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Independent Auditors' Report

Honorable Mayor and Members of the Town Council
Town of East Hartford, Connecticut

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of East Hartford, Connecticut, as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of East Hartford, Connecticut, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

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Management's discussion and analysis on pages A-3 through A-10 and budgetary comparison information on pages A-49 through A-52 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Blum, Shapiro & Company, P.C.

December 9, 2009

**TOWN OF EAST HARTFORD, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

This discussion and analysis of the Town of East Hartford, Connecticut's (the Town) financial performance is provided by management to provide an overview of the Town's financial activities for the fiscal year ended June 30, 2009. Please read this MD&A in conjunction with the transmittal letter and the Town's financial statements, Exhibits I to IX.

Financial Highlights

- Net assets of our governmental activities decreased by \$13.2 million, or nearly 10.7%.
- During the year, the Town had expenses of \$204.8 million, which were \$13.2 million more than the \$191.6 million generated in taxes, grants and other revenues for governmental programs.
- The total cost of all of the Town's programs was \$204.8 million.
- The General Fund reported a total fund balance this year of \$13.6 million. The General Fund unreserved and undesignated component of fund balance was \$12.7 million as of June 30, 2009.
- Actual Revenues available to the Town were \$155.1 million, or \$681 thousand lower than the budget of \$155.8 million.
- Actual Expenditures were \$156.5 million compared to the final budget of \$159.3 million resulting in lower expenditures of \$2.8 million. This favorable variance was due to a mid-year budget freeze implemented due to the unexpected and severe economic downturn.

Overview of the Financial Statements

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities (Exhibits I and II, respectively) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements are presented in Exhibits III to IX. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements

The analysis of the Town as a whole begins on Exhibits I and II. The statement of net assets and the statement of activities report information about the Town as a whole and about its activities for the current period. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net assets and changes in them. The Town's net assets, the difference between assets and liabilities, is one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. The reader needs to consider other nonfinancial factors, however, such as changes in the Town's property tax base and the condition of the Town's capital assets, to assess the overall health of the Town.

In the statement of net assets and the statement of activities, the Town reports the following activities:

- *Governmental Activities* - The Town's basic services are reported here, including education, public safety, public works, inspection and permits, parks and recreation, health and social services, and general administration. Property taxes, charges for services, and state and federal grants finance most of these activities.

Fund Financial Statements

The fund financial statements begin with Exhibit III and provide detailed information about the most significant funds - not the Town as a whole. Some funds are required to be established by Charter. However, the Town Council establishes many other funds to help control and manage financial activities for particular purposes (like the Police Private Duty Fund and the Landfill Closure Fund) or to show that it is meeting legal responsibilities for using grants and other money (like grants received from the Community Development Fund and the State and Federal Educational Grants Fund). The Town's funds are divided into three categories: governmental, proprietary and fiduciary.

- **Governmental Funds (Exhibits III and IV)** - Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation included with the fund financial statements.
- **Proprietary Funds (Exhibits V, VI and VII)** - When the Town charges customers for the services it provides, whether to outside customers or to other units of the Town, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities. Internal service funds (the component of proprietary funds) are used to report activities that provide supplies and services for the Town's other programs and activities - such as the Town's Risk Management Internal Service Fund.
- **Fiduciary Funds (Exhibits VIII and IX)** - The Town is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All of the Town's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. These activities are excluded from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Government-Wide Financial Analysis

The Town's combined net assets decreased from \$123.5 million to \$111.3 million. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Town's governmental activities.

Table 1
NET ASSETS
(In Thousands)

	Governmental	
	Activities	
	2009	2008
Current and other assets	\$ 43,938	\$ 57,169
Capital assets, net of accumulated depreciation	169,830	165,029
Total assets	<u>213,768</u>	<u>222,198</u>
Long-term debt outstanding	89,795	88,349
Other liabilities	13,700	10,389
Total liabilities	<u>103,495</u>	<u>98,738</u>
Net Assets:		
Invested in capital assets, net of debt	115,698	130,943
Restricted	194	227
Unrestricted	<u>(5,619)</u>	<u>(7,710)</u>
Total Net Assets	<u>\$ 110,273</u>	<u>\$ 123,460</u>

Net assets of the Town's governmental activities decreased by \$13.2 million or 10.7%. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - totaled \$(5.6) million at June 30, 2009 compared to \$(7.7) million at June 30, 2008. Various contributing factors resulting in the decrease in net assets are discussed following Table 2.

Table 2
CHANGE IN NET ASSETS
(In Thousands)

	Governmental Activities	
	2009	2008
Revenues:		
Program revenues:		
Charges for services	\$ 8,349	\$ 9,975
Operating grants and contributions	71,002	90,525
Capital grants and contributions	3,736	644
General revenues:		
Property taxes	100,021	98,825
Grants and contributions not restricted to specific purposes	5,846	7,085
Unrestricted investment earnings	561	1,443
Other general revenues	2,125	1,405
Total revenues	<u>191,640</u>	<u>209,902</u>
Program expenses:		
General government	33,606	30,124
Public safety	25,809	26,300
Inspection and permits	849	669
Public works	17,712	16,344
Parks and recreation	3,641	4,032
Health and social services	3,086	3,437
Education	118,104	134,084
Interest on long-term debt	2,020	1,689
Total program expenses	<u>204,827</u>	<u>216,679</u>
Excess (deficiency) before special items	<u>(13,187)</u>	<u>(6,777)</u>
Special items:		
School building project transfer		(2,891)
Total special items	<u>-</u>	<u>(2,891)</u>
Decrease in Net Assets	<u>\$ (13,187)</u>	<u>\$ (9,668)</u>

The Town's total revenues were \$191.6 million. The total cost of all programs and services was \$204.8 million. Our analysis below evaluates the operations of the Town's governmental activities:

The Town's overall decrease of \$13.2 million in net assets compared with a decrease in net assets of \$9.7 million last year is attributable to many factors both in relation to full accrual activities on a government-wide basis as well as significant changes in results in operations, year over year, in the Town's General Fund and Internal Service Funds.

In particular, the Town had unfavorable experience in its self-insured risk management programs resulting in a \$5.9 million decrease in net assets of these funds. Specifically, the Town's Health Benefits Internal Service Fund declined to \$3.3 million, or a decrease of \$4.4 million from the prior year balance of \$7.6 million.

The Town's program revenues decreased \$18.3 million (\$191.6 million compared to \$209.9 million). Included in the prior year's total revenue was the recognition of \$32.3 million in operating grants and contributions for the State's contribution to the State Teachers Retirement Board (STRB) on behalf of Town teachers. During 2008, the State's contribution to the STRB Plan on behalf of Town teachers was significantly higher due to the State's issuance of pension obligation bonds and transferring of those proceeds into the STRB Plan.

The total program expenses were \$204.8 million as compared with \$216.7 million reported last year. An amount equal to the State Teachers Retirement Board on-behalf contribution is reflected as an expense in the Education function in the prior year as evidenced by the decrease to \$118.1 million in the current year as compared to \$134.1 in the prior year. Additionally, the cost of all programs reflects an allocation for other post employment benefits (OPEB).

Table 3 presents the cost of each of the Town's five largest programs - general government, public safety, public works, parks and recreation, and education - as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Town's taxpayers by each of these functions.

Table 3
GOVERNMENTAL ACTIVITIES
(In Thousands)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
General government	\$ 33,606	\$ 30,124	\$ 32,339	\$ 28,334
Public safety	25,809	26,300	24,897	24,165
Public works	17,712	16,344	13,491	15,632
Parks and recreation	3,641	4,032	2,806	2,956
Education	118,104	134,084	44,888	42,361
All others	<u>5,955</u>	<u>5,795</u>	<u>3,319</u>	<u>2,087</u>
Totals	<u>\$ 204,827</u>	<u>\$ 216,679</u>	<u>\$ 121,740</u>	<u>\$ 115,535</u>

Town Funds Financial Analysis

Governmental Funds

As the Town completed the year, its governmental funds (as presented in the balance sheet - Exhibit III) reported a combined fund balance of \$17.2 million, which is a \$10.7 million decrease from last year's total of \$27.9 million.

The Town's General Fund reported a decrease in fund balance of \$1.6 million while the Capital Improvement Fund and the Community Development Fund experienced decreases of \$9.1 million and \$6 thousand, respectively. The Non-major Government Funds increased by \$25 thousand compared to the prior year.

The General Fund's budgetary revenue estimates, due to a weakened economy and revenue sources dependant on stable economic activity like home construction and sales, fell short of expectations by \$0.7 million as reported in RSI-1. However, the Town's actual expenditures were \$2.8 million below amended budgetary estimates as reported in RSI-2. On a net basis, the combined positive budgetary results of operations substantially offset the \$3.4 million of additional expenditure appropriations taken from fund balance during the 2008-2009 fiscal year.

As noted above, the Town's Capital Improvement Fund reported an increase in fund balance of \$9.1 million as bond issuance proceeds and capital lease financing proceeds were used to fund capital expenditures during the fiscal year ended June 30, 2009 and to provide funding for capital expenditures in fiscal year 2010. Certain Board of Education building renovations and constructions were recognized as completed which also contributed to the increase in the fund.

