

TOWN OF EAST HAMPTON, CONNECTICUT

JUNE 30, 2008

TOWN OF EAST HAMPTON, CONNECTICUT

JUNE 30, 2008

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BlumShapiro

Independent Auditors' Report

To the 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, 2008, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, Connecticut, as of June 30, 2008, 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 December 23, 2008 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 conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 3 through 11 and budgetary comparison information on pages 39 through 42 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.

Blum, Shapiro & Company, P.C.

December 23, 2008

TOWN OF EAST HAMPTON, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

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, 2008.

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 \$75,211,111 (net assets). Of this amount, \$16,721,792 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's unrestricted net assets increased by \$1,890,258 as a result of this year's operations.
- The Town's net assets invested in capital assets, net of debt was unchanged this year.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$11,232,964, an increase of \$1,332,849 in comparison with the prior year. Approximately 98%, or \$11,056,897, 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 \$4,569,543, or 10.32%, of total General Fund expenditures and transfers out.
- The Town's total debt decreased by \$1,678,172, or 15.43%, during the current fiscal year as a result of scheduled debt payments.
- The tax collection rate was 98.6%.

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 20 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, WPCA Operating Fund and Capital Initiatives Fund, which are considered to be major funds. Data from the other 17 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 through 17 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 18 and 19 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 20-38 of this report.

Required Supplementary Information

Other budgetary information required to be disclosed is provided in pages 39-42.

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 43-53 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 \$75,211,111 as of June 30, 2008 and are summarized as follows:

TABLE 1
NET ASSETS

	Governmental Activities	
	2008	2007
Current and other assets	\$ 19,621,150	\$ 15,890,264
Capital assets, net of accumulated depreciation	70,482,809	71,102,022
Total assets	<u>90,103,959</u>	<u>86,992,286</u>
Long-term liabilities outstanding	10,451,205	12,126,163
Other liabilities	4,441,643	1,545,270
Total liabilities	<u>14,892,848</u>	<u>13,671,433</u>
Net Assets:		
Invested in capital assets, net of related debt	58,473,214	60,424,658
Restricted	16,105	16,814
Unrestricted	<u>16,721,792</u>	<u>12,879,381</u>
Total Net Assets	<u>\$ 75,211,111</u>	<u>\$ 73,320,853</u>

Of the Town's net assets, 80% 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.

Of the Town's net assets, .02% 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 is considered unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors.

Overall, net assets increased by \$1,890,258 or 2.6% in comparison to the prior year.

Changes in Net Assets

Changes in net assets for the years ended June 30, 2008 and 2007, are as follows:

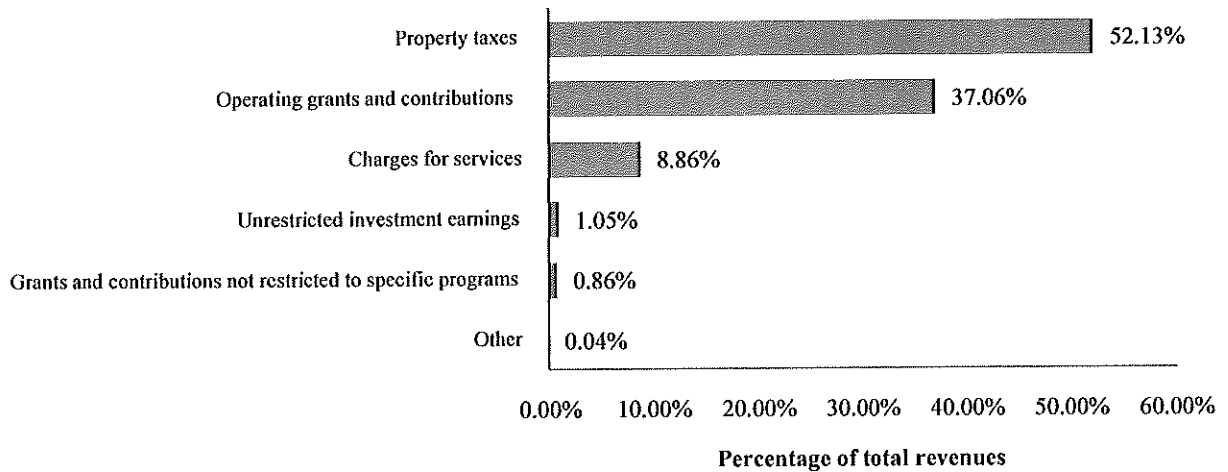
TABLE 2
CHANGE IN NET ASSETS

	Governmental Activities	
	2008	2007
Revenues:		
Program revenues:		
Charges for services	\$ 4,394,557	\$ 3,776,600
Operating grants and contributions	18,389,367	10,089,877
Capital grants and contributions		206,205
General revenues:		
Property taxes	25,868,511	24,150,645
Grants and contributions not restricted to specific programs	425,663	406,978
Unrestricted investment earnings	521,414	654,130
Other general revenues	21,225	32,709
Total revenues	<u>49,620,737</u>	<u>39,317,144</u>
Expenses:		
General government	2,806,092	2,688,056
Public safety	2,429,211	2,366,551
Civic and human services	368,356	337,184
Public works	5,173,124	4,838,968
Education	34,711,774	25,312,601
Regulatory	405,373	365,541
Culture and recreation	1,386,344	1,341,023
Interest on long-term debt	450,205	469,774
Total expenses	<u>47,730,479</u>	<u>37,719,698</u>
Increase in Net Assets	<u>\$ 1,890,258</u>	<u>\$ 1,597,446</u>

Changes in Net Assets (Continued)

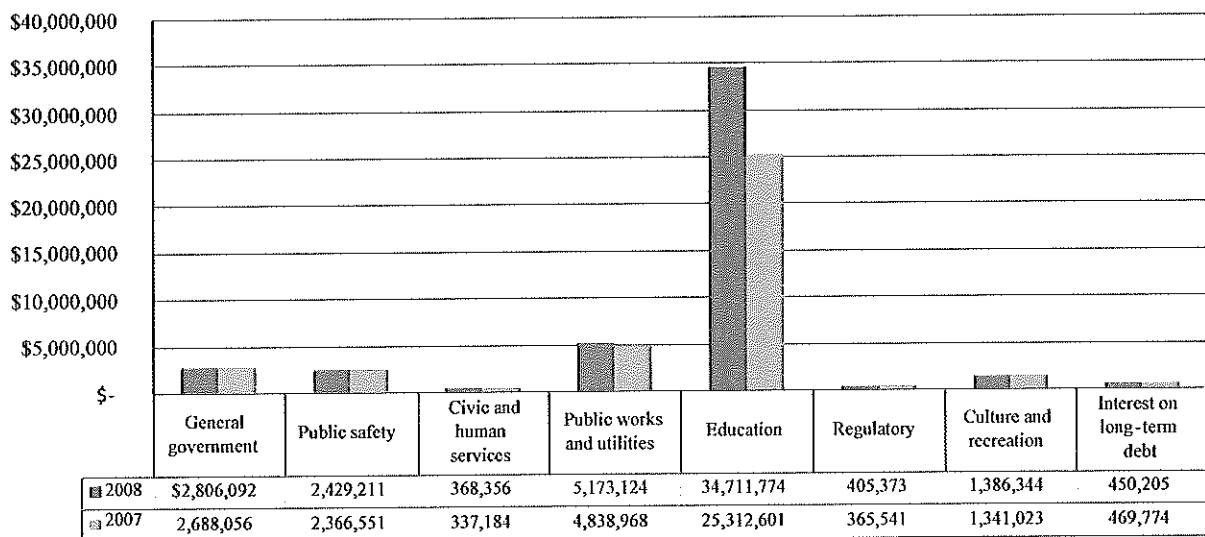
The following is a chart of revenues by source of governmental activities by percent of total revenues.

