

*Financial Statements and  
Supplemental Schedules*

*Town of East Hampton*

*Year Ended June 30, 2006  
With Independent Auditors' Report*



*Scully & Wolf, LLP*

*Certified Public Accountants  
and Consultants*

**TOWN OF EAST HAMPTON, CONNECTICUT**

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## INDEPENDENT AUDITORS' REPORT

Board of Finance  
Town of East Hampton  
East Hampton, Connecticut

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of East Hampton, Connecticut, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

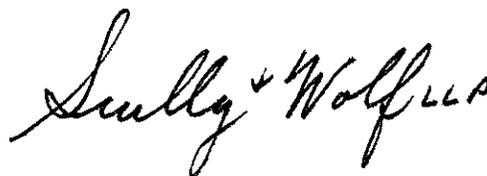
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of East Hampton, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2006 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 40 through 43 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

November 3, 2006

A handwritten signature in cursive script that reads "Scully & Wolf LLP". The signature is written in black ink and is positioned to the right of the date.

## TOWN OF EAST HAMPTON, CONNECTICUT

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2006

As management of the Town of East Hampton, Connecticut (the "Town"), we offer 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, 2006.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on current year's activities, resulting changes and current known facts, please read it in conjunction with the Town's financial statements (beginning on page 12).

#### **FINANCIAL HIGHLIGHTS**

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$42,603,871 (net assets). Of this amount, \$12,370,924 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$2,384,796 as a result of this year's operations.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$8,644,024, an increase of \$2,903,508 in comparison with the prior year. Approximately 97% or \$8,357,562 of this total amount is available for spending at the Town's discretion (unreserved undesignated fund balance).
- At the end of the close of the current fiscal year, unreserved fund balance for the general fund was \$3,599,359, or 10.7% of total general fund expenditures and transfers out.
- The Town's total debt increased by \$1,404,500 or 12.6% during the current fiscal year as a result of the issuance of general obligation debt.
- The tax collection rate was 98.9%.

#### **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 financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

##### **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 a private-sector business.

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements are intended to distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental 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, civic and human services, public works and utilities, education, regulatory and culture and recreation. The Town has no business-type activities.

The government-wide financial statements can be found on pages 12 and 13 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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental 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 the 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 twenty 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 balance for the General Fund and Capital Initiatives Fund, which are considered to be major funds. Data from the other eighteen 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 this report.

The basic governmental fund financial statements can be found on pages 14-15 of this report.

### *Fiduciary Funds*

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

The Town is the trustee, or fiduciary for its employees' pension plan. It is also responsible for other assets that, because of custodial arrangements, can be used only for the party on whose behalf they are held.

The basic fiduciary fund financial statements can be found on pages 16 and 17 of this report.

## Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-39 of this report.

### Required Supplementary Information

Other budgetary information required to be disclosed is provided in pages 40-43.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also contains combining and individual fund statements and schedules that can be found on pages 44-58 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Net Assets

Over time, net assets may serve as one measure of a government's financial position. Total net assets (governmental activities) of the Town totaled \$42,603,871 as of June 30, 2006 and are summarized as follows:

<b>TOWN OF EAST HAMPTON</b>		
<b>Net Assets</b>		
	<b>Governmental Activities</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
Current and other assets.....	\$16,486,173	\$17,962,632
Capital assets .....	<u>42,559,300</u>	<u>40,549,808</u>
Total assets .....	<u>59,045,473</u>	<u>58,512,440</u>
Long-term liabilities outstanding .....	13,755,973	12,297,184
Other liabilities .....	<u>2,685,629</u>	<u>5,996,181</u>
Total liabilities .....	<u>16,441,602</u>	<u>18,293,365</u>
Net assets:		
Invested in capital assets, net of debt.....	30,215,516	29,561,339
Restricted .....	17,431	17,072
Unrestricted.....	<u>12,370,924</u>	<u>10,640,664</u>
Total net assets .....	<u>\$42,603,871</u>	<u>\$40,219,075</u>

71% of the Town's net assets reflect its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

0.04% of the Town's net assets are subject to external restrictions on how they may be used and are therefore presented as restricted net assets.

The remainder of the Town's net assets are considered unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors.

Overall, net assets increased by \$2,384,796 or 5.9% in comparison to the prior year.

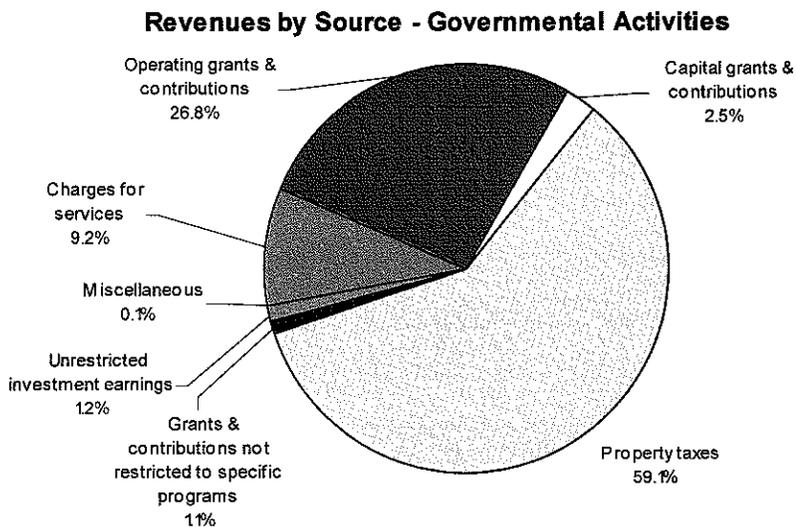
**Changes in Net Assets**

Changes in net assets for the years ended June 30, 2006 and 2005 are as follows:

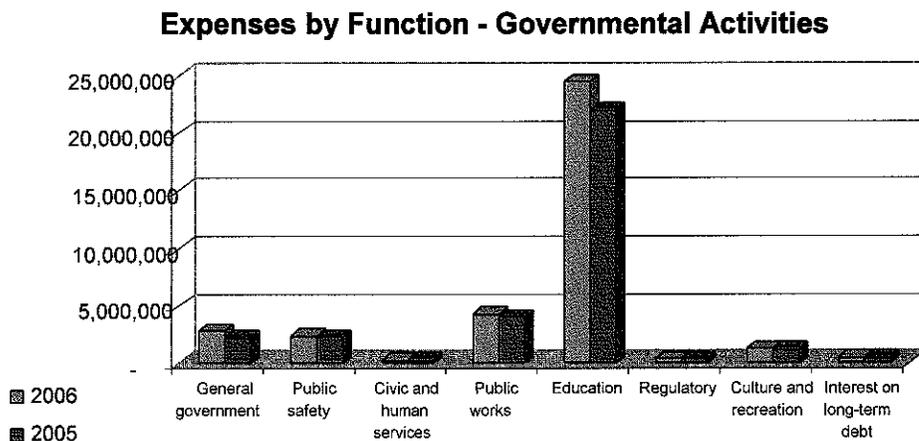
<b>TOWN OF EAST HAMPTON</b>		
<b>Changes In Net Assets</b>		
	<b>Governmental Activities</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
Revenues:		
Program revenues:		
Charges for services.....	\$ 3,591,233	\$ 3,274,879
Operating grants and contributions.....	10,089,752	8,634,397
Capital grants and contributions .....	1,324,242	1,850,348
General revenues:		
Property taxes .....	22,988,641	21,315,588
Grants and contributions not restricted to specific programs .....	411,922	460,453
Unrestricted investment earnings.....	474,365	260,755
Other .....	<u>29,067</u>	<u>          </u>
Total revenues .....	<u>38,909,222</u>	<u>35,796,420</u>
Program expenses:		
General government.....	2,863,707	2,231,747
Public safety .....	2,377,612	2,334,646
Civic and human services.....	287,554	314,598
Public works.....	4,341,583	4,062,603
Education .....	24,471,957	21,873,102
Regulatory .....	387,641	343,793
Culture and recreation .....	1,313,175	1,208,799
Interest on long-term debt .....	<u>481,197</u>	<u>504,222</u>
Total program expenses .....	<u>36,524,426</u>	<u>32,873,510</u>
Increase in net assets .....	<u>\$ 2,384,796</u>	<u>\$ 2,922,910</u>

**Changes in Net Assets (Continued)**

The following is a chart of revenues by source of governmental activities by percent of total revenues.



The following is a chart of expenses by function for governmental activities for fiscal years 2006 and 2005.



**Governmental Activities**

Revenues increased from the prior year due to many factors, one of which was an increase in property tax revenues. Property taxes of \$22,988,641 comprised 59.1% of the total revenues.

Capital grants and contributions decreased by \$526,106, mostly as a result of a decrease in the amount of donated roads from developers. Also contributing to this decrease were fewer grants from the federal government as a result less reimbursable expenses for the High School handicapped accessibility improvement project.

Operating grants increased by \$1,455,355, mostly as a result of an increase in education grants received from the state and in increase in the State of Connecticut “on-behalf” contributions to the Connecticut State Teachers’ Retirement System.

The following is a chart of expenses by program of governmental activities for fiscal years 2006 and 2005.

Expenses for certain functions increased because of the following:

- **General government** - The primary driver for expenses in this function were grant expenses relating to the Bellwood Court & Chatham Acres Housing Authority project renovations.
- **Public Works** – Major repairs to the Joint Facilities final settling tanks were the primary cost drivers.
- **Education** – This function has increased due to contractual obligations, including teachers’ salaries and benefits, including the State of Connecticut “on-behalf” payments to the Connecticut State Teachers’ Retirement System. Rising special education costs also contributed to increased expenses in this function.

The following table presents the cost of each of the Town’s four largest programs – education, public works, public safety and general government, as well as each program’s net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Town’s taxpayers by each of these functions.

<b>Governmental Activities</b>				
	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Education	\$24,471,957	\$21,873,102	\$14,790,764	\$13,548,324
Public works	\$4,341,583	\$4,062,603	\$864,865	\$168,460
Public safety	\$2,377,612	\$2,334,646	\$2,302,619	\$2,122,687
General government	\$2,863,707	\$2,231,747	\$1,911,592	\$1,758,924

## FINANCIAL ANALYSIS OF THE TOWN’S FUNDS

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

### Governmental Funds

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

As of the end of the current fiscal year, the Town’s governmental funds reported combined ending fund balances of \$8,644,024 an increase of \$2,903,508 in comparison with the prior year. Of this amount, \$8,357,562 constitutes unreserved undesignated fund balance which is available for spending at the Town’s discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for specific purposes.

## **General Fund**

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$3,599,359, while total fund balance was \$3,611,999. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers out. Unreserved undesignated fund balance represents 10.65% of total general fund expenditures and transfers out, while total fund balance represents 10.68% of that same amount.

The fund balance of the Town's general fund increased by \$290,000 during the current fiscal year. The key factors in this increase were due to the following:

- Actual revenues in the Planning, Zoning and Building department exceeded estimates by \$98,752 primarily due to new residential development.
- Actual revenues in the Tax Collector's department exceeded estimates by \$273,771.
- Actual revenues from the education cost sharing grant exceeded estimates by \$48,573.
- Actual expenditures were \$19,477 less than budgeted.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the year there was an increase between the original budget and the final amended budget appropriation of \$880,006. The following are the main components of the increase:

- \$320,164 supplemental appropriation to the Board of Education as a result of the receipt of the special education excess cost grant. The Board of Education budgets for this grant when received.
- \$121,741 supplemental appropriation to the general government contingency account.
- \$56,526 supplemental appropriation to the Board of Education as a result of the receipt of additional educational cost sharing grant funds.
- \$354,575 supplemental appropriation to the Capital Initiatives Fund for additional costs associated with the High School, Memorial School and Middle School water upgrade projects.
- \$22,000 supplemental appropriation to the Capital Reserve Fund for land acquisition costs.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The Town's investment in capital assets for its governmental activities as of June 30, 2006 totaled \$42,559,300 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, construction in progress, and bridges. This amount represents a net increase (including additions and deductions) of \$2,009,492, or 5.0%, over last year.