The General Fund's original budget was amended during the year resulting in a net budgetary appropriation increase of \$3.4 million. Budgetary amendments provided increased expenditure authorizations to fund OPEB related liabilities using prior year revenue and expenditure surpluses when Fund Balance exceeds 8% (\$2.4 million), to fund the Early Reading Success Program not funded by the State due to the economic downturn (\$400 thousand), and a variety of capital related items (\$652 thousand).

The Town's General Fund balance of \$13.6 million reported on Exhibit III differs from the General Fund's budgetary fund balance of \$12.7 million. This is principally because budgetary fund balance does not include \$943 thousand of outstanding encumbrances at year end which are reported as expenditures for budgetary purposes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the Town had \$169.8 million, net of depreciation, invested in a broad range of capital assets, including land, buildings, park facilities, vehicles and equipment roads and bridges - Table 4. This amount represents a net increase of \$4.8 million, or 2.9%, over last year.

Table 4
CAPITAL ASSETS
(Net of Depreciation)
(In Thousands)

	Governmental Activities	
	2009	2008
Land	\$ 11,200	\$ 11,200
Buildings and improvements	82,804	66,409
Furniture, vehicles and equipment	8,439	8,096
Infrastructure	60,622	62,446
Construction in progress	6,765	16,878
Totals	\$ 169,830	\$ 165,029

The Town's FY 2009-2010 Adopted Capital Budget calls for it to spend up to \$823 thousand on various capital projects, including rehabilitation of the Town Hall parking lot (\$250 thousand), energy efficient replacement Town Hall windows (\$233 thousand), and various parking lot milling and repaving operations (\$300 thousand). The severity of the economic downturn and the impact on the budget of the associated debt service attributable to any capital acquisitions caused the Town to delay the approval of most capital items.

With respect to the \$1.3 million estimate to remediate contaminants discovered at the Town's now closed landfill site, the Town continues to cooperatively work with the Connecticut State Department of Environmental Protection as well as the Federal Environmental Protection Agency to arrive at an appropriate remediation plan to satisfy all parties. More detailed information about the Town's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2009, the Town had \$45.2 million in bonds outstanding versus \$51.2 million last year - a decrease of 11.2% - as shown in Table 5. The decrease is a result of the delay of certain capital projects due to the downturn in the economy coupled with the Town's policy to rapidly amortize most debt over a 10-year life.

Table 5
OUTSTANDING DEBT
(In Millions)

	Governmental Activities	
	2009	2008
General obligation bonds	\$ 45.2	\$ 51.2

The Town's general obligation bond rating continues to carry an A1 rating. The A1 rating that has been assigned by national rating agencies to the Town's debt. The State limits the amount of general obligation debt that towns can issue based on formula determined under State Statutes based on type of debt and tax base. The Town's outstanding general obligation debt is significantly below this \$703 million state-imposed limit.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Town's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the Town of East Hartford is currently 10.4% (through October 2009) compared with the prior year of 7.2%.

The appropriation for expenditures totals \$151.3 million in the Adopted Budget for the 2009-2010 fiscal year, representing a decrease of 4.99% compared to the final amended budget for the fiscal year ended June 30, 2009. The decrease in the total budget was due to the economic downturn experienced by the Town and the desire to produce a stable mil rate in the coming year as the economy recovers. The ability of the Town to reduce its budget this significantly was in large part due to cost cutting measures employed including labor concessions, furlough days, and layoffs on both the Town and Board of Education sides of the budget.

If the appropriation estimates and estimated revenues primarily funded from property taxes are realized, the Town does not anticipate using any portion of the undesignated General Fund Fund Balance to balance budgeted operations for the 2009-2010 fiscal year.

The Town's elected and appointed officials considered many factors when establishing the tax mil rate of 31.67 for the Adopted Budget for the 2009-2010 fiscal year. This represents the same mil rate when compared to the prior year.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, Town of East Hartford, 740 Main Street, East Hartford, Connecticut 06108.

TOWN OF EAST HARTFORD, CONNECTICUT

STATEMENT OF NET ASSETS

JUNE 30, 2009

In Thousands

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 33,858
Investments	67
Receivables, net	9,675
Other assets	338
Capital assets:	
Assets not being depreciated	17,965
Assets being depreciated, net	151,865
Total assets	<u>213,768</u>
Liabilities:	
Accounts and other payables	4,905
Unearned revenue	8,795
Noncurrent liabilities:	
Due within one year	15,796
Due in more than one year	73,999
Total liabilities	<u>103,495</u>
Net Assets:	
Invested in capital assets, net of related debt	115,698
Restricted for trust purposes:	
Expendable	194
Unrestricted	<u>(5,619)</u>
Total Net Assets	<u>\$ 110,273</u>

The accompanying notes are an integral part of the financial statements

TOWN OF EAST HARTFORD, CONNECTICUT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

In Thousands

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 33,606	\$ 1,158	\$ 109	\$	\$ (32,339)
Public safety	25,809	674	238		(24,897)
Inspections and permits	849	458			(391)
Public works	17,712	164	672	3,385	(13,491)
Parks and recreation	3,641	586	249		(2,806)
Health and social services	3,086	247	1,931		(908)
Education	118,104	5,062	67,803	351	(44,888)
Interest on long-term debt	2,020				(2,020)
Total	\$ 204,827	\$ 8,349	\$ 71,002	\$ 3,736	(121,740)
General revenues:					
Property taxes					100,021
Grants and contributions not restricted to specific programs					5,846
Unrestricted investment earnings					561
Other general revenues					2,125
Total general revenues					108,553
Change in net assets					(13,187)
Net Assets, Beginning of Year, as Restated					123,460
Net Assets, End of Year					\$ 110,273

The accompanying notes are an integral part of the financial statements

TOWN OF EAST HARTFORD, CONNECTICUT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2009

In Thousands

	<u>General</u>	<u>Capital Improvement</u>	<u>Community Development</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 23,505	\$ 2,067	\$ 12	\$ 1,493	\$ 27,077
Investments				67	67
Receivables, net	5,438	360	1,998	1,879	9,675
Due from other funds	555	1,475		964	2,994
Other assets	<u>5</u>			<u>93</u>	<u>98</u>
Total Assets	<u>\$ 29,503</u>	<u>\$ 3,902</u>	<u>\$ 2,010</u>	<u>\$ 4,496</u>	<u>\$ 39,911</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 2,677	\$ 928	\$ 28	\$ 681	\$ 4,314
Due to other funds	3,432		64	491	3,987
Deferred revenue	<u>9,752</u>	<u>1,068</u>	<u>1,909</u>	<u>1,717</u>	<u>14,446</u>
Total liabilities	<u>15,861</u>	<u>1,996</u>	<u>2,001</u>	<u>2,889</u>	<u>22,747</u>
Fund balances:					
Reserved	943	5,900	78	351	7,272
Unreserved, reported in:					
General Fund	12,699				12,699
Special Revenue Funds			(69)	1,256	1,187
Capital Project Funds		<u>(3,994)</u>			<u>(3,994)</u>
Total fund balances	<u>13,642</u>	<u>1,906</u>	<u>9</u>	<u>1,607</u>	<u>17,164</u>
Total Liabilities and Fund Balances	<u>\$ 29,503</u>	<u>\$ 3,902</u>	<u>\$ 2,010</u>	<u>\$ 4,496</u>	<u>\$ 39,911</u>

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TOWN OF EAST HARTFORD, CONNECTICUT

BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)

JUNE 30, 2009

In Thousands

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

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

Fund balances - total governmental funds	\$	17,164
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Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the funds:

Governmental capital assets	\$	284,842	
Less accumulated depreciation		<u>(115,012)</u>	
Net capital assets			169,830

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

Property tax receivables greater than 60 days	2,566
Interest receivable on property taxes	1,034
Housing rehabilitation loans receivable	1,909
Other accounts receivable	142

Internal service funds are used by management to charge the costs of
risk management to individual funds. The assets and liabilities of
the internal service funds are reported with governmental activities
in the statement of net assets.

