
ANNUAL FINANCIAL REPORT
OF THE
TOWN OF OLD LYME, CONNECTICUT

FOR THE YEAR ENDED
JUNE 30, 2007

TOWN OF OLD LYME, CONNECTICUT
 ANNUAL FINANCIAL REPORT
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2007
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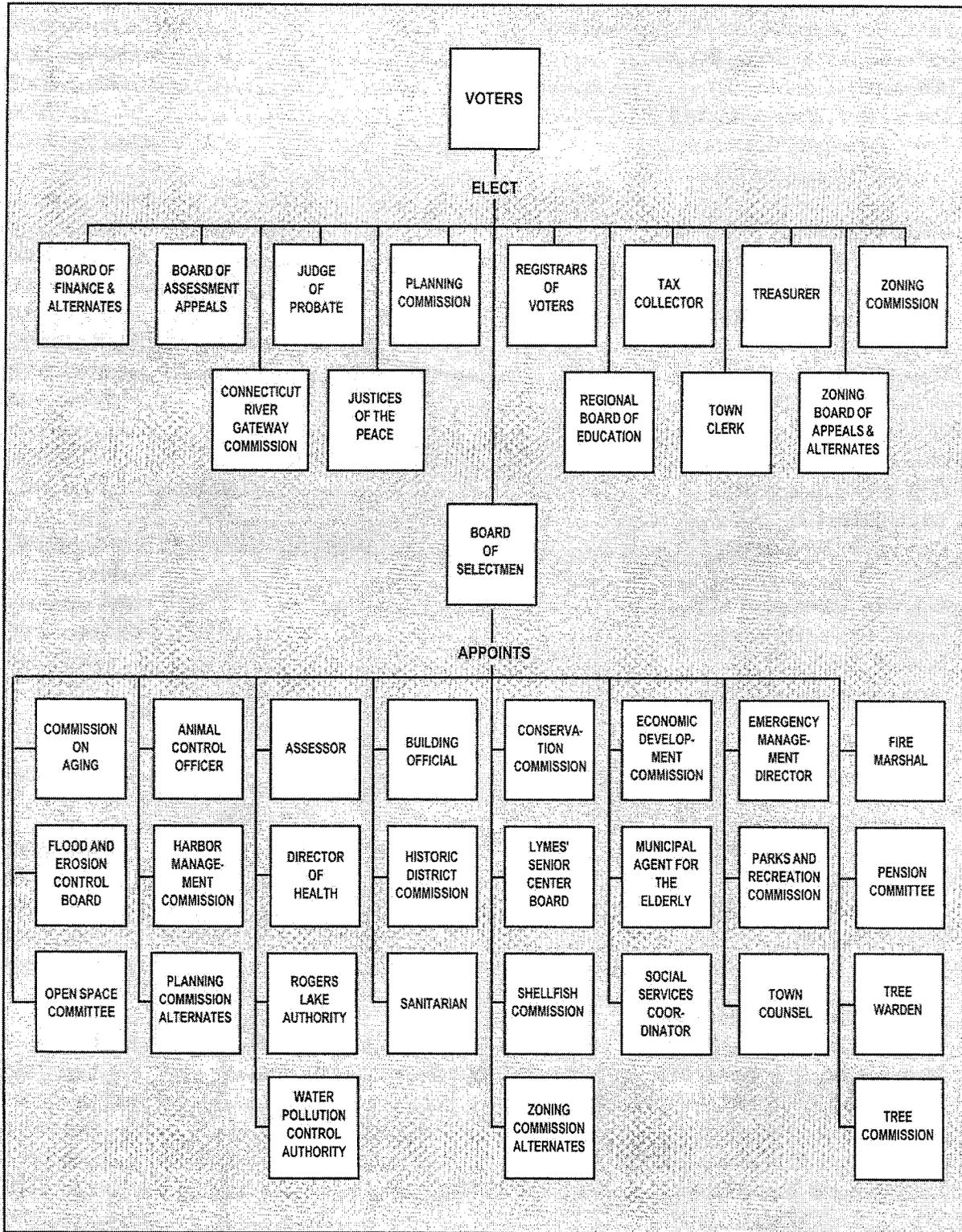
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Introductory Section

TOWN OF OLD LYME, CONNECTICUT

ORGANIZATION CHART



Financial Section



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INDEPENDENT AUDITORS' REPORT

To the Board of Finance
Town of Old Lyme
Old Lyme, 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 Old Lyme, Connecticut, as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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 Old Lyme, Connecticut, as of June 30, 2007, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund 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 19, 2007, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management Discussion and Analysis on pages 4 through 11 is not a required part of the basic financial statements but is supplemental information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires 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.

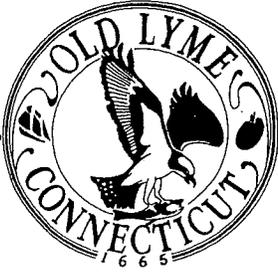


Town of Old Lyme, Connecticut
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Old Lyme, Connecticut's basic financial statements. The introductory section, the trend information and the accompanying financial information listed as supplemental schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental 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. The introductory section and trend information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Kostin, Ruffkess & Company, LLC

New London, Connecticut
December 19, 2007



TOWN OF OLD LYME

OFFICE OF THE SELECTMEN

52 Lyme Street
Old Lyme, CT 06371
Tel. (860) 434-1605
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2nd Congressional District
20th State Senator District
37th State Assembly District

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2007

Management of the Town of Old Lyme offers readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2007.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the 2007 fiscal year by \$12,429,810. Of this amount, \$1,456,952 (*unrestricted net assets*) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$817,001. The most significant reasons for the increase were the substantial additions to capital assets in excess of depreciation expense and scheduled debt principal payments on long-term debt.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$4,292,205, a decrease of \$620,923 in comparison with the prior year.
- At the end of the 2007 fiscal year, unreserved fund balance for the general fund was \$2,404,322, or 8.6% of total general fund expenditures and transfers out.
- The Town's total long-term obligations decreased by \$308,512 (19.2%) during the 2007 fiscal year due to scheduled debt service payments and landfill closure expenses. In addition, the Town issued \$3,300,000 in short-term obligations during the 2007 fiscal year.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Old Lyme's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. 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).

The government-wide financial statements present the functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Town include general government, health and social services, public safety, public works, roads and streets, sanitation, education, and parks and recreation programs.

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 a government'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 16 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, town hall expansion project, and landfill closure fund which are considered to be major funds. Data from the 13 other governmental funds are combined into a single, aggregated presentation under the caption nonmajor governmental funds. Individual fund data for each of these nonmajor governmental funds is provided on Schedules 4 and 5.

The Town adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the basic financial statements.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a Town’s financial position. In the case of the Town, assets exceeded liabilities by \$12,429,810 at the close of the most recent fiscal year.

By far the largest portion of the Town’s net assets (62.7%) reflects its investment in capital assets (e.g., land, works of art, construction in progress, buildings and improvements, land improvements, machinery and equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**TOWN OF OLD LYME NET ASSETS
JUNE 30, 2007 AND 2006**

	2007	2006
Current and other assets.....	\$ 8,822,835	\$ 5,829,095
Capital assets (net).....	<u>9,143,726</u>	<u>7,983,152</u>
Total Assets.....	<u>17,966,561</u>	<u>13,812,247</u>
Current liabilities	4,549,392	751,215
Long-term liabilities	<u>987,359</u>	<u>1,448,223</u>
Total Liabilities	<u>5,536,751</u>	<u>2,199,438</u>
Net assets:		
Invested in capital assets, net of related debt	7,795,442	7,683,152
Restricted	3,177,416	
Unrestricted.....	<u>1,456,952</u>	<u>3,929,657</u>
Total Net Assets	<u>\$ 12,429,810</u>	<u>\$ 11,612,809</u>

A portion of the Town’s net assets (25.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$1,456,952) may be used to meet the Town’s ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets.

Governmental activities. The Town's net assets increased by \$817,001. The key elements of this increase are as follows:

**TOWN OF OLD LYME CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
Revenues:		
Program revenues:		
Charges for services	\$ 977,195	\$ 966,387
Operating grants and contributions	700,984	696,890
Capital grants and contributions	46,100	420,683
General revenues:		
Property taxes	26,437,868	24,513,393
Grants and contributions not restricted to specific programs	180,686	222,446
Investment income	393,840	277,385
Miscellaneous	<u>54,666</u>	<u>60,680</u>
Total Revenues	<u>28,791,339</u>	<u>27,157,864</u>
Expenses:		
General government	2,031,935	1,819,901
Public works	1,454,938	1,107,903
Parks and recreation	322,253	330,462
Other public safety	508,695	626,482
Social services	70,223	66,645
Fire services	414,250	283,557
Police services	742,553	673,391
Health services	297,434	287,771
Senior citizens	68,372	56,188
Sanitation	1,013,162	1,054,130
Education	21,001,614	19,907,714
Interest expense	<u>48,909</u>	<u>21,980</u>
Total Expenses	<u>27,974,338</u>	<u>26,236,124</u>
Increase in net assets	817,001	921,740
Net assets - July 1	<u>11,612,809</u>	<u>10,691,069</u>
Net assets - June 30	<u>\$12,429,810</u>	<u>\$11,612,809</u>

- Property taxes (including interest and liens) increased by \$1,924,475 (7.9%) during the year. This increase is due to increased spending as approved in the adopted budget.
- Capital and operating grants and contributions for governmental activities decreased by \$370,489 due to decreases in federal and state grants relating to the road reconstruction project.
- The Regional School District #18 budget increased by \$1,093,900 (5.49%).
- Public works expenses increased by \$232,253 due substantially to noncapitalized expenses for capital outlay (roads) during the year.
- Fire Services increased by \$130,693 due to \$63,114 of numerous small capital outlay purchases during the year and also an increase in depreciation expense for the year.

For the most part, other increases in expenses closely paralleled inflation and growth in the demand for services.

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. The Town continues to accumulate funds for known future capital expenditures.

Governmental funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a 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 \$4,292,205, a decrease of \$620,923 in comparison with the prior year. Approximately 16.3% of this total amount (\$701,589) constitutes unreserved 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 (1) to pay contract commitments (\$3,177,416), and (2) to liquidate purchase orders of the prior period (\$413,200).

The general fund is the operating fund of the Town. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was \$2,404,322, while total fund balance reached \$2,817,522. 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 fund balance represents 8.6% of total general fund expenditures and transfers out, while total fund balance represents 10.0% of that same amount.

The fund balance of the Town's general fund increased by \$539,443 during the current fiscal year.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were \$27,509. The increases in appropriations can be briefly summarized as follows:

The following list of appropriations was for increases in wage line items (\$7,909 was for a 3% wage step increase):

- General government - selectman's office \$905
- General government - town clerk \$905
- General government - tax collector \$168
- General government - assessor \$905
- General government - building department \$905
- Boards and commissions - land use \$1,826
- Other public safety - ambulance \$33
- Social services - social services \$328
- Police services - municipal police \$454
- Sanitation - recycling \$1,167
- Transfers out - dog fund \$313

\$19,600 to capital outlay - administration for architectural work associated with the Town Hall Expansion and Renovation project.

