

Annual Financial Report
of the
Town of Old Lyme, Connecticut
Year Ended June 30, 2014

Town of Old Lyme, Connecticut

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Town of Old Lyme, Connecticut

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Independent Auditor's Report

To the Board of Finance
Town of Old Lyme
Old Lyme, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Old Lyme, Connecticut, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Old Lyme, Connecticut, as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Old Lyme, Connecticut's basic financial statements. The introductory section, supplemental schedules and trend information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act and is also not a required part of the basic financial statements.

The supplemental schedules and the schedule of expenditures of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules and the schedule of expenditures of state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and trend information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014, on our consideration of the Town of Old Lyme, Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Old Lyme, Connecticut's internal control over financial reporting and compliance.

CohnReznick LLP

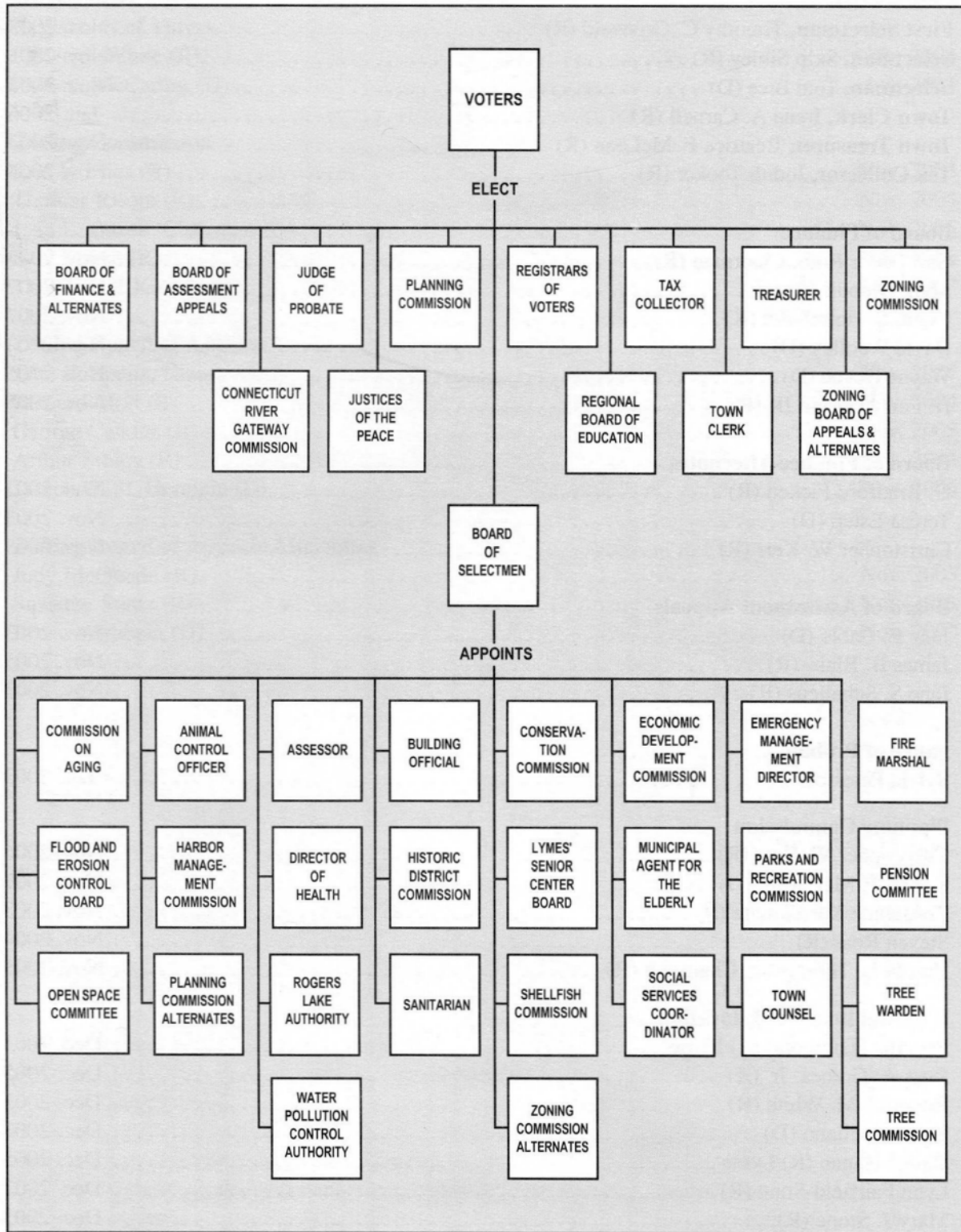
New London, Connecticut
December 17, 2014