1,688

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

Net pension obligation	(1,325)
Net OPEB obligation	(12,708)
Bonds and notes payable	(45,150)
Interest payable on bonds and notes	(399)
Landfill post closure monitoring	(519)
Compensated absences	(14,686)
Retirement obligations	(291)
Capital lease	(9,070)
Deferred charges on refunding	<u>88</u>

Net Assets of Governmental Activities (Exhibit I)	\$	<u><u>110,273</u></u>
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The accompanying notes are an integral part of the financial statements

TOWN OF EAST HARTFORD, CONNECTICUT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2009

In Thousands

	<u>General</u>	<u>Capital Improvement</u>	<u>Community Development</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
General property taxes	\$ 100,745	\$	\$	\$	\$ 100,745
Licenses and permits	616				616
Intergovernmental revenues	57,601	3,647	815	18,503	80,566
Charges for services	4,741			3,586	8,327
Investment income	314	94		7	415
Other	1,220		6	364	1,590
Total revenues	<u>165,237</u>	<u>3,741</u>	<u>821</u>	<u>22,460</u>	<u>192,259</u>
Expenditures:					
Current:					
General government	27,155		147	186	27,488
Public safety	23,817			1,099	24,916
Inspection and permits	849				849
Public works	9,424		319	679	10,422
Parks and recreation	2,683		5	863	3,551
Health and social services	1,246		354	1,107	2,707
Education	92,242		2	18,139	110,383
Capital outlay		14,603			14,603
Debt and sundry	9,592	185			9,777
Total expenditures	<u>167,008</u>	<u>14,788</u>	<u>827</u>	<u>22,073</u>	<u>204,696</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,771)</u>	<u>(11,047)</u>	<u>(6)</u>	<u>387</u>	<u>(12,437)</u>
Other Financing Sources (Uses):					
Transfers in	520	200		116	836
Transfers out	(316)	(195)		(451)	(962)
Multi-year lease purchase agreements		1,861			1,861
Total other financing sources (uses)	<u>204</u>	<u>1,866</u>	<u>-</u>	<u>(335)</u>	<u>1,735</u>
Net Change in Fund Balances	(1,567)	(9,181)	(6)	52	(10,702)
Fund Balance, Beginning of Year, as Restated	<u>15,209</u>	<u>11,087</u>	<u>15</u>	<u>1,555</u>	<u>27,866</u>
Fund Balance, End of Year	<u>\$ 13,642</u>	<u>\$ 1,906</u>	<u>\$ 9</u>	<u>\$ 1,607</u>	<u>\$ 17,164</u>

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TOWN OF EAST HARTFORD, CONNECTICUT

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

FOR THE YEAR ENDED JUNE 30, 2009

In Thousands

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

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

Net change in fund balances - total governmental funds (Exhibit IV)	\$ (10,702)
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Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	12,043
Depreciation expense	(6,414)

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources.

Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold.	(828)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, and revenues recognized in the funds are not reported in the statement of activities:

School building grant receipts	(23)
Property tax receivable - accrual basis change	(965)
Property tax interest and lien revenue - accrual basis change	241
Housing rehabilitation loans - accrual basis change	193
Other accounts receivable - accrual basis change	(12)

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

Bond principal payments	6,020
Capital lease payments	1,787
Capital lease financing	(1,861)
Amortization of deferred charge on refunding	(22)

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

Compensated absences	345
Accrued interest	(28)
Amortization of housing rehabilitation loans	(537)
Retirement obligations	44
Net pension expense	(6)
Net OPEB expense	(6,427)
Landfill post closure care	(105)

Internal service funds are used by management to charge costs to individual funds. The net revenue of certain activities of internal services funds is reported with governmental activities.

	<u>(5,930)</u>
--	----------------

Change in Net Assets of Governmental Activities (Exhibit II)	\$ <u><u>(13,187)</u></u>
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The accompanying notes are an integral part of the financial statements

TOWN OF EAST HARTFORD, CONNECTICUT

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2009

In Thousands

		Governmental Activities
		Internal Service Funds
Assets:		
Current:		
Cash and cash equivalents	\$	6,781
Due from other funds		993
Other assets		<u>240</u>
Total assets		<u>8,014</u>
Liabilities:		
Current liabilities:		
Accounts payable		192
Risk management claims		<u>3,138</u>
Total current liabilities		3,330
Noncurrent liabilities:		
Risk management claims		<u>2,996</u>
Total liabilities		<u>6,326</u>
Net Assets:		
Unrestricted	\$	<u><u>1,688</u></u>

The accompanying notes are an integral part of the financial statements

TOWN OF EAST HARTFORD, CONNECTICUT

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

In Thousands

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
Operating Revenues:	
Employer contributions	\$ 13,922
Charges for goods and services	2,793
Other	258
Total operating revenues	<u>16,973</u>
Operating Expenses:	
Claims	20,530
Premiums and administrative charges	2,646
Total operating expenses	<u>23,176</u>
Operating Loss	(6,203)
Nonoperating Revenue:	
Interest income	<u>147</u>
Change in Net Assets Before Transfers	(6,056)
Transfers in	<u>126</u>
Change in Net Assets	(5,930)
Total Net Assets, Beginning of Year	<u>7,618</u>
Total Net Assets, End of Year	<u>\$ 1,688</u>

The accompanying notes are an integral part of the financial statements

TOWN OF EAST HARTFORD, CONNECTICUT

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009

In Thousands

	Governmental Activities
	Internal Service Funds
Cash Flows from Operating Activities:	
Cash received from employer contributions	\$ 12,720
Cash received from charges for services	2,793
Cash received from other revenues	58
Cash paid for claims	(19,309)
Cash paid to other suppliers for services	(2,731)
Net cash used in operating activities	<u>(6,469)</u>
Cash Flows from Noncapital Financing Activities:	
Transfers in	<u>126</u>
Cash Flows from Investing Activities:	
Investment income	<u>147</u>
Net Decrease in Cash and Cash Equivalents	(6,196)
Cash and Cash Equivalents, Beginning of Year	<u>12,977</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 6,781</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating income	\$ <u>(6,203)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
(Increase) decrease in other assets	(200)
(Increase) decrease in due from other funds	(989)
Increase (decrease) in due to other funds	(213)
Increase (decrease) in accounts payable and accrued liabilities	(85)
Increase (decrease) in risk management claims	<u>1,221</u>
Total adjustments	<u>(266)</u>
Net Cash Used in Operating Activities	<u><u>\$ (6,469)</u></u>

The accompanying notes are an integral part of the financial statements

TOWN OF EAST HARTFORD, CONNECTICUT

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

In Thousands

	Pension Trust Fund	Retiree Benefit Trust Fund	Agency Funds
Assets:			
Cash and cash equivalents	\$ 1,253	\$	\$ 1,102
Investments - mutual funds	<u>133,422</u>	<u>2,423</u>	<u></u>
Total Assets	<u>134,675</u>	<u>2,423</u>	<u>\$ 1,102</u>
Liabilities:			
Accounts payable	45	19	
Due to student groups and agencies	<u></u>	<u></u>	<u>\$ 1,102</u>
Total Liabilities	<u>45</u>	<u>19</u>	<u>\$ 1,102</u>
Net Assets:			
Held in trust for pension benefits	<u>\$ 134,630</u>	<u>\$ 2,404</u>	

The accompanying notes are an integral part of the financial statements

TOWN OF EAST HARTFORD, CONNECTICUT

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN PLAN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

In Thousands

	Pension Trust Fund	Retiree Benefit Trust Fund
Additions:		
Contributions:		
Employer	\$ 7,407	\$ 4,618
Plan members	3,243	2,593
Total contributions	<u>10,650</u>	<u>7,211</u>
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	(31,985)	43
Interest and dividends	4,937	1
Total investment gain (loss)	<u>(27,048)</u>	<u>44</u>
Less investment expense	(199)	
Net investment gain (loss)	<u>(27,247)</u>	<u>44</u>
Other income	<u>5</u>	<u>56</u>
Total additions (reductions)	<u>(16,592)</u>	<u>7,311</u>
Deductions:		
Benefits	14,614	4,907
Administration	<u>145</u>	
Total deductions	<u>14,759</u>	<u>4,907</u>
Net Increase (Decrease)	(31,351)	2,404
Net Assets Held in Trust for Pension and Retiree Benefits, Beginning of Year	<u>165,981</u>	<u>-</u>
Net Assets Held in Trust for Pension and Retiree Benefits, End of Year	<u>\$ 134,630</u>	<u>\$ 2,404</u>

The accompanying notes are an integral part of the financial statements

TOWN OF EAST HARTFORD, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

In Thousands

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Town was incorporated in October 1783 under the provisions of the State of Connecticut General Assembly.

In June 1929, the form of government was changed to Town Council/Council President. Under home rule, the form of government was again changed to Strong Mayor/Council in April 1968 and exists as such today. The Town provides the full range of municipal services including public safety (police, fire, emergency medical service), streets, sanitation (collection and waste disposal), health and social, recreation (parks and golf course), libraries, education, planning and zoning and general administrative services.

B. Government-Wide and Fund Financial Statements

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

The statement of 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 funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, charges for services 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.

The Town reports the following major governmental funds:

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

The Capital Improvement Fund accounts for all the financial resources including school construction grants, bonds and capital lease proceeds used to finance expenditures for capital improvement projects.

The Community Development Fund accounts for loan and grant activities associated with housing and community development.

Additionally, the Town reports the following fund types:

The Internal Service Funds account for the Town's risk management program.

The Pension Trust Fund accounts for the activities of the Town's retirement system, which accumulates resources for pension benefit payments to qualified Town employees.

The Retiree Benefit Trust Fund accounts for the activities of the Town's retiree healthcare system, which accumulates resources for healthcare benefit payments to qualified Town employees.