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

- Land acquisition on Bear Swamp Road (\$92,000).
- Construction in progress related to ADA Improvements at the High School (\$140,000), High School and Middle School water system upgrades (\$527,000), Town-wide water system (\$543,000) and improvements to White Birch Road (\$92,000).
- Donation of roads by developers (\$755,000).
- The completion of construction of the new Ambulance facility (\$697,000).
- The purchase of a rescue truck for the Fire Department (\$476,000).
- The completion of the Memorial School Water system upgrade (\$291,000) and the High School fire alarm upgrade (\$136,000).

**Town of East Hampton, Connecticut  
Capital Assets  
June 30, 2006 and 2005**

	<b>Governmental Activities</b>	
	<u>2006</u>	<u>2005</u>
Land.....	\$ 1,737,854	\$ 1,645,434
Construction in progress.....	2,681,017	1,970,084
Buildings.....	32,709,105	32,468,720
Improvements other than buildings.....	617	6,735
Machinery and equipment.....	2,656,828	2,382,726
Infrastructure.....	<u>2,773,879</u>	<u>2,076,109</u>
Totals.....	<u>\$42,559,300</u>	<u>\$40,549,808</u>

Additional information on the Town's capital assets can be found in Note 6 on page 30 of this report.

**Long-term Debt**

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$12,566,057. The total debt is backed by the full faith and credit of the government.

- The Town's total debt increased by \$1,404,500 or 12.6% during the current fiscal year. The key factor for this increase was a new general obligation debt issue to finance construction costs, land acquisition costs and equipment relating to public safety, schools, public works and recreation.

The Town maintains an A2 rating from Moody's Investor Service for general obligation debt. During the fiscal year the Town received an A+ rating from Standard & Poor's. This rating is considered an increase relative to the A2 rating given by Moody's Investor Service.

State statutes limit the amount of general obligation debt the Town may issue to seven times its annual receipts from taxation, as defined by the statutes. The current debt limitation for the Town is \$162 million, which is significantly in excess of the Town's outstanding general obligation debt.

The following table is a two year comparison of long-term debt presented for governmental type activities:

**Town of East Hampton, Connecticut  
Long-term Debt  
June 30, 2006 and 2005**

	<b>Governmental Activities</b>	
	<u>2006</u>	<u>2005</u>
General obligation bonds.....	<u>\$12,566,057</u>	<u>\$11,161,557</u>

Additional information on the Town's long-term debt can be found in Note 8 on pages 32-34 of this report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

A summary of key economic factors affecting the Town are as follows:

- The Town receives intergovernmental revenues from the State of Connecticut. Connecticut's economy moves in the same general cycle as the national economy, and at this point, the State and nation are in a recovery period which has affected the amount of intergovernmental revenues the Town will receive in fiscal year 2006 and thereafter.
- The unemployment rate for the Town is currently 3.7%, which is a significant decrease from the 2005 annual average rate of 6.2% in the prior year. This compares to the state's average unemployment rate of 3.8% and the national unemployment rate of 4.1%.
- The grand list is primarily comprised of residential real property while commercial and industrial real estate make up only 6.9% of the grand list.
- Inflation in the New York, New Jersey, Connecticut and Pennsylvania area (2.4%) continues to be above the national Consumer Price Index (CPI) increase (1.3%).
- The CPI for fuel and utilities has decreased by 1.4%, however, CPI measured over a two year period reflect a 17% increase. It is anticipated that next years fuel budget will be adjusted to cover this change.
- Residential construction continues to grow with approximately 110 new building permits issued this year. It is anticipated that overall town services will rise to meet the demand.

All of these factors were considered in preparing the Town's budget for fiscal year 2007.

During the current fiscal year, unreserved fund balance of the general fund increased to \$3,599,359, up 9.3% from the previous fiscal year. The Town has appropriated \$210,559 of this amount for spending in the 2007 fiscal year budget.

## **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 Town's finances. If you have any questions about this report or need additional information, please contact the Finance Directors Office, Town of East Hampton, 20 East High Street, East Hampton, Connecticut 06424.

TOWN OF EAST HAMPTON, CONNECTICUT

STATEMENT OF NET ASSETS  
JUNE 30, 2006

		GOVERNMENTAL ACTIVITIES
<b>ASSETS:</b>		
Cash and cash equivalents .....		\$ 9,789,315
Investments .....		535,872
Receivables (net) .....		5,007,825
Inventories .....		15,954
Prepaid items .....		1,007,133
Deferred charges .....		130,074
Capital assets not being depreciated .....		4,418,871
Capital assets being depreciated - net of depreciation .....		<u>38,140,429</u>
Total assets .....		<u>59,045,473</u>
<b>LIABILITIES:</b>		
Accounts and other payables .....		1,702,758
Unearned revenue .....		451,540
Bond anticipation notes .....		425,000
Unamortized bond premium .....		106,331
Noncurrent liabilities:		
Due within one year .....		1,762,431
Due in more than one year .....		<u>11,993,542</u>
Total liabilities .....		<u>16,441,602</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt .....		30,215,516
Restricted for library:		
Expendable .....		15,500
Nonexpendable .....		1,931
Unrestricted .....		<u>12,370,924</u>
Total net assets .....		<u>\$42,603,871</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF EAST HAMPTON, CONNECTICUT  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS...
			OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental activities:					
General government.....	\$ 2,863,707	\$ 499,866	\$ 452,249		\$ (1,911,592)
Public safety.....	2,377,612	48,535	26,458		(2,302,619)
Civic and human services.....	287,554	13,436	12,675		(261,443)
Public works and utilities.....	4,341,583	1,912,551	239,925	\$1,324,242	(864,865)
Education.....	24,471,957	489,650	9,191,543		(14,790,764)
Regulatory.....	387,641	324,079	53,525		(63,562)
Culture and recreation.....	1,313,175	303,116	113,377		(956,534)
Interest on long-term debt.....	481,197				(367,820)
Total governmental activities.....	\$36,524,426	\$3,591,233	\$10,089,752	\$1,324,242	(21,519,199)

General revenues:					
Property taxes, levied for general purposes.....					22,988,641
Grants and contributions not restricted to specific programs.....					411,922
Unrestricted investment earnings.....					474,365
Other.....					29,067
Total general revenues.....					23,903,995
Change in net assets.....					2,384,796
Net assets, July 1, 2005.....					40,219,075
Net assets, June 30, 2006.....					\$ 42,603,871

The accompanying notes are an integral part of these financial statements.

TOWN OF EAST HAMPTON, CONNECTICUT

GOVERNMENTAL FUNDS

BALANCE SHEET  
JUNE 30, 2006

	GENERAL	WPCA OPERATING	CAPITAL INITIATIVES	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash and cash equivalents	\$4,756,426	\$1,325,380	\$252,668	\$3,454,841	\$ 9,789,315
Investments				535,872	535,872
Receivables (net)	4,004,535	24,544	978,746	5,007,825	5,007,825
Due from other funds	131,126	1,177	1,237,234	1,369,537	1,369,537
Inventories			15,954		15,954
<b>TOTAL</b>	<b>\$8,892,087</b>	<b>\$1,351,101</b>	<b>\$252,668</b>	<b>\$6,222,647</b>	<b>\$16,718,503</b>

A S S E T S

L I A B I L I T I E S  
A N D  
F U N D B A L A N C E S

Liabilities:					
Cash overdraft	\$ 774,348	\$ 4,157	\$ 83,435	\$ 345,652	\$ 345,652
Accounts and other payables	211,102	1,042,687		331,596	1,939,536
Due to other funds	4,294,638	24,319	425,000	115,748	1,369,537
Deferred revenue				421,797	4,740,754
Bond anticipation notes payable					425,000
<b>Total liabilities</b>	<b>5,280,088</b>	<b>1,071,163</b>	<b>508,435</b>	<b>1,214,793</b>	<b>8,074,479</b>
Fund balances (deficit):					
Reserved	12,640			273,822	286,462
Unreserved, reported:					
General Fund	3,599,359	279,938			3,599,359
Special Revenue Funds				4,376,407	4,656,345
Capital Project Funds			(255,767)	355,694	99,927
Permanent Funds				1,931	1,931
<b>Total fund balances</b>	<b>3,611,999</b>	<b>279,938</b>	<b>(255,767)</b>	<b>5,007,854</b>	<b>8,644,024</b>
<b>TOTAL</b>	<b>\$8,892,087</b>	<b>\$1,351,101</b>	<b>\$ 252,668</b>	<b>\$6,222,647</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	42,559,300
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	5,426,421
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(14,025,874)

Net assets of governmental activities **\$ 42,603,871**

The accompanying notes are an integral part of these financial statements.

TOWN OF EAST HAMPTON, CONNECTICUT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL	WPCA OPERATING	CAPITAL INITIATIVES	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Revenues:</b>					
Property taxes	\$22,942,563			\$ 131,053	\$22,942,563
Assessments			\$ 131,542		131,053
Intergovernmental	9,921,660	\$721,246		1,812,911	11,866,113
Charges for services				1,831,965	2,553,211
Contributions and donations				40,547	40,547
Licenses, permits and fees	836,011	761		81,204	917,976
Income from investments	319,377	7,785	13,498	133,705	474,365
Miscellaneous	76,399		2,304	77,278	155,981
<b>Total revenues</b>	<b>34,096,010</b>	<b>729,792</b>	<b>147,344</b>	<b>4,108,663</b>	<b>39,081,809</b>
<b>Expenditures:</b>					
Current:					
General government	2,753,494			804,817	3,558,311
Public safety	1,826,234			183,358	2,009,592
Public works and utilities	1,678,677	720,360		1,391,643	3,790,680
Culture and recreation	823,707			320,455	1,144,162
Civic and human services	240,479			247,240	487,719
Regulatory	320,056			6,761	326,817
Education	22,524,248		1,582,654	1,366,342	23,890,590
Capital outlay				612,459	2,195,113
Debt service	2,157,444			80,633	2,238,077
<b>Total expenditures</b>	<b>32,324,339</b>	<b>720,360</b>	<b>1,582,654</b>	<b>4,766,468</b>	<b>39,393,821</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>1,771,671</b>	<b>9,432</b>	<b>(1,435,310)</b>	<b>(657,805)</b>	<b>(312,012)</b>
<b>Other financing sources (uses):</b>					
Transfers in			354,575	1,127,096	1,481,671
Transfers out	(1,481,671)				(1,481,671)
Issuance of bonds			2,461,000	714,000	3,175,000
Premium on bonds			40,520		40,520
<b>Total other financing sources (uses)</b>	<b>(1,481,671)</b>		<b>2,856,095</b>	<b>1,841,096</b>	<b>3,215,520</b>
<b>Net change in fund balances</b>	<b>290,000</b>	<b>9,432</b>	<b>1,420,785</b>	<b>1,183,291</b>	<b>2,903,508</b>
<b>Fund balances (deficit), July 1, 2005</b>	<b>3,321,999</b>	<b>270,506</b>	<b>(1,676,552)</b>	<b>3,824,563</b>	
<b>Fund balances (deficit), June 30, 2006</b>	<b>\$ 3,611,999</b>	<b>\$279,938</b>	<b>\$ (255,767)</b>	<b>\$5,007,854</b>	

Amounts reported for governmental activities in the statement of activities (Exhibit II) are different because:  
 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 as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.  
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the by the funds.  
 Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount proceeds exceed repayments.  
 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.