Financial Section

Introductory Section

Town of Old Lyme, Connecticut

ORGANIZATION CHART



Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014**History, organization and reporting entity**

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

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

I. Summary of significant accounting policies**A. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

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

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

B. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Agency funds have no measurement focus but are accounted for using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014

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. General capital asset acquisitions are reported as expenditures in governmental funds.

Property taxes, expenditure reimbursement-type grants, certain intergovernmental revenues, transfers and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental funds:

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

The Landfill Closure Fund accounts for all the financial resources to be used for the closure and postclosure of the Town's landfill.

The Harbor Management Dredging Project Fund accounts for the financial resources to be used for the study and potential dredging of two rivers located in the Town of Old Lyme.

Additionally, the Town reports the following fund types:

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

The Agency Funds are used to account for performance bonds.

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

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

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014**C. Assets, liabilities, deferred outflows/inflows of resources and net position or equity****1. Deposits and investments**

Deposits - The Town considers cash as cash on hand, demand deposits and money market accounts.

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

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

2. Receivables and payables**a. Interfunds**

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

b. Property taxes and other receivables

In the government-wide financial statements, all trade and property tax receivables are shown net of an allowance for uncollectibles. Allowance is 15% of outstanding receivable balances and is calculated based upon prior collections.

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

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

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014**3. Capital assets**

Capital assets, which include buildings, building improvements, land improvements, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 for equipment, \$20,000 for improvements and \$100,000 for infrastructure, and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives:

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

4. Compensated absences

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

Sick leave and vacation leave expenditures are recognized in the governmental funds in the current year to the extent they are paid during the year or the vested amount is expected to be paid with available resources. The liability for the remainder of the vested sick and vacation leave, and the nonvested portion expected to be paid in future periods, is accounted for in the government-wide financial statements as a noncurrent liability.

5. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities' statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenses.

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014

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

6. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town only has one item that qualifies for reporting in this category.

For governmental funds, the Town reports unavailable revenue, which arises only under the modified accrual basis of accounting. Accordingly, unavailable revenue is reported only in the governmental funds' balance sheet. The governmental funds report unavailable revenue from one source: property taxes (including advanced collections, if any). These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

7. Fund equity and net position

In the government-wide financial statements, net position is classified into the following categories:

Net investment in capital assets

This category presents the net position that reflect capital assets net of only the debt applicable to the acquisition or construction of these assets. Debt issued for non-capital purposes, and unspent bond proceeds, are excluded.

Restricted net position

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

Unrestricted net position

This category presents the net position of the Town which is not restricted.

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014

In the fund financial statements, fund balances are classified into the following categories:

Nonspendable

This category presents amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted

This category presents amounts that can be spent only for specific purposes because of enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors or the laws or regulations of other governments.

Committed

This category presents amounts that can be used only for specific purposes determined by a formal action of the highest level of decision-making authority for the Town. Commitments may be established, modified or rescinded only through resolutions approved by the Board of Finance.

Assigned

This category presents amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Intent can be expressed by the governing body (Board of Finance) or by an official (Finance Director).

Unassigned

This category presents amounts that do not meet the criteria above and are available for any purpose. This category is only reported in the general fund for positive amounts and in any other fund that has a fund balance deficit.

The Town will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

The Town will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014**8. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities including disclosures of contingent assets and liabilities and reported revenues, expenses and expenditures during the fiscal year. Accordingly, actual results could differ from those estimates.