The Agency Funds account for assets held in a custodial nature including student activity and developer escrow accounts.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's internal service funds are charges to customers for services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Deposits and Investments

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

State statutes authorize the Town to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and certain other investments as described in Note 3.

Investments for the Town are reported at fair value.

E. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowances are computed based on historical data.

Property taxes on all property are assessed as of October 1 prior to the beginning of the fiscal year and become legally due and payable on the following July 1 and January 1. If taxes are unpaid as of June 30 following the payable date, a lien is placed on the real property. Property assessments are made at 70% of the market value. Property taxes receivable are recorded on the due date. Taxes not paid within 30 days of the due date are subject to an interest charge of 1-1/2% per month. The Town is not a part of any overlapping government which assesses

separate property taxes. An amount of \$354 has been established as an allowance for uncollected taxes. At June 30, 2009 this represents 9.3% of property taxes receivable.

Property tax revenue is recorded when it becomes available. Available means due or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period; such time thereafter shall not exceed sixty (60) days.

F. Prepaid Items

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

G. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Other improvements	20
Infrastructure	50
Vehicles	10-15
Equipment	10
Furniture and fixtures	20

H. Compensated Absences

Vacation earned can be accumulated by individual employees. In addition, employees may accumulate an additional amount of unused sick leave (as determined by individual union contracts) until termination of their employment.

Holiday pay earned by fire department personnel in the current year is not paid until the following year. Certain employees having at least two years of service with the Town are eligible for longevity benefits. These benefits are earned in the current year and paid in the following year.

I. Long-Term Obligations

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

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

J. Fund Equity

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Town established its General Fund budget in accordance with provisions of its Charter and the Connecticut General Statutes.

A budget for the General Fund is authorized annually by the Town Council. The Council follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to February 23, the Mayor submits to the Town Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- Not later than March 11, a public hearing is conducted to obtain taxpayers' comments.
- Prior to March 31, the budget is legally enacted through passage of an ordinance.
- Prior to April 15, referendum petitions on the budget can be filed with the Town Clerk. Once these petitions are certified by the Town Clerk, the Town Council sets a referendum date.

- During the middle of April, a referendum on the budget is held and within five days the Town Council adopts the final budget
- Under the Town Charter, no department or board may involve the Town in any obligation to spend money for any purpose in excess of the amount appropriated. However, upon approval of the Director of Finance and the Mayor, transfers from one budgetary line item to another may be made within a department, and notification is subsequently given to the legislative body. In addition, the Council may, by resolution, transfer monies from the contingency account to other line items during the first nine months of the fiscal year and may transfer from any account except the debt service line item within the General Fund during the last three months of the fiscal year. Additional appropriations made during the year amounted to \$3,428 from undesignated fund balance. Appropriations lapse at year end except appropriations for capital projects which continue until completion of the applicable project.

The budget is administered on a modified accrual basis of accounting except for encumbrances. Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order is issued and, accordingly, encumbrances outstanding at year end are reflected in budgetary reports as expenditures in the current year. Encumbrances are reported in the governmental funds in accordance with accounting principles generally accepted in the United States of America. Open encumbrances are reported as reservations of fund balances since the commitments will be honored in subsequent years. Encumbrances do not constitute expenditures or liabilities.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Deficit Fund Equity

Internal Service Funds:	
Workers' Compensation	\$ 1,721

Deficit will be reduced in future years when additional revenues are realized or the General Fund appropriates and transfers funds.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: 1) obligations of the United States and its agencies, 2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof, and 3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net asset

values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds does not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

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

Deposits

Deposit Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposit will not be returned. The Town's credit risk is mitigated by requiring pre-qualification of financial institutions and by monitoring the credit worthiness of any depository used by the Town. The deposit of public funds is controlled by the Connecticut General Statutes. Deposits may be placed with any qualified public depository that has its main place of business in the State of Connecticut. Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository's risk based capital ratio.

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$10,186 of the Town's bank balance of \$11,319 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 9,178
Uninsured and collateral held by the pledging bank's trust department, not in the Town's name	<u>1,008</u>
Total Amount Subject to Custodial Credit Risk	<u><u>\$ 10,186</u></u>

Cash Equivalents

At June 30, 2009 the Town's cash equivalents amounted to \$25,551. The following table provides a summary of the Town's cash equivalents (excluding U.S. government guaranteed obligations) as rated by nationally recognized statistical rating organizations. The pools all have maturities of less than 90 days.

	<u>Standard and Poor's</u>	<u>Fitch Ratings</u>
State Tax Exempt Proceeds Fund*		
State Short-Term Investment Fund (STIF)	AAAm	
MBIA, Inc. - Cooperative Liquid Assets Securities System (CLASS)		AAA
Charles Schwab Money Market*		
Aetna Disbursement Payment Account*		

*Not rated

Investments

As of June 30, 2009, the Town had the following investments:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Investment Maturities (Years)</u>		
			<u>Less Than 1</u>	<u>1 – 10</u>	<u>More Than 10</u>
Interest-bearing investments:					
U.S. Government obligations	N/A	\$ 67	\$ <u> </u>	\$ <u> </u>	\$ <u>67</u>
Other investments:					
Mutual funds	N/A	<u>135,845</u>			
Total Investments		\$ <u>135,912</u>			

*Subject to coverage by Federal Depository Insurance and collateralization.

N/A Not applicable

Interest Rate Risk - The Town's general investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increased interest rates. The Town primarily invests general funds in short-term securities unless it is anticipated that long-term securities can be held to maturity without jeopardizing liquidity requirements. The Town's Retirement Board investment policy for the Town's Pension Trust investments assumes a three to five year holding period based on a required minimum annual rate of return of 8.5%.

Credit Risk - Investments - As indicated above, State Statutes limit the investment options of cities and towns. The Town's Retirement Board investment policy limits the Town's Pension Trust investment choices. The investment policy for Pension Trust investments specifically permits investments in individual marketable securities or packages products in the following categories: cash and cash equivalents, fixed income - domestic bonds (investment grade), fixed income - non-U.S. bonds (investment grade), equities - U.S., equities - non-U.S., equities - emerging markets, and equities - REITS. Prohibited asset classes and/or security types are listed in the policy. All of the

Town's investments are invested in various pooled accounts and mutual funds which have not been rated by nationally recognized statistical rating organizations.

Concentration of Credit Risk - The Town's General investment policy requires the diversification of investment instruments to avoid incurring unreasonable risks. Percentages of portfolio limitations are included in the policy. The Town's Retirement Board investment policy provides targeted general asset allocation guidelines. Should the general asset allocation exceed a variance of 10% from the target allocation, rebalancing of the portfolio is required. The Town's Retirement Board investment policy does specifically restrict investments in any one issuer.

Custodial Credit Risk - Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the Town or that sells investments to or buys them for the Town), the Town will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Town's Retirement Board investment policy requires its investment manager to be registered with the Securities and Exchange Commission and to manage the investments in accordance with State and Federal law and the Uniform Prudent Investor Act. The Town's investments, excluding U.S. government obligations, are held in open-end mutual funds which, because they are pooled investments rather than separate identifiable securities, are not subject to custodial risk determination.

4. RECEIVABLES

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

	<u>General</u>	<u>Capital Improvement Fund</u>	<u>Community Development Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:					
Taxes	\$ 3,794	\$	\$	\$	\$ 3,794
Accrued interest	1,140				1,140
Intergovernmental		360	89	1,737	2,186
Accounts	1,445			167	1,612
Loans and accrued interest on loans			1,909		1,909
Gross receivables	<u>6,379</u>	<u>360</u>	<u>1,998</u>	<u>1,904</u>	<u>10,641</u>
Less allowance for uncollectibles:					
Taxes	(354)				(354)
Accrued interest on taxes	(106)				(106)
Accounts	(481)			(25)	(506)
Total allowance	<u>(941)</u>	<u>-</u>	<u>-</u>	<u>(25)</u>	<u>(966)</u>
Net Total Receivables	<u>\$ 5,438</u>	<u>\$ 360</u>	<u>\$ 1,998</u>	<u>\$ 1,879</u>	<u>\$ 9,675</u>

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund:			
Delinquent property taxes	\$ 2,566	\$	\$ 2,566
Accrued interest on delinquent property taxes	1,034		1,034
Advance tax collections		6,152	6,152
Capital Improvement Fund:			
Grant drawdowns prior to meeting all eligibility requirements		1,068	1,068
Community Development Fund:			
Housing loans and interest	1,909		1,909
Nonmajor funds:			
Advance recreation program fee collections		182	182
Grant drawdowns prior to meeting all eligibility requirements		1,393	1,393
Other deferred receivables	<u>142</u>	<u></u>	<u>142</u>
Total Deferred/Unearned Revenue for Governmental Funds	\$ <u>5,651</u>	\$ <u>8,795</u>	\$ <u>14,446</u>

