344	201,009	\$ 189,073	\$ 11,936
Assessor's office	208,135	211,188	210,853	335
Tax collector	174,513	176,030	172,347	3,683
Building official	221,493	222,931	206,887	16,044
Town engineer	223,134	225,121	225,160	(39)
Town clerk	153,371	155,375	144,920	10,455
Health department	139,190	139,190	139,190	-
Information technology	126,207	126,281	125,945	336
Registrars	98,920	111,460	110,680	780
Judge of probate	14,972	14,972	14,972	-
Maintenance of town buildings	680,860	698,591	689,455	9,136
General government and benefits	4,729,252	5,051,117	4,923,520	127,597
Community services	25,101	25,101	25,101	-
Zoning commission	100,519	102,384	101,699	685
Planning department	82,725	84,869	84,476	393
Finance department	287,494	290,888	289,560	1,328
Contingency funds	313,423	64,387	-	64,387
Board of finance	38,000	39,245	38,745	500
Board of assessment appeals	1,250	1,250	632	618
Zoning board of appeals	780	780	392	388
Inlands Wetlands Agency	21,309	22,455	21,976	479
Conservation of natural resources commission	1,150	1,150	936	214
Waterford/ East Lyme shellfish commission	3,500	3,500	3,500	-
Smith-Harris commission	16,430	16,430	12,748	3,682
Town building committee	1,800	1,800	1,259	541
Harbor management commission	10,000	10,000	9,600	400
Historic properties commission	3,115	3,115	2,598	517
Total general government	7,872,987	8,000,619	7,746,224	254,395
Public safety:				
Dispatch	461,801	480,925	474,158	6,767
Police department	2,537,818	2,570,769	2,552,708	18,061
Niantic fire department	534,224	557,336	550,429	6,907
Flanders fire department	401,198	404,502	394,773	9,729
Emergency management	279,283	266,292	263,285	3,007
Animal Control	97,868	97,868	74,758	23,110
Total public safety	4,312,192	4,377,692	4,310,111	67,581

(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, 2019**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Public works:				
Highways and sanitation	\$ 3,703,698	\$ 3,673,901	\$ 3,671,870	\$ 2,031
Total public works	3,703,698	3,673,901	3,671,870	2,031
Health and welfare:				
Commission on aging	262,142	263,770	254,579	9,191
Visiting nurses association	9,360	9,360	9,360	-
Total health and welfare	271,502	273,130	263,939	9,191
Board of Education	47,576,943	47,970,984	47,970,983	1
Culture and recreation:				
East Lyme public library	1,183,645	1,183,645	1,183,645	-
Parks and recreation	727,001	739,726	714,292	25,434
Total culture and recreation	1,910,646	1,923,371	1,897,937	25,434
Capital outlay:				
Town - Capital improvement program	769,186	769,186	635,443	133,743
Town - Special Appropriations	-	82,719	82,445	274
Total capital outlay	769,186	851,905	717,888	134,017
Debt service:				
Redemption of debt - principal	4,091,103	4,091,104	4,091,104	-
Interest payments	1,278,883	1,304,698	1,304,699	(1)
Total debt service	5,369,986	5,395,802	5,395,803	(1)
Total expenditures and encumbrances	\$ 71,787,140	\$ 72,467,404	\$ 71,974,755	\$ 492,649

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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, 2019