Change in net assets of governmental activities (Exhibit II) ..... \$ 2,384,796

The accompanying notes are an integral part of these financial statements.

TOWN OF EAST HAMPTON, CONNECTICUT

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2006

	PENSION TRUST FUND	AGENCY FUNDS
<b>ASSETS:</b>		
Cash and cash equivalents .....		\$166,611
Investments .....	\$16,103,191	744,022
Contributions receivable - plan members .....	292	
Contributions receivable - employer .....	39,868	
Total assets .....	16,143,351	\$910,633
<b>LIABILITIES:</b>		
Due to students and others .....		\$910,633
<b>NET ASSETS:</b>		
Held in trust for pension benefits .....	\$16,143,351	

The accompanying notes are an integral part of these financial statements.

TOWN OF EAST HAMPTON, CONNECTICUTFIDUCIARY FUNDSSTATEMENT OF CHANGES IN PLAN NET ASSETS  
PENSION TRUST FUND  
FOR THE YEAR ENDED JUNE 30, 2006

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Additions:	
Contributions:	
Employer.....	\$ 597,755
Plan members.....	<u>328,112</u>
Total contributions.....	925,867
Investment income:	
Net appreciation in fair value of investments... \$1,462,999	
Interest.....	<u>177,910</u>
Total.....	1,640,909
Less: investment expense.....	<u>(55,763)</u>
Net investment earnings.....	<u>1,585,146</u>
Total additions.....	2,511,013
Deductions:	
Benefit payments.....	548,583
Administrative expenses.....	<u>58,915</u>
Total deductions.....	<u>607,498</u>
Net increase.....	1,903,515
Net assets held in trust for pension benefits, July 1, 2005.....	<u>14,239,836</u>
Net assets held in trust for pension benefits, June 30, 2006....	<u>\$16,143,351</u>

The accompanying notes are an integral part  
of these financial statements.

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**TOWN OF EAST HAMPTON, CONNECTICUT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Town of East Hampton, Connecticut (the "Town") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant policies of the Town are described below.

***A. Reporting Entity***

The Town operates under a Charter which became effective in November 1973 and was revised in November 1987. The form of government includes an elected seven member Town Council which elects a chairman, an elected nine member Board of Education, and an elected seven member Board of Finance.

The legislative power of the Town is vested with the Town Council and the Town Meeting. The Town Council may enact, amend or repeal ordinances and resolutions. The administration of Town offices and agencies, with the exception of the Board of Education, is the responsibility of the Town Manager, who is appointed by the Town Council.

The Board of Finance is responsible for financial and taxation matters as prescribed by Connecticut General Statutes, and is responsible for presenting fiscal operating budgets to the Town Council for Town Meeting approval.

The Town has the power to incur indebtedness by issuing bonds or notes as provided by the Connecticut General Statutes.

There are no component units included in the Town's reporting entity because there are no other entities for which the Town is considered financially accountable.

**Related Organization**

The Town is responsible for appointing members to the board of directors of the Housing Authority (the "Authority") of the Town, but the Town's accountability for the Authority does not extend beyond making the appointments.

**Jointly Governed Organization**

The Town appoints one of five representatives that serve on the Board of Directors of Chatham Health District (the "District"). The District was formed in June 2002 as a cooperative effort to create a regional, full-time professional health department for the member Towns consisting of East Hampton, Marlborough, East Haddam, Hebron and Portland (2005). Payments made to the District by the Town for the year ended June 30, 2006 totaled \$91,181.

## **B. Government-Wide and Fund Financial Statements**

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

The statement of net assets presents the Town's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* - This category consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of capital assets.

*Restricted net assets* - This category consists of net assets whose use is restricted either through external restrictions imposed by creditors, grantors, contributors, and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* - This category consists of net assets which do not meet the definition of the two preceding categories.

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 as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The various funds included in the financial statements are described below:

### **Governmental Funds**

Governmental Funds are those through which most governmental functions typically are financed.

*General Fund* - the primary operating fund of the Town. This fund is used to account for all financial transactions and resources 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.

*Special Revenue Funds* - account for revenue derived from specific sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities.

*Capital Project Funds* - account for all financial resources used for the acquisition or construction of major capital facilities not being financed by proprietary funds.

*Permanent Funds* - These funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, maybe used for purposes that support the Town's programs.

## **Fiduciary Funds**

Fiduciary Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, and other governments. Fiduciary funds are not included in the government-wide statements. The fiduciary funds are as follows:

*Pension Trust Fund* - accounts for the East Hampton Employee Retirement System, a defined benefit plan for qualified employees.

*Agency Funds* - are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation. The Board of Education Student Activity Fund, Developer Bond Fund and the Volunteer Fireman Award Fund are the Town's agency funds.

### **C. 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 fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, charges for services, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received.

The Town reports the following major governmental fund:

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

The WPCA Operating Fund is used to account for the sewer operations of the Town.

The Capital Initiatives Fund is used to account for various capital projects and equipment purchases.

Additionally, the Town reports the following fund types:

The Pension Trust Funds account for the activities of the East Hampton Employees Retirement System, which accumulates resources for pension benefit payments to qualified Town employees.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between certain Town's functions because the 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 property taxes.

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

#### ***D. Deposits and Investments***

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Town to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and certain other investments as described in Note 4.

Investments for the Town are reported at fair value.

#### ***E. Donor-restricted Endowments***

The Town has received certain endowments for library operations purposes. The amounts are reflected in net assets as restricted for the library. Investment income (including appreciation) is approved for expenditure by the Library Director.

The Town allocates investment income of donor-restricted endowments in accordance with donor restrictions and Connecticut law, which has adopted the provisions of the Uniform Management of Institutional Funds Act (UMIFA). Under UMIFA, investment income earned on donor-restricted endowment funds is considered to be unrestricted in the absence of explicit donor restrictions. Further, in the absence of explicit donor restrictions regarding investment appreciation, such appreciation is treated the same as the related investment income. Investment losses that reduce the value of endowment investments below the original principal amount serve to reduce restricted net assets or unrestricted net assets, depending upon the applicable donor's stipulations regarding the treatment of investment income and appreciation.

Net appreciation of donor-restricted endowments available for expenditure by the Town totaled \$15,500 as of June 30, 2006 and is included in restricted net assets

#### ***F. Receivables and Payables***

Activity between funds that are representative of lending borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances". All trade and property tax receivables are shown net of an allowance for uncollectibles.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. No allowance for doubtful receivables, except property taxes, have been recognized by the Town.

Property taxes are assessed as of October 1 and are levied on the following July 1. Assessed values are established by the Town Assessor's Office at seventy percent of appraised value.

Real estate and personal property taxes are due in two installments, July 1 and the following January 1. Motor vehicle taxes are payable on July 1 and supplemental motor vehicle taxes are payable on January 1. Taxes become delinquent thirty days after the installment is due and liens are filed on delinquent real estate taxes within one year. Interest is charged on delinquent taxes at the rate of 1.5% per month (18% per year).

All property taxes receivable at June 30, 2006, which have not been collected within 60 days of June 30, have been recorded as deferred revenue in the fund financial statements, since they are not considered to be available to finance expenditures of the current fiscal year. Taxes collected during the 60 day period have been recorded as revenue in the fund financial statements. Based on historical collection experience and other factors, the Town has established an allowance for uncollectible taxes of \$30,000 as of June 30, 2006.

#### ***G. Inventories and Prepaid Items***

Inventories are reported at cost using the first-in first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories of U.S. Department of Agriculture (USDA) food products of the School Cafeteria Fund (a Nonmajor Special Revenue Fund) are valued at amounts assigned by the USDA.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

#### ***H. 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 activities columns in the government-wide financial statements. Capital assets are defined by the government 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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.

Property, plant, and equipment of the government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements .....	20-50
Improvements other than buildings	20
Infrastructure.....	20-50
Machinery and equipment .....	3-20

***I. Compensated Absences***

The Town allows employees to accumulate earned but unused vacation and sick pay benefits. The rate that these benefits are earned and accumulate varies by bargaining unit. Upon severance from employment with the Town, employees are paid by a prescribed formula for these accrued absences. All compensated absences are accrued when incurred in the government-wide financial statements. Expenditures for compensated absences are recognized in the governmental fund financial statements in the current year to the extent they are paid during the year, or the vested amount is expected to be paid with available resources. Accumulated vacation and sick pay earned and not paid as of June 30, 2006 is \$1,412,189.

***J. Long-Term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any significant applicable bond premium or discount. Significant bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

***K. Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

***L. Use of Estimates***

The preparation of the 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 and disclosures in the financial statements. Actual results could differ from those estimates.

## 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

### A. *Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets*

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds". The details of this \$14,025,874 difference are as follows:

Bonds and notes payable .....	\$12,566,057
Less: Deferred charge on refunding (to be amortized as interest expense).....	(222,273)
Unamortized bond premiums.....	106,331
Accrued interest payable .....	163,570
Compensated absences .....	1,412,189
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities .....	<u>\$14,025,874</u>

### B. *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 balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense". The details of this \$1,254,492 difference are as follows:

Capital outlay.....	\$ 2,552,617
Depreciation expense.....	<u>(1,298,125)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities .....	<u>\$ 1,254,492</u>

Another element of that reconciliation states that "some revenues in the statement of activities do not provide current financial resources and are not reported as revenue in the governmental funds". The details of this \$(211,090) difference are as follows:

Property taxes.....	\$ 39,852
Accrued interest .....	6,226
Housing loans.....	(32,183)
School building grants.....	(860,564)
Assessments .....	(86,059)
Sewer use .....	5,141
Contributions from developers.....	755,000
Net pension asset change .....	<u>(38,503)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities .....	<u>\$(211,090)</u>

Another element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds”. The details of this \$(157,614) difference are as follows:

Compensated absences.....	\$(103,474)
Accrued interest .....	(25,307)
Amortization of deferred charge on refunding.....	(25,402)
Amortization of issuance costs .....	28,313
Amortization of bond premium.....	<u>(31,744)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities .....	<u>\$(157,614)</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities”. The details of this \$(1,404,500) difference are as follows:

Issuance of bonds.....	\$(3,175,000)
Principal repayments:	
General obligation debt.....	1,705,000
Clean water notes.....	<u>65,500</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities .....	<u>\$(1,404,500)</u>

### 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

#### A. Budgetary Information

The Town Council submits to the Board of Finance a policy statement outlining its annual budget goals and objectives for the ensuing fiscal year. The Town Manager compiles preliminary estimates for all departments and agencies, with the exception of the Board of Education, for the annual budget for presentation to the Board of Finance. The Board of Education submits its estimates directly to the Board of Finance. The Board of Finance compiles a total budget based upon the Town Council’s policy statement and the financial availability of Town funds, holds one or more public hearings on its proposal, and presents a recommended budget to the Town Council no later than April 15. After making alterations or reductions, as they deem necessary, the Council submits its proposed budget to the Town Meeting for approval.