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 11,200	\$	\$	\$ 11,200
Construction in progress	<u>16,878</u>	<u>8,318</u>	<u>(18,431)</u>	<u>6,765</u>
Total capital assets not being depreciated	<u>28,078</u>	<u>8,318</u>	<u>(18,431)</u>	<u>17,965</u>
Capital assets being depreciated:				
Buildings and improvements	103,563	19,151		122,714
Furniture, fixtures, vehicles and equipment	24,398	2,674	(1,361)	25,711
Infrastructure	<u>118,121</u>	<u>331</u>		<u>118,452</u>
Total capital assets being depreciated	<u>246,082</u>	<u>22,156</u>	<u>(1,361)</u>	<u>266,877</u>
Less accumulated depreciation for:				
Buildings and improvements	(37,154)	(2,756)		(39,910)
Furniture, fixtures, vehicles and equipment	(16,302)	(1,503)	533	(17,272)
Infrastructure	<u>(55,675)</u>	<u>(2,155)</u>		<u>(57,830)</u>
Total accumulated depreciation	<u>(109,131)</u>	<u>(6,414)</u>	<u>533</u>	<u>(115,012)</u>
Total capital assets being depreciated, net	<u>136,951</u>	<u>15,742</u>	<u>(828)</u>	<u>151,865</u>
Governmental Activities Capital Assets, Net	\$ <u>165,029</u>	\$ <u>24,060</u>	\$ <u>(19,259)</u>	\$ <u>169,830</u>

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

Governmental activities:	
General government	\$ 235
Public safety	958
Public works	2,935
Parks and recreation	213
Health and social services	27
Education	<u>2,046</u>
Total Depreciation Expense - Governmental Activities	\$ <u>6,414</u>

Construction Commitments

The Town has the following active construction projects as of June 30, 2009. At year end the Town's projects and commitments with contractors are as follows:

Project Series	Project Authorization	Cumulative Expenditures	Encumbered	Balance June 30, 2009
2008 Authorization	\$ 13,985	\$ 115	\$ 3,699	\$ 10,171
2007 Authorization	14,000	6,288	694	7,018
2006 Authorization	15,500	8,623	1,431	5,446
2002 Authorization	11,640	11,344		296
Magnet Middle School	32,737	32,726		11
Capital and Nonrecurring	523	460	18	45
Capital leases	13,533	12,533	58	942
Total	\$ <u>101,918</u>	\$ <u>72,089</u>	\$ <u>5,900</u>	\$ <u>23,929</u>

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

During the course of operations, transactions are processed through a fund on behalf of another fund. Additionally, revenues received in one fund are transferred to another fund. The General Fund provides for working capital advances to/from other funds. A summary of interfund balances as of June 30, 2009 is presented below:

Receivable Fund	Payable Fund	Amount
General Fund	Community Development Fund	\$ 64
	Nonmajor Governmental Funds	491
		<u>555</u>
Capital Improvements	General Fund	1,475
Nonmajor Governmental Funds	General Fund	964
Internal Service Fund	General Fund	<u>993</u>
Total		\$ <u>3,987</u>

A summary of interfund transfers is presented below:

	Transfers In				Total Transfers Out
	General Fund	Capital Improvement Fund	Nonmajor Governmental	Internal Service	
Transfers out:					
General Fund	\$	\$ 200	\$ 116	\$	\$ 316
Capital Improvement Fund	195				195
Nonmajor governmental	<u>325</u>			<u>126</u>	<u>451</u>
Total Transfers In	<u>\$ 520</u>	<u>\$ 200</u>	<u>\$ 116</u>	<u>\$ 126</u>	<u>\$ 962</u>

The transfer from nonmajor governmental funds to the Internal Service Fund consists of the closeout of a program that relates to General Liability claims.

7. LONG-TERM DEBT

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 51,170	\$	\$ 6,020	\$ 45,150	\$ 6,125
Less deferred amounts on refunding	<u>(110)</u>		<u>(22)</u>	<u>(88)</u>	
Total bonds payable	51,060	-	5,998	45,062	6,125
Capital leases	8,996	1,861	1,787	9,070	1,793
Landfill closure	414	128	23	519	23
Compensated absences	15,031	4,562	4,907	14,686	4,667
Retirement obligations	335	788	832	291	50
Net OPEB obligation	6,281	6,427		12,708	
Net pension obligation	1,319	6		1,325	
Risk management claims	<u>4,913</u>	<u>20,530</u>	<u>19,309</u>	<u>6,134</u>	<u>3,138</u>
Governmental Activities Long-Term Liabilities	<u>\$ 88,349</u>	<u>\$ 34,302</u>	<u>\$ 32,856</u>	<u>\$ 89,795</u>	<u>\$ 15,796</u>

The risk management claims accounted for in the Internal Service Funds are reported in the long-term liabilities as part of the above totals for governmental activities. All long-term liabilities are generally liquidated by the General Fund.

Bonds payable at June 30, 2009 are comprised of the following individual issues:

Description	Interest Rate %	Issue Date	Maturity Date	Original Amount	Balance Outstanding June 30, 2009
General purpose and school improvements	4.1-4.2	1/15/2001	1/15/2011	\$ 7,031	\$ 1,400
General purpose	3.9-5.0	5/1/2002	5/1/2010	12,000	550
Refunding - partial refunding of issue dated May 1, 2002	2.0-5.3	4/1/2003	5/1/2015	9,470	9,050
General purpose, school improvements and urban renewal	3.0-5.0	5/1/2003	5/1/2023	14,675	9,650
General purpose	3.1-4.0	7/1/2005	7/1/2014	11,500	7,350
General purpose and school improvements	3.8-4.3	5/15/2006	5/15/2016	3,860	3,150
General purpose and school improvements	3.1-5.0	6/1/2008	6/1/2028	14,000	14,000
Total				\$	<u><u>45,150</u></u>

The annual requirements to amortize bonds payable as of June 30, 2009 are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 6,125	\$ 1,758	\$ 7,883
2011	6,440	1,520	7,960
2012	5,485	1,272	6,757
2013	5,555	1,048	6,603
2014	4,940	849	5,789
2015-2019	11,580	2,049	13,629
2020-2024	3,725	704	4,429
2025-2028	<u>1,300</u>	<u>138</u>	<u>1,438</u>
Total	<u><u>\$ 45,150</u></u>	<u><u>\$ 9,338</u></u>	<u><u>\$ 54,488</u></u>

Prior Defeasance of Debt

On April 1, 2003, the Town defeased \$9,250 in general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Town's financial statements. At June 30, 2009, \$8,250 of bonds outstanding are considered defeased. The balance in escrow was \$8,591 at June 30, 2009.

Subsequent Event

On September 2, 2009, the Town defeased \$8,370 in general obligation bonds with interest rates ranging from 3-5% by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds will not be included in the Town's financial statements.

Bonds authorized/unissued for which bonds or notes are outstanding are as follows:

Description	Authorized	Bonds Issued/ Paydowns	Grants Received	Authorized Unissued
Road Reconstruction	\$ 19,500	\$ 7,600	\$	\$ 11,900
Flood Control System Improvements	14,000	6,025	3,273	4,702
East Hartford High School Renovations and Improvements	11,640	4,100	7,144	396
Public Safety Complex, Board of Education Maintenance and Facility Offices	29,526	26,421	2,378	727
School Projects	1,885			1,885
Library	2,100			2,100
Fire Station and Maintenance Facility	5,085			5,085
Community Cultural Center Roof	356			356
Town Hall Renovations	559			559
Total	<u>\$ 84,651</u>	<u>\$ 44,146</u>	<u>\$ 12,795</u>	<u>\$ 27,710</u>

The Town's indebtedness (\$89,575) does not exceed the legal debt limitation as required by the Connecticut General Statutes as reflected in the following schedule:

Category	Debt Limit	Net Indebtedness	Balance
General purpose	\$ 225,815	\$ 64,887	\$ 160,928
Schools	451,629	6,446	445,183
Sewers	376,358	16,891	359,467
Urban renewal	326,177	1,351	324,826
Pension deficit	301,086		301,086

The total overall statutory debt limitation for the Town is equal to seven times annual receipts from taxation (\$702,534).

The indebtedness reflected above includes bonds outstanding in addition to the amount of bonds authorized and unissued against which debt is issued and outstanding. Progress payment reimbursements for eligible construction costs during certain construction phases of the school construction projects of \$176 are reflected in the computation of net indebtedness.

Capital Leases

The Town has entered into multi-year capital leases for the purchase of various capital items including public works equipment, vehicles and computer hardware and software. The assets acquired through capital leases are as follows:

Asset class:	
Building improvements	\$ 6,097
Vehicles	6,184
Equipment	1,848
Furniture	250
Total gross value	14,379
Less accumulated depreciation	(5,309)
Net Book Value	<u>\$ 9,070</u>

The net book value approximates the capital lease principal balance payable at June 30, 2009.