Revenue by Source - Governmental Activities



The following is a chart of expenses by function for governmental activities for fiscal years 2008 and 2007.

Expenses by Function - Governmental Activities



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 \$25,868,511 comprised 52.1% of the total revenues.

Operating grants and contributions increased by \$8,299,490, primarily as a result of the increase in on-behalf payments of \$7,416,112 made by the State of Connecticut into the teacher's retirement plan.

Capital grants and contributions decreased by \$206,205, mostly as a result of a decrease in the amount of federal grants related to the Public Water System improvement project.

Unrestricted investment earnings decreased by \$132,716, as a result of the decrease in the Town's investment rate of return.

Expenses for certain functions changed because of the following:

- **General government** - The increase in this function was related to the employee sick, vacation and severance payments.
- **Civic and Human Services** - The increase in this function was mainly due to a staff reclassification.
- **Education** - This function has increased primarily due to the State of Connecticut on-behalf payments to the Connecticut State Teachers' Retirement System, contractual obligations, including teachers' salaries and benefits.

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.

**TABLE 3
GOVERNMENTAL ACTIVITIES**

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Education	\$ 34,711,774	\$ 25,312,601	\$ 16,526,030	\$ 15,555,480
Public works	5,173,124	4,838,968	2,212,227	2,101,433
Public safety	2,429,211	2,366,551	2,364,884	2,194,166
General government	2,806,092	2,688,056	1,968,141	2,000,379
Total	<u>\$ 45,120,201</u>	<u>\$ 35,206,176</u>	<u>\$ 23,071,282</u>	<u>\$ 21,851,458</u>

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 \$11,232,964 an increase of \$1,332,849 in comparison with the prior year. Of this amount, \$11,056,897 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 \$4,569,543, while total fund balance was \$4,571,431. 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 10.32% of total general fund expenditures and transfers out, while total fund balance represents 10.33% of that same amount.

The fund balance of the Town's General Fund increased by \$626,667 during the current fiscal year. The key factors in this increase were due to the following:

- Actual revenues in the Tax Collector's Department exceeded estimates by \$81,282.
- Actual revenues from the education cost sharing grant exceeded estimates by \$330,810.
- Actual expenditures were \$363,517 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 \$721,688. The following are the main components of the increase:

- \$387,188 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.
- \$24,500 supplemental appropriation to the general government Council special programs account.
- \$310,000 supplemental appropriation to the Capital Reserve Fund for education capital projects.

Capital Asset and Debt Administration

Capital Assets

The Town's investment in capital assets for its governmental activities as of June 30, 2008 totaled \$70,482,809 (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 decrease (including additions and deductions) of \$619,213, or 0.87%, over last year.

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

- Construction in progress related to the Sidewalk replacement and Main Street bridge replacement projects (\$329,530).
- The completion of the High School and Middle School water system upgrades (\$568,838).
- The completion of the White Birch Road improvement project (\$248,243).
- The completion of the town center fire pump project (\$153,344).

TABLE 4
CAPITAL ASSETS

	Governmental Activities	
	2008	2007
Land	\$ 2,121,742	\$ 2,121,742
Construction in progress	1,833,628	2,301,698
Buildings	32,082,629	32,306,453
Improvements other than buildings	617	617
Machinery and equipment	2,583,223	2,462,788
Infrastructure	31,860,970	31,908,724
Total	<u>\$ 70,482,809</u>	<u>\$ 71,102,022</u>

Additional information on the Town's capital assets can be found in Note 5 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 \$9,196,063. The total debt is backed by the full faith and credit of the government.

- The Town's total debt decreased by \$1,678,172 or 15.43% during the current fiscal year. The key factor for this decrease was due to scheduled debt payments.

The Town maintains an A2 rating from Moody's Investor Service and an A+ rating from Standard & Poor's for general obligation debt.

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 \$180 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:

TABLE 5
LONG-TERM DEBT

	Governmental Activities	
	2008	2007
General obligation bonds	<u>\$ 9,196,063</u>	<u>\$ 10,874,235</u>

Additional information on the Town's long-term debt can be found in Note 7 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 recessionary period which has affected the amount of intergovernmental revenues the Town will receive in fiscal year 2008 and thereafter.
- The unemployment rate for the Town is currently 6.3%, which is an increase from the 2007 rate of 4.5%. This compares to the state's average unemployment rate of 6.6% and the national unemployment rate of 6.7%.
- Inflation in the New York, New Jersey, Connecticut and Pennsylvania area (2.2%) was slightly higher than the national Consumer Price Index (CPI) increase (1.1%).
- Residential construction declined with approximately 55 new building permits issued this year compared to 67 issued in 2007. This decline will impact fee revenue in the Building Department, as well as the Town Clerk's Department.

All of these factors were considered in preparing the Town's budget for fiscal year 2009.

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 Director's Office, Town of East Hampton, 20 East High Street, East Hampton, Connecticut 06424.

TOWN OF EAST HAMPTON, CONNECTICUT

STATEMENT OF NET ASSETS

JUNE 30, 2008

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 14,023,694
Investments	947,236
Receivables, net	3,416,532
Inventories	8,679
Deferred charges	1,225,009
Capital assets not being depreciated	3,955,370
Capital assets being depreciated, net	66,527,439
Total assets	<u>90,103,959</u>
Liabilities:	
Accounts and other payables	1,284,329
Unearned revenue	86,685
Bond anticipation notes	2,985,000
Unamortized bond premium	85,629
Noncurrent liabilities:	
Due within one year	1,771,920
Due in more than one year	8,679,285
Total liabilities	<u>14,892,848</u>
Net Assets:	
Invested in capital assets, net of related debt	58,473,214
Restricted for library:	
Expendable	15,500
Nonexpendable	605
Unrestricted	<u>16,721,792</u>
Total Net Assets	<u>\$ 75,211,111</u>

The accompanying notes are an integral part of the financial statements

TOWN OF EAST HAMPTON, CONNECTICUT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 2,806,092	\$ 444,108	\$ 132,367	\$ (2,229,617)
Public safety	2,429,211	61,697	2,630	(2,364,884)
Civic and human services	368,356	11,472	8,229	(348,655)
Public works and utilities	5,173,124	2,638,709	322,188	(2,212,227)
Education	34,711,774	468,912	17,716,832	(16,526,030)
Regulatory	405,373	257,085		(148,288)
Culture and recreation	1,386,344	512,574	207,121	(666,649)
Interest on long-term debt	450,205			(450,205)
Total Governmental Activities	\$ 47,730,479	\$ 4,394,557	\$ 18,389,367	\$ (24,946,555)
General revenues:				
Property taxes				25,868,511
Grants and contributions not restricted to specific programs				425,663
Unrestricted investment earnings				521,414
Other				21,225
Total general revenues				26,836,813
Change in net assets				1,890,258
Net Assets at Beginning of Year				73,320,853
Net Assets at End of Year				\$ 75,211,111