The Board of Finance reviews and makes recommendations regarding all requests for additional appropriations to be submitted to the Council. Additional appropriations from fund balance, which exceed \$25,000, must be approved by Town Meeting. Additional appropriations from fund balance below \$25,000, as well as additional appropriations from revised revenue, must be approved by Town Council.

Additional appropriations for the year ended June 30, 2006 amounted to \$880,006 of which \$498,431 was from revised revenue and \$381,575 from fund balance.

Formal budgetary integration is employed as a management control device during the year. The legal level of control (the level at which expenditures may not legally exceed appropriations) is at the department level.

Budgeted amounts shown are as originally adopted, or as revised by the Town Council and Board of Finance during the course of the year.

The Board of Education is authorized under State law to make any transfers required within their budget at their discretion.

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 those for the Capital Projects Funds. Appropriations for capital projects are continued until completion of applicable projects, even when projects extend more than one fiscal year.

The Town does not budget for revenue or expenditures associated with pension contributions made by the State of Connecticut on behalf of East Hampton teachers (see Note 12). The payment made by the State of Connecticut for the current year was \$1,313,880.

***B. Deficit Fund Equity***

**Fund Deficits**

The following funds had deficit fund balances as of June 30, 2006, which did not constitute a violation of statutory provisions:

<u>Fund</u>	<u>Amount</u>
Capital Initiatives Fund (Major Fund) .....	\$255,767
Public Water System Fund (Nonmajor Governmental Fund).....	\$157,107

The deficits will be funded by grants and long-term debt.

**4. CASH, CASH EQUIVALENTS AND INVESTMENTS**

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits may be made in a “qualified public depository” as defined by Statute, or, in amounts not exceeding the Federal Deposit Insurance Corporation insurance limit in an “out of state bank”, as defined by the Statutes, which is not a “qualified public depository”.

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 and 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. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds does not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the State Short-Term Investment Fund (STIF) and the State Tax Exempt Proceeds Fund (TEPF). These investment pools are under the control of the State Treasurer, with oversight provided by the Treasurer’s Cash Management Advisory Board, and are regulated under the State Statutes and subject to annual audit by the Auditors of Public Accounts. Investment yields are accounted for on an amortized-cost basis with an investment portfolio that is designed to attain a market-average rate of return throughout budgetary and economic cycles. Investors accrue interest daily based on actual earnings, less expenses and transfers to the designated surplus reserve, and the fair value of the position in the pool is the same as the value of the pool shares.

**A. Cash and Cash Equivalents**

The following is a summary of cash and cash equivalents at June 30, 2006:

Deposits:	
Demand accounts .....	\$3,721,041
Money market accounts .....	<u>2,252,713</u>
Total deposits .....	5,973,754
Petty cash.....	2,025
Cash equivalents:	
State Short-Term Investment Fund (STIF) .....	665,078
MBIA, Inc. – Cooperative Liquid Assets Securities System (CLASS).....	<u>3,315,069</u>
 TOTAL CASH AND CASH EQUIVALENTS .....	 <u>\$9,955,926</u>

**Deposits**

At June 30, 2006 the carrying amount of the Town deposits was \$5,973,754 and the bank balance was \$6,512,874.

*Custodial Credit Risk* – Custodial credit risk is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. Of the June 30, 2006 bank balance, \$400,518 was covered by Federal Depository Insurance. Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with Federal law) in an amount equal to a defined percentage of its public deposits based upon the depository’s risk based capital ratio. A minimum of \$651,236 based on June 30, 2006 deposits, was collateralized (collateral held by the pledging bank’s trust department is not in the Town’s name). The balance of deposits of \$5,461,120 was uninsured and uncollateralized.

**Cash Equivalents**

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At June 30, 2006 the Town’s cash equivalents amounted to \$3,980,147. The following table provides a summary of the Town’s cash equivalents (excluding U.S. government guaranteed obligations) as rated by nationally recognized statistical rating organizations.

	<u>Standard and Poor’s</u>	<u>Moody’s Investor Service</u>	<u>Fitch Ratings</u>
State Short-Term Investment Fund (STIF).....	AAAm		
MBIA, Inc. – Cooperative Liquid Assets Securities System (CLASS).....	AA	Aaa	AAA

**B. Investments**

Investments as of June 30, 2006 in all funds are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Interest Bearing Investments:		
Certificates of deposit .....	\$ 155,336	1.89
U.S. government obligations.....	296,191	3.41
U.S. government bond funds.....	121,485	4.50
Corporate bonds .....	34,387	5.85
Corporate bond funds.....	4,574,202	4.25
Other Investments:		
Common stock.....	151,352	
Mutual funds .....	501,696	
Pension Fund mutual funds.....	<u>11,548,436</u>	
 TOTAL.....	 <u>\$17,383,085</u>	

Portfolio weighted average maturity for interest bearing investments..... 4.15

\*Subject to coverage by Federal Depository Insurance and collateralization under as described under “Deposits” above.

*Interest Rate Risk* – The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk – Investments* - As indicated above, State Statutes limit the investment options of cities and towns. The Town has no investment policy that would further limit its investment choices. The following table provides a summary of the Town’s investments (excluding U.S. government guaranteed obligations) as rated by nationally recognized statistical rating organizations.

**Standard  
and Poor's**

Government bonds .....	AAA
Corporate bonds .....	AAA

*Concentration of Credit Risk* –The Town does not have an investment policy that defines the maximum percent of the Town’s total investments that investments in one issuer may make up.

*Custodial Credit Risk* – Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the Town or that sells investments to or buys them for the Town), the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2006, the Town had uninsured and unregistered securities held by the counterparty, or by its trust department or agent of \$481,931 that were not in the Town’s name.

**5. RECEIVABLES**

Receivables as of year end for the Town’s individual major funds and nonmajor, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<b><u>General Fund</u></b>	<b><u>WPCA Operating Fund</u></b>	<b><u>Nonmajor and Other Funds</u></b>	<b><u>Total</u></b>
Receivables:				
Interest .....	\$ 48,503			\$ 48,503
Property taxes .....	290,259			290,259
Use charges and assessments.....		\$24,544	\$ 153,227	177,771
Intergovernmental.....	3,695,268		551,954	4,247,222
Housing loans .....			294,186	294,186
Pension contributions .....			40,160	40,160
Other .....	505		23,507	24,012
Gross receivables.....	4,034,535	24,544	1,063,034	5,122,113
Less: allowance for uncollectibles.....	(30,000)		(44,128)	(74,128)
Net total receivables .....	<u>\$4,004,535</u>	<u>\$24,544</u>	<u>\$1,018,906</u>	<u>\$5,047,985</u>

The allowances for uncollectibles are \$30,000 for General Fund property taxes and \$44,128 for Small Cities Loans.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable.....	\$ 216,871	
Accrued interest on delinquent property tax.....	48,503	
Property taxes collected in advance.....		\$228,252
Sewer assessments and use fees not yet due.....	176,858	
Grant drawdowns prior to meeting all eligibility requirements.		204,088
School building grants.....	3,596,924	
Housing loans.....	250,058	
Program activities.....		<u>19,200</u>
Total deferred/unearned revenue for governmental funds.....	<u>\$4,289,214</u>	<u>\$451,540</u>

## 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land.....	\$ 1,645,434	\$ 92,420		\$ 1,737,854
Construction in progress.....	1,970,084	1,838,075	\$(1,127,142)	2,681,017
Total capital assets, not being depreciated	<u>3,615,518</u>	<u>1,930,495</u>	<u>(1,127,142)</u>	<u>4,418,871</u>
Capital assets, being depreciated:				
Buildings.....	48,151,903	1,124,809		49,276,712
Improvements other than buildings.....	61,795			61,795
Machinery and equipment.....	6,030,512	624,455	(107,613)	6,547,354
Infrastructure.....	2,124,725	755,000		2,879,725
Total capital assets being depreciated.....	<u>56,368,935</u>	<u>2,504,264</u>	<u>(107,613)</u>	<u>58,765,586</u>
Less accumulated depreciation for:				
Buildings.....	(15,683,183)	(884,424)		(16,567,607)
Improvements other than buildings.....	(55,060)	(6,118)		(61,178)
Machinery and equipment.....	(3,647,786)	(350,353)	107,613	(3,890,526)
Infrastructure.....	(48,616)	(57,230)		(105,846)
Total accumulated depreciation.....	<u>(19,434,645)</u>	<u>(1,298,125)</u>	<u>107,613</u>	<u>(20,625,157)</u>
Total capital assets, being depreciated, net	<u>36,934,290</u>	<u>1,206,139</u>		<u>38,140,429</u>
Governmental activities capital assets, net	<u>\$ 40,549,808</u>	<u>\$ 3,136,634</u>	<u>\$(1,127,142)</u>	<u>\$ 42,559,300</u>

The Town has not fully implemented the provisions of GASB Statement No. 34 related to recording infrastructure assets prior to July 1, 2002 implementation date of the standard. The Town implemented the prospective reporting provisions of the standard for all infrastructure assets after the July 1, 2002 implementation date.

Depreciation and amortization expense was charged to functions/programs as follows:

<b>Governmental activities:</b>	
General government.....	\$ 16,822
Public safety.....	147,719
Public works and utilities.....	474,609
Civic and human services.....	8,652
Culture and recreation.....	53,023
Education.....	595,982
Regulatory.....	<u>1,318</u>
 Total depreciation and amortization expense - governmental activities.....	 <u>\$1,298,125</u>

Capital Projects

A summary of project authorizations for the Town's Capital Projects in process, at June 30, 2006 is as follows:

	<b>..Project Expenditures..</b>				
	<b>Project Authorization</b>	<b>2005/2006</b>	<b>Cumulative</b>	<b>Encumbrances</b>	<b>Balance</b>
Capital Initiatives Fund.....	\$3,722,972	\$1,582,654	\$3,547,846		\$175,126
Public Water System Fund..	\$1,541,770	\$558,506	\$1,358,419	\$13,347	\$170,004

**7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

At June 30, 2006 the interfund receivables and payables are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from other funds:		
WPCA Operating Fund.....	Nonmajor Governmental Funds.....	\$ 1,177
Nonmajor Governmental Funds .....	General Fund .....	211,102
Nonmajor Governmental Funds .....	WPCA Operating Fund.....	1,026,132
General Fund .....	Nonmajor Governmental Funds.....	114,571
General Fund .....	WPCA Operating Fund.....	<u>16,555</u>
	TOTAL.....	<u>\$1,369,537</u>
Advances to/from other funds:		
Nonmajor and Other Funds:		
WPCA Development Fund.....	Public Water System Fund .....	<u>\$150,000</u>

The above interfund balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

Interfund transfers for the year ended June 30, 2006 consisted of the following:

	.....Transfer In.....		
	<u>Capital Initiatives Fund</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Transfer out:			
General Fund.....	\$354,575	\$1,127,096	\$1,481,671

Transfers are used to account for the financing by the General Fund and other major funds of various program and activities in other funds.

**8. LONG-TERM DEBT**

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Bonds and notes payable:					
General obligation bonds and notes.....	\$11,161,557	\$3,175,000	\$(1,770,500)	\$12,566,057	\$1,691,822
Unamortized amounts:					
Deferred charge on refunding .....	(247,675)		25,402	(222,273)	
Total bonds payable ..	10,913,882	3,175,000	(1,745,098)	12,343,784	1,691,822
Other liabilities:					
Compensated absences.....	1,308,715	610,907	(507,433)	1,412,189	70,609
TOTAL .....	\$12,222,597	\$3,785,907	\$(2,252,531)	\$13,755,973	\$1,762,431

General purpose and school related long-term liabilities have typically been liquidated by the General Fund. The Beneficial Assessment fund and WPCA Joint Facilities funds are responsible for certain sewer related liabilities.