Town Hall Expansion Project

This fund accounts for financial resources from bond and note proceeds to be used on the expansion and renovation of the Town Hall. During the year ended June 30, 2007, the expenditures totaled \$1,160,106.

Landfill Closure Fund

This fund accounts for financial resources from general fund appropriations to be used to close the Town's landfill. During the year ended June 30, 2007, the expenditures totaled \$220,270 but fund balance only decreased by \$20,270 due to a transfer in of \$200,000 from the general fund.

Capital Assets and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental activities as of June 30, 2007, amounts to \$9,143,726 (net of accumulated depreciation). This investment in capital assets includes land, works of art, construction in progress, buildings and improvements, land improvements, machinery and equipment, and infrastructure. The net increase in the Town's investment in capital assets for the current fiscal year was \$1,160,574 or 14.5%. Major capital asset events during the current fiscal year included the following:

- Construction began on the Town Hall; construction in progress as of the close of the fiscal year had reached \$1,148,284.
- Construction also began on phase II of the Town Woods Recreational Facility; construction in progress as of the close of the fiscal year had reached \$166,380.
- Fire department purchase of a generator for \$30,000 for the Cross Lane Firehouse.
- Public works purchases included a plow dump body for \$9,000.
- Vehicles purchased included a police car for \$21,685.
- Infrastructure increased \$658,556 due to completion of the Lyme Street reconstruction project.

Capital Assets and Debt Administration (Continued)

Capital assets. (Continued)

**TOWN OF OLD LYME CAPITAL ASSETS
(NET OF DEPRECIATION)**

	<u>2007</u>	<u>2006</u>
Land	\$ 2,384,936	\$ 2,384,936
Works of art	251,000	251,000
Construction in progress	1,962,781	1,366,551
Buildings and improvements.....	728,893	748,345
Land improvements.....	417,211	432,233
Machinery and equipment.....	1,672,441	1,710,442
Infrastructure.....	<u>1,726,464</u>	<u>1,089,645</u>
Total	<u>\$ 9,143,726</u>	<u>\$ 7,983,152</u>

Additional information on the Town’s capital assets can be found in Note III.C.

Long-term and short-term debt. At the end of the current fiscal year, the Town had total bonded debt outstanding of \$200,000. All debt is backed by the full faith and credit of the Town.

**TOWN OF OLD LYME OUTSTANDING DEBT
GENERAL OBLIGATION BONDS/NOTES**

	<u>2007</u>	<u>2006</u>
General obligation bonds	\$ 200,000	\$ 300,000
Bond anticipation notes.....	<u>3,300,000</u>	<u> </u>
Totals.....	<u>\$ 3,500,000</u>	<u>\$ 300,000</u>

The Town’s total debt increased by \$3,200,000 during the current fiscal year due to the new bond anticipation note issue.

The Town maintains an “AA” rating from Standard & Poor’s and Fitch and an “Aa” rating from Moody’s for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 7 times total tax collections including interest and lien fees and the tax relief for elderly freeze grant. The current debt limitation for the Town is \$184,947,546, which is significantly in excess of the Town’s outstanding general obligation debt.

Additional information on the Town’s long-term debt can be found in Note III.F.

Economic Factors and Next Year's Budget and Rates

It is anticipated that the Regional School District #18 operating budget will increase. In addition, the school board is expected to develop plans to renovate the high school.

It is anticipated that costs for emergency communication services provided by Valley Shore Communications will continue to increase.

Major capital projects for the Town include the closure of its landfill, expanding and renovating the Town Hall, and repair of the dam at Roger's Lake. There are ongoing road and drainage projects that are funded through the Town budget. The Towns of Old Lyme and Lyme were awarded a Small Town Economic Assistance Program (STEAP) grant to help fund Phase II of their Town Woods Park project, which will be completed in Fall 2007.

Purchases of capital assets and larger nonrecurring expenses are scheduled through the Town's five year Capital Plan.

The occupancy rate of the Town's commercial areas is very high and it appears this will continue into the future.

With the federal decision to retain Sub Base New London, the economic climate in the region remains strong.

All of these factors were considered during the preparation of the Town's budget for the 2008 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the First Selectman or Town Treasurer, Town of Old Lyme, 52 Lyme Street, Old Lyme, CT 06371.

Basic Financial Statements

TOWN OF OLD LYME, CONNECTICUTSTATEMENT OF NET ASSETS
JUNE 30, 2007

	GOVERNMENTAL ACTIVITIES
<u>ASSETS</u>	
Current assets:	
Cash.....	\$ 4,146,858
Investments.....	4,259,069
Receivables:	
Property taxes.....	226,029
Intergovernmental.....	30,384
Other.....	19,312
Total current assets.....	<u>8,681,652</u>
Noncurrent assets:	
Receivables (net):	
Property taxes.....	<u>141,183</u>
Capital assets (net of accumulated depreciation):	
Land.....	2,384,936
Works of art.....	251,000
Construction in progress.....	1,962,781
Buildings and improvements.....	728,893
Land improvements.....	417,211
Machinery and equipment.....	1,672,441
Infrastructure.....	<u>1,726,464</u>
Total capital assets (net of depreciation).....	<u>9,143,726</u>
Total noncurrent assets.....	<u>9,284,909</u>
TOTAL ASSETS.....	<u>17,966,561</u>
<u>LIABILITIES</u>	
LIABILITIES:	
Current liabilities:	
Cash overdraft.....	297,913
Accounts payable.....	460,004
Accrued liabilities.....	50,842
Accrued interest payable.....	20,979
Unearned revenue.....	106,730
Bonds and bans payable.....	3,400,000
Compensated absences.....	12,924
Landfill closure and postclosure.....	<u>200,000</u>
Total current liabilities.....	<u>4,549,392</u>
Noncurrent liabilities:	
Bonds payable.....	100,000
Compensated absences.....	51,695
Landfill closure and postclosure.....	<u>835,664</u>
Total noncurrent liabilities.....	<u>987,359</u>
TOTAL LIABILITIES.....	<u>5,536,751</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt.....	7,795,442
Restricted for:	
Capital projects.....	3,177,416
Unrestricted.....	<u>1,456,952</u>
TOTAL NET ASSETS.....	<u>\$ 12,429,810</u>

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

EXHIBIT B

TOWN OF OLD LYME, CONNECTICUT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET EXPENSES AND CHANGES IN NET ASSETS
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
GOVERNMENTAL ACTIVITIES:					
General government.....	\$ 2,031,935	\$ 571,402	7,000	100	(1,453,433)
Public works.....	1,454,938	60,393	116,000		(1,278,545)
Parks and recreation.....	322,253	137,318	25	46,000	(138,910)
Other public safety.....	508,695	8,665	42,719		(457,311)
Social services.....	70,223				(70,223)
Fire services.....	414,250				(414,250)
Police services.....	742,553	21,740	66,890		(653,923)
Health services.....	297,434	5,192	13,055		(279,187)
Senior citizens.....	68,372	4,826			(63,546)
Sanitation.....	1,013,162	167,659			(845,503)
Education.....	21,001,614		455,295		(20,546,319)
Interest expense.....	48,909				(48,909)
TOTAL.....	\$ 27,974,338	\$ 977,195	\$ 700,984	\$ 46,100	\$ (26,250,059)
GENERAL REVENUES:					
Property taxes.....					\$ 26,437,868
Grants and contributions not restricted to specific programs.....					180,686
Investment income.....					393,840
Miscellaneous.....					54,666
TOTAL GENERAL REVENUES.....					27,067,060
CHANGE IN NET ASSETS.....					817,001
NET ASSETS - JULY 1, 2006.....					11,612,809
NET ASSETS - JUNE 30, 2007.....					\$ 12,429,810

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

TOWN OF OLD LYME, CONNECTICUT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	GENERAL	TOWN HALL EXPANSION PROJECT	LANDFILL CLOSURE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>					
Cash.....	\$ 134,193	\$ 2,380,361	\$ 807,993	\$ 824,311	\$ 4,146,858
Investments.....	3,486,353			772,716	4,259,069
Receivables:					
Property taxes	364,929				364,929
Intergovernmental.....				30,384	30,384
Due from other funds.....	39,815			283,580	323,395
TOTAL ASSETS.....	\$ 4,025,290	\$ 2,380,361	\$ 807,993	\$ 1,910,991	\$ 9,124,635
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Cash overdraft.....	\$ 297,913	\$	\$	\$	\$ 297,913
Accounts payable.....	160,371	201,652	7,366	90,615	460,004
Accrued liabilities.....	50,842				50,842
Due to other funds.....	279,054	7,997		17,032	304,083
Unearned revenue.....	419,588				419,588
Bond anticipation note payable.....		3,300,000			3,300,000
TOTAL LIABILITIES.....	1,207,768	3,509,649	7,366	107,647	4,832,430
Fund Balances:					
Reserved for:					
Encumbrances.....	413,200				413,200
Commitments.....		2,747,956		429,460	3,177,416
Unreserved, reported in:					
General fund.....	2,404,322				2,404,322
Special revenue funds.....				354,464	354,464
Capital projects funds.....		(3,877,244)	800,627	1,019,420	(2,057,197)
TOTAL FUND BALANCES.....	2,817,522	(1,129,288)	800,627	1,803,344	4,292,205
TOTAL LIABILITIES AND FUND BALANCES....	\$ 4,025,290	\$ 2,380,361	\$ 807,993	\$ 1,910,991	\$ 9,124,635

(Continued)

TOWN OF OLD LYME, CONNECTICUT

RECONCILIATION OF FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (EXHIBIT A) ARE DIFFERENT FROM THE GOVERNMENTAL FUND BALANCE SHEET. THE DETAILS OF THIS DIFFERENCE ARE AS FOLLOWS:

TOTAL FUND BALANCES (EXHIBIT C, PAGE 1).....	\$ 4,292,205
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CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS:

Beginning net capital assets and current additions.....	9,362,653
Depreciation expense.....	(218,927)

OTHER LONG-TERM ASSETS ARE NOT AVAILABLE TO PAY FOR CURRENT PERIOD EXPENDITURES AND, THEREFORE, ARE DEFERRED IN THE FUNDS:

Property tax interest and lien accrual.....	76,030
Property tax receivable-accrual basis change.....	312,858
Allowance for doubtful accounts.....	(73,747)

SOME LIABILITIES, INCLUDING BONDS PAYABLE, ARE NOT DUE AND PAYABLE IN THE CURRENT PERIOD AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS:

Bonds payable.....	(200,000)
Compensated absences.....	(64,619)
Landfill closure and postclosure.....	(1,035,664)
Accrued interest payable.....	(20,979)

NET ASSETS OF GOVERNMENTAL ACTIVITIES.....	<u>\$ 12,429,810</u>
--	----------------------

(Concluded)