The accompanying notes are an integral part of the financial statements

TOWN OF EAST HAMPTON, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>General</u>	<u>WPCA Operating</u>	<u>Capital Initiatives</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 5,249,383	\$ 951,893	\$ 2,388,715	\$ 5,433,703	\$ 14,023,694
Investments		750,000		197,236	947,236
Receivables, net	2,842,508	53,230		520,620	3,416,358
Due from other funds	171,123	22,122		1,468,993	1,662,238
Inventories				8,679	8,679
Total Assets	<u>\$ 8,263,014</u>	<u>\$ 1,777,245</u>	<u>\$ 2,388,715</u>	<u>\$ 7,629,231</u>	<u>\$ 20,058,205</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts and other payables	\$ 805,274	\$ 8,308	\$ 35,686	\$ 254,862	\$ 1,104,130
Due to other funds	147,555	1,346,387		168,296	1,662,238
Deferred revenue	2,738,754	53,162		281,957	3,073,873
Bond anticipation notes payable			2,985,000		2,985,000
Total liabilities	<u>3,691,583</u>	<u>1,407,857</u>	<u>3,020,686</u>	<u>705,115</u>	<u>8,825,241</u>
Fund balances:					
Reserved	1,888			174,179	176,067
Unreserved, reported in:					
General Fund	4,569,543				4,569,543
Special Revenue Funds		369,388		6,218,035	6,587,423
Capital Project Funds			(631,971)	531,297	(100,674)
Permanent Funds				605	605
Total fund balances	<u>4,571,431</u>	<u>369,388</u>	<u>(631,971)</u>	<u>6,924,116</u>	<u>11,232,964</u>
Total Liabilities and Fund Balances	<u>\$ 8,263,014</u>	<u>\$ 1,777,245</u>	<u>\$ 2,388,715</u>	<u>\$ 7,629,231</u>	<u>\$ 20,058,205</u>

(Continued on next page)

TOWN OF EAST HAMPTON, CONNECTICUT

BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)

JUNE 30, 2008

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets:

Amounts reported for governmental activities in the statement of net assets (Exhibit I) are
different because of the following:

Fund balances - total governmental funds	\$ 11,232,964
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Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the funds:

Governmental capital assets	\$ 97,839,726	
Less accumulated depreciation	<u>(27,356,917)</u>	
Net capital assets		70,482,809

Other long-term assets are not available to pay for current-period
expenditures and, therefore, are not recorded in the funds:

Net pension asset	1,119,811
Property tax receivables greater than 60 days	354,118
Interest receivable on property taxes	90,100
Housing loans	263,019
Assessments receivable	13,166
Prepaid issuance costs	105,198
Interest receivable on assessments	53,171
Receivable from the state for school construction projects	2,213,622

Long-term liabilities, including bonds payable, are not due and payable
in the current period and, therefore, are not reported in the funds:

Bonds and notes payable	(8,610,000)
Interest payable on bonds and notes	(180,033)
Clean water fund notes	(586,063)
Compensated absences	(1,426,610)
Bond premium	(85,629)
Deferred charges on refunding	<u>171,468</u>

Net Assets of Governmental Activities (Exhibit I)	<u>\$ 75,211,111</u>
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The accompanying notes are an integral part of the financial statements

TOWN OF EAST HAMPTON, CONNECTICUT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>WPCA Operating</u>	<u>Capital Initiatives</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 25,728,961	\$	\$	\$	\$ 25,728,961
Assessments				116,829	116,829
Intergovernmental	18,124,172			1,287,980	19,412,152
Charges for services		840,574		2,018,341	2,858,915
Contributions and donations				14,973	14,973
Licenses, permits and fees	672,332	6,221		305,607	984,160
Income on investments	278,654	3,464	50,805	623,744	956,667
Miscellaneous	96,528		1,525	23,279	121,332
Total revenues	<u>44,900,647</u>	<u>850,259</u>	<u>52,330</u>	<u>4,390,753</u>	<u>50,193,989</u>
Expenditures:					
Current:					
General government	2,991,029			501,646	3,492,675
Public safety	1,878,191			186,699	2,064,890
Public works and utilities	1,736,436	799,200		1,667,635	4,203,271
Culture and recreation	871,730			440,093	1,311,823
Civic and human services	326,970			270,699	597,669
Regulatory	321,864				321,864
Education	32,650,534			1,516,167	34,166,701
Capital outlay			368,034	252,743	620,777
Debt service	1,983,253		17,584	80,633	2,081,470
Total expenditures	<u>42,760,007</u>	<u>799,200</u>	<u>385,618</u>	<u>4,916,315</u>	<u>48,861,140</u>
Excess (Deficiency) of Revenues over Expenditures	<u>2,140,640</u>	<u>51,059</u>	<u>(333,288)</u>	<u>(525,562)</u>	<u>1,332,849</u>
Other Financing Sources (Uses):					
Transfers in				1,513,973	1,513,973
Transfers out	(1,513,973)				(1,513,973)
Total other financing sources (uses)	<u>(1,513,973)</u>	<u>-</u>	<u>-</u>	<u>1,513,973</u>	<u>-</u>
Net Change in Fund Balances	626,667	51,059	(333,288)	988,411	1,332,849
Fund Balances at Beginning of Year	<u>3,944,764</u>	<u>318,329</u>	<u>(298,683)</u>	<u>5,935,705</u>	<u>9,900,115</u>
Fund Balances at End of Year	<u>\$ 4,571,431</u>	<u>\$ 369,388</u>	<u>\$ (631,971)</u>	<u>\$ 6,924,116</u>	<u>\$ 11,232,964</u>

(Continued on next page)

TOWN OF EAST HAMPTON, CONNECTICUT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2008

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities:

Amounts reported for governmental activities in the statement of activities (Exhibit II) are different because:

Net change in fund balances - total governmental funds (Exhibit IV)	\$ 1,332,849
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Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	890,246
Depreciation expense	(1,504,288)

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus the change in net assets differs from the change in fund balance by the cost of the assets sold.

Net gain (loss) on trade-in or sale of capital assets	(5,171)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, and revenues recognized in the funds are not reported in the statement of activities:

School building grant receipts	(655,555)
Property tax receivable - accrual basis change	102,616
Property tax interest and lien revenue - accrual basis change	36,934
Sewer assessment receivable - accrual basis change	(82,766)
Sewer use	19,345
Net pension asset	118,973
Housing loans receivable	1,212

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 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 amortized and deferred in the statement of activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Bond principal payments	1,610,000
Clean Water Fund notes	68,172

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 the governmental funds:

Compensated absences	22,189
Accrued interest	(37,000)
Amortization of deferred charge on refunding	(25,403)
Amortization of issuance costs	(12,446)
Amortization of bond premiums	10,351

Change in Net Assets of Governmental Activities (Exhibit II)	\$ <u>1,890,258</u>
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The accompanying notes are an integral part of the financial statements

TOWN OF EAST HAMPTON, CONNECTICUT
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

JUNE 30, 2008

	<u>Pension Trust Fund</u>	<u>Agency Funds</u>
Assets:		
Cash and cash equivalents	\$ 62,197	\$ 161,853
Investments		
Mutual funds	11,285,974	531,068
Corporate bonds	6,241,469	
Treasury Bonds		136,766
Certificates of deposit		165,505
Guaranteed deposit	<u>335,743</u>	<u>5,048</u>
Total assets	17,925,383	\$ <u><u>1,000,240</u></u>
Liabilities:		
Due to students and others	<u> </u>	\$ <u><u>1,000,240</u></u>
Net Assets:		
Held in trust for pension benefits	<u><u>\$ 17,925,383</u></u>	