General Obligation Bonds and Notes

A summary of outstanding general obligation bonds and notes payable is as follows:

<u>Description</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate (%)</u>	<u>Amount of Original Issue</u>	<u>Balance Outstanding June 30, 2006</u>
General obligation bonds:					
General purpose refunding bonds .....	06-15-99	10-15-10	3.75-4.6	\$10,100,000	\$ 3,750,000
General obligation bonds.....	08-15-02	08-15-17	3.00-4.125	\$2,345,000	1,845,000
General purpose refunding bonds .....	04-01-03	07-15-14	3.375-4.10	\$4,005,000	3,075,000
General obligation bonds.....	02-01-06	02-01-21	3.40-5	\$3,175,000	3,175,000
Clean water notes payable:					
Sewer 480-C .....	06-30-02	12-31-21	2.0	\$503,694	403,446
Sewer .....	03-31-94	03-31-13	2.0	\$837,030	<u>317,611</u>
TOTAL.....					<u>\$12,566,057</u>

The maturity schedule for bond and note indebtedness is as follows:

<u>Year Ending June 30,</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Amount to be Provided by State for Principal</u>	<u>Amount to be Provided by the State for Interest</u>
2007.....	\$ 1,691,822	\$ 462,901	\$ 656,280	\$ 89,174
2008.....	1,678,172	385,714	659,204	74,078
2009.....	1,669,547	322,013	650,664	58,452
2010.....	1,655,951	257,790	1,630,776	111,424
2011.....	1,282,383	201,195		
2012-2016.....	3,430,533	527,986		
2017-2021.....	1,142,591	103,519		
2022.....	15,058	89		
TOTAL .....	<u>\$12,566,057</u>	<u>\$2,261,207</u>	<u>\$3,596,924</u>	<u>\$333,128</u>

School Bond Reimbursement

The State of Connecticut reimburses the Town for eligible school bond principal and interest costs. The amount of reimbursement for the year ended June 30, 2006 was \$949,738. Additional reimbursements of principal and interest aggregating approximately \$3.9 million are expected to be received through the applicable bonds' maturity dates.

Advance Refunding

In prior years, the Town has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. At June 30, 2006, \$4,830,000 of general obligation bonds are considered defeased.

Authorized/Unissued Bonds

The amount of authorized, unissued bonds for general purposes at June 30, 2006 is as follows:

<u>Purpose of Bonds</u>	<b>Authorized But Unissued</b>
<b>Governmental Activities:</b>	
Ambulance Facility .....	\$18,500
High School Athletic Facilities Improvements .....	\$2,000
Capital Improvements 2004-2005 .....	\$454,400
Land Purchase .....	\$7,100
School Project – Water and alarm system.....	\$425,000

The Town's indebtedness does not exceed the legal debt limitations as established by Connecticut General Statutes as reflected in the following schedule:

<u>Category</u>	<u>Debt Limit</u>	<b>(thousands) <u>Indebtedness</u></b>	<u>Balance</u>
General purpose .....	\$52,121	\$2,325	\$49,796
Schools.....	\$104,242	\$6,828	\$97,414
Sewers .....	\$86,869	\$721	\$86,148
Urban renewal.....	\$75,286		\$75,286
Pension deficit.....	\$69,495		\$69,495

The total overall statutory debt limit for the Town is equal to seven times annual receipts from taxation (\$162.1 million).

The indebtedness reflected above includes long-term debt outstanding and \$907 thousand of bonds authorized and unissued against which bond anticipation notes are issued and outstanding.

School indebtedness is net of \$3.597 million of State of Connecticut school building grant commitments.

**9. BOND ANTICIPATION NOTES**

The following is a schedule of activity for the year:

<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate(%)</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2006</u>
05/05/05	02/01/06	2.55	\$3,655,000	\$3,655,000	\$ - 0 -
02/01/06	01/30/07	3.29	\$425,000		\$425,000

The bond anticipation notes relate to the School Water and Alarm System project.

**10. FUND BALANCE – RESERVATIONS**

Descriptions of the various reservations of the Town’s governmental funds, fund balance accounts are as follows:

Reserved for Inventory – to segregate a portion of fund balance equal to the inventory.

Reserved for Encumbrances – to segregate a portion of fund balance for expenditure upon vendor performance.

Reserved – Trust Purposes – to segregate a portion of fund balance which is nonexpendable.

A summary of reserved fund balances at June 30, 2006 is presented below:

General Fund:	
Reserved for Encumbrances .....	\$ 12,640
Nonmajor Governmental Funds:	
Reserved for Inventory .....	15,954
Reserved for Encumbrances .....	130,126
Reserved Trust Principal – Permanent Funds .....	15,500
Reserved for Advances.....	<u>112,242</u>
 Total governmental funds.....	 <u>\$286,462</u>

**11. RISK MANAGEMENT**

The Town is exposed to various risks of loss related to public official liability, police liability, Board of Education legal liability, theft or impairment of assets, errors and omissions, injury to employees and natural disasters. The Town purchases commercial insurance for all risks of loss, including blanket and umbrella policies. Settled claims have not exceeded commercial coverage in any of the past three fiscal years, and there has not been any significant reductions in insurance coverage from amounts held in prior year.

**12. PENSION PLANS**

**A. Plan Description**

The Town of East Hampton is the administrator of a single-employer Public Employee Retirement System (PERS) established and administered by the Town to provide pension benefits for its employees. The Plan does not issue stand-alone financial statements and is considered to be part of the Town of East Hampton's financial reporting entity. As such the plan is accounted for in the fiduciary fund financial statements as pension trust fund.

The Town of East Hampton Retirement System covers all employees working more than twenty (20) hours a week except teachers covered under the State of Connecticut Teachers' Retirement System. The Town provides all retirement benefits through a single employer, contributory, defined benefit plan. All employees are 100% vested after 10 years of continuous service. Employees who retire at normal retirement, for police the earlier of age 55 with 10 years of service or 20 years of service, for all others age 62, with 5 years service receive a retirement benefit.

The benefit formula is as follows:

For Police, 2.5% of Final Earnings times Credited Service; for all other participants effective January 1, 2001 2.25% of Final Earnings multiplied by Credited Service.

The minimum retirement benefit for all participants will be \$1,200 at Normal Retirement Date.

The membership of the plan consisted of the following as of January 1, 2006, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits .....	60
Terminated Plan members entitled to benefits but not yet receiving them	76
Current Plan members.....	157
Inactive with vested benefits.....	<u>3</u>
TOTAL .....	<u>296</u>

**B. Summary of Significant Accounting Policies and Plan Asset Matters**

Basis of Accounting: PERS' financial statements are prepared using the accrual basis of accounting. Employee and plan member contributions are recognized as revenues in the period in which employee services are performed. Benefit payments and refunds are payable when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments: All funds are invested and administered through an Investor Contract with CIGNA Retirement and Investment Services and are reported at fair value. There were no securities representing five percent or more of the Plan's net assets.

**C. Funding Policy**

Police employees contribute 5% of earnings; all other employees are required to contribute 5.50% of earnings to the PERS. The Town is required to contribute the amounts necessary to finance the benefits for its employees in accordance with actuarial recommendations. Benefits are fixed by contract. Benefits and contribution requirements may be amended by the Town Council subject to union ratification.

**D. Annual Pension Cost and Net Pension Obligations**

The Town's annual pension cost and net pension obligation for the year ended June 30, 2006 were as follows:

Annual required contribution.....	\$ 597,755
Interest on net pension obligation.....	(83,651)
Adjustment to annual required contribution.....	<u>122,154</u>
Annual pension cost.....	636,258
Contributions made.....	<u>597,755</u>
Increase in net pension obligation .....	38,503
Net pension obligation (asset), July 1, 2005.....	<u>(1,045,636)</u>
Net pension obligation (asset), June 30, 2006.....	<u><u>\$(1,007,133)</u></u>

The annual required contribution for the current year was determined as part of the January 1, 2005 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return (b) 8% projected salary increases, and (c) expenses averaging 5% of benefits payable over future years. Both (a) and (b) included an inflation component of 3.5%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized utilizing a level dollar open basis over 15 years constant.

**E. Trend Information**

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
6/30/04	\$576,682	\$499,675	86.6%	\$(1,085,611)
6/30/05	591,904	551,929	93.2	(1,045,636)
6/30/06	636,258	597,755	93.95	(1,007,133)

Information in this table has been restated as of June 30, 2004.

**F. Pension Plan Required Supplementary Information**

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) (b)</u>	<u>(Over)/Under Funded AAL (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>(Over)/Under Funded AAL as a % of Covered Payroll ((a-b)/c)</u>
1/01/2002	\$11,708,157	\$11,541,836	\$(166,321)	101.4%	\$4,407,603	(3.8)%
1/01/2004	13,303,561	14,282,705	979,144	93.14	5,569,262	17.58
1/01/2006	15,713,232	17,166,458	1,453,226	91.53	5,941,437	24.46

*Schedule of Employer Contributions*

<b><u>Year Ended June 30,</u></b>	<b><u>Annual Required Contribution</u></b>	<b><u>Percentage Contributed</u></b>
2001	\$347,399	124%
2002	364,757	127
2003	404,546	120
2004	533,871	94
2005	551,929	100
2006	597,755	100

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

**Connecticut State Teachers' Retirement System**

The faculty and professional personnel of the Board of Education participate in a contributory defined benefit plan, established under Chapter 167a of the Connecticut General Statutes, which is administered by the Connecticut State Teachers' Retirement Board.

Certain part-time and full-time certified teachers are eligible to participate in the plan and are required to contribute 7.25% of their annual earnings to the plan. The Town does not and is not legally responsible to contribute to the plan. After five years of service, teachers are fully vested in their own contributions. After ten years of service, teachers are fully vested in the monthly pension benefit which is payable at the age of sixty. The State of Connecticut contributes based on actuarially determined amounts. The funding level was determined based on an actuarial valuation of the plan as a whole, which does not provide actuarial information on an individual town basis. For the year ended June 30, 2006, Town teachers contributed \$751,470 to the plan and covered payroll for the year was \$10,365,103.

In accordance with the provisions of GASB Statement No. 24, the Town has reported "on behalf" payments of \$1,313,880 made by the State of Connecticut into the plan as intergovernmental revenues, and related expenditures of the General Fund in the accompanying statement of revenues, expenditures and changes in fund balances of the governmental funds.

**13. COMMITMENTS AND CONTINGENCIES**

Intermunicipal Agreement

The Town is party to an intermunicipal agreement for septage waste disposal. The Town of East Hampton has agreed to accept septage from five area towns. East Hampton originally borrowed \$837,030 from the State of Connecticut Clean Water Fund to finance improvements to its plant to accommodate septage from the other towns. During fiscal year 2002 the Town of East Hampton borrowed an additional \$503,694 for a nitrogen reduction project. Each town is committed to paying a portion of the cost of improvements over the next twenty years. Additionally, operating costs and a utilization fee will also be charged.

### Federal and State Grants

The Town has received Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for any expenditure disallowed under the terms of the grant. Based on prior experience, Town management believes such disallowances, if any, will not be material.

### Litigation

The Town of East Hampton, its officers, employees, boards and commissions are defendants in a number of lawsuits. It is the opinion of Town officials, as well as the Town attorney, that such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the Town which would have a material adverse affect on its financial position.