TOWN OF OLD LYME, CONNECTICUT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	GENERAL	TOWN HALL EXPANSION PROJECT	LANDFILL CLOSURE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Property taxes.....	\$ 26,448,743	\$	\$	\$	\$ 26,448,743
Charges for services.....	899,937	5,250		72,008	977,195
Intergovernmental.....	752,590			162,000	914,590
Investment income.....	314,685	25,468		53,687	393,840
Contributions.....		100		13,080	13,180
Other revenue.....	54,666				54,666
TOTAL REVENUES.....	28,470,621	30,818	-	300,775	28,802,214
EXPENDITURES:					
Current:					
General government.....	1,711,806				1,711,806
Boards and commissions.....	306,701				306,701
Public works.....	713,095			116,000	829,095
Parks and recreation.....	278,361			1,000	279,361
Other public safety.....	192,564			63,912	256,476
Social services.....	70,223				70,223
Fire services.....	281,691				281,691
Police services.....	699,938				699,938
Health services.....	231,308			8,735	240,043
Senior citizens.....	68,372				68,372
Other associations.....	234,500				234,500
Sanitation.....	1,013,162		220,270		1,233,432
Chartered associations.....	233,502				233,502
Education.....	21,001,614				21,001,614
Capital outlay.....	528,945	1,148,284		170,532	1,847,761
Debt service.....	116,800	11,822			128,622
TOTAL EXPENDITURES.....	27,682,582	1,160,106	220,270	360,179	29,423,137
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	788,039	(1,129,288)	(220,270)	(59,404)	(620,923)
OTHER FINANCING SOURCES (USES):					
Transfers in.....	163,109		200,000	262,955	626,064
Transfers out.....	(411,705)			(214,359)	(626,064)
NET OTHER FINANCING SOURCES (USES).....	(248,596)	-	200,000	48,596	-
NET CHANGE IN FUND BALANCES.....	539,443	(1,129,288)	(20,270)	(10,808)	(620,923)
FUND BALANCES - JULY 1, 2006.....	2,278,079		820,897	1,814,152	4,913,128
FUND BALANCES - JUNE 30, 2007.....	\$ 2,817,522	\$ (1,129,288)	\$ 800,627	\$ 1,803,344	\$ 4,292,205

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

TOWN OF OLD LYME, CONNECTICUT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES
(EXHIBIT B) ARE DUE TO:

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (EXHIBIT D)..... \$ (620,923)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlay.....	1,379,501
Depreciation expense.....	<u>(218,927)</u>
Total.....	<u>1,160,574</u>

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Increase (decrease) in property tax receivable - accrual basis change.....	(18,289)
Increase (decrease) in property tax interest and lien revenue.....	(11,446)
(Increase) decrease in allowance for doubtful accounts.....	<u>18,860</u>
Total	<u>(10,875)</u>

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Principal repayments:	
General obligation bonds.....	<u>100,000</u>

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated absences.....	(11,758)
Landfill closure and postclosure.....	220,270
Accrued interest payable.....	<u>(20,287)</u>
Total	<u>188,225</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (EXHIBIT B) \$ 817,001

TOWN OF OLD LYME, CONNECTICUT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Property taxes.....	\$ 26,462,808	\$ 26,462,808	\$ 26,448,743	\$ (14,065)
Charges for services.....	780,000	780,000	899,937	119,937
Intergovernmental.....	965,000	965,000	752,590	(212,410)
Investment income.....	175,000	175,000	314,685	139,685
Other revenue.....	183,500	183,500	54,666	(128,834)
TOTAL REVENUES.....	28,566,308	28,566,308	28,470,621	(95,687)
EXPENDITURES:				
Current:				
General government.....	1,759,054	1,762,842	1,733,306	29,536
Boards and commissions.....	291,656	293,482	301,985	(8,503)
Public works.....	696,319	696,319	637,995	58,324
Parks and recreation.....	301,579	301,579	282,761	18,818
Other public safety.....	200,949	200,982	189,754	11,228
Social services.....	74,089	74,417	70,223	4,194
Fire services.....	274,679	274,679	282,691	(8,012)
Police services.....	703,472	703,926	699,938	3,988
Health services.....	243,781	243,781	231,308	12,473
Senior citizens' activities.....	61,271	61,271	68,372	(7,101)
Other associations.....	231,500	231,500	234,500	(3,000)
Sanitation.....	1,089,850	1,091,017	1,011,462	79,555
Chartered associations.....	89,550	89,550	89,550	-
Regional School District No. 18.....	21,001,614	21,001,614	21,001,614	-
Debt service:				
Redemption of debt.....	100,000	100,000	100,000	-
Interest on debt.....	16,800	16,800	16,800	-
Capital outlay.....	1,074,100	1,093,700	795,845	297,855
TOTAL EXPENDITURES.....	28,210,263	28,237,459	27,748,104	489,355
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	356,045	328,849	722,517	393,668
OTHER FINANCING SOURCES (USES):				
Appropriation of fund balance.....		27,509		(27,509)
Cancellation of prior year encumbrances.....			17,422	17,422
Transfers in.....			163,109	163,109
Transfers out.....	(356,045)	(356,358)	(411,705)	(55,347)
NET OTHER FINANCING SOURCES (USES).....	(356,045)	(328,849)	(231,174)	97,675
NET CHANGE IN FUND BALANCE.....	\$ -	\$ -	491,343	\$ 491,343
FUND BALANCE - JULY 1, 2006.....			1,912,979	
FUND BALANCE - JUNE 30, 2007.....			\$ 2,404,322	

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

TOWN OF OLD LYME, CONNECTICUT

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2007

	PENSION TRUST FUND	AGENCY FUNDS
<u>ASSETS</u>		
Cash.....	\$	\$ 719,191
INVESTMENTS, AT FAIR VALUE:		
Guaranteed interest contract.....	1,622,992	
Bond mutual funds.....	109,497	
Equity mutual funds.....	2,267,234	
TOTAL INVESTMENTS.....	3,999,723	-
TOTAL ASSETS.....	3,999,723	719,191
<u>LIABILITIES</u>		
LIABILITIES:		
Accounts payable.....		699,879
Due to other funds.....		19,312
TOTAL LIABILITIES.....	-	719,191
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS.....	\$ 3,999,723	\$ -

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

TOWN OF OLD LYME, CONNECTICUT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	PENSION TRUST FUND
<hr/>	
ADDITIONS:	
Contributions:	
Employer.....	\$ 317,005
Plan members.....	<u>53,866</u>
Total contributions.....	<u>370,871</u>
Investment income:	
Net appreciation in fair value of investments.....	348,922
Interest and dividends.....	<u>57,736</u>
Total investment income.....	406,658
Less investment expenses.....	<u>5,938</u>
Net investment income.....	<u>400,720</u>
TOTAL ADDITIONS.....	<u>771,591</u>
DEDUCTIONS:	
Benefits.....	111,151
Refunds.....	<u>5,837</u>
TOTAL DEDUCTIONS.....	<u>116,988</u>
CHANGES IN NET ASSETS.....	654,603
NET ASSETS - JULY 1, 2006.....	<u>3,345,120</u>
NET ASSETS - JUNE 30, 2007.....	<u><u>\$ 3,999,723</u></u>

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

TOWN OF OLD LYME, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

HISTORY AND ORGANIZATION

The Town of Old Lyme, Connecticut (the "Town") was founded in 1655. The Town covers 27.1 square miles located in southeastern Connecticut.

The Town operates under a Selectmen/Town Meeting form of government and provides a full range of services including public safety, roads, sanitation, health, social services, culture and recreation, planning, zoning, and general administrative services to its residents. The Town is a member of Regional School District No. 18 with the Town of Lyme. The District provides education for grades K-12. The accompanying basic financial statements conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies used by the Town:

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental 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.

B. 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. Agency funds have no measurement focus but are accounted for using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF OLD LYME, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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, expenditure reimbursement-type grants, certain intergovernmental revenues, transfers, 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. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental funds:

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

The *Town Hall Expansion Project Fund* accounts for the financial resources to be used for the renovation/addition of the Town Hall.

The *Landfill Closure Fund* accounts for the financial revenues to be used for the closure of the Town's landfill.

Additionally, the Town reports the following fund types:

The *Pension Trust Funds* account for the activities of the Town's volunteer firefighters' retirement plan and the employee pension plan, which accumulates resources for pension benefit payments to qualified employees.

The *Agency Funds* are used to account for performance bonds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Town has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions are changes between certain Town functions because elimination of these changes would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

TOWN OF OLD LYME, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Deposits - The Town considers cash equivalents as cash on hand, demand deposits, money market accounts and short-term investments with original maturities of three months or less from the date of acquisition.

Investments - Eligible investments are governed by the Connecticut General Statutes which, in general, allow the Town to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any State or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivisions rated within the top three rating categories of any nationally recognized rating service. Investment income is recorded in the fund in which it was earned.

Investments for the Town are reported at fair value. State Treasurers Investment Fund is an investment pool managed by the State of Connecticut Office of the State Treasurer. Investments must be made in instruments authorized by Connecticut General Statutes 3-27c - 3-27e. Investment guidelines are adopted by the State Treasurer. The fair value of the position in the pool is the same as the value of the pool shares. The balance of the pooled fixed income investments were invested in 2a-7 like pool, which operates within State Statutes. The fair value of the position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

a. Interfunds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

b. Property Taxes and Other Receivables

In the government-wide financial statements, all trade and property tax receivables are shown net of an allowance for uncollectibles. Allowance ranges from 15 to 25% of outstanding property taxes at June 30, 2007, and is calculated based upon prior collections.

In the fund financial statements, all property tax receivable at June 30, which have not been collected within sixty days of June 30, have been recorded as deferred revenue, since they are not considered to be available to finance expenditures of the current year. Taxes collected during the sixty day period have been recorded as revenue.

Property taxes are assessed on property as of October 1. Taxes are billed in the following July and are due in two installments, July 1 and January 1. Personal property and motor vehicle taxes are billed in July and are due in one installment, July 1. Liens are effective on the assessment date and are continued by filing before the end of the year following the due date.

TOWN OF OLD LYME, CONNECTICUT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Capital Assets

Capital assets, which include buildings, building improvements, land improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 for equipment, \$20,000 for improvements and \$100,000 for infrastructure, and an estimated useful life in excess of 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 Town has recorded infrastructure assets prospectively since July 1, 2002.

The costs of normal maintenance and repairs that do not add to the value of the assets 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 Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30-75
Building improvements	50
Land improvements	15-75
Vehicles	10-25
Machinery and equipment	10-25
Roads	75
Bridges	100

4. Compensated Absences

Town employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement.

Sick leave and vacation leave expenditures are recognized in the governmental funds 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. The liability for the remainder of the vested sick and vacation leave, and the nonvested portion expected to be paid in future periods, is accounted for in the government-wide financial statements as a noncurrent liability and the expenditure is recognized only when paid.

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities 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 the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

TOWN OF OLD LYME, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Net Assets or Equity (Continued)

5. Long-Term Obligations (Continued)

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.