The accompanying notes are an integral part of the financial statements

TOWN OF EAST HAMPTON, CONNECTICUT
STATEMENT OF CHANGES IN PLAN NET ASSETS - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Pension Trust Funds</u>
Additions:	
Contributions:	
Employer	\$ 707,485
Plan members	363,220
Total contributions	<u>1,070,705</u>
Investment income:	
Net depreciation in fair value of investments	(1,356,612)
Interest	44,053
Total investment income	<u>(1,312,559)</u>
Less investment expense	(68,888)
Net investment earnings	<u>(1,381,447)</u>
Total additions	<u>(310,742)</u>
Deductions:	
Benefit payments	740,087
Administrative expenses	58,214
Total deductions	<u>798,301</u>
Net Decrease	(1,109,043)
Net Assets Held in Trust for Pension Benefits at Beginning of Year	<u>19,034,426</u>
Net Assets Held in Trust for Pension Benefits at End of Year	<u><u>\$ 17,925,383</u></u>

The accompanying notes are an integral part of the financial statements

TOWN OF EAST HAMPTON, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

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, Portland (2005) and Haddam (2008). Payments made to the District by the Town for the year ended June 30, 2008 totaled \$95,113.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the 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 nonfiduciary 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.

The *General Fund* is 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 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 Firemen 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 funds:

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 Fund accounts for the activities of the East Hampton Employee 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 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 3.

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, 2008 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 noncurrent 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 and Small Cities loans, 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 70% 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 30 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, 2008 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 \$45,000.

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, 2008 is \$1,426,610.

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. 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 that 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, 2008 amounted to \$721,688, which was appropriated from revised revenue.

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 11). The payment made by the State of Connecticut for the current year was \$8,765,188.

B. Deficit Fund Equity

The following funds had deficit fund balances as of June 30, 2008, which did not constitute a violation of statutory provisions:

<u>Fund</u>	<u>Amount</u>
Capital Initiatives Fund (Major Fund)	\$ 631,971

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

3. 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 the Statutes, 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 do 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, 2008:

Deposits:	
Demand accounts	\$ 1,909,817
Money market accounts	2,100,396
Total deposits	<u>4,010,213</u>
Petty cash	2,236
Cash equivalents:	
State Short-Term Investment Fund (STIF)	1,192,421
MBIA, Inc. - Cooperative Liquid Assets Securities System (CLASS)	<u>9,042,874</u>
Total Cash and Cash Equivalents	<u>\$ 14,247,744</u>

Deposits

At June 30, 2008, the carrying amount of the Town deposits was \$4,925,709 (including certificates of deposit reported as investments of \$915,497) and the bank balance was \$5,558,806.

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, 2008 bank balance, \$400,000 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 \$555,881 based on

June 30, 2008 deposits was collateralized (collateral held by the pledging bank's trust department is not in the Town's name). The balance of deposits of \$4,602,925 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, 2008, the Town's cash equivalents amounted to \$10,235,295. 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	A2	AA

* Not rated

B. Investments

Investments as of June 30, 2008 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*	\$ 915,497	0.24
U.S. government bond funds	136,766	4.44
Corporate bond funds	6,241,469	6.43
Other investments:		
Common stock	151,528	
Mutual funds	581,822	
Pension Fund mutual funds	<u>11,621,727</u>	
Total	<u>\$ 19,648,809</u>	

Portfolio weighted average maturity for interest-bearing investments 5.62

* Subject to coverage by federal depository insurance and collateralization 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.

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.

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>
2009	\$ 1,669,547	\$ 394,549	\$ 646,990
2010	1,655,951	257,790	641,279
2011	1,282,383	201,195	424,888
2012	838,844	162,661	171,077
2013	817,728	133,268	165,971
2014-2018	2,379,294	297,982	163,417
2019-2023	552,316	37,683	
	<u>\$ 9,196,063</u>	<u>\$ 1,485,128</u>	<u>\$ 2,213,622</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, 2008 was \$655,555. Additional reimbursements of principal and interest aggregating approximately \$2.2 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, 2008, \$4,200,000 of general obligation bonds are considered defeased.

Authorized/Unissued Bonds

The amount of authorized, unissued bonds for general purposes at June 30, 2008 is as follows:

<u>Purpose of Bonds</u>	<u>Authorized But Unissued</u>
Governmental Activities:	
Ambulance Facility	\$ 18,500
High School Athletic Facilities Improvements	2,000
Capital Improvements 2004-2005	454,400
Land Purchase	7,100
Flanders Roadway Improvements	2,000
Water System Initial Water Supply	866,000

The amount of bonds, notes or other obligations authorized for the water system initial water supply shall be reduced by the amount of grants received by the Town for the project. As of June 30, 2008, the amount of grants received for this project was \$867,800.

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

<u>Category</u>	<u>Debt Limit</u>	<u>Net Indebtedness</u>	<u>Balance</u>
General purpose	\$ 58,053	\$ 6,419	\$ 51,634
Schools	116,105	2,179	113,926
Sewers	96,754	586	96,168
Urban renewal	83,854		83,854
Pension deficit	77,403		77,403

The total overall statutory debt limit for the Town is equal to seven times annual receipts from taxation (\$180 million).

The indebtedness reflected above includes long-term debt outstanding and \$3,925 thousand of bonds authorized and unissued against which bond anticipation notes are issued and outstanding. Indebtedness does not include Water bonds of \$586,063.

School indebtedness is net of \$2.2 million of State of Connecticut school building grant commitments.

8. 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, 2008</u>
11/20/07	08/20/08	3.24	\$ 2,985,000	\$ -	\$ 2,985,000

The bond anticipation notes relate to the Flanders Road Improvements, Main Street Bridge replacement and Sidewalk replacement.

9. 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, 2008 is presented below:

General Fund:	
Reserved for encumbrances	\$ 1,888
Nonmajor Governmental Funds:	
Reserved for inventory	8,679
Reserved trust principal - Permanent Funds	15,500
Reserved for advances	<u>150,000</u>
Total Governmental Funds	\$ <u>176,067</u>

10. 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 reduction in insurance coverage from amounts held in the prior year.

11. 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 a pension trust fund.

The Town of East Hampton Retirement System covers all employees working more than 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, 2008, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	69
Terminated plan members entitled to benefits but not yet receiving them	77
Current plan members	167
Inactive with vested benefits	<u>3</u>
Total	<u>316</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 5% or more of the plan's net assets.

C. Funding Policy

Police employees contribute 5% of earnings; all other employees are required to contribute 5.5% 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, 2008 were as follows:

Annual required contribution	\$	551,652
Interest on net pension obligation		(80,067)
Adjustment to annual required contribution		<u>116,927</u>
Annual pension cost		588,512
Contributions made		<u>707,485</u>
Increase in net pension obligation		(118,973)
Net pension obligation (asset) at beginning of year		<u>(1,000,838)</u>
Net Pension Obligation (Asset) at End of Year	\$	<u><u>(1,119,811)</u></u>

The annual required contribution for the current year was determined as part of the January 1, 2008 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) 5% 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>
6/30/06	\$ 636,258	\$ 597,755	93.95%	\$ (1,007,133)
6/30/07	652,877	646,582	99.00	(1,000,838)
6/30/08	588,512	707,485	120.00	(1,119,811)

F. Pension Plan Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Over)/Under Funded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	(Over)/Under Funded AAL as a % of Covered Payroll ((a-b)/c)
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
1/01/2008	18,943,268	19,373,079	429,811	97.78	6,417,318	6.70

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2003	\$ 404,546	120%
2004	533,871	94
2005	551,929	100
2006	597,755	100
2007	646,582	105
2008	551,652	128

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 60. 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, 2008, Town teachers contributed \$858,472 to the plan and covered payroll for the year was \$11,840,993.