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TOWN OF EAST HAMPTON, CONNECTICUT

GENERAL FUND

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
FOR THE YEAR ENDED JUNE 30, 2006

	.....BUDGETED AMOUNTS.....			VARIANCE
	ORIGINAL	FINAL	ACTUAL	FAVORABLE (UNFAVORABLE)
<u>PROPERTY TAXES</u>				
Current taxes .....	\$22,005,592	\$22,005,592	\$22,313,118	\$ 307,526
Back taxes .....	250,000	250,000	171,254	(78,746)
Supplemental motor vehicles .....	250,000	250,000	315,421	65,421
Interest .....	160,000	160,000	140,298	(19,702)
Liens .....	3,200	3,200	2,472	(728)
Total property taxes .....	22,668,792	22,668,792	22,942,563	273,771

INTERGOVERNMENTAL REVENUES

General government:				
State infrastructure (LOCIP) .....	95,564	95,564	98,344	2,780
Elderly tax relief .....	41,500	41,500	44,081	2,581
Elderly Freeze Exemption .....	7,700	7,700	7,865	165
Department of Youth Services .....	15,914	15,914	16,079	165
Boat registration .....	13,378	13,378	13,378	
State-owned property .....	122,463	122,463	131,502	9,039
Disability tax relief .....			1,233	1,233
Veteran's exemption .....	5,300	5,300	4,739	(561)
Manufacturers equipment (PILOT) .....	12,085	12,085	19,960	7,875
Telephone Access Line Share .....	87,518	87,518	68,613	(18,905)
Mashantucket Pequot/Mohegan grant .....	105,044	105,044	98,036	(7,008)
Total .....	506,466	506,466	503,830	(2,636)

Education:

Principal and interest subsidy school bonds .....		971,099	973,940	2,841
Education cost sharing .....	6,210,960	6,389,227	6,437,800	48,573
Special education excess cost .....		320,164	320,164	
School transportation .....	298,391	298,391	279,455	(18,936)
BESB .....	15,000	15,000	22,400	7,400
Special Education Equity .....			44,024	44,024
Adult education .....	25,676	25,676	26,167	491
Total .....	7,521,126	8,019,557	8,103,950	84,393
Total intergovernmental revenues .....	8,027,592	8,526,023	8,607,780	81,757

LICENSES, FEES AND PERMITS

Finance Department .....	18,240	18,240	24,644	6,404
Engineering services .....	40,080	40,080	19,501	(20,579)
Police Department .....	4,725	4,725	5,375	650
Town Clerk .....	412,800	412,800	426,874	14,074

(Continued) - 1.

TOWN OF EAST HAMPTON, CONNECTICUT  
 GENERAL FUND  
 SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), ETC.

	.....BUDGETED AMOUNTS.....			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
Planning, zoning, and buildings.....	\$ 226,025	\$ 226,025	\$ 324,777	\$ 98,752
Transfer station fees/stickers.....	22,425	22,425	34,440	12,015
Blasting permits.....	600	600	400	(200)
Total licenses, fees and permits .....	724,895	724,895	836,011	111,116
<u>MISCELLANEOUS</u>				
Housing Authority reimbursement.....	18,500	18,500	21,185	2,685
Lease of Town property.....	21,600	21,600	21,606	6
Collector of Revenue.....	4,600	4,600	3,270	(1,330)
Cemetery.....			1,750	1,750
Sears Park rent.....			875	875
Use of schools.....	425	425	915	490
Tuition.....	1,800	1,800	455	(1,345)
Library.....	6,750	6,750	11,853	5,103
Middle Haddam Historic District.....	150	150	300	150
Community room rental.....	450	450	600	150
Sears Park stickers.....	14,000	14,000	13,590	(410)
Total miscellaneous .....	68,275	68,275	76,399	8,124
<u>INVESTMENT INCOME</u>				
Investment income.....	100,000	100,000	319,377	219,377
Total revenues .....	31,589,554	32,087,985	32,782,130	694,145
<u>OTHER FINANCIAL SOURCES</u>				
Transfers from other funds:				
Capital Projects .....	27,000	27,000		(27,000)
Use of fund balance .....		381,575		(381,575)
Total other financing sources .....	27,000	408,575		(408,575)
Total revenues and other financing sources .....	\$31,616,554	\$32,496,560	32,782,130	\$ 285,570
Budgetary revenues are different than GAAP revenues because:				
State of Connecticut "on-behalf" contributions to the Connecticut State Teachers' Retirement System for Town teachers are not budgeted.....			1,313,880	
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds - Exhibit IV .....			\$34,096,010	

TOWN OF EAST HAMPTON, CONNECTICUT

GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 FOR THE YEAR ENDED JUNE 30, 2006

	..... BUDGETED AMOUNTS.....			VARIANCE
	ORIGINAL	FINAL	ACTUAL	FAVORABLE (UNFAVORABLE)
General government:	\$ 247,030	\$ 264,855	\$ 264,828	\$ 27
Town Manager's Department.....	10,381	11,916	11,895	21
Council special programs.....	3,537	3,537	3,471	66
Probate court.....	84,068	85,430	85,429	1
Facilities administrator.....	85,000	111,372	111,370	2
Legal defense/fees.....	212,718	214,493	214,492	1
Town Hall and Annex.....	377,225	374,525	374,451	74
Finance and Accounting.....	165,047	164,557	164,554	3
Collector of Revenue.....	147,799	146,514	146,508	6
Assessor's Office.....	553	813	812	1
Board of Assessment Appeals.....	174,605	175,060	175,060	
Town Clerk's Office.....	21,660	29,950	29,946	4
Registrars/elections.....	266,560	178,560	178,347	213
General insurance.....	1,024,491	979,491	979,302	189
Employee benefits.....	10,000			
Contingency.....				
Total general government .....	2,830,674	2,741,073	2,740,465	608
Public Safety:				
Police administration.....	252,712	242,454	242,453	1
Police regular patrol.....	1,052,756	1,082,496	1,082,494	2
Lake patrol.....	3,112	3,515	2,483	1,032
Animal Control.....	50,865	44,530	43,471	1,059
Street lighting.....	60,475	54,240	54,240	
Fire administration.....	192,282	227,787	227,786	1
Fire Marshal.....	74,911	75,256	75,252	4
Ambulance Association.....	1,500	1,500		1,500
Civil Preparedness.....	1,514	2,085	2,085	
Communications.....	94,833	94,833	94,482	351
Total public safety .....	1,784,960	1,828,696	1,824,746	3,950
Public Works				
Public works - administration.....	1,040,645	1,023,705	1,023,701	4
Engineering fees.....	75,000	118,870	118,869	1
Townwide motor fuel.....	81,180	118,360	118,357	3
Town Garage.....	37,121	28,751	28,671	80
Road materials.....	194,440	201,450	201,447	3
Transfer station.....	164,773	172,503	172,502	1
Septage disposal.....	18,300	15,135	15,130	5
Total public works .....	1,611,459	1,678,774	1,678,677	97

(Continued) - 1.

TOWN OF EAST HAMPTON, CONNECTICUT  
 GENERAL FUND  
 SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), ETC.

	.....BUDGETED AMOUNTS.....			VARIANCE
	ORIGINAL	FINAL	ACTUAL	FAVORABLE (UNFAVORABLE)
Regulatory:				
Planning, Zoning and Buildings.....	\$ 310,410	\$ 306,590	\$ 306,155	\$ 435
Economic Development Commission.....	7,719	12,009	12,008	1
Middle Haddam Historic District.....	745	1,395	1,393	2
Total regulatory .....	318,874	319,994	319,556	438
Health and Human Services:				
Chatham Health District.....	91,182	91,182	91,181	1
Social Services.....	20,525	20,525	19,719	806
Senior Center.....	81,312	75,562	74,969	593
Transportation.....	50,930	50,930	50,930	
Community services.....	3,700	3,700	3,680	20
Total health and human services .....	247,649	241,899	240,479	1,420
Culture and Recreation:				
Park and recreation.....	349,164	353,494	353,466	28
Library.....	346,919	345,519	343,711	1,808
Community Center.....	112,033	119,588	119,530	58
Middle Haddam Library.....	7,000	7,000	7,000	
Total culture and recreation .....	815,116	825,601	823,707	1,894
Board of Education.....	20,959,716	21,221,406	21,210,368	11,038
Debt Service.....	2,163,856	2,157,446	2,157,444	2
Total expenditures.....	30,732,304	31,014,889	30,995,442	19,447
Other Financing Uses:				
Transfers to other funds:				
Water Fund.....	10,000	55,846	55,846	
Capital Reserve Fund.....	874,250	1,071,250	1,071,250	
Other transfers.....		354,575	354,575	
Total other financing uses.....	884,250	1,481,671	1,481,671	
TOTAL.....	\$31,616,554	\$32,496,560	32,477,113	\$19,447
Budgetary expenditures are different than GAAP expenditures because:				
State of Connecticut "on-behalf" payments to the Connecticut State Teachers' Retirement System for				
Town teachers are not budgeted.....				
Encumbrances for purchases and commitments ordered but not received are reported in the year the				
order is placed for budgetary purposes, but in the year received for financial reporting purposes.				
Total expenditures and other financing sources as reported on the statement of revenues, expenditures,				
and changes in fund balances - governmental funds - Exhibit IV .....				
			\$33,806,010	

TOWN OF EAST HAMPTON, CONNECTICUTGENERAL FUNDCOMPARATIVE BALANCE SHEET  
JUNE 30, 2006 AND 2005

	2006	2005
<u>A S S E T S</u>		
Cash and cash equivalents.....	\$4,756,426	\$4,428,644
Receivables, net of allowance for uncollectibles:		
Property taxes receivable - net of allowance of \$30,000.....	260,259	207,890
Other receivables.....	49,008	56,430
Grants and contracts.....	3,695,268	4,592,135
Due from other funds.....	131,126	
TOTAL.....	<u>\$8,892,087</u>	<u>\$9,285,099</u>
 <u>L I A B I L I T I E S</u> <u>A N D</u> <u>F U N D B A L A N C E</u>		
Liabilities:		
Accounts payable.....	\$ 490,886	\$ 541,632
Accrued liabilities:		
Salaries and benefits payable.....	215,962	252,569
Other.....	67,500	67,676
Due to other funds.....	211,102	73,997
Deferred revenue.....	4,294,638	5,027,226
Total liabilities.....	<u>5,280,088</u>	<u>5,963,100</u>
Fund balance:		
Reserved for encumbrances.....	12,640	27,657
Unreserved:		
Designated for subsequent year.....	210,559	
Undesignated.....	3,388,800	3,294,342
Total fund balance.....	<u>3,611,999</u>	<u>3,321,999</u>
TOTAL.....	<u>\$8,892,087</u>	<u>\$9,285,099</u>

TOWN OF EAST HAMPTON, CONNECTICUT  
 REPORT OF TAX COLLECTOR  
 FOR THE YEAR ENDED JUNE 30, 2006

GRAND LIST	UNCOLLECTED TAXES JULY 1, 2005	CURRENT TAX LEVY	.....ASSESSOR'S.....	ADDITIONS	DEDUCTIONS	TRANSFERRED TO SUSPENSE	ADJUSTMENTS	NET AMOUNT COLLECTIBLE	TAXES	INTEREST AND LIENS	TOTAL	UNCOLLECTED TAXES JUNE 30, 2006
2004 ..		\$22,781,776	\$229,916	\$152,282	\$	660		\$22,858,750	\$22,613,423	\$101,628	\$22,715,051	\$245,327
2003 ..	\$185,347		2,739	11,823		12,213		164,050	131,515	28,202	159,717	32,535
2002 ..	40,890		330	72		10,246		30,902	21,885	9,359	31,244	9,017
2001 ..	11,588		266			511		11,343	8,029	6,906	14,935	3,314
2000 ..	65		177					242	176	1,108	1,284	66
1999 ..			188					188	188	575	763	
TOTAL .	\$237,890	\$22,781,776	\$233,616	\$164,177		\$23,630	\$ - 0 -	\$23,065,475	22,775,216	147,778	22,922,994	\$290,259
							Advance collections.....		228,252		228,252	
							Suspense collections.....		5,868	862	5,868	
							Suspense interest and liens.....				862	
							TOTAL .....		\$23,009,336	\$148,640	\$23,157,976	