6. Fund Equity and Net Assets

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.

In the government-wide financial statements, net assets are classified into the following categories:

Invested in Capital Assets, Net of Related Debt

This category presents the net assets that reflect capital assets net of only the debt applicable to the acquisition or construction of these assets. Debt issued for non-capital purposes is excluded.

Restricted Net Assets

This category presents the net assets restricted by external parties (creditors, grantors, contributors or laws and regulations).

Unrestricted Net Assets

This category presents the net assets of the Town which are not restricted.

7. 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 of assets and liabilities including disclosures of contingent assets and liabilities and reported revenues, expenses and expenditures during the fiscal year.

8. Comparative Data/Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

TOWN OF OLD LYME, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Budget Policies - The procedures for establishing the budgetary data reported in the financial statements are as follows:

- The Town legally adopts an annual budget for the general fund. Formal budgetary integration is employed by the Board of Finance as a management control device during the year for the general fund. A budgetary comparison on a legal basis has been included in the appropriate financial statements and schedules, and budgetary to GAAP reporting reconciliations have been provided below.

The capital projects fund employs a project length budget which is approved by the annual Town Meeting.

- Prior to March 1, each department head, office, agency, board or commission of the Town, supported wholly or in part from Town funds, shall submit budget requests in the form requested by the First Selectman so as to indicate the programs, activities, and work accomplished in the current fiscal year and to be accomplished during the ensuing year. These shall be accompanied by detailed estimates of expenditures to be made and of revenues other than taxes to be collected during the ensuing fiscal year, along with such other information as may be requested by the Board of Finance or the First Selectman.
- Prior to April 1, the First Selectman shall present to the Board of Finance a budget.
- The Board of Finance shall hold at least one public hearing on the budget during the month of April and shall adopt a proposed budget, including a recommended appropriation act, by May 1, which shall be published in a newspaper in general circulation in the Town at least five days prior to the annual Town Meeting for budget consideration.
- An annual Town Meeting for budget consideration shall be held on the second Tuesday in May. This meeting shall consider the budget presented to it by the Board of Finance and may approve or lower any item, but may not raise the amount of such item. If the annual Town Meeting fails to adopt a budget, the budget will be returned to the Board of Finance for its consideration. The Board of Finance shall return the same or a revised budget to a Town Meeting called by the Board of Finance for a date no later than ten days after the annual meeting, at which the Town Meeting may approve or lower any item. Should the Town Meeting then fail or refuse to adopt a budget, the budget appropriation last proposed by the Board of Finance shall be in full effect.
- The level at which expenditures may not legally exceed appropriations without Board of Finance and/or Town Meeting approval is at the department level for the general fund. Transfers between departments or new appropriations may be approved by consecutive actions of the Board of Finance and a Town Meeting, which shall be called by the Board of Finance following its action on the new spending proposal.

An appropriation of over \$20,000 for an additional expenditure at the department level not provided for in the annual budget or as a second request may be approved by consecutive favorable actions of the Board of Finance and a referendum of the electors of the Town at a special or regular election of the Town, as one or the other may be determined by the Board of Finance. Additional appropriations to the general fund budget during the year ended June 30, 2007 were \$27,509 from fund balance.

- 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 (Exhibit F) 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.

TOWN OF OLD LYME, CONNECTICUT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

B. Budget - GAAP Reconciliation

A reconciliation of expenditures and fund balance between the accounting treatment required by GAAP (Exhibit D), and budgetary requirements (Exhibit F), is as follows:

	<u>EXPENDITURES</u>	<u>FUND BALANCE</u>
BALANCE, BUDGETARY BASIS, EXHIBIT F - JUNE 30, 2007.....	\$ 27,748,104	\$ 2,404,322
Encumbrances outstanding at June 30, 2006 liquidated during the fiscal year.....	232,278	
Encumbrances outstanding at June 30, 2007 charged to budgetary expenditures during the fiscal year.....	(297,800)	297,800
Encumbrances outstanding at June 30, 2006 still outstanding at June 30, 2007		115,400
BALANCE, GAAP BASIS, EXHIBIT D - JUNE 30, 2007.....	<u>\$ 27,682,582</u>	<u>\$ 2,817,522</u>

C. Excess of Expenditures over Appropriations

During the year ended June 30, 2007, general fund expenditures exceeded appropriations in the following departments:

<u>DEPARTMENT</u>	<u>EXPENDITURES OVER BUDGET</u>
Selectmen's office	\$ 24,490
Newsletter	3,810
Tree commission	580
Land use	13,903
Board of assessment appeals	219
Town woods park	2,018
Old Lyme fire department	8,571
Fire protection	3,088
Municipal police	5,097
Senior center	7,146
Other associations	3,000
Household hazardous waste	5,021
Transfer station	6,991
Other financing uses - transfers out:	
Dog fund	5,347
Town woods phase II fund	50,000

D. Deficit Fund Balances

The following individual fund had a deficit fund balance at June 30, 2007:

Capital Projects Funds:	
Town Woods Phase II.....	\$ 64,530

The deficit should be reduced in future years as the general fund appropriates and transfers funds.

TOWN OF OLD LYME, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

E. Capital Projects Authorizations

The following is a summary of Capital Projects at June 30, 2007:

CAPITAL PROJECT	AUTHORIZATION	CURRENT YEAR EXPENDITURES	CUMULATIVE EXPENDITURES	BALANCE JUNE 30, 2007
Town hall expansion.....	\$4,400,000	\$1,148,284	\$1,148,284	\$3,251,716
Town woods phase II.....	785,000	166,380	166,380	618,620
Lyme street.....	940,000	4,152	748,402	191,598
Town woods recreation building	332,958		336,819	(3,861)
TOTAL	<u>\$6,457,958</u>	<u>\$1,318,816</u>	<u>\$2,399,885</u>	<u>\$4,058,073</u>

III. DETAILED NOTES

A. Cash and Investments

1. Deposits-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. As of June 30, 2007, \$5,316,646 of the Town's bank balance of \$5,960,339, including bank money market accounts, was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 4,724,981
Uninsured and collateral held by pledging bank's trust department not in the Town's name	<u>591,665</u>
Total amount subject to custodial credit risk.....	<u>\$ 5,316,646</u>

2. Investments - At June 30, 2007, the Town's investments consisted of the following:

TYPE OF INVESTMENT	FAIR VALUE	INVESTMENT MATURITIES (IN YEARS)			
		N/A	LESS THAN 1 YEAR	1-5 YEARS	6-10 YEARS
Bank money market accounts	\$ 1,044,988	\$	\$ 1,044,988	\$	\$
Pooled fixed income.....	3,214,081		3,214,081		
Guaranteed interest contract.....	1,622,992				1,622,992
Bond mutual funds.....	109,497			109,497	
Equity mutual funds.....	<u>2,267,234</u>	<u>2,267,234</u>			
TOTAL.....	<u>\$ 8,258,792</u>	<u>\$ 2,267,234</u>	<u>\$ 4,259,069</u>	<u>\$ 109,497</u>	<u>\$ 1,622,992</u>

Of the \$3,214,801 of pooled fixed income, \$1,869,897 was invested in Short Term Investment Fund (STIF). STIF is an investment pool managed by the State of Connecticut Office of the State Treasurer. The balance was invested in a 2a-7 like pool which operates within State Statutes. The fair value of the position in the pool is the same as the value of the pool shares.

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 - The Town has no investment policy that would limit its investment choices due to credit risk other than State Statutes governing investments in obligations of any State or political subdivision or in obligations of the State of Connecticut or political subdivision.

TOWN OF OLD LYME, CONNECTICUT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

A. Cash and Investments (Continued)

2. Investments (Continued)

The Town's investments subject to credit risk had average ratings by Standard & Poor's as follows:

AVERAGE RATING	POOLED FIXED INCOME	GUARANTEED INTEREST CONTRACT	BOND MUTUAL FUNDS
AAA	\$ 3,214,081	\$	\$
AA		1,622,992	109,497
TOTAL	\$ 3,214,081	\$ 1,622,992	\$ 109,497

Custodial credit risk - The Town has no formal policy with respect to custodial credit risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2007, the Town had no investments subject to custodial credit risk.

B. Receivables

Receivables as of year end for the Town's government-wide financial statements by type, including the applicable allowances for uncollectibles, are as follows:

	PROPERTY TAXES		
	TAXES	INTEREST & LIEN FEES	TOTAL
Current Portion	\$ 186,114	\$ 39,915	\$ 226,029
Long-term Portion	\$ 178,815	\$ 36,115	\$ 214,930
Less Allowance for Uncollectibles	(54,739)	(19,008)	(73,747)
Net Long-term Portion	\$ 124,076	\$ 17,107	\$ 141,183

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

DEFERRED REVENUE:

Delinquent property taxes receivable (general fund) \$ 312,858

UNEARNED REVENUE:

Unearned property tax payments paid in advance 24,832

Unearned fees for recreation programs and beach permits 81,898

TOTAL UNEARNED REVENUE FOR GOVERNMENTAL FUNDS \$ 419,588

TOWN OF OLD LYME, CONNECTICUT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

C. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	BALANCE JULY 1, 2006	INCREASES	DECREASES	BALANCE JUNE 30, 2007
<u>Governmental Activities:</u>				
<u>Capital Assets, not being Depreciated:</u>				
Land	\$ 2,384,936	\$	\$	\$ 2,384,936
Works of art	251,000			251,000
Construction in progress.....	1,366,551	1,318,816	722,586	1,962,781
Total Capital Assets, not being Depreciated	4,002,487	1,318,816	722,586	4,598,717
<u>Capital Assets, being Depreciated:</u>				
Buildings and improvements.....	1,096,206			1,096,206
Land improvements	557,951			557,951
Machinery and equipment	3,054,370	124,705		3,179,075
Infrastructure.....	1,289,988	658,566		1,948,554
Total Capital Assets, being Depreciated	5,998,515	783,271	-	6,781,786
Total Capital Assets.....	10,001,002	2,102,087	722,586	11,380,503
<u>Less Accumulated Depreciation for:</u>				
Buildings and improvements.....	347,861	19,452		367,313
Land improvements	125,718	15,022		140,740
Machinery and equipment	1,343,928	162,706		1,506,634
Infrastructure.....	200,343	21,747		222,090
Total Accumulated Depreciation	2,017,850	218,927	-	2,236,777
Total Capital Assets, being Depreciated, net	3,980,665	564,344	-	4,545,009
Governmental Activities Capital Assets, net	\$ 7,983,152	\$ 1,883,160	\$ 722,586	\$ 9,143,726

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

General government.....	\$ 40,928
Other public safety.....	3,010
Public works	77,698
Parks and recreation.....	5,762
Fire services	69,445
Police services.....	22,084
Total Depreciation Expense	\$ 218,927

Construction Commitments

The Town has two active construction projects at June 30, 2007, which are the Town Hall Expansion Project and the Town Woods Phase II. At year end, the Town's commitments with contractors are as follows:

Town Hall Expansion Project	\$ 2,747,956
Town Woods Phase II	429,460
TOTAL	\$ 3,177,416

TOWN OF OLD LYME, CONNECTICUT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

D. Interfund Accounts

1. Interfund Payables and Receivables

A summary of interfund balances as of June 30, 2007 is as follows:

<u>MAJOR FUNDS</u>	<u>CORRESPONDING FUND</u>	<u>DUE FROM</u>	<u>DUE TO</u>
GENERAL FUND:			
Town hall expansion project.....	N/A	\$ 7,997	\$
Road improvement project	N/A		279,054
Revaluation	N/A	12,506	
Performance bonds	N/A	19,312	
TOTAL GENERAL FUND.....		<u>39,815</u>	<u>279,054</u>
TOWN HALL EXPANSION PROJECT.....	General Fund		<u>7,997</u>
NONMAJOR FUNDS			
SPECIAL REVENUE FUNDS:			
Town woods park fund	Town Woods Phase II	4,526	
CAPITAL PROJECTS FUNDS:			
Road improvement project	General Fund	279,054	
Town woods phase II.....	Town Woods Park Fund		4,526
Revaluation	General Fund		12,506
TOTAL NONMAJOR FUNDS.....		<u>283,580</u>	<u>17,032</u>
FIDUCIARY FUNDS:			
Performance bonds	General Fund		19,312
GRAND TOTAL		<u>\$ 323,395</u>	<u>\$ 323,395</u>

All interfund balances resulted from the time lag between the date payments occurred between funds for various activities.