In accordance with the provisions of GASB Statement No. 24, the Town has reported on-behalf payments of \$8,765,188 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. This amount increased significantly from prior years due to the State issuing pension obligation bonds to partially fund the plan.

12. COMMITMENTS AND CONTINGENCIES

Intermunicipal Agreement

The Town is party to an intermunicipal agreement for septage waste disposal. The Town has agreed to accept septage from five area towns. The Town 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 borrowed an additional \$503,694 for a nitrogen reduction project. Each town is committed to paying a portion of the cost of improvements over 20 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.

13. SUBSEQUENT EVENT

On August 20, 2008, the Town issued \$2,985,000 of general obligation bond anticipation notes to finance the construction of the following:

Flanders Road Improvements	\$ 1,555,000
Main Street Bridge Replacement	1,020,000
Sidewalk Replacement	410,000

The notes mature on April 15, 2009 and have an interest rate of 2.25%.

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, 2008

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Property taxes:				
Current taxes	\$ 23,269,915	\$ 23,269,915	\$ 25,155,715	\$ 1,885,800
Back taxes	260,000	260,000	178,025	(81,975)
Supplemental motor vehicles	240,000	240,000	227,565	(12,435)
Interest	147,000	147,000	165,164	18,164
Liens	2,500	2,500	2,492	(8)
Total property taxes	<u>23,919,415</u>	<u>23,919,415</u>	<u>25,728,961</u>	<u>1,809,546</u>
Intergovernmental Revenues:				
General government:				
State infrastructure (LOCIP)	94,428	94,428		(94,428)
Elderly tax relief	42,000	42,000	47,606	5,606
Elderly Freeze Exemption	4,000	4,000	4,000	-
Department of Youth Services	16,000	16,000	16,098	98
Boat registration	13,378	13,378	13,378	-
State-owned property	124,531	124,531	137,774	13,243
Disability tax relief	800	800	932	132
Veteran's exemption	3,900	3,900	3,713	(187)
Manufacturers equipment (PILOT)	14,200	14,200	16,676	2,476
Telephone Access Line Share	70,000	70,000	69,635	(365)
Mashantucket Pequot/Mohegan grant	93,972	93,972	109,381	15,409
Other State			900	900
Total	<u>477,209</u>	<u>477,209</u>	<u>420,093</u>	<u>(57,116)</u>
Education:				
Principal and interest subsidy school bonds	733,282	733,282	655,555	(77,727)
Education cost sharing	6,968,142	6,968,142	7,298,952	330,810
Special education excess cost		697,188	697,188	-
School transportation	232,045	232,045	238,562	6,517
BESB	15,000	15,000	25,900	10,900
Adult Education	21,080	21,080	22,734	1,654
Total	<u>7,969,549</u>	<u>8,666,737</u>	<u>8,938,891</u>	<u>272,154</u>
Total intergovernmental revenues	<u>8,446,758</u>	<u>9,143,946</u>	<u>9,358,984</u>	<u>215,038</u>

(Continued on next page)

TOWN OF EAST HAMPTON, CONNECTICUT

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Licenses, fees and permits:				
Finance Department	\$ 21,800	\$ 21,800	\$ 47,650	\$ 25,850
Engineering services	19,000	19,000		(19,000)
Firefighting			20	20
Police Department	4,350	4,350	4,797	447
Town Clerk	318,500	318,500	333,204	14,704
Planning, zoning and buildings	271,240	271,240	257,274	(13,966)
Transfer station fees/stickers	27,580	27,580	29,097	1,517
Blasting permits	600	600	290	(310)
Total licenses and permits, fines and permits	<u>663,070</u>	<u>663,070</u>	<u>672,332</u>	<u>9,262</u>
Miscellaneous:				
Housing Authority reimbursement	21,000	21,000	22,568	1,568
Lease of Town property	21,600	21,600	24,840	3,240
Collector of Revenue	3,100	3,100	5,500	2,400
Cemetery	1,000	1,000		(1,000)
Sears Park rent			550	550
Use of schools	425	425	80	(345)
Tuition			5,323	5,323
Library	10,800	10,800	13,358	2,558
Middle Haddam Historic District	250	250	125	(125)
Community room rental	400	400	450	50
Sears Park stickers	12,000	12,000	10,978	(1,022)
Other revenues		24,499	12,756	(11,743)
Total miscellaneous	<u>70,575</u>	<u>95,074</u>	<u>96,528</u>	<u>1,454</u>
Investment income	<u>325,000</u>	<u>325,000</u>	<u>278,654</u>	<u>(46,346)</u>
Total Budgeted Revenues and Transfers	\$ <u>33,424,818</u>	\$ <u>34,146,505</u>	36,135,459	\$ <u>1,988,954</u>
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			<u>8,765,188</u>	
Total Revenues and Other Financing Sources as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV			<u>\$ 44,900,647</u>	

TOWN OF EAST HAMPTON, CONNECTICUT

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
General Government:				
Town Manager's Department	\$ 269,074	\$ 269,074	\$ 242,152	\$ 26,922
Council special programs	11,820	54,847	54,846	1
Probate court	3,306	3,306	2,696	610
Facilities administrator	98,111	98,119	98,118	1
Legal defense/fecs	104,000	228,840	228,837	3
Town Hall and Annex	233,948	234,333	234,331	2
Finance and Accounting	422,903	422,903	403,283	19,620
Collector of Revenue	178,867	178,867	174,868	3,999
Assessor's Office	167,210	167,210	164,326	2,884
Board of Assessment Appeals	598	598	110	488
Town Clerk's office	206,120	206,120	200,493	5,627
Registrars/elections	28,604	33,424	33,421	3
General insurance	171,500	171,500	171,114	386
Employee benefits	1,076,076	954,676	982,434	(27,758)
Contingency	10,000			-
	<u>2,982,137</u>	<u>3,023,817</u>	<u>2,991,029</u>	<u>32,788</u>
Public Safety:				
Police administration	272,467	277,467	277,042	425
Police regular patrol	1,203,721	1,167,490	1,141,052	26,438
Lake patrol	8,522	8,522	2,177	6,345
Animal Control	45,754	45,754	36,037	9,717
Street lighting	60,000	60,000	50,161	9,839
Fire administration	207,985	207,985	198,932	9,053
Fire Marshal	80,218	74,335	59,875	14,460
Ambulance association	6,675	6,675	5,014	1,661
Civil Preparedness	1,250	1,250	919	331
Communications	107,715	107,715	106,982	733
	<u>1,994,307</u>	<u>1,957,193</u>	<u>1,878,191</u>	<u>79,002</u>
Public Works:				
Public Works - Administration	1,141,339	1,141,339	1,117,572	23,767
Engineering fees	60,000	68,320	68,320	-
Townwide motor fuel	131,943	131,943	119,197	12,746
Town Garage	41,075	41,075	39,412	1,663
Road materials	246,723	246,723	210,074	36,649
Transfer station	195,544	195,544	167,306	28,238
Septage disposal	15,200	15,200	14,555	645
	<u>1,831,824</u>	<u>1,840,144</u>	<u>1,736,436</u>	<u>103,708</u>
Regulatory:				
Planning, zoning and buildings	328,657	334,540	283,495	51,045
Economic development commission	58,176	58,176	35,126	23,050
Middle Haddam Historic District	2,300	3,245	3,243	2
	<u>389,133</u>	<u>395,961</u>	<u>321,864</u>	<u>74,097</u>