Principal payments for 2008-2009 were \$1,787. The following is a summary of capital lease commitments as of June 30, 2009:

<u>Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 2,118
2011	1,798
2012	1,273
2013	1,188
2014	715
Thereafter	<u>3,512</u>
Total minimum lease payments	10,604
Less amount representing interest	<u>(1,534)</u>
Present Value of Minimum Lease Payments	<u>\$ 9,070</u>

Landfill Closure

The Town completed the capping of their landfill under a consent order issued by the State of Connecticut Department of Environmental Protection (DEP) requiring the Town to close and cap the landfill. Solid waste landfill closure and postclosure care requirements have been established by the DEP. The Town began its postclosure monitoring period during fiscal year 2003. The costs associated with monitoring and maintaining the landfill area during the postclosure period is the

responsibility of the Town and will be paid by the General Fund. The estimated costs to perform the monitoring requirements during a projected 30-year monitoring period are \$519. These estimates are subject to change due to inflation, changes in regulations or if environmental problems are identified during postclosure monitoring period. None of these costs are expected to be paid from current available resources.

Compensated Absences

Employees can accumulate additional amounts of unused vacation and sick leave, and earn compensatory time (as determined by individual union contracts) until termination of their employment. At termination, pay-out provisions as determined by individual union contract provides for payments to vested employees.

The following is a summary of management's estimate of the vested and nonvested potential liability for lump-sum payments to employees as of June 30, 2009:

Vested:		
Sick	\$	6,059
Vacation		2,200
Compensatory		1,145
Nonvested:		
Sick		5,282 *
		<hr/>
Total	\$	<u>14,686</u>

* Based on estimated percentage of total nonvested obligation that potentially will vest in future years.

Retirement Obligations

Board of Education retirement obligations in the amount of \$291 consists of \$47 due to retired employees for unused compensated absences for which the payments have been amortized out over three years and \$244 due to employees, payable upon retirement, representing deferred commitments awarded to employees in 1992 in lieu of receiving raises for that year.

8. OPERATING INCOME LEASE

In September 2007, the Town entered into a 10-year operating lease with a company to manage the operations of the Town's golf course. The initial term of the contract was effective December 1, 2007 and provides for payment to the Town of \$140 per year in each of the first five years of the lease and \$150 per year in years six through ten. Lease extension provisions are provided for in the lease agreement.

9. FUND EQUITY

The following is a description of the various reserve accounts used to indicate that a portion of equity is legally segregated for a specific purpose and is unavailable for appropriation:

Fund Balance

Reserved for Encumbrances and Commitments - represents outstanding purchase orders at year end on contracts.

Reserved for Trusts - represents the amount of funds accumulated in other governmental funds to pay for specific endowment activities.

Fund balance reserves are as follows:

	<u>General</u>	<u>Capital Improvement Fund</u>	<u>Community Development Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Encumbrances and commitments	\$ 943	\$ 5,900	\$ 78	\$ 157	\$ 7,078
Trusts				194	194
Total	<u>\$ 943</u>	<u>\$ 5,900</u>	<u>\$ 78</u>	<u>\$ 351</u>	<u>\$ 7,272</u>

10. RISK MANAGEMENT

The Town is exposed to various risks of loss including torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Town has chosen to retain the risks for workers' compensation through a Workers' Compensation Fund, employee health and medical claims (Health Benefits Fund) and general and auto liability claims (General Liability Fund). These funds are reported as Internal Service Funds. 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 fiscal years. Various Town funds contribute to the self-insurance funds based on estimates made using historical data. The Town contracted with outside organizations to pay claims and provide administrative services. Additionally, stop-loss insurance coverage has been purchased to limit the Town's liability for health and medical claims. A claims liability of \$3,356 for the Workers' Compensation Fund, reported at June 30, 2009, is based on a summary report of outstanding liabilities for workers compensation and heart and hypertension claims. The claims liability of \$1,861 for the Health Benefits Fund, reported at June 30, 2009, is based on estimated claims incurred but not reported. A claims liability of \$917 for the General Liability Fund, reported at June 30, 2009, is based on a

summary loss report of outstanding liabilities by coverage. The changes in the claims liability were as follows:

	<u>2009</u>	<u>2008</u>
Beginning of year	\$ 4,913	\$ 5,256
Fiscal year claims incurred and changes in prior years' Estimates	20,530	18,809
Fiscal year claim payments	<u>(19,309)</u>	<u>(19,152)</u>
End of Year	<u>\$ 6,134</u>	<u>\$ 4,913</u>

11. OVERLAPPING DEBT

The Town is a member of the Metropolitan District (a quasi-municipal corporation that provides water supply, sewerage collection and disposal facilities for members). Member towns are assessed a percentage of the Metropolitan District's net debt outstanding. As such, the Town's overlapping share of debt issued by the Metropolitan District is \$17 as of June 30, 2009.

12. POST EMPLOYMENT HEALTHCARE PLAN - RETIREE HEALTH PLAN

Summary of Significant Accounting Policies

Basis of Accounting - The financial statements of the Retiree Health Plan (RHP) are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are paid by the Town.

Investments are reported at fair value. Investment income is recognized as earned.

Plan Description

The RHP is a single-employer defined benefit healthcare plan administered by the Town of East Hartford. The RHP provides medical, dental and life insurance benefits to eligible retirees and their spouses. All employees of the Town are eligible to participate in the plan. Benefit provisions are established through negotiations between the Town and the various unions representing the employees.

The plan is considered to be part of the Town's financial reporting entity and is included in the Town's financial report as the Retiree Benefit Trust Fund. The plan does not issue a stand-alone financial report.

At July 1, 2007, plan membership consisted of the following:

	Retiree Health Plan <i>(not rounded)</i>
Retired members and spouses	1,347
Active plan members	<u>1,514</u>
Total Participants	<u><u>2,861</u></u>

Funding Policy

The contribution requirements of plan members and the Town are also negotiated with the various unions representing the employees. Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly towards the cost of health insurance premiums as follows:

Town Employees (not rounded)

The cost per month for Town employees receiving medical coverage under Anthem or ConnectiCare is \$533 per month for retiree only coverage and \$1,066 per month for retiree and spouse coverage to age 65, and \$339 and \$679 per month, respectively, thereafter.

Board of Education Employees (not rounded)

The cost per month for Board of Education employees receiving medical coverage under Anthem or ConnectiCare is \$499 per month for retiree only coverage and \$998 per month for retiree and spouse coverage to age 65, and \$345 and \$690 per month, respectively, thereafter. The cost per month for Board of Education employees receiving dental coverage under Anthem is \$43 per month for retiree only coverage and \$113 per month for retiree and spouse coverage.

For the year ended June 30, 2009, plan members contributed \$2,593. The Town is required to contribute the balance of the current premium cost and may contribute an additional amount as determined by the Town in order to prefund benefits.

Employer contributions to the plan of \$4,366 were made in accordance with actuarially determined requirements. Of this amount \$4,018 represents premium payments, \$348 represents implicit rate subsidy and \$600 was contributed to prefund benefits.

Annual OPEB Cost and Net OPEB Obligations

The Town of East Hartford's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows

the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation (asset):

		Other Post Employment Benefits (OPEB)
Annual required contribution (ARC)	\$	10,767
Interest on net OPEB obligation		251
Adjustment to annual required contribution		(225)
		<hr/>
Annual OPEB cost		10,793
Contributions made		4,366
		<hr/>
Increase in net OPEB obligation		6,427
Net OPEB obligation, beginning of year		6,281
		<hr/>
Net OPEB Obligation, End of Year	\$	<u>12,708</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the fiscal year ended June 30, 2009 is presented below. Data is only presented for the fiscal year ended June 30, 2009 and 2008, due to the prior year being the year of implementation.

Fiscal Year Ended		Annual OPEB Cost (AOC)	Actual Contribution	Percentage of AOC Contributed		Net OPEB Obligation
6/30/08	\$	10,360	\$ 4,079	39.4%	\$	6,281
6/30/09		10,793	4,366	40.5		12,708

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as accrual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections for benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0% investment rate of return, which is the rate of the expected long-term investment returns of plan assets calculated based on the funding policy of the plan at the valuation date.

An annual healthcare cost trend rate of 9% is used initially, decreasing 1% per year to an ultimate rate of 5% for 2011 and later. The remaining amortization period at July 1, 2007 was 30 years, closed. As of July 1, 2007, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was approximately \$129 million, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$129 million.

The schedule of funding progress, presented below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Data is only presented for July 1, 2007 due to this being the first valuation.

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Funded Ratio (a/b)	Covered Payroll (c)	UFAL as a % of Covered Payroll ((b-a)/c)	
7-1-07	\$ -0-	\$ 128,765	0%	\$ N/A	N/A	

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Percentage Contributed
6/30/08	\$ 10,360	39.4%
6/30/09	10,767	40.5

13. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

East Hartford Retirement System Fund

A. Plan Description

The Town is the administrator of a single-employer Public Employee Retirement System (PERS) established by the Town to provide pension benefits for its employees. The Public Employee Retirement System was enacted by Special Act of the Connecticut Legislature. The Plan is managed by a retirement board consisting of five members. The board serves as trustee of the funds, and shall determine contributions payable by the Town in accordance with sound actuarial principles. There are no stand-alone financial statements issued for the PERS. The PERS is considered to be part of the Town of East Hartford's financial reporting entity and is included in the Town's financial reports as a pension trust fund.