2. Interfund Transfers

A summary of interfund transfers as of June 30, 2007 is as follows:

<u>MAJOR FUND:</u>	<u>CORRESPONDING FUND</u>	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
GENERAL FUND:			
Landfill closure	N/A	\$	\$ 200,000
Dog fund	N/A		56,705
Land acquisition.....	N/A		75,000
Town woods phase II	N/A		50,000
Town woods	N/A	163,109	
Revaluation	N/A		30,000
TOTAL GENERAL FUND.....		<u>163,109</u>	<u>411,705</u>
LANDFILL CLOSURE	General Fund	<u>200,000</u>	

TOWN OF OLD LYME, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

D. Interfund Accounts (Continued)

2. Interfund Transfers (Continued)

	CORRESPONDING FUND	TRANSFERS IN	TRANSFERS OUT
<u>NONMAJOR FUNDS:</u>			
<u>SPECIAL REVENUE FUNDS:</u>			
Dog fund	General Fund	\$ 56,705	\$
Municipal parking lot fund.....	Town Wood Phase II		51,250
TOTAL SPECIAL REVENUE FUNDS		56,705	51,250
<u>CAPITAL PROJECTS FUNDS:</u>			
Land acquisition	General Fund	75,000	
Town Woods Phase II	General Fund	50,000	
	Municipal		
Town Woods Phase II	Parking Lot Fund	51,250	
Town Woods	General Fund		163,109
Revaluation	General Fund	30,000	
TOTAL CAPITAL PROJECTS FUNDS		206,250	163,109
TOTAL NONMAJOR FUNDS		262,955	214,359
GRAND TOTAL.....		\$ 626,064	\$ 626,064

Transfers are used to account the financing by the general fund of various program and activities in other funds.

E. Short-Term Obligations – Bond Anticipation Notes

The Town uses bond anticipation notes during the construction period of the Town Hall Expansion Project prior to the issuance of the bonds at the completion of the project.

Short-term obligation activity for the year ended June 30, 2007 was as follows:

<u>TYPE OF OBLIGATION</u>	<u>BALANCE JULY 1, 2006</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE JUNE 30, 2007</u>
Bond Anticipation Notes:				
Town Hall Expansion.....	\$ -	\$ 4,000,000	\$ 700,000	\$ 3,300,000

At June 30, 2007, there was a bond anticipation note of \$3,300,000 outstanding with a maturity date of February 1, 2008, bearing an interest rate of 3.75%.

F. Changes in Long-Term Obligations

1. Summary of Changes

The following is a summary of changes in long-term obligations during the fiscal year:

<u>GENERAL LONG-TERM OBLIGATIONS</u>	<u>BALANCE JULY 1, 2006</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE JUNE 30, 2007</u>	<u>CURRENT PORTION</u>
Estimated liability for landfill closure.....	\$ 1,255,934	\$	\$ 220,270	\$ 1,035,664	\$ 200,000
Compensated absences.....	52,861	70,880	59,122	64,619	12,924
General obligation bonds.....	300,000		100,000	200,000	100,000
TOTAL GENERAL LONG-TERM OBLIGATIONS.....	\$ 1,608,795	\$ 70,880	\$ 379,392	\$ 1,300,283	\$ 312,924

TOWN OF OLD LYME, CONNECTICUT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

F. Changes in Long-Term Obligations (Continued)

1. Summary of Changes (Continued)

Bond Indebtedness - As of June 30, 2007, the outstanding indebtedness of the Town was as follows:

	<u>GENERAL OBLIGATION BONDS</u>
\$1,500,000 General Obligation Bonds issued August 15, 1994, due in annual installments of \$100,000 through June 15, 2009, interest at 4.50% - 6.50%	<u>\$ 200,000</u>

Old Lyme is a member of Regional School District No. 18, which provides education facilities for grades pre-K through twelve for the Towns of Lyme and Old Lyme. As of June 30, 2007, the outstanding bonded indebtedness of the District was \$18,675,000. These issues are eligible for partial reimbursement from the State of Connecticut. The Town of Old Lyme's share will be approximately 80% of the remainder, which totaled \$14,940,000. These are general obligations of Regional School District No. 18 and its member towns.

All long-term liabilities are generally liquidated by the General Fund.

The annual requirements to amortize bonds payable as of June 30, 2007, are as follows:

<u>FISCAL YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2008	\$ 100,000	\$ 11,300	\$ 111,300
2009	<u>100,000</u>	<u>5,700</u>	<u>105,700</u>
	<u>\$ 200,000</u>	<u>\$ 17,000</u>	<u>\$ 217,000</u>

2. Landfill Closure and Post-Closure Care Costs

State and federal laws and regulations require that the Town of Old Lyme place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability should be recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post-closure care costs has a balance of \$1,035,664 as of June 30, 2007, which is based on 95% usage of the landfill. The estimated remaining landfill life as of June 30, 2007, is one year. The estimated total current cost of the landfill closure and post-closure care is based on the amount that would be paid if all equipment, facilities and services required to close, monitor and maintain the landfill were acquired as of June 30, 2007. However, the actual costs of closure and post-closure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

TOWN OF OLD LYME, CONNECTICUT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

F. Changes in Long-Term Obligations (Continued)

2. Landfill Closure and Post-Closure Care Costs (Continued)

It is anticipated that future inflation costs and additional costs that might arise from changes in post-closure requirements (due to changes in technology or more rigorous environmental regulations, for example) will be financed through future borrowings or tax collections. The Town has \$800,627 in the Landfill Closure Capital Project Fund accumulated as of June 30, 2007 for these costs.

3. Authorized/Unissued Bonds

The amount of authorized/unissued bonds for general purposes is \$4,400,000 at June 30, 2007.

4. Statutory Debt Limitations

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

<u>Category</u>	<u>Debt Limit</u>	<u>Net Indebtedness</u>	<u>Balance</u>
General purpose	\$ 59,447,426	\$ 3,500,000	\$ 55,947,426
Schools	118,894,851	14,940,000	103,954,851
Sewers	99,079,043		99,079,043
Urban renewal	85,868,504		85,868,504
Pension deficit	79,263,234		79,263,234

The overall statutory debt limit for the Town is equal to seven times annual receipts from taxation, \$184,947,546.

The indebtedness reflected above includes bonds outstanding in addition to the amount of bonds authorized and unissued against which bond anticipation notes are issued and outstanding.

IV. OTHER INFORMATION

A. Risk Management

The Town is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters.

The Town currently is a member in Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool established for the purpose of administering an interlocal risk management program pursuant to the provisions of Section 7-479a et. seq. of Connecticut General Statutes for workers' compensation and employer liability coverage. The Town pays an annual premium for its coverage. CIRMA should be self-sustaining through members' premiums but reinsures in excess of \$1,000,000 for each insured occurrence. Members may be subject to supplemental assessment in the event of deficiencies; however, potential assessments are limited pursuant to the by-laws.

The Town purchases commercial insurance for all other risks of loss, including blanket and umbrella policies. Settled claims have not exceeded commercial coverage in any of the past three years, and there has not been any significant reduction in insurance coverage from amount held in prior years.

TOWN OF OLD LYME, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. OTHER INFORMATION (CONTINUED)

B. Commitments and Litigation

The Town has been named as defendant in several claims and legal actions. The Town's attorney estimates that the potential claims against the Town not covered by insurance resulting from such claims and legal actions would not materially affect the financial condition of the Town.

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 terms of the grant. Based upon prior experience, Town management believes such disallowances, if any, will not be material.

The Town has entered into a service agreement with Connecticut Resources Recovery Authority (CRRA) for disposal of solid waste. As part of this agreement, the Town is obligated to provide minimum tonnage for each billing period, or be required to pay a penalty in lieu of minimum tonnage, if the project total does not meet the minimum tonnage requirement. There was no minimum tonnage assessment for 2007.

C. Pension Plans

The Town had two active pension plans during the year, one covering all eligible full time employees and the second covering the volunteer firefighters.

Defined Contribution Town of Old Lyme Pension Plan

1. Plan Description

The Town has established and administers a multiple employer defined contribution plan to provide pension benefits for all of its full time employees and Regional School District No. 18 nonprofessional administrative employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate at twenty-one (21) years of age and after one year of service. Participants are not required to contribute to the plan; however, they are allowed to contribute on an after tax basis up to 10%, which is fully vested. The Town's contributions for each employee and interest allocated to the employee's account are fully vested after five years of continuous service. The Town's contribution is allocated to participants' accounts on the basis of compensation. Contribution requirements of the plan members and the Town are established and may be amended by the Board of Selectmen. The Town is required to contribute 8% of its employee covered payroll. The Plan does not issue stand alone reports.

2. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting - The Town of Old Lyme Pension Plan's financial statements are prepared using the accrual basis of accounting. Contributions are recognized when due, pursuant to formal commitments and contribution requirements and investment income is recognized when earned and expenses (benefits, administration and refunds) are recognized when they are due and payable in accordance with the terms of the plan. Administrative costs are financed through investment earnings.

Method Used to Value Investments - Plan investments are reported at fair value. Securities traded on national exchanges are valued at the last reported sales price.

TOWN OF OLD LYME, CONNECTICUT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. OTHER INFORMATION (CONTINUED)

C. Pension Plans (Continued)

Defined Contribution Town of Old Lyme Pension Plan (Continued)

3. Classes of Employees Covered

At June 30, 2007, membership of the plan consisted of:

Current Employees:

Town	45
Regional School District No. 18	<u>96</u>
Total	<u>141</u>

The Town and Regional School District No. 18's payroll of eligible individuals covered by the plan was \$3,962,563. The Town and Region contributed \$317,005 or 8%, while the employees contributed \$53,866 or 1.4% of covered payroll.