	Special Revenue				Permanent Fund	Total Nonmajor Funds
	School Lunch Fund	Special Education Grant Fund	Historic Preservation Fund	Water Department	McCook Point Memorial Fund	
Assets						
Cash	\$ 153,359	\$ 114,371	\$ -	\$ 1,196,305	\$ 534	\$ 1,464,569
Intergovernmental receivables	57,347	2,479	-	221	-	60,047
Assessments/user charges	-	-	-	847,335	-	847,335
Inventory	1,215	-	-	34,025	-	35,240
Due from other funds	-	-	31,154	32,588	-	63,742
Total assets	\$ 211,921	\$ 116,850	\$ 31,154	\$ 2,110,474	\$ 534	\$ 2,470,933
Liabilities						
Accounts payable	\$ 25,630	\$ 33,189	\$ -	\$ 484,265	\$ -	\$ 543,084
Due to other funds	-	47,609	-	280,118	-	327,727
Unearned revenue	-	36,052	-	-	-	36,052
Total liabilities	25,630	116,850	-	764,383	-	906,863
Deferred Inflows of resources:						
Unavailable revenues	-	-	-	696,262	-	696,262
Total deferred inflows of resources	-	-	-	696,262	-	696,262
Fund balances:						
Nonspendable	1,215	-	-	34,025	534	35,774
Restricted	185,076	-	31,154	-	-	216,230
Committed	-	-	-	615,804	-	615,804
Total fund balances	186,291	-	31,154	649,829	534	867,808
Total liabilities, deferred inflows of resources and fund balances	\$ 211,921	\$ 116,850	\$ 31,154	\$ 2,110,474	\$ 534	\$ 2,470,933

Town of East Lyme, Connecticut

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ending June 30, 2019**

	Special Revenue				Permanent Fund	Total Nonmajor Funds
	School Lunch Fund	Special Education Grant Fund	Historic Preservation Fund	Water Department	McCook Point Memorial Funds	
Revenues:						
Intergovernmental	\$ 339,850	\$ 1,045,070	\$ 4,500	\$ -	\$ -	\$ 1,389,420
Charges for services	585,030	-	10,058	3,122,896	-	3,717,984
Total revenues	924,880	1,045,070	14,558	3,122,896	-	5,107,404
Expenditures:						
Current:						
Culture and recreation	-	-	9,096	-	-	9,096
Public works	-	-	-	2,262,463	-	2,262,463
Education	877,766	1,045,070	-	-	-	1,922,836
Debt service	-	-	-	634,427	-	634,427
Capital outlay	-	-	-	36,769	-	36,769
Total expenditures	877,766	1,045,070	9,096	2,933,659	-	4,865,591
Excess (deficiency) of revenues over (under) expenditures	47,114	-	5,462	189,237	-	241,813
Other financing:						
Uses						
Transfers out	-	-	-	(82,845)	-	(82,845)
Total other financing uses	-	-	-	(82,845)	-	(82,845)
Change in fund balances	47,114	-	5,462	106,392	-	158,968
Fund balances						
Beginning	139,177	-	25,692	543,437	534	708,840
Fund balances						
Ending	\$ 186,291	\$ -	\$ 31,154	\$ 649,829	\$ 534	\$ 867,808

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.

Pool fund: is used to account for activity for the pool managed by third party.

Town of East Lyme, Connecticut

Combining Statement of Fiduciary Net Position - Fiduciary Funds

June 30, 2019

	Private-Purpose Trust Funds		
	N. Parahus Senior Citizens Fund	Clarence A. Haynes Fund	Total Private Purpose Trust Funds
Assets			
Cash	\$ 100,652	\$ 3,121	\$ 103,773
Total assets	<u>100,652</u>	<u>3,121</u>	<u>103,773</u>
Net position held in trust for Other purposes	<u>\$ 100,652</u>	<u>\$ 3,121</u>	<u>\$ 103,773</u>

Town of East Lyme, Connecticut

Combining Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2019

	Private-Purpose Trust Funds		
	N. Parahus Senior Citizens Fund	Clarence A. Haynes Fund	Total Private Purpose Trust Funds
Additions:			
Contributions			
Private	\$ 3,441	\$ -	\$ 3,441
Total contributions	3,441	-	3,441
Investments:			
Interest income	1,081	1	1,082
Total investment income	1,081	1	1,082
Deductions:			
Expense	851	-	851
Changes in net position	3,671	1	3,672
Net position, beginning	96,981	3,120	100,101
Net position, ending	\$ 100,652	\$ 3,121	\$ 103,773