9. Reclassifications

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

II. Stewardship, compliance and accountability**A. Budgets and budgetary accounting**

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

- The Town legally adopts an annual budget for the general fund. Formal budgetary integration is employed by the Board of Finance as a management control device during the year for the general fund.
The capital projects fund employs a project length budget, which is approved by the annual Town Meeting.
- Prior to March 1, each department head, office, agency, board or commission of the Town, supported wholly or in part from Town funds, shall submit budget requests in the form requested by the First Selectman so as to indicate the programs, activities and work accomplished in the current fiscal year and to be accomplished during the ensuing year. These shall be accompanied by detailed estimates of expenditures to be made and of revenues other than taxes to be collected during the ensuing fiscal year, along with such other information as may be requested by the Board of Finance or the First Selectman.
- Prior to April 1, the First Selectman shall present to the Board of Finance a budget.
- The Board of Finance shall hold at least one public hearing on the budget during the month of April and shall adopt a proposed budget, including a recommended appropriation act, by May 1, which shall be published in a newspaper in general circulation in the Town at least five days prior to the annual Town Meeting for budget consideration.
- An annual Town Meeting for budget consideration shall be held on the second Tuesday in May. This meeting shall consider the budget presented to it by the Board of Finance and may approve or lower any item, but may not raise the amount of such item. If the annual Town Meeting fails to adopt a budget, the budget will be returned to the Board of Finance for its consideration. The Board of Finance shall return the same or a revised budget to a Town Meeting called by the Board of Finance for a date no later than ten days after the annual meeting, at which the Town Meeting may approve or lower any item. Should the Town Meeting then fail or refuse to adopt a budget, the budget appropriation last proposed by the Board of Finance shall be in full effect.

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014

- The level at which expenditures may not legally exceed appropriations without Board of Finance and/or Town Meeting approval is at the department level. Transfers between departments or new appropriations may be approved by consecutive actions of the Board of Finance and a Town Meeting, which shall be called by the Board of Finance following its action on the new spending proposal.

An appropriation of over \$20,000 for an additional expenditure at the department level not provided for in the annual budget or as a second request may be approved by consecutive favorable actions of the Board of Finance and a referendum of the electors of the Town at a special or regular election of the Town, as one or the other may be determined by the Board of Finance. Additional appropriations to the general fund budget during the year were \$203,150 from fund balance.

- Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order, contract or other commitment is issued and, accordingly, encumbrances outstanding at year end are reported in budgetary reports (Exhibit F) as expenditures in the current year. Generally, all unencumbered appropriations lapse at year end, except those for the capital projects funds. Appropriations for capital projects are continued until completion of applicable projects, even when projects extend more than one fiscal year.

B. Budget - GAAP reconciliation

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

	<u>Expenditures</u>	<u>Fund Balance</u>
Balance, budgetary basis, Exhibit F - June 30, 2014	\$ 32,487,143	\$ 6,722,649
Encumbrances outstanding at June 30, 2013 liquidated during the fiscal year	217,850	-
Encumbrances outstanding at June 30, 2013 and 2014	-	97,975
Encumbrances outstanding at June 30, 2014 charged to budgetary expenditures during the fiscal year	<u>(270,651)</u>	<u>270,651</u>
Balance, GAAP basis, Exhibit D - June 30, 2014	<u>\$ 32,434,342</u>	<u>\$ 7,091,275</u>

C. Excess of expenditures over appropriations

During the year ended June 30, 2014, there were no general fund department expenditures that exceeded appropriations.

D. Deficit fund balance

The following fund had a deficit fund balance at June 30, 2014.

<u>Capital projects fund</u>	
Hains Park Boathouse	<u>\$ 9,348</u>

Future intergovernmental revenues will be used to fund the deficit.