TOWN OF EAST HAMPTON, CONNECTICUT

GENERAL FUND

BOARD OF EDUCATION  
SCHEDULE OF EXPENDITURES COMPARED WITH APPROPRIATIONS  
FOR THE YEAR ENDED JUNE 30, 2006

	ORIGINAL APPROPRIATION	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED BALANCE
Certified salaries.....	\$10,503,139	\$10,544,565	\$10,528,210	\$ 16,355
Classified salaries.....	2,210,028	2,210,028	2,181,649	28,379
Employee benefits:				
Workmen's compensation.....	46,070	37,321	36,096	1,225
Unemployment compensation.....	7,224	12,884	19,011	(6,127)
Social security.....	152,500	152,500	153,553	(1,053)
Medicare.....	122,622	123,222	134,706	(11,484)
Pension.....	179,025	179,025	189,025	(10,000)
Medical and dental.....	2,236,450	2,250,950	2,247,878	3,072
Life insurance.....	56,992	56,992	53,972	3,020
Tuition.....	1,629,946	1,940,077	1,742,247	197,830
Pupil transportation.....	1,316,817	1,316,817	1,291,301	25,516
Other transportation.....	42,106	42,106	39,995	2,111
Computer consulting services.....	59,615	51,612	47,826	3,786
Meetings and conferences.....	4,083	17,041	18,920	(1,879)
Professional/technical services.....	628,000	628,055	557,850	70,205
Public utilities.....	18,500	18,500	23,638	(5,138)
Building and equipment maintenance and repairs.....	162,148	162,981	158,627	4,354
Heating and ventilation maintenance and repairs.....	24,911	24,911	37,120	(12,209)
Security system maintenance and repairs.....	1,588	1,588	600	988
Vehicle maintenance and repairs.....	2,689	2,689	7,097	(4,408)
Supplies, materials and minor equipment.....	324,795	331,502	344,854	(13,352)
Fire protection.....	15,375	15,375	17,729	(2,354)
Refuse removal.....	39,184	39,184	42,515	(3,331)
Water and underground tank testing.....	3,703	3,703	4,204	(501)
Pest control.....	2,589	2,589	1,100	1,489
Tile and carpet replacement.....	7,500	7,500	5,994	1,506
Equipment rental.....	133,015	131,391	91,391	40,000
Property and liability insurance.....	55,130	58,219	58,218	1
Staff travel.....	10,145	10,284	9,176	1,108
Communications.....	58,439	59,559	59,329	230
Newspaper advertising.....	4,889	5,674	14,342	(8,668)
Printing and binding.....	27,805	25,502	21,346	4,156
Other purchased services.....	60,451	49,197	37,241	11,956
Heating oil.....	203,800	203,800	316,205	(112,405)
Motor fuel.....	112,000	112,000	150,802	(38,802)
Electricity.....	227,438	227,438	255,283	(27,845)
Bottled gas.....	7,000	7,000	9,561	(2,561)
Textbooks.....	112,228	113,135	130,566	(17,431)
Library books/periodicals.....	32,744	32,737	30,502	2,235
Other supplies and materials.....	24,838	31,117	30,209	908
Dues and fees.....	45,749	45,858	45,810	48
Equipment.....	46,446	49,778	64,670	(14,892)
Transfers out*.....			115,000	(115,000)
TOTAL.....	\$20,959,716	\$21,336,406	\$21,325,368	\$ 11,038

\*Amount is included as an Other Financing Use (Capital Reserve Fund) on RS1-1.

TOWN OF EAST HAMPTON, CONNECTICUT

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET  
JUNE 30, 2006

	SEPTAGE DISPOSAL	WATER SYSTEM	PUBLIC SAFETY	CULTURE AND RECREATION	SCHOOL CAFETERIA	EDUCATION GRANT	HEALTH INSURANCE RESERVE	PUBLIC WORKS
	\$79,477		\$53,112 16,175	\$153,858	\$48,746	\$239,970	\$519,697	\$571,220

A S S E T S

Cash and cash equivalents.....		\$ 686						
Investments.....			1,135		15,657 472	164,036		
Receivables, net of allowance for uncollectibles:								
Assessments and user charges.....								
Grants and contracts (intergovernmental) .....								
Other.....			565		15,954			
Due from other funds.....		49,180						
Inventories.....								
Advances to other funds.....								
<b>TOTAL.....</b>	<b>\$79,477</b>	<b>\$49,866</b>	<b>\$70,987</b>	<b>\$153,858</b>	<b>\$80,829</b>	<b>\$404,006</b>	<b>\$519,697</b>	<b>\$571,220</b>

L I A B I L I T I E S  
A N D  
F U N D B A L A N C E S

Liabilities:								
Cash overdraft.....	\$25,595							
Accounts payable.....	5,347		\$ 4,944	\$ 7,580	\$37,011	\$ 71,489		\$ 7,446
Due to other funds.....	1,177			9,271	9,761	89,577		
Deferred revenue.....	686			10,662		4,600		
Advances from other funds.....								
Total liabilities.....	32,805		4,944	27,513	46,772	165,666		7,446
Fund balances (deficit):								
Reserved for:								
Inventories.....				15,954				
Advances.....								
Encumbrances.....								
Endowments.....								
Unreserved.....	17,061	17,061	66,043	126,345	18,103	238,340	\$519,697	563,774
Total fund balances (deficit)	79,477	17,061	66,043	126,345	34,057	238,340	519,697	563,774
<b>TOTAL.....</b>	<b>\$79,477</b>	<b>\$49,866</b>	<b>\$70,987</b>	<b>\$153,858</b>	<b>\$80,829</b>	<b>\$404,006</b>	<b>\$519,697</b>	<b>\$571,220</b>

TOWN OF EAST HAMPTON, CONNECTICUT  
NONMAJOR GOVERNMENTAL FUNDS  
 COMBINING BALANCE SHEET (CONTINUED)  
 JUNE 30, 2006

	COMMUNITY DEVELOPMENT	MISCELLANEOUS GRANT	CAPITAL RESERVE	BENEFICIAL ASSESSMENT	WPCA JOINT FACILITIES	COMPENSATED ABSENCES	TOTAL
Cash and cash equivalents.....	\$360,639	\$17,251	\$ 972,397		\$940,740		\$3,437,410
Investments.....							535,872
Receivables, net of allowance for uncollectibles:				\$152,541			153,227
Assessments and user charges.....							
Grants and contracts (intergovernmental).....	250,058	34,074			22,535		214,902
Other.....		500					273,565
Due from other funds.....		19,691	115,000	642,686		\$30,000	857,122
Inventories.....							15,954
Advances to other funds.....							
<b>TOTAL .....</b>	<b>\$610,697</b>	<b>\$71,516</b>	<b>\$1,087,397</b>	<b>\$795,227</b>	<b>\$963,275</b>	<b>\$30,000</b>	<b>\$5,488,052</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Cash overdraft.....							\$ 25,595
Accounts payable.....	\$ 686	\$ 42,099	\$ 17,205		\$106,389		300,196
Due to other funds.....					9,296		119,082
Deferred revenue.....	250,058			\$155,791			421,797
Advances from other funds.....							
<b>Total liabilities .....</b>	<b>250,744</b>	<b>42,099</b>	<b>17,205</b>	<b>155,791</b>	<b>115,685</b>		<b>866,670</b>
Fund balances (deficit):							
Reserved for:							
Inventories.....							15,954
Advances.....		112,242					112,242
Encumbrances.....							116,779
Endowments.....							
Unreserved.....	359,953	(82,825)	953,413	639,436	847,590	\$30,000	4,376,407
<b>Total fund balances (deficit)</b>	<b>359,953</b>	<b>29,417</b>	<b>1,070,192</b>	<b>639,436</b>	<b>847,590</b>	<b>30,000</b>	<b>4,621,382</b>
<b>TOTAL .....</b>	<b>\$610,697</b>	<b>\$ 71,516</b>	<b>\$1,087,397</b>	<b>\$795,227</b>	<b>\$963,275</b>	<b>\$30,000</b>	<b>\$5,488,052</b>

(Continued) - 2.

TOWN OF EAST HAMPTON, CONNECTICUT

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET (CONTINUED)  
JUNE 30, 2006

	WPCA DEVELOPMENT	PUBLIC WATER SYSTEM	TOTAL	LIBRARY TRUST	INTERFUND ELIMINATIONS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
.....CAPITAL PROJECT..... PERMANENT.						
<u>A. S. S. E. T. S.</u>						
Cash and cash equivalents.....				\$17,431		\$3,454,841
Investments.....						535,872
Receivables, net of allowance for uncollectibles:						
Assessments and user charges.....						153,227
Grants and contracts (intergovernmental).....		\$ 337,052	\$337,052			551,954
Other.....						273,565
Due from other funds.....	\$383,446		383,446	\$ (3,334)		1,237,234
Inventories.....	150,000		150,000	(150,000)		15,954
Advances to other funds.....						
<u>TOTAL</u> .....	<u>\$533,446</u>	<u>\$337,052</u>	<u>\$870,498</u>	<u>\$17,431</u>	<u>\$(153,334)</u>	<u>\$6,222,647</u>
<u>L I A B I L I T I E S</u>						
<u>A N D</u>						
<u>F U N D B A L A N C E S</u>						
Liabilities:						
Cash overdraft.....	\$ 5,575	\$ 314,482	\$320,057			\$ 345,652
Accounts payable.....	1,723	29,677	31,400			331,596
Due to other funds.....				\$ (3,334)		115,748
Deferred revenue.....					(150,000)	421,797
Advances from other funds.....		150,000				
Total liabilities.....	7,298	494,159	501,457	(153,334)		1,214,793
Fund balances (deficit):						
Reserved for:						
Inventories.....						15,954
Advances.....	150,000		150,000		(150,000)	112,242
Encumbrances.....		13,347	13,347			130,126
Endowments.....				\$15,500		15,500
Unreserved.....	376,148	(170,454)	205,694	1,931	150,000	4,734,032
Total fund balances (deficit)	526,148	(157,107)	369,041	17,431		5,007,854
<u>TOTAL</u> .....	<u>\$533,446</u>	<u>\$ 337,052</u>	<u>\$870,498</u>	<u>\$17,431</u>	<u>\$(153,334)</u>	<u>\$6,222,647</u>

TOWN OF EAST HAMPTON, CONNECTICUT

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2006

	SEPTAGE DISPOSAL	WATER SYSTEM	PUBLIC SAFETY	CULTURE AND RECREATION	SCHOOL CAFETERIA	EDUCATION GRANT	HEALTH INSURANCE RESERVE	PUBLIC WORKS
Revenues:								
Assessments.....	\$ 97,300		\$ 18,321	\$ 10,711	\$ 94,779	\$ 652,874		\$ 137,339
Intergovernmental.....		\$ 27,971	42,760	278,298	465,280	13,967		
Charges for services.....	3,831	269	2,625	2,912	1,915	8,836	\$ 2,038	19,059
Income/(loss) from investments.....			8,137	26,735				
Contributions and donations.....								
Licenses, permits and fees.....								
Miscellaneous.....		1,121				9,033		
Total revenues.....	101,131	29,361	71,843	318,656	561,974	684,710	2,038	156,398
Expenditures:								
Current:								
General government.....			90,711				6,030	
Public safety.....		81,706		309,627				32,803
Public works and utilities.....								
Culture and recreation.....								
Civic and human services.....					549,320			
Education.....						652,059		
Debt service:								
Principal payments.....	43,515							
Interest and fiscal charges.....	6,825							
Capital outlays.....								
Total expenditures.....	50,340	81,706	90,711	309,627	549,320	652,059	6,030	32,803
Excess (deficiency) of revenues over expenditures.....	50,791	(52,345)	(18,868)	9,029	12,654	32,651	(3,992)	123,595
Other financing sources (uses):								
Bond issuance.....		55,846						
Transfers in.....								
Transfers out.....	(46,000)							
Total other financing sources (uses).....	(46,000)	55,846						
Net change in fund balances.....	4,791	3,501	(18,868)	9,029	12,654	32,651	(3,992)	123,595
Fund balance (deficit), July 1, 2005.	74,686	13,560	84,911	117,316	21,403	205,689	523,689	440,179
Fund balance (deficit), June 30, 2006	\$ 79,477	\$ 17,061	\$ 66,043	\$ 126,345	\$ 34,057	\$ 238,340	\$ 519,697	\$ 563,774

(Continued) - 1.