Town of East Lyme, Connecticut

**Combining Statement of Changes in Assets and Liabilities -
Agency Funds
June 30, 2019**

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Assets				
Cash and cash equivalents:				
Student activity fund	\$ 483,271	\$ 943,542	\$ 951,675	\$ 475,138
Pool fund	122,511	-	17,676	104,835
Performance bonds	612,378	50,304	5,017	657,665
Accounts Receivable:				
Pool fund	5,352	4,197	-	9,549
	<hr/>			
Total assets	\$ 1,223,512	\$ 998,043	\$ 974,368	\$ 1,247,187
	<hr/> <hr/>			
Liabilities				
Payable:				
Student Activity Fund	\$ 483,271	\$ 943,542	\$ 951,675	\$ 475,138
Pool fund	127,863	4,197	17,676	114,384
Performance Bonds	413,648	42,561		456,209
Due to other funds:				
Performance Bonds	198,730	2,726	-	201,456
	<hr/>			
Total liabilities	\$ 1,223,512	\$ 993,026	\$ 969,351	\$ 1,247,187
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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, 2019

Governmental funds capital assets:	
Land	\$ 15,199,447
Construction in progress	24,499,596
Buildings and improvements	128,104,404
Machinery and equipment	10,143,209
Vehicles	11,129,373
Infrastructure	35,197,664
Water distribution system	<u>31,003,589</u>
Total governmental funds capital assets	<u><u>\$ 255,277,282</u></u>

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Other Schedules

Town of East Lyme, Connecticut

**Balance Sheet - By Account - General Fund
June 30, 2019**

	General Fund	Board of Education Special Fund	Regional Probate District 32	Parks and Recreation Fund	Eliminate Interfund Receivables	Totals
Assets						
Cash	\$ 5,155,734	\$ 204,413	\$ -	\$ -	\$ -	\$ 5,360,147
Investments	2,028,879	-	-	-	-	2,028,879
Intergovernmental Receivables	30,659	-	-	-	-	30,659
Property Taxes	2,805,942	-	-	-	-	2,805,942
Assessments/User Charges	13,508	-	-	-	-	13,508
Other	511,704	-	5,772	-	-	517,476
Due from Other Funds	1,999,608	-	19,274	211,766	(231,040)	1,999,608
Total assets	\$ 12,546,034	\$ 204,413	\$ 25,046	\$ 211,766	\$ (231,040)	\$ 12,756,219
Liabilities						
Accounts payable	\$ 1,534,796	\$ -	\$ 1,967	\$ 45,958	\$ -	\$ 1,582,721
Due to other funds	1,311,077	-	-	-	(231,040)	1,080,037
Total liabilities	2,845,873	-	1,967	45,958	(231,040)	2,662,758
Deferred inflows of resources:						
Unavailable revenues	2,693,521	-	-	-	-	2,693,521
Total deferred inflows of resources	2,693,521	-	-	-	-	2,693,521
Fund balances:						
Assigned	745,029	204,413	23,079	165,808	-	1,138,329
Unassigned	6,261,611	-	-	-	-	6,261,611
Total fund balances	7,006,640	204,413	23,079	165,808	-	7,399,940
Total liabilities, deferred inflows of resources and fund balances	\$ 12,546,034	\$ 204,413	\$ 25,046	\$ 211,766	\$ (231,040)	\$ 12,756,219

Town of East Lyme, Connecticut

Schedule of Revenues, Expenditures and Changes in Fund Balance - By Account -
General Fund