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014

III. Detailed notes

A. Cash and investments

1. Deposits - custodial credit risk - Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$5,367,209 of the Town's bank balance of \$6,117,209 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$4,755,488
Uninsured and collateral held by pledging bank's trust department not in the Town's name	<u>611,721</u>
Total amount subject to custodial credit risk	<u>\$5,367,209</u>

Financial instruments that potentially subject the Town to significant concentrations of credit risk consist primarily of cash. From time to time, the Town's cash account balances exceed the Federal Deposit Insurance Corporation limit. The Town reduces its credit risk by maintaining its cash deposits with major financial institutions and monitoring their credit ratings.

2. Investments - At June 30, 2014, the Town's investments consisted of the following investment types and maturities. Specific identification was used to determine the maturities.

Type of Investment	Fair Value	Investment Maturities (in Years)			
		N/A	Less than 1 Year	1-5 Years	6-10 Years
Bank money market accounts	\$ 3,210,696	\$ -	\$ 3,210,696	\$ -	\$ -
Pooled fixed income	2,622,864	-	2,622,864	-	-
Guaranteed interest contract	2,562,420	-	-	-	2,562,420
Bond mutual funds	341,614	-	-	341,614	-
Equity mutual funds	4,702,119	4,702,119	-	-	-
Total	<u>\$ 13,439,713</u>	<u>\$ 4,702,119</u>	<u>\$ 5,833,560</u>	<u>\$ 341,614</u>	<u>\$ 2,562,420</u>

Of the \$2,622,864 of pooled fixed income, \$2,012,859 was invested in the Short Term Investment Fund ("STIF"). STIF is an investment pool managed by the State of Connecticut Office of the State Treasurer. The balance was invested in a 2a-7 like pool, which operates within State Statutes. The fair value of the position in the pool is the same as the value of the pool shares.

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

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

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014

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

Average Rating	Pooled Fixed Income	Guaranteed Interest Contract	Bond Mutual Funds
AAA	\$ 2,622,864	\$ -	\$ 341,614
AA	-	2,562,420	-
Total	\$ 2,622,864	\$ 2,562,420	\$ 341,614

Custodial credit risk - The Town has no formal policy with respect to custodial credit risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2014, the Town had no investments subject to custodial credit risk.

B. Receivables

Receivable balances have been disaggregated by type and presented separately in the financial statements. Only receivables for the Town's government-wide financial statements with allowances for uncollectible accounts as of June 30, 2014, including the applicable allowances for uncollectible accounts, are presented below.

	Property Taxes		
	Taxes	Interest & Lien Fees	Total
Current portion	\$ 312,499	\$ 114,825	\$ 427,324
Long-term portion	\$ 422,498	\$ 78,211	\$ 500,709
Less allowance for uncollectible	(110,000)	(29,000)	(139,000)
Net long-term portion	\$ 312,498	\$ 49,211	\$ 361,709

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014**C. Capital assets**

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,423,356	\$ 224,000	\$ -	\$ 3,647,356
Works of art	251,000	-	-	251,000
Construction in progress	87,569	342,034	-	429,603
Total capital assets, not being depreciated	<u>3,761,925</u>	<u>566,034</u>	<u>-</u>	<u>4,309,959</u>
Capital assets, being depreciated:				
Buildings and improvements	6,451,153	-	-	6,451,153
Land improvements	1,545,320	-	-	1,545,320
Machinery, vehicles and equipment	5,426,416	195,825	112,219	5,510,022
Infrastructure	4,162,204	195,000	-	4,357,204
Total capital assets, being depreciated	<u>17,585,093</u>	<u>390,825</u>	<u>112,219</u>	<u>17,863,699</u>
Total capital assets	<u>21,347,018</u>	<u>956,859</u>	<u>112,219</u>	<u>22,191,658</u>
Less accumulated depreciation for:				
Buildings and improvements	640,361	73,293	-	713,654
Land improvements	302,636	29,151	-	331,787
Machinery, vehicles and equipment	1,689,118	272,731	40,346	1,921,503
Infrastructure	400,530	49,728	-	450,258
Total accumulated depreciation	<u>3,032,645</u>	<u>424,903</u>	<u>40,346</u>	<u>3,417,202</u>
Total capital assets, being depreciated, net	<u>14,552,448</u>	<u>(34,078)</u>	<u>71,873</u>	<u>14,446,497</u>
Governmental activities capital assets, net	<u>\$ 18,314,373</u>	<u>\$ 531,956</u>	<u>\$ 71,873</u>	<u>\$ 18,774,456</u>