Defined Contribution Volunteer Firefighters' Retirement Plan

Plan Description

Although not required, it has been the Town's policy in the past years to fund all pension costs accrued in the current year. The Town's contribution during the year ended June 30, 2007, was \$39,008.

Supplemental Schedules

General Fund

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

TOWN OF OLD LYME, CONNECTICUT

SCHEDULE 1

GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
PROPERTY TAXES:				
Property taxes.....	\$ 26,290,008	\$ 26,290,008	\$ 26,269,426	\$ (20,582)
Interest and lien fees.....	100,000	100,000	116,449	16,449
Telephone access line grant.....	72,800	72,800	62,868	(9,932)
TOTAL PROPERTY TAXES.....	26,462,808	26,462,808	26,448,743	(14,065)
CHARGES FOR SERVICES:				
Building department.....	175,000	175,000	170,571	(4,429)
Health department.....	7,000	7,000	5,192	(1,808)
Parks and recreation department.....	61,300	61,300	111,909	50,609
Town Woods Park.....	17,200	17,200	11,724	(5,476)
Rowing.....	14,000	14,000	13,685	(315)
Planning commission.....	4,500	4,500	12,678	8,178
Selectmen's office.....	3,000	3,000	4,035	1,035
Town clerk's office.....	225,000	225,000	328,265	103,265
Assessor.....	3,800	3,800	4,175	375
Zoning commission.....	8,000	8,000	20,079	12,079
Zoning board of appeals.....	4,000	4,000	(592)	(4,592)
Conservation.....	3,000	3,000	10,708	7,708
Harbor management commission.....	100	100		(100)
Animal management control.....	100	100		(100)
Senior center.....	4,700	4,700	4,826	126
Septage transfer.....	94,500	94,500	63,957	(30,543)
Landfill.....	50,000	50,000	60,478	10,478
Recycling.....	50,000	50,000	43,224	(6,776)
Parking fines.....	35,000	35,000	15,626	(19,374)
Sprint lease.....	12,600	12,600	13,283	683
Private duty - police.....	7,200	7,200	6,114	(1,086)
TOTAL CHARGES FOR SERVICES.....	780,000	780,000	899,937	119,937
INTERGOVERNMENTAL:				
LOCIP.....	50,000	50,000		(50,000)
Historic Preservation Grant.....	4,000	4,000	7,000	3,000
Emergency management/FEMA.....	142,800	142,800	42,719	(100,081)
Education equalization grant.....	446,900	446,900	455,295	8,395
PILOT - state property.....	36,000	36,000	47,390	11,390
Manufacturing and equipment.....	3,800	3,800	5,343	1,543
Miscellaneous state grants.....	10,000	10,000	12,267	2,267
PILOT - colleges.....	43,700	43,700	37,576	(6,124)
Mashantucket Pequot grant.....	26,500	26,500	32,630	6,130
Tax relief elderly.....	32,000	32,000	40,735	8,735
Boat registration reimbursement.....	29,000	29,000	28,959	(41)
Veterans' tax exempt.....	3,300	3,300	4,745	1,445
Town aid road.....	103,000	103,000		(103,000)
State police DWI and special events.....	34,000	34,000	37,931	3,931
TOTAL INTERGOVERNMENTAL.....	965,000	965,000	752,590	(212,410)
INVESTMENT INCOME:				
Interest on investments.....	175,000	175,000	314,685	139,685
OTHER REVENUE:				
Newsletter.....	13,000	13,000	10,202	(2,798)
Fireworks.....	500	500	350	(150)
Miscellaneous.....	170,000	170,000	44,114	(125,886)
TOTAL OTHER REVENUE.....	183,500	183,500	54,666	(128,834)
TOTAL REVENUES.....	28,566,308	28,566,308	28,470,621	(95,687)
OTHER FINANCING SOURCES:				
Appropriation of fund balance.....		27,509		(27,509)
Cancellation of prior year encumbrances.....			17,422	17,422
Transfers in:				
Town woods.....			163,109	163,109
TOTAL OTHER FINANCING SOURCES.....	-	27,509	180,531	153,022
TOTAL REVENUES AND OTHER FINANCING SOURCES.....	\$ 28,566,308	\$ 28,593,817	\$ 28,651,152	\$ 57,335

TOWN OF OLD LYME, CONNECTICUT

GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
GENERAL GOVERNMENT:				
Selectmen's office.....	\$ 172,484	\$ 173,389	\$ 197,879	\$ (24,490)
Newsletter.....	19,000	19,000	22,810	(3,810)
Town clerk.....	103,504	104,409	97,029	7,380
Tax collector.....	84,741	84,909	82,996	1,913
Treasurer.....	86,187	86,187	77,377	8,810
Registrar.....	23,940	23,940	18,801	5,139
Primaries and referendums.....	5,000	5,000	2,752	2,248
Probate court.....	3,350	3,350	2,943	407
Assessor.....	106,093	106,998	96,861	10,137
Building department.....	92,660	93,565	87,965	5,600
Town hall.....	96,035	96,035	90,684	5,351
Insurance.....	664,750	664,750	657,824	6,926
Special deductions.....	301,310	301,310	297,385	3,925
TOTAL GENERAL GOVERNMENT.....	1,759,054	1,762,842	1,733,306	29,536
BOARDS AND COMMISSIONS:				
Conservation commission.....				
Harbor management commission.....	2,360	2,360	1,940	420
Water management authority.....	21,750	21,750	17,754	3,996
Economic development commission.....	30	30		30
Board of finance.....	9,900	9,900	8,527	1,373
Flood and erosion control board.....	10	10		10
Historic district commission.....	4,000	4,000	3,630	370
Tree commission.....	27,000	27,000	27,580	(580)
Land use.....	226,486	228,312	242,215	(13,903)
Board of assessment appeals.....	120	120	339	(219)
TOTAL BOARDS AND COMMISSIONS.....	291,656	293,482	301,985	(8,503)
PUBLIC WORKS:				
Public works expenditures.....	415,169	415,169	406,112	9,057
Public works purchases.....	192,200	192,200	152,009	40,191
Public works vendor services contracts.....	88,950	88,950	79,874	9,076
TOTAL PUBLIC WORKS.....	696,319	696,319	637,995	58,324
PARKS AND RECREATION:				
Parks and recreation.....	195,529	195,529	174,955	20,574
Town Woods Park.....	82,050	82,050	84,068	(2,018)
Fireworks.....	20,500	20,500	20,238	262
Little league/rowing.....	3,500	3,500	3,500	-
TOTAL PARKS AND RECREATION.....	301,579	301,579	282,761	18,818
OTHER PUBLIC SAFETY:				
Emergency management.....	11,630	11,630	6,062	5,568
Valley shore communications.....	99,600	99,600	99,540	60
Ambulance.....	89,719	89,752	84,152	5,600
TOTAL OTHER PUBLIC SAFETY.....	200,949	200,982	189,754	11,228
SOCIAL SERVICES:				
Social service.....	14,089	14,417	10,223	4,194
Lyme's youth services.....	60,000	60,000	60,000	-
TOTAL SOCIAL SERVICES.....	74,089	74,417	70,223	4,194

(Continued)

TOWN OF OLD LYME, CONNECTICUT
GENERAL FUND - SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (CONTINUED)

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
FIRE SERVICES:				
Old Lyme fire department.....	\$ 165,165	\$ 165,165	\$ 173,736	\$ (8,571)
Fire protection.....	16,100	16,100	19,188	(3,088)
Fire marshal.....	54,274	54,274	50,759	3,515
Firemen's incentive plan.....	39,140	39,140	39,008	132
TOTAL FIRE SERVICES.....	274,679	274,679	282,691	(8,012)
POLICE SERVICES:				
Roger lake patrol.....	6,000	6,000	2,831	3,169
Resident state police.....	223,744	223,744	217,828	5,916
Municipal police.....	473,728	474,182	479,279	(5,097)
TOTAL POLICE SERVICES.....	703,472	703,926	699,938	3,988
HEALTH SERVICES:				
Health department.....	185,391	185,391	173,261	12,130
Health agencies.....	2,500	2,500	2,242	258
VNA.....	55,890	55,890	55,805	85
TOTAL HEALTH SERVICES.....	243,781	243,781	231,308	12,473
SENIOR CITIZENS' ACTIVITIES:				
Estuary transit district.....	5,700	5,700	5,655	45
Estuary nutrition and medical transport.....	30,000	30,000	30,000	-
Lymewood.....	3,000	3,000	3,000	-
Senior center.....	22,571	22,571	29,717	(7,146)
TOTAL SENIOR CITIZENS' ACTIVITIES.....	61,271	61,271	68,372	(7,101)
OTHER ASSOCIATIONS.....	231,500	231,500	234,500	(3,000)
SANITATION:				
Municipal refuse collection.....	314,200	314,200	314,200	-
CT Resources Recovery Authority.....	270,200	270,200	252,481	17,719
Recycling.....	168,403	169,570	160,288	9,282
Household hazardous waste.....	17,600	17,600	22,621	(5,021)
Transfer station.....	141,647	141,647	148,638	(6,991)
Septage disposal.....	177,800	177,800	113,234	64,566
TOTAL SANITATION.....	1,089,850	1,091,017	1,011,462	79,555
CHARTERED ASSOCIATIONS:				
Point O' Woods.....	20,600	20,600	20,600	-
Old Lyme shores.....	13,500	13,500	13,500	-
Old colony beach.....	13,500	13,500	13,500	-
Miami beach.....	17,250	17,250	17,250	-
White sands beach.....	16,500	16,500	16,500	-
Roger's lake west shore.....	5,100	5,100	5,100	-
Hawks' nest beach.....	3,100	3,100	3,100	-
TOTAL CHARTERED ASSOCIATIONS.....	89,550	89,550	89,550	-
REGIONAL SCHOOL DISTRICT NO. 18.....	21,001,614	21,001,614	21,001,614	-
REDEMPTION OF DEBT:				
Library expansion.....	100,000	100,000	100,000	-

(Continued)

TOWN OF OLD LYME, CONNECTICUT
GENERAL FUND - SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (CONCLUDED)

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
INTEREST ON DEBT:				
Library expansion.....	\$ 16,800	\$ 16,800	\$ 16,800	\$ -
CAPITAL OUTLAY:				
General government.....	104,800	124,400	99,531	24,869
Public works.....	119,000	119,000	117,388	1,612
Public safety.....	374,300	374,300	207,699	166,601
Public works roads and projects.....	476,000	476,000	371,227	104,773
TOTAL CAPITAL OUTLAY.....	1,074,100	1,093,700	795,845	297,855
TOTAL EXPENDITURES.....	28,210,263	28,237,459	27,748,104	489,355
OTHER FINANCING USES:				
Transfers out:				
Landfill closure.....	200,000	200,000	200,000	-
Dog fund.....	51,045	51,358	56,705	(5,347)
Land aquisition.....	75,000	75,000	75,000	-
Town woods phase II fund.....			50,000	(50,000)
Revaluation.....	30,000	30,000	30,000	-
TOTAL OTHER FINANCING USES.....	356,045	356,358	411,705	(55,347)
TOTAL EXPENDITURES AND OTHER FINANCING USES.....	\$ 28,566,308	\$ 28,593,817	\$ 28,159,809	\$ 434,008