For the Year Ended June 30, 2019

	General Fund	Board of Education Special Fund	Regional Probate District 32	Parks and Recreation Fund	Eliminate Interfund Transfers	Totals
Revenues:						
Property taxes	\$ 59,523,761	\$ -	\$ -	\$ -	\$ -	\$ 59,523,761
Intergovernmental	11,152,517	-	-	-	-	11,152,517
Charges for services	4,951,400	816,927	39,477	783,929	-	6,591,733
Interest income	145,345	-	-	-	-	145,345
Total revenues	75,773,023	816,927	39,477	783,929	-	77,413,356
Expenditures:						
Current:						
Culture and recreation	1,905,526	-	-	704,421	-	2,609,947
Public works	3,867,394	-	-	-	-	3,867,394
Education	51,110,782	967,113	-	-	-	52,077,895
General government	7,718,483	-	30,171	-	-	7,748,654
Public safety	4,306,874	-	-	-	-	4,306,874
Health and welfare	263,939	-	-	-	-	263,939
Capital outlay	584,769	-	-	-	-	584,769
Debt service:						
Principal	4,091,104	-	-	-	-	4,091,104
Interest	1,304,699	-	-	-	-	1,304,699
Total expenditures	75,153,570	967,113	30,171	704,421	-	76,855,275
Excess (deficiency) of revenues over (under) expenditures	619,453	(150,186)	9,306	79,508	-	558,081
Other financing sources (uses):						
Transfers in	111,299	-	-	-	(67,104)	44,195
Transfers (out)	(114,121)	-	(7,104)	(60,000)	67,104	(114,121)
Total other financing sources (uses)	(2,822)	-	(7,104)	(60,000)	-	(69,926)
Change in fund balances	616,631	(150,186)	2,202	19,508	-	488,155
Fund balances, beginning	6,390,009	354,599	20,877	146,300	-	6,911,785
Fund balances, ending	\$ 7,006,640	\$ 204,413	\$ 23,079	\$ 165,808	\$ -	\$ 7,399,940

Town of East Lyme, Connecticut

Schedule of Property Taxes Levied, Collected and Outstanding
For the Year Ended June 30, 2019

Grand List Year	Balance Uncollected July 1, 2018	Current Levy	Lawful Corrections			Balance to be Collected	Collections				Balance Uncollected June 30, 2019
			Additions	Deletions	Transfers to Suspend		Taxes	Interest and Lien Fees	Total	Refunds	
2003	\$ 4,419	\$ -	\$ -	\$ -	\$ -	\$ 4,419	\$ -	\$ -	\$ -	\$ -	4,419
2004	4,940	-	-	-	-	4,940	-	-	-	-	4,940
2005	11,057	-	-	-	1,843	9,214	-	333	333	-	9,214
2006	15,344	-	-	-	1,540	13,804	-	-	-	-	13,804
2007	18,989	-	-	-	444	18,545	66	124	190	-	18,479
2008	25,472	-	-	-	1,736	23,736	-	-	-	-	23,736
2009	49,349	-	-	-	2,023	47,326	896	265	1,161	-	46,430
2010	74,158	-	-	-	1,798	72,360	933	485	1,418	9	71,436
2011	90,051	-	-	-	2,806	87,245	9,440	6,595	16,035	-	77,805
2012	127,960	-	-	-	3,610	124,350	6,874	10,537	17,411	-	117,476
2013	171,120	-	-	-	2,003	169,117	18,836	15,251	34,087	4	150,285
2014	217,544	-	-	337	2,382	214,825	40,031	22,945	62,976	342	175,136
2015	321,886	-	5,013	1,452	2,311	323,136	98,086	40,547	138,633	1,123	226,173
2016	630,093	-	8,341	7,910	2,310	628,214	338,070	71,094	409,164	12,152	302,296
2017	-	59,592,848	49,558	259,802	1,120	59,381,484	58,822,675	149,726	58,972,401	86,754	645,563
	<u>\$ 1,762,382</u>	<u>\$59,592,848</u>	<u>\$ 62,912</u>	<u>\$ 269,501</u>	<u>\$ 25,926</u>	<u>\$61,122,715</u>	<u>\$59,335,907</u>	<u>\$ 317,902</u>	<u>\$59,653,809</u>	<u>\$ 100,384</u>	<u>\$ 1,887,192</u>

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