(Continued on next page)

TOWN OF EAST HAMPTON, CONNECTICUT

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Health and Human Services:				
Chatham Health District	\$ 95,113	\$ 95,113	\$ 95,113	\$ -
Social Services	92,924	93,494	93,491	3
Senior Center	93,614	93,614	83,996	9,618
Transportation	51,820	51,820	51,250	570
Community Services	3,800	3,800	3,120	680
	<u>337,271</u>	<u>337,841</u>	<u>326,970</u>	<u>10,871</u>
Culture and Recreation:				
Park and recreation	349,099	349,099	329,196	19,903
Library	385,164	385,203	385,202	1
Community Center	133,458	137,634	137,634	-
Middle Haddam Library	7,000	7,000	7,000	-
Lake Pocotopaug Commission	14,795	14,795	12,698	2,097
	<u>889,516</u>	<u>893,731</u>	<u>871,730</u>	<u>22,001</u>
Board of Education	<u>23,539,209</u>	<u>23,926,396</u>	<u>23,885,346</u>	<u>41,050</u>
Debt Service	<u>1,983,252</u>	<u>1,983,253</u>	<u>1,983,253</u>	<u>-</u>
Total Expenditures	<u>33,946,649</u>	<u>34,358,336</u>	<u>33,994,819</u>	<u>363,517</u>
Other Financing Uses:				
Transfers to other funds:				
Water Fund	55,000	55,000	55,000	-
Public Water System	124,733	124,733	124,733	-
Capital Reserve Fund	999,240	1,309,240	1,309,240	-
Other transfers	25,000	25,000	25,000	-
Total other financing uses	<u>1,203,973</u>	<u>1,513,973</u>	<u>1,513,973</u>	<u>-</u>
Total	<u>\$ 35,150,622</u>	<u>\$ 35,872,309</u>	<u>35,508,792</u>	<u>\$ 363,517</u>

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.

8,765,188

Total expenditures and other financing sources as reported on the statement of
revenues, expenditures and changes in fund balances - governmental funds -
Exhibit IV

\$ 44,273,980

TOWN OF EAST HAMPTON, CONNECTICUT
COMPARATIVE BALANCE SHEET - GENERAL FUND

JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 5,249,383	\$ 5,052,595
Receivables, net of allowance for uncollectibles:		
Property taxes receivable - net of allowance of \$45,000	437,168	304,027
Other receivables	160,619	88,914
Grants and contracts	2,244,721	2,996,418
Due from other funds	<u>171,123</u>	<u>662,349</u>
Total Assets	<u>\$ 8,263,014</u>	<u>\$ 9,104,303</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 535,716	\$ 658,109
Accrued liabilities:		
Salaries and benefits payable	227,558	165,978
Other	42,000	44,500
Due to other funds	147,555	901,567
Deferred revenue	<u>2,738,754</u>	<u>3,389,385</u>
Total liabilities	<u>3,691,583</u>	<u>5,159,539</u>
Fund balance:		
Reserved for encumbrances	1,888	1,888
Unreserved:		
Designated for subsequent year		
Undesignated	<u>4,569,543</u>	<u>3,942,876</u>
Total fund balance	<u>4,571,431</u>	<u>3,944,764</u>
Total Liabilities and Fund Balance	<u>\$ 8,263,014</u>	<u>\$ 9,104,303</u>

TOWN OF EAST HAMPTON, CONNECTICUT

REPORT OF TAX COLLECTOR

FOR THE YEAR ENDED JUNE 30, 2008

Grand List	Uncollected Taxes July 1, 2007	Current Tax Levy	Assessor's		Transferred To Suspense	Adjustments	Net Amount Collectible	Collections			Uncollected Taxes June 30, 2008
			Additions	Deductions				Taxes	Interest and Liens	Total	
2006	\$	\$ 25,730,289	\$ 67,075	\$ 70,991	\$ 11,439	\$	\$ 25,714,934	\$ 25,357,394	\$ 121,769	\$ 25,479,163	\$ 357,540
2005	280,503		2,342	4,667	18,623		259,555	169,282	41,724	211,006	90,273
2004	37,324		10,503	10,132	8,762		28,933	7,979	5,179	13,158	20,954
2003	8,371		263	263	803		7,568	729	361	1,090	6,839
2002	5,519				349		5,170	292	903	1,195	4,878
2001	2,310				369		1,941	257	194	451	1,684
2000			240				240	240		240	-
1999											-
	\$ 334,027	\$ 25,730,289	\$ 80,423	\$ 86,053	\$ 40,345	\$ -	\$ 26,018,341	25,536,173	170,130	25,706,303	\$ 482,168
Advance collections											
Suspense collections											
Suspense interest and liens											
Total											
								\$ 25,623,049	\$ 174,071	\$ 25,797,120	

TOWN OF EAST HAMPTON, CONNECTICUT

BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES COMPARED WITH APPROPRIATIONS

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Appropriation</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Balance</u>
Certified salaries	\$ 11,836,704	\$ 11,992,302	\$ 11,919,847	\$ (72,455)
Classified salaries	2,496,156	2,496,156	2,650,555	154,399
Employee benefits:				
Workmen's compensation	45,046	45,046	49,002	3,956
Unemployment compensation	10,000	10,000	3,787	(6,213)
Social Security	170,139	170,139	176,164	6,025
Medicare	147,735	147,735	165,042	17,307
Pension	226,500	226,500	226,500	-
Medicare and dental	3,046,291	2,929,174	2,923,974	(5,200)
Life insurance	64,627	64,627	52,191	(12,436)
Tuition	1,312,995	1,597,055	1,496,323	(100,732)
Pupil transportation	1,418,748	1,418,748	1,325,573	(93,175)
Other transportation	47,724	47,724	52,645	4,921
Computer consulting services	66,185	66,185	70,520	4,335
Meetings and conferences	30,963	30,963	9,231	(21,732)
Professional/technical services	547,050	494,580	400,571	(94,009)
Public utilities	29,000	29,000	28,517	(483)
Building, equipment maintenance and repairs	187,370	186,637	197,236	10,599
Heating, ventilation maintenance and repairs	45,000	45,000	37,922	(7,078)
Security system maintenance and repairs	2,000	2,000	600	(1,400)
Vehicle maintenance and repairs	3,000	3,000	3,188	188
Supplies, materials and minor equipment	386,164	396,287	431,288	35,001
Fire protection	18,000	18,000	31,700	13,700
Refuse removal	24,695	24,695	25,971	1,276
Water and underground tank testing	4,200	4,200	7,373	3,173
Pest control	2,000	2,000	2,529	529
Tile and carpet replacement	8,500	8,500	11,048	2,548
Equipment rental	108,671	108,671	99,015	(9,656)
Property and liability insurance	100,578	100,578	105,505	4,927
Staff travel	9,498	9,594	10,869	1,275
Communications	61,555	61,555	58,427	(3,128)
Newspaper advertising	7,663	7,663	7,338	(325)
Printing and binding	26,340	29,159	25,480	(3,679)
Other purchased services	59,808	59,963	70,684	10,721
Heating oil	192,000	309,117	380,972	71,855
Motor fuel	176,820	176,820	176,656	(164)
Electricity	270,196	270,196	311,903	41,707
Bottled gas	8,500	8,500	13,523	5,023
Textbooks	106,265	105,883	104,708	(1,175)
Library books/periodicals	34,031	34,010	35,938	1,928
Other supplies and materials	44,816	44,193	38,734	(5,459)
Dues and fees	49,271	49,299	50,209	910
Equipment	106,405	94,943	96,088	1,145
Total	\$ <u>23,539,209</u>	\$ <u>23,926,396</u>	\$ <u>23,885,346</u>	\$ <u>(41,050)</u>