(Concluded)

TOWN OF OLD LYME, CONNECTICUT

REPORT OF PROPERTY TAX COLLECTOR
FOR THE YEAR ENDED JUNE 30, 2007

GRAND LIST YEAR	UNCOLLECTED TAXES JULY 1, 2006	CURRENT YEAR LEVY	LAWFUL CORRECTIONS				COLLECTIONS				TOTAL	UNCOLLECTED TAXES JUNE 30, 2007	
			ADDITIONS	DEDUCTIONS	TRANSFERS TO SUSPENSE	ADJUSTED TAXES COLLECTIBLE	TAXES	INTEREST	LIEN FEES				
1991	\$ 2	\$ 2	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
1992	2	2	2	2	2	2	2	2	2	2	2	2	2
1993	2	2	2	2	2	2	2	2	2	2	2	2	2
1994	2	2	2	2	2	2	2	2	2	2	2	2	2
1995	2	2	2	2	2	2	2	2	2	2	2	2	2
1996	2	2	2	2	2	2	2	2	2	2	2	2	2
1997	845	845	845	845	845	845	845	845	845	845	845	845	845
1998	2	2	2	2	2	2	2	2	2	2	2	2	2
1999	3	3	3	3	3	3	3	3	3	3	3	3	3
2000	13	13	13	13	13	13	13	13	13	13	13	13	13
2001	2,144	2,144	2,144	2,144	2,144	2,144	2,144	2,144	2,144	2,144	2,144	2,144	2,144
2002	55,918	55,918	130	3,353	40,366	12,329	8,348	5,460	5,460	5,460	5,460	5,460	5,460
2003	97,660	97,660	372	5,156	92,876	44,567	12,608	408	408	408	408	408	408
2004	261,218	261,218	242	5,559	255,901	171,969	37,863	1,000	1,000	1,000	1,000	1,000	1,000
TOTAL PRIOR YEARS	417,815	-	744	14,070	40,366	364,123	227,014	55,998	1,470	1,470	1,470	1,470	1,470
2005	26,384,328	26,384,328	78,893	26,305,435	26,077,615	58,881	100	100	100	100	100	100	100
TOTAL	\$ 417,815	\$ 26,384,328	\$ 744	\$ 92,963	\$ 40,366	\$ 26,669,558	\$ 26,304,629	\$ 114,879	\$ 1,570	\$ 1,570	\$ 1,570	\$ 1,570	\$ 1,570

Nonmajor Governmental Funds

Special Revenue Funds

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

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

TOWN OF OLD LYME, CONNECTICUT

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007

SPECIAL REVENUE FUNDS

	SOCIAL WORKERS' FUND	DOG FUND	MUNICIPAL PARKING LOT FUND	HARBOR MANAGEMENT FUND	TOWN WOODS PARK FUND	PUBLIC BUILDING IMPROVEMENT FUND	TOTAL
Cash.....	\$ 17,332	\$ 34,378	\$ 27,079	\$ 16,614	\$ 36,837	\$ 12,489	\$ 144,729
Investments.....			209,512				209,512
Due from other funds.....					4,526		4,526
TOTAL ASSETS.....	\$ 17,332	\$ 34,378	\$ 236,591	\$ 16,614	\$ 41,363	\$ 12,489	\$ 358,767

ASSETS

Cash.....
Investments.....
Due from other funds.....

TOTAL ASSETS.....

LIABILITIES AND FUND BALANCES

LIABILITIES:							
Accounts payable.....	\$	4,303	\$	\$	\$	\$	\$ 4,303
FUND BALANCES:							
Unreserved and undesignated.....	17,332	30,075	236,591	16,614	41,363	12,489	354,464
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 17,332	\$ 34,378	\$ 236,591	\$ 16,614	\$ 41,363	\$ 12,489	\$ 358,767

(Continued)

TOWN OF OLD LYME, CONNECTICUT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (CONCLUDED)

	CAPITAL PROJECTS FUNDS					TOTAL NONMAJOR GOVERNMENTAL FUNDS
	LAND ACQUISITION	ROAD IMPROVEMENT PROJECT	TOWN WOODS PHASE II	REVALUATION	FIREFIGHTERS' EQUIPMENT	
Cash.....	\$ 389,885	\$ 263,389	\$ 26,308	\$ 353,055	\$ 210,149	\$ 824,311
Investments.....						\$ 772,716
Intergovernmental receivable.....		30,384			210,149	30,384
Due from other funds.....		279,054				279,054
TOTAL ASSETS.....	\$ 389,885	\$ 572,827	\$ 26,308	\$ 353,055	\$ 210,149	\$ 1,552,224
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable.....	\$	\$	\$ 86,312	\$	\$	\$ 86,312
Due to other funds.....			4,526	12,506		17,032
TOTAL LIABILITIES.....	-	-	90,838	12,506	-	103,344
FUND BALANCES:						
Reserved for commitments.....			429,460			429,460
Unreserved and undesignated.....	389,885	572,827	(493,990)	340,549	210,149	1,373,884
TOTAL FUND BALANCES.....	389,885	572,827	(64,530)	340,549	210,149	1,448,880
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 389,885	\$ 572,827	\$ 26,308	\$ 353,055	\$ 210,149	\$ 1,552,224

(Continued)

TOWN OF OLD LYME, CONNECTICUT

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	SPECIAL REVENUE FUNDS							TOTAL
	SOCIAL WORKERS' FUND	TOWN AID ROAD HIGHWAY FUND	DOG FUND	MUNICIPAL PARKING LOT FUND	HARBOR MANAGEMENT FUND	TOWN WOODS PARK FUND	PUBLIC BUILDING IMPROVEMENT FUND	
REVENUES:								
Charges for services.....		\$	\$	\$	\$	\$	\$	\$
Intergovernmental.....	209	116,000	8,665	52,458	2,950	7,485	71,558	
Investment income.....	13,055			11,950	666		116,000	
Contributions.....						25	12,825	
TOTAL REVENUES.....	13,264	116,000	8,665	64,408	3,616	25	13,080	
EXPENDITURES:								
Current:								
Public works.....		116,000					116,000	
Parks and recreation.....						1,000	1,000	
Other public safety.....	8,735		63,912				63,912	
Health services.....							8,735	
TOTAL EXPENDITURES.....	8,735	116,000	63,912	-	-	1,000	189,647	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	4,529	-	(55,247)	64,408	3,616	(975)	23,816	
OTHER FINANCING SOURCES (USES):								
Transfers in.....			56,705	(51,250)			56,705	
Transfers out.....							(51,250)	
NET OTHER FINANCING SOURCES (USES).....			56,705	(51,250)			5,455	
NET CHANGE IN FUND BALANCES.....	4,529	-	1,458	13,158	3,616	(975)	29,271	
FUND BALANCES - JULY 1, 2006.....	12,803		28,617	223,433	12,998	42,338	325,193	
FUND BALANCES - JUNE 30, 2007.....	\$ 17,332	\$ -	\$ 30,075	\$ 236,591	\$ 16,614	\$ 41,363	\$ 354,464	

(Continued)

TOWN OF OLD LYME, CONNECTICUT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONCLUDED)

	CAPITAL PROJECTS FUNDS							TOTAL NONMAJOR GOVERNMENTAL FUNDS
	LAND ACQUISITION	ROAD IMPROVEMENT PROJECT	TOWN WOODS PHASE II	TOWN WOODS	REVALUATION	FIREFIGHTERS' EQUIPMENT	TOTAL	
REVENUES:								
Charges for services.....	\$	\$	\$	\$	\$	\$	\$	\$
Intergovernmental.....			450	46,000			450	72,008
Investment income.....	14,766		150		15,937	10,009	46,000	162,000
Contributions.....							40,862	53,687
								13,080
TOTAL REVENUES.....	14,766	-	600	46,000	15,937	10,009	87,312	300,775
EXPENDITURES:								
Current:								
Public works.....								116,000
Parks and recreation.....								1,000
Other public safety.....								63,912
Health services.....								8,735
Capital outlay.....		4,152	166,380				170,532	170,532
		4,152	166,380				170,532	360,179
TOTAL EXPENDITURES.....	-	4,152	166,380				170,532	360,179
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	14,766	(4,152)	(165,780)	46,000	15,937	10,009	(83,220)	(59,404)
OTHER FINANCING SOURCES (USES):								
Transfers in.....	75,000		101,250	(163,109)	30,000		206,250	262,955
Transfers out.....							(163,109)	(214,359)
NET OTHER FINANCING SOURCES (USES).....	75,000		101,250	(163,109)	30,000		43,141	48,596
NET CHANGE IN FUND BALANCES.....	89,766	(4,152)	(64,530)	(117,109)	45,937	10,009	(40,079)	(10,808)
FUND BALANCES - JULY 1, 2006.....	300,119	576,979		117,109	294,612	200,140	1,488,959	1,814,152
FUND BALANCES - JUNE 30, 2007.....	\$ 389,885	\$ 572,827	\$ (64,530)	\$ -	\$ 340,549	\$ 210,149	\$ 1,448,880	\$ 1,803,344

(Concluded)

Fiduciary Funds

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

Pension Trust Funds

A fiduciary fund type used to report resources that are required to be held in trust for the member and beneficiaries of defined benefit pension plans.