The Town of East Hartford Retirement System covers all full-time police, firefighter and general employees of the Town and full-time paraprofessionals and noncertified employees of the Board of Education hired prior to December 31, 2005 and only police, firefighter and dispatchers hired after December 31, 2005. The Town provides all retirement, death and disability benefits through a single employer, contributory, defined benefit plan. Firefighters and police officers are 100% vested after 15 years of service. Dispatchers are 100% vested after 5 years of service. All other participants in the plan are 100% vested after 10 years of service. Firefighters and police officers who retire at normal retirement (25 years of service regardless of age, or age 65 with the completion of 15 years of service) receive a benefit of 2.5% of final average salary per year of service to a maximum of 75% of final average salary. Paraprofessional employees who retire at normal retirement (attainment of age 65 and completion of 10 years of service; attainment of age 62 and completion of 25 years of service; the latter of age 65 or 5 years of participation in the plan; or the Rule of 85) receive a benefit of 2.2% of the employee's final average salary multiplied by the number of years and full months of credited service, not to exceed 70% of the employee's final average salary. Dispatchers who retire at normal retirement (attainment of age 65 and completion of 5 years of credited service; 25 years of credited service regardless of age; or the Rule of 75) receive a benefit of 2.2% of the employee's final average salary multiplied by the number of years and full months of credited service, not to exceed 70% of the employee's final average salary. All other participants of the plan who retire at normal retirement (the latter of age 65 and the completion of ten years of service, or the latter of age 62 and the completion of 25 years of service) receive a benefit of 2.33% of final average salary per year of service to a maximum of 70% of final average salary. Final average salary is defined as the average of salary earned during the highest 36 consecutive months of employment based upon the Plan year prior to termination.

Plan benefits may be amended by the Town Council.

The membership of the plan consisted of the following at July 1, 2008, the date of the latest actuarial valuation:

Retiree, disabled and beneficiaries currently receiving benefits	582
Terminated employees entitled to benefits but not yet receiving them	17
Current employees:	
Vested	339
Nonvested	431
Inactive participants eligible for a refund of contributions	<u>56</u>
Total	<u><u>1,425</u></u>

B. Summary of Significant Accounting Policies, Plan Asset Matters and Plan Changes

Basis of Accounting: The Town's Pension Trust Funds' financial statements are prepared on the accrual basis of accounting. Employer and employee contributions are recognized when due, pursuant to plan provisions and contractual requirements. Benefit payments and refunds are payable when due and payable in accordance with the terms of the plan.

Method Used to Value Investments: Investments are valued at fair value.

Plan Changes: There were no plan changes made for the July 1, 2008 valuation.

Plan Expenses: Expenses of administering the plan are paid for by the plan.

C. Funding Policy

The contribution requirements of plan members are fixed by contract and may be amended by union negotiations as approved by the Town Council.

Employee contribution requirements as a percentage of their earnings to the PERS are as follows:

General Employees	8.0%
Firefighters	8.0
Police Officers	8.0
Paraprofessionals	8.0
Dispatchers	8.0

If an employee leaves employment before meeting the vesting requirements, accumulated employee contributions and interest are refunded. Interest on employee contributions is credited at 4% per year. The Town is required to contribute the remaining actuarially determined amount necessary to provide the benefits for its employees. The Town's current contribution percentage is 17.2% of covered payroll. The annual required contribution for the current year was determined as part of the PERS actuarial valuation dated July 1, 2008.

D. Annual Pension Cost and Net Pension Obligations

The Town's annual pension cost and net pension obligation to the PERS for the current year were as follows:

Annual required contribution	\$ 7,407
Interest on net pension obligation	112
Adjustment to annual required contribution	<u>(106)</u>
Annual pension cost	7,413
Contributions made	<u>7,407</u>
Increase in net pension obligation	6
Net pension obligation, beginning of year	<u>1,319</u>
Net Pension Obligation, End of Year	<u><u>\$ 1,325</u></u>

The actuarial method and assumptions used in the valuation are presented below:

Actuarial valuation date	July 1, 2008
Actuarial cost method	Projected Unit Credit
Amortization method	Level Percent of payroll, 4% increases

Remaining amortization period	17 years - closed
Asset valuation method	Asset smoothing
Actuarial assumptions:	
Investment rate of return	8.5% per annum
Projected salary increases*	5%
*Includes inflation rate	3%

E. Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/07	\$6,520	104%	\$1,338
6/30/08	7,157	103	1,319
6/30/09	7,413	100	1,325

F. Pension Plan Required Supplementary Information

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded (Overfunded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
07/01/03	\$ 154,451	\$ 180,464	\$ 26,013	85.6%	\$ 37,511	69.4%
07/01/04	155,442	190,132	34,690	81.8	39,383	88.1
07/01/05	160,101	205,159	45,058	78.0	42,314	106.5
07/01/06	166,999	217,546	50,547	76.8	41,609	121.5
07/01/07	178,467	227,288	48,821	78.5	41,759	116.9
07/01/08	183,323	238,447	55,124	76.9	42,000	131.3

Schedule of Employer Contributions

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
6/30/04	\$ 2,821	100%
6/30/05	5,219	100%
6/30/06	5,321	100%
6/30/07	6,496	104%
6/30/08	7,147	100%
6/30/09	7,407	100%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is presented in Section D above.

G. Teacher Retirement

All Town of East Hartford Board of Education certified employees participate in the State of Connecticut Teachers' Retirement System, a cost sharing plan with a special funding situation, under Section 10.183 of the General Statutes of the State of Connecticut. A teacher is eligible to receive a normal retirement benefit if he or she has: 1) attained age 60 and has accumulated 20 years of credited service in the public schools of Connecticut, or 2) attained any age and has accumulated 35 years of credited service, at least 25 years of which are service in the public schools of Connecticut.

The Board of Education withholds 7.25% of all teachers' annual salaries and transmits the funds to the State Teachers' Retirement Board. Teacher payroll subject to retirement amounted to \$46,220 or 72% of the total Board of Education payroll of \$64,139.

The retirement system for teachers is funded by the State based upon the recommendation of the Teachers' Retirement Board. Such contribution includes amortization of actuarially computed unfunded liability. For the year ended June 30, 2009 the Town has recorded in the General Fund (Exhibit IV) intergovernmental revenue schools and schools expenditures in the amount of \$7,138 as payments made by the State of Connecticut on behalf of the Town. The Town does not have any liability for teacher pensions.

The State of Connecticut Teachers' Retirement System is considered to be a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106.

15. COMMITMENTS AND CONTINGENCIES

The Town of East Hartford is located on the eastern bank of the Connecticut River, a major tributary to the Long Island Sound and the Atlantic Ocean. After extensive flooding caused by the Hurricane of 1938, the Army Corps of Engineers assisted the Town in the construction of an earthen dike system, including pumping stations, to protect the town from flooding in the future.

As a result of the Hurricane Katrina natural disaster in 2005, the Army Corps of Engineers developed new, more comprehensive maintenance standards for all flood control systems. When the new standards were applied to the Town's system, two deficiencies were discovered. As a result of the two deficiencies noted, the Army Corps has directed the Town to correct them in an effort to provide maximum protection for residents. In order to fund the repairs directed by the Army Corps to prevent the decertification of our flood control system, Town voters, on November 6, 2007, approved a \$7,000 bond authorization to provide funding for the estimated cost of repairs.

On June 1, 2008, the Town issued general obligation bonds of \$6,025 to provide funding for the initial phases of the project. Engineers are currently working on repair plans. A total estimated cost of the repairs has not yet been developed but is expected to far exceed the current \$7,000 bond authorization. The Town is actively pursuing project cost assistance both at the State and Federal levels.

Landfill Remediation

In 2003, the Town completed the closure and capping of the municipal landfill. Subsequently, two pockets of contamination above acceptable levels have been identified in the Town's municipal landfill along the Hockanum River in the vicinity of the Eastern Landform. Risk assessments have been conducted along with a final round of sampling to determine the scope of the remediation project. Meetings were then held with DEP as well as the United States Environmental Protection Agency, and a work plan was developed for the purpose of determining the extent of contamination in the soil as well as to complete a final remediation plan.

With those meetings completed and a final remediation plan in place, the Town will competitively bid the remediation work to be completed. Bidding, contracting, remediation and clean up is ongoing. Based on the estimated cost of the remediation provided to the Town by its environmental engineering firm, management does not believe that the costs of remediation will not have a material effect on the financial statements.

16. LITIGATION

During the normal course of business, claims against the Town arise from personal injury suits, contract disputes, property damage claims and other normal type claims related to a municipality. It is the opinion of the Town Attorney that the ultimate liability of the Town for these cases currently pending will not have a material adverse affect upon the Town's financial position.

During 2009, a personal property settlement was assessed against the Town by a manufacturing company. The settlement stipulated that the Town of East Hartford refund personal property taxes in the amount of \$4,000 in 36 bi-annual credits commencing with the property tax bills due July 1, 2009, and ending with the property tax bills due January 1, 2027. The first 35 credits each will be in the amount of \$113. The final credit, to be provided as of January 1, 2027, will be in the amount of \$63.