TOWN OF EAST HAMPTON, CONNECTICUT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2008

	Special Revenue							
	Septage Disposal	Water System	Public Safety	Culture and Recreation	School Cafeteria	Education Grant	Compensated Absences	Public Works
ASSETS								
Cash and cash equivalents	\$ 92,882	\$ (3,465)	\$ 87,767	\$ 181,689	\$ 58,449	\$ 280,507	\$ 157,351	\$ 749,303
Investments							197,236	
Receivables, net of allowance for uncollectibles:								
Assessments and user charges		4,278			15,496	123,614		
Intergovernmental					75	2,744		
Other				6,566	8,679			
Due from other funds		47,644						
Inventories								
Advances to other funds								
Total Assets	\$ 92,882	\$ 48,457	\$ 87,767	\$ 188,255	\$ 82,699	\$ 406,865	\$ 354,587	\$ 749,303
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$	\$ 5,724	\$ 464	\$ 15,279	\$ 2,968	\$ 40,958	\$ 9,270	\$
Due to other funds		236	4,065	3,383	13,358	120,046		
Deferred revenue		4,278				1,494		
Advances from other funds								
Total liabilities	-	10,238	4,529	18,662	16,326	162,498	9,270	-
Fund Balances:								
Reserved for:					8,679			
Inventories								
Advances								
Encumbrances								
Unreserved	92,882	38,219	83,238	169,593	57,694	244,367	345,317	749,303
Total fund balances	92,882	38,219	83,238	169,593	66,373	244,367	345,317	749,303
Total Liabilities and Fund Balances	\$ 92,882	\$ 48,457	\$ 87,767	\$ 188,255	\$ 82,699	\$ 406,865	\$ 354,587	\$ 749,303

(Continued on next page)

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

JUNE 30, 2008

	Special Revenue					Total
	Community Development	Miscellaneous Grant	Capital Reserve	Beneficial Assessment	WPCA Joint Facilities	
ASSETS						
Cash and cash equivalents	\$ 31,025	\$ 151,636	\$ 1,925,099	\$	\$ 1,636,070	\$ 5,348,313
Investments						197,236
Receivables, net of allowance for uncollectibles:						
Assessments and user charges				13,166		17,444
Intergovernmental	39,841	4,300				183,251
Other	263,018	650			7,192	273,679
Due from other funds		17,676		924,673		996,559
Inventories						8,679
Advances to other funds						-
Total Assets	\$ 333,884	\$ 174,262	\$ 1,925,099	\$ 937,839	\$ 1,643,262	\$ 7,025,161
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 2,932	\$ 4,730	\$ 78,620	\$	\$ 81,574	\$ 233,249
Due to other funds		105,238			27,645	283,241
Deferred revenue	263,019			13,166		281,957
Advances from other funds						-
Total liabilities	265,951	109,968	78,620	13,166	109,219	798,447
Fund Balances:						
Reserved for:						8,679
Inventories						-
Advances						-
Encumbrances						-
Unreserved	67,933	64,294	1,846,479	924,673	1,534,043	6,218,035
Total fund balances	67,933	64,294	1,846,479	924,673	1,534,043	6,226,714
Total Liabilities and Fund Balances	\$ 333,884	\$ 174,262	\$ 1,925,099	\$ 937,839	\$ 1,643,262	\$ 7,025,161

(Continued on next page)

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

JUNE 30, 2008

	Capital Projects			Permanent		Interfund Eliminations	Total Nonmajor Governmental Funds
	WPCA Development	Public Water System	Total	Library Trust			
ASSETS							
Cash and cash equivalents	\$	\$ 69,285	\$ 69,285	\$ 16,105	\$	\$	\$ 5,433,703
Investments			-				197,236
Receivables, net of allowance for uncollectibles:							
Assessments and user charges		46,246	46,246				17,444
Intergovernmental			-				229,497
Other	482,141	105,238	587,379		(114,945)		273,679
Due from other funds	150,000		150,000		(150,000)		1,468,993
Inventories							8,679
Advances to other funds							-
Total Assets	\$ 632,141	\$ 220,769	\$ 852,910	\$ 16,105	\$ (264,945)	\$	\$ 7,629,231
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 12,760	\$ 8,853	\$ 21,613	\$	\$	\$	\$ 254,862
Due to other funds			-		(114,945)		168,296
Deferred revenue							281,957
Advances from other funds		150,000	150,000		(150,000)		-
Total liabilities	12,760	158,853	171,613	-	(264,945)		705,115
Fund Balances:							
Reserved for:							
Inventories	150,000		150,000				8,679
Advances			-				150,000
Encumbrances							-
Unreserved	469,381	61,916	531,297	605			6,749,937
Total fund balances	619,381	61,916	681,297	16,105	-		6,924,116
Total Liabilities and Fund Balances	\$ 632,141	\$ 220,769	\$ 852,910	\$ 16,105	\$ (264,945)	\$	\$ 7,629,231

TOWN OF EAST HAMPTON, CONNECTICUT

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue							
	Septage Disposal	Water System	Public Safety	Culture and Recreation	School Cafeteria	Education Grant	Compensated Absences	Public Works
Revenues:								
Assessments								
Intergovernmental	\$ 97,300		\$ 1,006	\$ 8,832	\$ 105,767	\$ 562,541	\$	\$ 155,224
Charges for services		61,734	54,760	248,019	762	25,795		
Income from investments	4,963	591	1,026	1,364	437,714	7,743	6,016	25,259
Contributions and donations			200	3,864				
Licenses, permits and fees								
Miscellaneous		760		40			15	
Total revenues	<u>102,263</u>	<u>63,085</u>	<u>56,992</u>	<u>262,119</u>	<u>544,243</u>	<u>596,079</u>	<u>6,031</u>	<u>180,483</u>
Expenditures:								
Current:								
General government								
Public safety			41,606				3,228	
Public works and utilities		92,484						103,554
Culture and recreation				243,500			261,476	
Civic and human services					511,927	578,496		
Education								
Debt service:								
Principal payments	45,289							
Interest and fiscal charges	5,051							
Capital outlays								
Total expenditures	<u>50,340</u>	<u>92,484</u>	<u>41,606</u>	<u>243,500</u>	<u>511,927</u>	<u>578,496</u>	<u>264,704</u>	<u>103,554</u>
Excess (Deficiency) of Revenues over Expenditures	<u>51,923</u>	<u>(29,399)</u>	<u>15,386</u>	<u>18,619</u>	<u>32,316</u>	<u>17,583</u>	<u>(258,673)</u>	<u>76,929</u>
Other Financing Sources (Uses):								
Transfers in		55,000					25,000	
Transfers out	(46,000)						-	
Total other financing sources (uses)	<u>(46,000)</u>	<u>55,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
Net Change in Fund Balances	5,923	25,601	15,386	18,619	32,316	17,583	(233,673)	76,929
Fund Balances - Beginning of Year	86,959	12,618	67,852	150,974	34,057	226,784	578,990	672,374
Fund Balances - End of Year	\$ 92,882	\$ 38,219	\$ 83,238	\$ 169,593	\$ 66,373	\$ 244,367	\$ 345,317	\$ 749,303