Agency Funds

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

TOWN OF OLD LYME, CONNECTICUT

AGENCY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSET AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2007

	BALANCE JULY 1, 2006	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2007
<u>ASSET</u>				
CASH:				
Performance bonds.....	\$ 772,377	\$ 87,013	\$ 140,199	\$ 719,191
<u>LIABILITIES</u>				
ACCOUNTS PAYABLE:				
Performance bonds.....	\$ 753,065	\$ 87,013	\$ 140,199	\$ 699,879
DUE TO OTHER FUNDS:				
Performance bonds.....	19,312			19,312
TOTAL LIABILITIES.....	\$ 772,377	\$ 87,013	\$ 140,199	\$ 719,191

Trend Information

TABLE 1

TOWN OF OLD LYME, CONNECTICUT

NET ASSETS BY COMPONENT
LAST FOUR YEARS
(UNAUDITED)

	FISCAL YEAR			
	2007	2006	2005	2004
GOVERNMENTAL ACTIVITIES:				
Invested in capital assets, net of related debt.....	\$ 7,795,442	\$ 7,683,152	\$ 7,111,863	\$ 7,412,241
Restricted for:				
Capital projects.....	3,177,416			
Unrestricted.....	1,456,952	3,929,657	3,579,206	2,991,888
TOTAL NET ASSETS.....	\$ 12,429,810	\$ 11,612,809	\$ 10,691,069	\$ 10,404,129

TABLE 2

TOWN OF OLD LYME, CONNECTICUTCHANGES IN NET ASSETS
LAST FOUR YEARS
(UNAUDITED)

	FISCAL YEAR			
	2007	2006	2005	2004
EXPENSES:				
General government.....	\$ 2,031,935	\$ 1,819,901	\$ 1,844,942	\$ 1,910,757
Public works.....	1,454,938	1,107,903	1,079,281	963,823
Parks and recreation.....	322,253	330,462	278,165	819,885
Other public safety.....	508,695	626,482	485,970	664,871
Social services.....	70,223	66,645	70,463	60,615
Fire services.....	414,250	283,557	291,630	277,208
Police services.....	742,553	673,391	629,447	596,341
Health services.....	297,434	287,771	280,395	275,446
Senior citizens.....	68,372	56,188	50,465	52,581
Sanitation.....	1,013,162	1,054,130	944,823	2,176,329
Education.....	21,001,614	19,907,714	19,154,498	17,230,288
Interest expense.....	48,909	21,980	27,234	42,706
TOTAL EXPENSES.....	27,974,338	26,236,124	25,137,313	25,070,850
PROGRAM REVENUES:				
Charges for services:				
General government.....	571,402	550,471	603,608	645,283
Public works.....	60,393	68,293	67,720	59,066
Parks and recreation.....	137,318	103,221	76,663	80,676
Other public safety.....	8,665	11,964	12,665	13,585
Police services.....	21,740	28,108	31,522	39,805
Health services.....	5,192	6,074		
Senior citizens.....	4,826	4,022	7,011	5,354
Sanitation.....	167,659	194,234	169,697	190,839
Operating grants and contributions.....	700,984	696,890	584,873	504,858
Capital grants and contributions.....	46,100	420,683	116,850	1,143,155
TOTAL PROGRAM REVENUES.....	1,724,279	2,083,960	1,670,609	2,682,621
NET EXPENSES:				
Governmental activities.....	(26,250,059)	(24,152,164)	(23,466,704)	(22,388,229)
GENERAL REVENUES:				
Property taxes.....	26,437,868	24,513,393	23,342,392	21,639,510
Grants and contributions not restricted to specific programs.....	180,686	222,446	141,606	136,410
Investment income.....	393,840	277,385	166,881	95,580
Gain on sale of land and building.....			38,881	
Miscellaneous.....	54,666	60,680	125,218	48,934
TOTAL GENERAL REVENUES.....	27,067,060	25,073,904	23,814,978	21,920,434
CHANGE IN NET ASSETS.....	\$ 817,001	\$ 921,740	\$ 348,274	\$ (467,795)

TABLE 3

TOWN OF OLD LYME, CONNECTICUT

SCHEDULE OF DEBT LIMITATION
FOR THE YEAR ENDED JUNE 30, 2007

TOTAL TAX COLLECTIONS (including interest and lien fees):	
For the year ended June 30, 2007.....	<u>\$ 26,421,078</u>

	GENERAL PURPOSE	SCHOOLS	SEWERS	URBAN RENEWAL	PENSION DEFICIT
DEBT LIMITATION:					
2 1/4 times base.....	\$ 59,447,426	\$	\$	\$	\$
4 1/2 times base.....		118,894,851			
3 3/4 times base.....			99,079,043		
3 1/4 times base.....				85,868,504	
3 times base.....					79,263,234
TOTAL DEBT LIMITATION.....	<u>59,447,426</u>	<u>118,894,851</u>	<u>99,079,043</u>	<u>85,868,504</u>	<u>79,263,234</u>
INDEBTEDNESS:					
Bonds payable.....	200,000				
Bond anticipation notes payable.....	3,300,000				
Town's share of Regional School District No. 18 bonds.....		14,940,000			
TOTAL INDEBTEDNESS.....	<u>3,500,000</u>	<u>14,940,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEBT LIMITATION IN EXCESS OF INDEBTEDNESS.....	<u>\$ 55,947,426</u>	<u>\$ 103,954,851</u>	<u>\$ 99,079,043</u>	<u>\$ 85,868,504</u>	<u>\$ 79,263,234</u>

NOTES: (1) The total of the above net indebtedness amounts to: \$ 18,440,000

In no event shall total indebtedness exceed seven times the base for debt limitation computation: \$ 184,947,546

**State
Single
Audit**

TOWN OF OLD LYME, CONNECTICUT

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2007

STATE GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	STATE GRANT PROGRAM CORE CT NUMBER	STATE PROJECT NUMBER	EXPENDITURES
<u>OFFICE OF POLICY AND MANAGEMENT:</u>			
Property Tax Relief for Totally Disabled Homeowners.....	11000-OPM20600-17011		\$ 160
Property Tax Relief for Elderly and Totally Disabled Homeowners.....	11000-OPM20600-17018		40,734
Property Tax Relief for Veterans.....	11000-OPM20600-17024		4,745
Property Tax Relief for Manufacturing Machinery and Equipment and Commercial Vehicles.....	11000-OPM20600-17031		5,343
Property Tax Relief.....	11000-OPM20600-17086		6,725
<u>DEPARTMENT OF EDUCATION:</u>			
Youth Services Bureau.....	11000-SDE64000-17052	11000-17052-2007-82079-170002	20,105
<u>CONNECTICUT STATE LIBRARY:</u>			
Historical Preservation Grant.....	12060-CSL66091-35150		7,000
<u>DEPARTMENT OF TRANSPORTATION:</u>			
Town Aid Road Grants Transportation Fund.....	12001-DOT57000-17036		116,000
<u>DEPARTMENT OF JUSTICE:</u>			
Parking Fines.....	34001-JUD95162-40001		100
Judicial Fines.....	39001-JUD95162-40001		5,282
<u>OFFICE OF THE STATE COMPTROLLER:</u>			
Payment in Lieu of Taxes (PILOT) on Private Colleges and General/Chronic Disease Hospitals.....	11000-OSC15910-17006		47,390
Payment in Lieu of Taxes (PILOT) on State-Owned Property.....	11000-OSC15910-17004		37,576
Mashantucket Pequot/Mohegan Fund.....	12009-OSC15910-17005		32,630
Boat Grant.....	12027-OSC15910-40211		28,959
TOTAL STATE FINANCIAL ASSISTANCE BEFORE EXEMPT PROGRAMS.....			<u>352,749</u>
<u>EXEMPT PROGRAMS:</u>			
<u>DEPARTMENT OF EDUCATION:</u>			
Education Cost Sharing.....	11000-SDE64000-17041	11000-17041-2007-82010-170002	447,757
Special Education: Excess Costs Student Based and Equity.....	11000-SDE64000-17048	11000-17048-2007-82015	7,538
TOTAL EXEMPT PROGRAMS.....			<u>455,295</u>
TOTAL STATE FINANCIAL ASSISTANCE.....			<u>\$ 808,044</u>

See note to Schedule of Expenditures of State Financial Assistance

TOWN OF OLD LYME, CONNECTICUT

NOTE TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2007

Various departments and agencies of the State of Connecticut have provided financial assistance to the Town of Old Lyme through grants and other authorization in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including Office of Policy and Management, Department of Education, Connecticut State Library, Department of Transportation, Department of Justice and Office of State Comptroller.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Old Lyme conform to accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. The following is a summary of the more significant policy relating to the aforementioned grant programs:

Basis of Accounting

The accompanying Schedule of Expenditures of State Financial Assistance is presented on the modified accrual basis of accounting and a current financial resources management focus.

The Schedule of Expenditures of State Financial Assistance, contained in this report, is prepared based on regulations established by the State of Connecticut Office of Policy and Management. In accordance with these regulations (Section 4-236-22), certain grants are not dependent on expenditure activity and, accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule of Expenditures of State Financial Assistance.

TOWN OF OLD LYME, CONNECTICUT

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

There were no prior year findings or questioned costs.

TOWN OF OLD LYME, CONNECTICUT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes x no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? x yes none reported

Noncompliance material to financial statements noted? yes x no

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? yes x no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes x none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act? yes x no

The following schedule reflects the major programs included in the audit:

State Grantor and Program	State Grant Program Core CT Number	Expenditures
Department of Transportation:		
Town Aid Road Grants Transportation Fund.....	12001-DOT57000-17036	\$ 116,000
Office of the State Comptroller:		
Payment in Lieu of Taxes (PILOT) on Private Colleges and General/Chronic Disease Hospitals.....	11000-OSC15910-17006	47,390
Office of Policy and Management:		
Property Tax Relief for Elderly and Totally Disabled Homeowners.....	11000-OPM20600-17018	40,734

TOWN OF OLD LYME, CONNECTICUT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

II. FINANCIAL STATEMENT FINDINGS

- We issued our report dated December 19, 2007, on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
- Our report on compliance indicated no reportable instances of noncompliance.
- Our report on internal control over financial reporting indicated one significant deficiency.

Finding

2007-1 Preparation of Financial Statements:

Criteria

The Town does not prepare complete financial statements and notes to the financial statements in preparation of the audit in accordance with generally accepted accounting principles.

Condition

The Town does not maintain a sufficient complement of personnel with appropriate skills, training and industry specific experience in the selection, application and implementation of generally accepted accounting principles commensurate with financial reporting requirements.

Questioned cost

None

Context

The Town does not maintain a sufficient complement of personnel with appropriate skills, training and industry experience in the selection, application and implementation of generally accepted accounting principles commensurate with financial reporting requirements.

Effect

There is no effect.

Cause

This is a control deficiency that is a significant deficiency as defined by the current auditing literature regarding the preparation of financial statements.

Recommendation

None

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

- No findings or questioned costs are reported relating to State Financial Assistance programs.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Finance
Town of Old Lyme, Connecticut

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Old Lyme, Connecticut, as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 19, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. The deficiency is described in item 2007-1.



Town of Old Lyme, Connecticut
Page Two

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Town in a separate letter dated December 19, 2007.

This report is intended solely for the information and use of management, the Board of Finance, state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kostin, Ruffkess & Company, LLC

New London, Connecticut
December 19, 2007



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE STATE SINGLE AUDIT ACT

Board of Finance
Town of Old Lyme, Connecticut

Compliance

We have audited the compliance of the Town of Old Lyme, Connecticut, with the types of compliance requirements described in the Office of Policy and Management Compliance Supplement that are applicable to each of its major state programs for the year ended June 30, 2007. The major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the Town's management. Our responsibility is to express an opinion on compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.



Town of Old Lyme, Connecticut
Page Two

Internal Control Over Compliance (Continued)

A *control deficiency* in a Town's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to administer a state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state program that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected by the Town's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of State Financial Assistance

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 19, 2007. Our audit was performed for the purpose of forming opinions on the financial statements taken as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Finance, the Office of Policy and Management, and state awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Kostin, Ruffkess & Company, LLC

New London, Connecticut
December 19, 2007