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

General government	\$ 133,614
Public works	106,646
Parks and recreation	32,211
Other public safety	1,066
Fire services	119,669
Police services	24,914
Senior citizens	6,783
Total depreciation expense	<u>\$ 424,903</u>

The Town has a collection of artwork presented in public buildings. The true value of the art is expected to either be maintained at cost or appreciate over time and, thus, the art is not depreciated. If individual pieces are lost or destroyed, the loss is recorded.

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014

D. Interfund accounts

1. Interfund payables and receivables

A summary of interfund balances as of June 30, 2014 is as follows:

	Corresponding Fund	Due from	Due to
Major funds:			
General fund:			
Social workers' fund	N/A	\$ 96	\$ -
Miscellaneous fund	N/A	8,043	-
Dog fund	N/A	45	-
Private duty fund	N/A	-	29,712
Harbor management fund	N/A	399	-
Public building improvement fund	N/A	3,260	-
Senior center board fund	N/A	2,768	-
Capital nonrecurring	N/A	97,926	-
Hains Park Boathouse	N/A	9,348	-
Rogers lake dam	N/A	-	19,003
Harbor management dredging project	N/A	-	109,099
Performance bonds	N/A	<u>19,312</u>	-
Total general fund		<u>141,197</u>	<u>157,814</u>
Harbor management dredging project	General fund	<u>109,099</u>	-
Nonmajor funds:			
Special revenue funds:			
Social workers' fund	General fund	-	96
Miscellaneous fund	General fund	-	8,043
Dog fund	General fund	-	45
Private duty fund	General fund	29,712	-
Harbor management fund	General fund	-	399
Public building improvement fund	General fund	-	3,260
Senior center board fund	General fund	-	2,768
Capital projects funds:			
Capital nonrecurring	General fund	-	97,926
Hains Park Boathouse	General fund	-	9,348
Rogers lake dam	General fund	<u>19,003</u>	-
Total nonmajor funds		<u>48,715</u>	<u>121,855</u>
Fiduciary funds:			
Performance bonds	General fund	<u>-</u>	<u>19,312</u>
Grand total		<u>\$ 299,011</u>	<u>\$ 299,011</u>

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

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014

2. Interfund transfers

A summary of interfund transfers for the year ended June 30, 2014 is as follows:

	Corresponding Fund	Transfers In	Transfers Out
Major funds:			
General fund:			
Capital nonrecurring	N/A	\$ -	\$ 10,000
Land acquisition	N/A	-	75,000
Firefighters' equipment	N/A	-	130,000
Town hall expansion project	N/A	9,100	-
Landfill closure	N/A	284,380	-
Bus barn fund	N/A	24,645	-
Total general fund		318,125	215,000
Landfill closure	General fund	-	284,380
Nonmajor funds:			
Special revenue funds:			
Bus barn fund	General fund	-	24,645
Bus barn fund	Capital nonrecurring	-	13,863
Capital projects funds:			
Capital nonrecurring	General fund	10,000	-
Capital nonrecurring	Bus barn fund	13,863	-
Land acquisition	General fund	75,000	-
Firefighters' equipment	General fund	130,000	-
Town hall expansion project	General fund	-	9,100
Total nonmajor funds		228,863	47,608
Grand total		\$ 546,988	\$ 546,988