TOWN OF EAST HAMPTON, CONNECTICUT

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006

.....SPECIAL REVENUE.....

	COMMUNITY DEVELOPMENT	MISCELLANEOUS GRANT	CAPITAL RESERVE	BENEFICIAL ASSESSMENT	WFCA JOINT FACILITIES	COMPENSATED ABSENCES	TOTAL
Revenues:							
Assessments.....				\$131,053			\$ 131,053
Intergovernmental.....	\$ 37,862	\$464,535					1,475,859
Charges for services.....	14,287	27,711			\$ 938,116		1,831,965
Income/(loss) from investments.....		1,897	\$ 17,872	11,660	37,898		125,099
Contributions and donations.....		5,675					40,547
Licenses, permits and fees.....							
Miscellaneous.....			29,067		38,057		77,278
Total revenues.....	52,149	499,818	46,939	142,713	1,014,071		3,681,801
Expenditures:							
Current:							
General government.....	8,144	533,791	256,852				804,817
Public safety.....			92,647				183,358
Public works and utilities.....			280,591		996,543		1,391,643
Culture and recreation.....			10,828				320,455
Civic and human services.....		6,761					6,761
Education.....			164,963				1,366,342
Debt service:							
Principal payments.....					21,985		65,500
Interest and fiscal charges.....					8,308		15,133
Capital outlays.....							
Total expenditures.....	8,144	540,552	805,881		1,026,836		4,154,009
Excess (deficiency) of revenues over expenditures.....	44,005	(40,734)	(758,942)	142,713	(12,765)		(472,208)
Other financing sources (uses):							
Bond issuance.....							
Transfers in.....		20,000	1,071,250		46,000		1,193,096
Transfers out.....	(20,000)						(66,000)
Total other financing sources (uses).....	(20,000)	20,000	1,071,250		46,000		1,127,096
Net change in fund balances.....	24,005	(20,734)	312,308	142,713	33,235		654,888
Fund balance (deficit), July 1, 2005.....	335,948	50,151	757,884	496,723	814,355	\$30,000	3,966,494
Fund balance (deficit), June 30, 2006.....	\$359,953	\$ 29,417	\$1,070,192	\$639,436	\$ 847,590	\$30,000	\$4,621,382

(Continued) - 2.

TOWN OF EAST HAMPTON, CONNECTICUT

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006

	WPCA DEVELOPMENT	PUBLIC WATER SYSTEM	TOTAL	LIBRARY TRUST	INTERFUND ELIMINATIONS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
.....CAPITAL PROJECT..... .PERMANENT.						
Revenues:						
Assessments.....		\$ 337,052	\$ 337,052			\$ 131,053
Intergovernmental.....						1,812,911
Charges for services.....	\$ 8,247		8,247	\$ 359		1,831,965
Income/(loss) from investments.....						133,705
Contributions and donations.....	81,204		81,204			40,547
Licenses, permits and fees.....						81,204
Miscellaneous.....						77,278
Total revenues.....	89,451	337,052	426,503	359		4,108,663
Expenditures:						
Current:						
General government.....						804,817
Public safety.....						183,358
Public works and utilities.....						1,391,643
Culture and recreation.....						320,455
Civic and human services.....						6,761
Education.....						1,366,342
Debt service:						
Principal payments.....						65,500
Interest and fiscal charges.....						15,133
Capital outlays.....	53,956	558,503	612,459			612,459
Total expenditures.....	53,956	558,503	612,459			4,766,468
Excess (deficiency) of revenues over expenditures.....	35,495	(221,451)	(185,956)	359		(657,805)
Other financing sources (uses):						
Bond issuance.....		714,000	714,000			714,000
Transfers in.....					\$ (66,000)	1,127,096
Transfers out.....					66,000	
Total other financing sources (uses).....		714,000	714,000			1,841,096
Net change in fund balances.....	35,495	492,549	528,044	359		1,183,291
Fund balance (deficit), July 1, 2005.....	490,653	(649,656)	(159,003)	17,072		3,824,563
Fund balance (deficit), June 30, 2006.....	\$526,148	\$(157,107)	\$ 369,041	\$17,431	\$ - 0 -	\$5,007,854

(Concluded) - 3.



TOWN OF EAST HAMPTON, CONNECTICUT

AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE YEAR ENDED JUNE 30, 2006

	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006
<b>Assets:</b>				
Cash:				
Student Activity Fund.....	\$127,537	\$509,944	\$512,739	\$124,742
Developer Bond Fund.....	63,648	16,100	37,879	41,869
Investments:				
Student Activity Fund.....	138,195	5,890	4,925	139,160
Volunteer Firemen Award Fund.....	545,016	64,634	4,788	604,862
<b>TOTAL ASSETS</b> .....	<b>\$874,396</b>	<b>\$596,568</b>	<b>\$560,331</b>	<b>\$910,633</b>
<b>Liabilities:</b>				
Due to students and others:				
Student Activity Fund.....	\$265,732	\$515,834	\$517,664	\$263,902
Developer Bond Fund.....	63,648	16,100	37,879	41,869
Volunteer Firemen Award Fund.....	545,016	64,634	4,788	604,862
<b>TOTAL LIABILITIES</b> .....	<b>\$874,396</b>	<b>\$596,568</b>	<b>\$560,331</b>	<b>\$910,633</b>

TOWN OF EAST HAMPTON, CONNECTICUTCAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDSCOMPARATIVE SCHEDULE BY SOURCE  
JUNE 30, 2006 AND 2005

	2006	2005
Governmental funds capital assets:		
Land.....	\$ 1,737,854	\$ 1,645,434
Buildings.....	49,276,712	48,151,903
Improvements other than buildings.....	61,795	61,795
Machinery and equipment.....	6,547,354	6,030,512
Infrastructure.....	2,879,725	2,124,725
Construction in progress.....	<u>2,681,017</u>	<u>1,970,084</u>
TOTAL.....	<u>\$63,184,457</u>	<u>\$59,984,453</u>
Investments in governmental funds capital assets by source:		
General obligation bonds and notes.....	\$52,307,316	\$50,893,420
General Fund revenues.....	2,157,725	2,017,257
Special Revenue Fund revenues.....	4,430,680	4,240,626
Federal and State Grants.....	2,157,333	1,456,747
Donations.....	<u>2,131,403</u>	<u>1,376,403</u>
TOTAL.....	<u>\$63,184,457</u>	<u>\$59,984,453</u>

TOWN OF EAST HAMPTON, CONNECTICUT  
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
 SCHEDULE BY FUNCTION AND ACTIVITY  
 JUNE 30, 2006

	TOTAL	LAND	BUILDINGS	IMPROVEMENTS OTHER THAN BUILDINGS	MACHINERY AND EQUIPMENT	INFRASTRUCTURE	CONSTRUCTION IN PROGRESS
General government.....	\$ 1,250,745	\$ 787,141	\$ 350,498		\$ 113,106		
Public safety.....	3,452,362	78,162	993,706		2,380,494		
Public works and utilities.....	22,282,393	55,085	14,603,584		2,995,104	\$2,879,725	\$1,748,895
Cultural and recreation.....	3,254,648	476,167	2,745,812		32,669		
Civic and human services.....	310,086	80,099	5,265		224,722		
Regulatory.....	71,534		56,000		15,534		
Education.....	32,562,689	261,200	30,521,847	\$61,795	785,725		932,122
TOTAL.....	\$63,184,457	\$1,737,854	\$49,276,712	\$61,795	\$6,547,354	\$2,879,725	\$2,681,017

TOWN OF EAST HAMPTON, CONNECTICUT

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 2006

	GOVERNMENTAL FUNDS CAPITAL ASSETS JULY 1, 2005	ADDITIONS	DELETIONS	GOVERNMENTAL FUNDS CAPITAL ASSETS JUNE 30, 2006
General government .....	\$ 1,178,067	\$ 92,420	\$ 19,742	\$ 1,250,745
Public safety .....	2,921,143	1,287,263	756,044	3,452,362
Public works and utilities .....	20,741,118	1,572,775	31,500	22,282,393
Cultural and recreation .....	3,254,648			3,254,648
Civic and human services .....	310,086			310,086
Regulatory .....	71,534			71,534
Education .....	31,507,857	1,482,301	427,469	32,562,689
TOTAL .....	\$59,984,453	\$4,434,759	\$1,234,755	\$63,184,457

Note: Additions and deductions include transfers of \$1,127,142

TOWN OF EAST HAMPTON, CONNECTICUT

STATEMENT OF DEBT LIMITATION  
JUNE 30, 2006

(thousands)

Total tax collections (including interest and lien fees) for the current fiscal year.....	\$23,158
Reimbursement for revenue loss on:	
Tax relief for elderly.....	<u>7</u>
BASE.....	<u>\$23,165</u>

	<u>General Purpose</u>	<u>Schools</u>	<u>Sewers</u>	<u>Urban Renewal</u>	<u>Pension Deficit</u>
Debt limitation:					
2-1/4 times base.....	\$52,121				
4-1/2 times base.....		\$104,242			
3-3/4 times base.....			\$86,869		
3-1/4 times base.....				\$75,286	
3 times base.....					\$69,495
Total debt limitation .....	<u>52,121</u>	<u>104,242</u>	<u>86,869</u>	<u>75,286</u>	<u>69,495</u>
Indebtedness:					
Bonds and notes payable..	1,845	10,000	721		
Authorized, unissued debt	480	425			
Total indebtedness .....	<u>2,325</u>	<u>10,425</u>	<u>721</u>		
Less: School construction grants.....		(3,597)			
Net indebtedness .....	<u>2,325</u>	<u>6,828</u>	<u>721</u>		
Debt limitation in excess of outstanding and authorized debt.....	<u>\$49,796</u>	<u>\$97,414</u>	<u>\$86,148</u>	<u>\$75,286</u>	<u>\$69,495</u>

NOTE: In no case shall total indebtedness exceed seven times annual receipts from taxation (\$162,155).