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TOWN OF EAST HAMPTON, CONNECTICUT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue				
	Community Development	Miscellaneous Grant	Capital Reserve	Beneficial Assessment	WPCA Joint Facilities
					Total
Revenues:					
Assessments	\$	\$	\$	\$	\$
Intergovernmental	100,483	40,369	170,212	116,829	116,829
Charges for services	2,632	38,121			1,241,734
Income from investments	2,555	6,807	37,281	25,609	2,018,341
Contributions and donations		10,909			604,779
Licenses, permits and fees			249,484		14,973
Miscellaneous			2,140	20	249,484
Total revenues	105,670	96,206	459,117	142,458	23,279
					4,269,419
Expenditures:					
Current:					
General government	73,709	257,970	166,739		501,646
Public safety			145,093		186,699
Public works and utilities			128,187		1,667,635
Culture and recreation			195,272		438,772
Civic and human services		9,223			270,699
Education			425,744		1,516,167
Debt service:					
Principal payments					68,171
Interest and fiscal charges					12,462
Capital outlays					-
Total expenditures	73,709	267,193	1,061,035	-	4,662,251
Excess (Deficiency) of Revenues over Expenditures	31,961	(170,987)	(601,918)	142,458	(392,832)
Other Financing Sources (Uses):					
Transfers in			1,309,240		46,000
Transfers out	-		(164,784)		(210,784)
Total other financing sources (uses)		-	1,144,456	-	1,224,456
Net Change in Fund Balances	31,961	(170,987)	542,538	142,458	831,624
Fund Balances - Beginning of Year	35,972	235,281	1,303,941	782,215	5,395,090
Fund Balances - End of Year	67,933	64,294	1,846,479	924,673	6,226,714

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TOWN OF EAST HAMPTON, CONNECTICUT

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	WPCA Development	Capital Projects Public Water System	Total	Permanent Library Trust	Interfund Eliminations	Total Nonmajor Governmental Funds
Revenues:						
Assessments	\$	\$	\$	\$	\$	\$
Intergovernmental		46,246	-			116,829
Charges for services			46,246			1,287,980
Income from investments	17,295	1,058	18,353	612		2,018,341
Contributions and donations			-			623,744
Licenses, permits and fees	56,123		56,123			14,973
Miscellaneous			-			305,607
Total revenues	<u>73,418</u>	<u>47,304</u>	<u>120,722</u>	<u>612</u>	<u>-</u>	<u>23,279</u>
						<u>4,390,753</u>
Expenditures:						
Current:						
General government			-			501,646
Public safety			-			186,699
Public works and utilities			-			1,667,635
Culture and recreation			-	1,321		440,093
Civic and human services			-			270,699
Education			-			1,516,167
Debt service:						
Principal payments			-			68,171
Interest and fiscal charges			-			12,462
Capital outlays	<u>57,944</u>	<u>194,799</u>	<u>252,743</u>			<u>252,743</u>
Total expenditures	<u>57,944</u>	<u>194,799</u>	<u>252,743</u>	<u>1,321</u>	<u>-</u>	<u>4,916,315</u>
						<u>(525,562)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>15,474</u>	<u>(147,495)</u>	<u>(132,021)</u>	<u>(709)</u>	<u>-</u>	
Other Financing Sources (Uses):						
Transfers in		289,517	289,517		(210,784)	1,513,973
Transfers out			-		210,784	-
Total other financing sources (uses)	<u>-</u>	<u>289,517</u>	<u>289,517</u>	<u>-</u>	<u>-</u>	<u>1,513,973</u>
Net Change in Fund Balances	15,474	142,022	157,496	(709)	-	988,411
Fund Balances - Beginning of Year	603,907	(80,106)	523,801	16,814	-	5,935,705
Fund Balances - End of Year	<u>\$ 619,381</u>	<u>\$ 61,916</u>	<u>\$ 681,297</u>	<u>\$ 16,105</u>	<u>\$ -</u>	<u>\$ 6,924,116</u>

EXHIBIT B-3

TOWN OF EAST HAMPTON, CONNECTICUT
SCHEDULE OF SEWER ASSESSMENTS RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2008

	Uncollected July 1, 2007	Current Year Additions	Deductions and Adjustments	Net Amount Collectible	Collections			Uncollected June 30, 2008
					Assessments	Interest	Total	
Sewer Assessments	\$ 95,932	\$ 32,250	\$ 123	\$ 128,305	\$ 115,139	\$ 1,709	\$ 116,848	\$ 13,166

TOWN OF EAST HAMPTON, CONNECTICUT

AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2008</u>
Assets:				
Cash:				
Student Activity Fund	\$ 114,660	\$ 501,384	\$ 473,052	\$ 142,992
Developer Bond Fund	27,123	3,163	11,425	18,861
Investments:				
Student Activity Fund	164,515	27,704	26,714	165,505
Volunteer Firemen Award Fund	<u>707,014</u>	<u>19,645</u>	<u>53,777</u>	<u>672,882</u>
Total Assets	<u>\$ 1,013,312</u>	<u>\$ 551,896</u>	<u>\$ 564,968</u>	<u>\$ 1,000,240</u>
Liabilities:				
Due to students and others:				
Student Activity Fund	\$ 279,175	\$ 529,088	\$ 499,766	\$ 308,497
Developer Bond Fund	27,123	3,163	11,425	18,861
Volunteer Firemen Award Fund	<u>707,014</u>	<u>19,645</u>	<u>53,777</u>	<u>672,882</u>
Total Liabilities	<u>\$ 1,013,312</u>	<u>\$ 551,896</u>	<u>\$ 564,968</u>	<u>\$ 1,000,240</u>

TOWN OF EAST HAMPTON, CONNECTICUT

SCHEDULE OF DEBT LIMITATION

JUNE 30, 2008

Total tax collections (including interest and lien fees) for the current fiscal year	\$ 25,797,120
Reimbursement for revenue loss on:	
Tax relief for elderly	<u>4,000</u>
BASE	<u>\$ 25,801,120</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	\$ 58,052,520	\$	\$	\$	\$
4-1/2 times base		116,105,040			
3-3/4 times base			96,754,200		
3-1/4 times base				83,853,640	
3 times base					<u>77,403,360</u>
Total debt limitation	<u>58,052,520</u>	<u>116,105,040</u>	<u>96,754,200</u>	<u>83,853,640</u>	<u>77,403,360</u>
Indebtedness:					
Bonds and notes payable	6,359,800	4,623,000	586,069		
Authorized, unissued debt	<u>59,000</u>	<u>425,000</u>			
Total indebtedness	6,418,800	5,048,000	586,069	-	-
Less school construction grants		<u>2,869,177</u>			
Net indebtedness	<u>6,418,800</u>	<u>2,178,823</u>	<u>586,069</u>	<u>-</u>	<u>-</u>
Debt Limitation in Excess of					
Outstanding and Authorized Debt	<u>\$ 51,633,720</u>	<u>\$ 113,926,217</u>	<u>\$ 96,168,131</u>	<u>\$ 83,853,640</u>	<u>\$ 77,403,360</u>

Notes: 1) In no case shall total indebtedness exceed seven times annual receipts from taxation (\$180,607,840).

2) Schedule does not include Water bonds of \$612,194.