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

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014

E. Changes in long-term obligations

1. Summary of changes

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

Description	Original Amount	Date of Issue	Date of Maturity	Interest Rate	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Current Portion
Bonds - general	\$ 4,200,000	10/15/09	10/15/24	2.0% - 3.5%	\$ 3,475,000	\$ -	\$ 250,000	\$ 3,225,000	\$ 275,000
Premiums					40,603	-	3,384	37,219	-
Total bonds and related liabilities					3,515,603	-	253,384	3,262,219	275,000
Note payable	405,000	6/15/2011	6/15/2014	2%	135,000	-	135,000	-	-
Landfill postclosure costs					622,500	-	20,750	601,750	20,750
Compensated absences					107,693	111,800	95,948	123,545	111,800
Total long-term obligations					\$ 4,380,796	\$ 111,800	\$ 505,082	\$ 3,987,514	\$ 407,550

Old Lyme is a member of the Regional School District No. 18, which provides education facilities for grades pre-k through twelve for the Towns of Lyme and Old Lyme. As of June 30, 2014, the outstanding bonded indebtedness of the District was \$43,075,000. The Town of Old Lyme's share will be approximately 79.1%, which totaled \$34,072,325. These are general obligations of Regional School District No. 18 and its member towns.

All long-term liabilities are generally liquidated by the general fund.

The annual requirements to amortize bonds payable as of June 30, 2014, are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2015	\$ 275,000	\$ 88,563	\$ 363,563
2016	275,000	82,719	357,719
2017	275,000	76,188	351,188
2018	300,000	69,000	369,000
2019	300,000	61,125	361,125
2020	300,000	52,500	352,500
2021	300,000	43,500	343,500
2022	300,000	34,500	334,500
2023	300,000	25,125	325,125
2024	300,000	15,375	315,375
2025	<u>300,000</u>	<u>5,250</u>	<u>305,250</u>
Total	<u>\$3,225,000</u>	<u>\$ 553,845</u>	<u>\$3,778,845</u>

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014**2. Note payable**

The Town had a note payable to Mr. Steven Ames which was paid off as of June 30, 2014. The proceeds of the note were used to purchase 81± acres off Evergreen Trail. The note accrued interest of 2% per annum.

3. Landfill closure and postclosure care costs

State and Federal laws and regulations require that the Town of Old Lyme place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The Town closed and covered its landfill. Monitoring costs and estimated repairs and maintenance for the next 29 years at \$20,750 per year are \$601,750 as of June 30, 2014. The postclosure care amounts are estimates which are subject to changes due to inflation, technology or applicable landfill laws and regulations.

4. Authorized/unissued bonds

There are no authorized/unissued bonds at June 30, 2014.

5. Statutory debt limitations

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

<u>Category</u>	<u>Debt Limit</u>	<u>Net Indebtedness</u>	<u>Balance</u>
General purpose	\$ 70,492,689	\$ 3,225,000	\$ 67,267,689
Schools	140,985,378	34,072,325	106,913,053
Sewers	117,487,815	-	117,487,815
Urban renewal	101,822,773	-	101,822,773
Pension deficit	93,990,252	-	93,990,252

The overall statutory debt limit for the Town is equal to seven times annual receipts from taxation, \$219,310,588.

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

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014

F. Fund balance classifications

As of June 30, 2014, fund balances are composed of the following:

Fund Balance Component	General Fund	Landfill Closure	Harbor Management Dredging Project	Nonmajor Funds	Total
Nonspendable:					
Prepaid Items	\$ 178,186	\$ -	\$ -	\$ -	\$ 178,186
Committed:					
General government	12,500	-	-	-	12,500
Parks and recreation	7,700	-	-	-	7,700
Fire services	7,333	-	-	-	7,333
Police services	2,330	-	-	-	2,330
Capital outlay	338,763	-	-	-	338,763
Approved CNR projects	-	-	-	777,962	777,962
Total Committed	368,626	-	-	777,962	1,146,588
Assigned:					
General government	-	-	-	22,367	22,367
Parks and recreation	-	-	-	35,857	35,857
Other public safety	-	-	-	20,954	20,954
Police services	-	-	-	35,974	35,974
Health services	-	-	-	44,146	44,146
Senior citizens	-	-	-	17,149	17,149
Total Assigned	-	-	-	176,447	176,447
Unassigned	6,544,463	-	-	(9,348)	6,535,115
Total	\$ 7,091,275	\$ -	\$ -	\$ 945,061	\$ 8,036,336

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014**IV. Other information****A. Risk management**

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

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

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

B. Commitments and litigation

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

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

The Town has entered into a service agreement with Connecticut Resources Recovery Authority for disposal of solid waste. As part of this agreement, the Town is obligated to provide minimum tonnage for each billing period, or be required to pay a penalty in lieu of minimum tonnage, if the project total does not meet the minimum tonnage requirement. There was no minimum tonnage assessment for 2014.