17. PRIOR PERIOD ADJUSTMENTS

Governmental Funds/Agency Funds

The Flexible Spending Plan was incorrectly classified as a governmental fund in the prior year. It is presented as an agency fund in the current year. As a result, fund balance and cash in the governmental funds decreased \$27 and cash and due to student groups and agencies in the agency funds increased by the same amount.

TOWN OF EAST HARTFORD, CONNECTICUT

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2009

In Thousands

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
General property taxes:				
Current tax levy	\$ 97,008	\$ 97,008	\$ 97,718	\$ 710
Prior years levy	1,500	1,500	1,879	379
Interest and liens	1,500	1,500	1,148	(352)
Total	<u>100,008</u>	<u>100,008</u>	<u>100,745</u>	<u>737</u>
Licenses and permits:				
Sporting	23	23	7	(16)
Protective	5	5	11	6
Amusement	2	2	2	-
Building structures and equipment	1,000	1,000	428	(572)
Street privilege and use	12	12	12	-
Health	70	70	59	(11)
Other licenses and fees	122	122	98	(24)
Total	<u>1,234</u>	<u>1,234</u>	<u>617</u>	<u>(617)</u>
Intergovernmental revenues:				
Pilot/Economic Development	50	50	57	7
Housing in lieu of taxes - State	65	65	63	(2)
Pilot - State Property	910	910	912	2
Boat registration	19	19	19	-
New manufacturers machinery	3,400	3,400	3,552	152
Distressed Municipalities	200	200	2	(198)
Housing in lieu of taxes - Federal	65	65	51	(14)
State relief - circuit breaker	375	375	381	6
Elderly taxes	13	13	6	(7)
Disability exemptions	12	12	9	(3)
Veterans exemptions	60	60	39	(21)
Abandoned motor vehicles	3	3		(3)
Education cost sharing	41,711	41,711	40,938	(773)
Pequot funds	482	482	475	(7)
Special education	1,750	1,750	2,306	556
Health and welfare	60	60	46	(14)
Services to Blind	60	60	12	(48)
Transportation	808	808	906	98
School building	24	24	24	-
UMTA	16	16	12	(4)
Youth Services	35	35	39	4
Total	<u>50,118</u>	<u>50,118</u>	<u>49,849</u>	<u>(269)</u>
Charges for services:				
Town Clerk	1,375	1,375	769	(606)
Public Safety	434	434	377	(57)
Emergency management	10	10		(10)
Building Department	8	8	4	(4)
Public Works	161	161	148	(13)
Libraries	10	10	15	5
Recreation	99	99	97	(2)
Cemeteries	75	75	173	98
Total	<u>2,172</u>	<u>2,172</u>	<u>1,583</u>	<u>(589)</u>

(Continued on next page)

TOWN OF EAST HARTFORD, CONNECTICUT

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2009
In Thousands

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
Use of money:				
Interest from investments	\$ 1,100	\$ 1,100	\$ 314	\$ (786)
Fines and forfeits:				
Traffic tags and motor vehicle fines	45	45	63	18
Other revenue:				
In lieu of taxes/telephone	405	405	268	(137)
Rentals	215	215	203	(12)
Compensation and insurance refunds	70	70	104	34
Miscellaneous	100	100	883	783
Total	<u>790</u>	<u>790</u>	<u>1,458</u>	<u>668</u>
Total revenues	<u>155,467</u>	<u>155,467</u>	<u>154,629</u>	<u>(838)</u>
Other financing sources:				
Transfers in:				
Capital Improvement Fund	100	100	195	95
Nonmajor funds	<u>263</u>	<u>263</u>	<u>325</u>	<u>62</u>
Total other financing sources	<u>363</u>	<u>363</u>	<u>520</u>	<u>157</u>
Total	\$ <u>155,830</u>	\$ <u>155,830</u>	155,149	\$ <u>(681)</u>

Budgetary revenues are different than GAAP revenues because:

State of Connecticut on-behalf contributions to the Connecticut State Teachers' Retirement System for Town teachers are not budgeted.	7,138
Underliquidation of prior year encumbrances is recorded as miscellaneous revenue for budgetary reporting. This amount is excluded for GAAP financial reporting purposes.	(34)
The Board of Education does not budget for a combination of intergovernmental grants, charges for services and other revenue amounts received which are credited against education expenditures for budgetary reporting. These amounts are recorded as revenues and expenditures for GAAP financial reporting purposes.	<u>3,504</u>

Total Revenues and Other Financing Sources as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV	\$ <u>165,757</u>
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TOWN OF EAST HARTFORD, CONNECTICUT

GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)

FOR THE YEAR ENDED JUNE 30, 2009

In Thousands

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
General government:				
Town Council	\$ 158	\$ 159	\$ 129	\$ 30
Town Clerk	302	334	313	21
Registrar	126	134	115	19
Selectmen	2	2	2	-
Mayor's Office	317	317	316	1
Corporation Counsel	353	573	562	11
Personnel	271	241	226	15
Libraries	1,181	1,183	1,159	24
Probate	21	21	13	8
Youth services	323	381	375	6
Grants administration	83	87	80	7
Finance administration	146	154	152	2
Accounts and control	280	286	283	3
Data processing	1,203	1,210	1,109	101
Purchasing	244	246	241	5
Treasury	4	4	4	-
Assessing	407	424	414	10
Revenue and collections	398	448	412	36
Employee benefits	14,165	16,693	16,588	105
Risk management	256	281	273	8
Development	259	311	299	12
Economic development	36	36	26	10
Planning and Zoning	11	11	10	1
Inland Wetlands	7	7	5	2
Redevelopment Agency	5	5	1	4
Z.B.A.	5	5	4	1
Boards, committees and commissions	40	40	28	12
M.D.C.	4,404	4,225	4,224	1
Contingency	681	6		6
Total general government	25,688	27,824	27,363	461
Public safety:				
Police:				
Administration	3,054	3,041	2,948	93
Operations	6,587	6,271	6,248	23
Criminal investigation	1,700	1,802	1,791	11
Communications	1,470	1,457	1,450	7
Total police	12,811	12,571	12,437	134
Fire:				
Administration	458	383	358	25
Fire suppression	9,188	9,384	9,323	61
Fire Marshal	366	367	358	9
Fire apparatus maintenance	350	368	350	18
Fire alarm maintenance	260	263	229	34
EMS/emergency management	485	535	509	26
Emergency Medical Commission	2	2		2
Training	126	103	66	37
Public Safety Complex	223	223	212	11
Total fire	11,458	11,628	11,405	223
Total public safety	24,269	24,199	23,842	357
Inspections and permits	836	897	850	47

(Continued on next page)

TOWN OF EAST HARTFORD, CONNECTICUT

GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2009

In Thousands

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Public works:				
Administration	\$ 327	\$ 331	\$ 308	\$ 23
Engineering	527	689	669	20
Highway services	2,564	3,074	2,997	77
Waste services	2,770	2,638	2,582	56
Fleet services	1,462	1,545	1,455	90
Building maintenance	1,265	1,564	1,437	127
Total public works	8,915	9,841	9,448	393
Parks and recreation:				
Administration	977	966	932	34
Maintenance	1,426	1,465	1,423	42
Park other facilities	303	310	297	13
Fine arts	24	24	23	1
Total parks and recreation	2,730	2,765	2,675	90
Health and social services:				
Administration	102	102	99	3
Community health and nursing	224	155	141	14
Social services	245	248	230	18
Elderly services - commissions	6	6	6	-
Elderly services	564	570	555	15
Community service persons disabilities	3	3	3	-
Environment control	219	218	214	4
Total health and social services	1,363	1,302	1,248	54
Education	82,099	82,499	81,140	1,359
Debt service:				
Bond principal and interest	8,056	7,996	7,996	-
Capital Improvement - lease financing	1,636	1,636	1,596	40
Total debt service	9,692	9,632	9,592	40
Total expenditures	155,592	158,959	156,158	2,801
Other financing uses:				
Transfers out:				
Capital Improvement Fund	200	200	200	-
Nonmajor Funds	38	99	116	(17)
Total other financing uses	238	299	316	(17)
Total	\$ 155,830	\$ 159,258	156,474	\$ 2,784

Budgetary expenditures are different than GAAP expenditures because:

State of Connecticut on-behalf payments to the Connecticut State Teachers' Retirement System for

Town teachers are not budgeted.

7,138

Encumbrances for purchases and commitments ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year received for GAAP financial reporting purposes.

(557)

Encumbrances for purchases and commitments ordered in the previous year that were received and liquidated in the current year are reported for GAAP financial statement reporting purposes.

765

The Board of Education does not budget for a combination of intergovernmental grants, charges for services and other revenue amounts received which are credited against education expenditures for budgetary reporting. These amounts are recorded as revenues and expenditures for GAAP financial reporting purposes.

3,504

Total Expenditures and Other Financing Uses as Reported on the Statement of Revenues,

Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV

\$ 167,324