C. Pension plans**Defined contribution Town of Old Lyme pension plan****1. Plan description**

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

Town of Old Lyme, Connecticut

Notes to Financial Statements
June 30, 2014

2. Summary of significant accounting policies and plan asset matters

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

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

3. Classes of employees covered

At June 30, 2014, membership of the plan consisted of:

Current employees:	
Town	45
Regional School District No. 18	<u>179</u>
Total	<u>224</u>

For the year ended June 30, 2014, the Town and Regional School District No. 18's payroll of eligible individuals covered by the plan was \$5,028,000. The Town and District contributed \$402,240, or 8%, while the employees contributed \$78,550, or 1.56%, of covered payroll.

4. Defined contribution volunteer firefighters' retirement plan

Plan description

The volunteer firefighters participate in a defined contribution plan; however, the assets are not held in the Town's name. Although not required, it has been the Town's policy in the past years to fund all pension costs accrued in the current year. The Town's contribution during the year ended June 30, 2014 was \$54,560.

Supplemental Schedules

General Fund

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

Nonmajor Governmental Funds

Special Revenue Funds

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

Capital Projects Funds

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

Fiduciary Funds

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

Pension Trust Funds

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

Agency Funds

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

Basic Financial Statements

Trend Information

**State
Single
Audit**

Town of Old Lyme, Connecticut

Note to Schedule of Expenditures of State Financial Assistance Year Ended June 30, 2014

The accompanying schedule of expenditures of state financial assistance includes state grant activity of the Town of Old Lyme, Connecticut, under programs of the State of Connecticut for the fiscal year ended June 30, 2014. Various departments and agencies of the State of Connecticut have provided financial assistance to the Town of Old Lyme through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including general government, education, public safety, public works, sanitation, and social services.

Summary of significant accounting policies

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

The information in the schedule of expenditures of state financial assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

Basis of accounting

The expenditures reported on the schedule of expenditures of state financial assistance are reported on the modified accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, certain grants are not dependent on expenditure activity and, accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the schedule of expenditures of state financial assistance.

Town of Old Lyme, Connecticut
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2014

There were no prior year audit findings or questioned costs.

Town of Old Lyme, Connecticut

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

I. Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____yes x no
- Significant deficiency(ies) identified? _____yes x none reported

Noncompliance material to financial statements noted? _____yes x no

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? _____yes x no
- Significant deficiency(ies) identified? _____yes x none reported

Type of auditor's report issued on compliance for major programs: Unmodified

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

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

State Grantor and Program	State Core CT Number	Expenditures
Department of Transportation: Town Aid Road Grants Transportation Fund	13033-DOT57131-43459	\$230,000
Department of Energy and Environmental Protection: Small Town Economic Assistance Program	12052-DEP43740-40531	229,750
Dollar threshold used to distinguish between Type A and Type B programs:		\$100,000

II. Financial Statement Findings:

No findings are reported relating to the Town's financial statements.

III. State Financial Assistance Findings and Questioned Costs:

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

Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Board of Finance
Town of Old Lyme, Connecticut

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Old Lyme, Connecticut, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 17, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

New London, Connecticut
December 17, 2014

Independent Auditor's Report on Compliance for Each Major
State Program and Report on Internal Control over Compliance
Required by the State Single Audit Act

Board of Finance
Town of Old Lyme, Connecticut

Report on Compliance for Each Major State Program

We have audited the Town of Old Lyme, Connecticut's compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of the Town's major state programs for the year ended June 30, 2014. The Town's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major State Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.



New London, Connecticut
December 17, 2014