

TOWN OF COLCHESTER, CONNECTICUT

FINANCIAL REPORT
June 30, 2010

TOWN OF COLCHESTER, CONNECTICUT

FINANCIAL REPORT

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Financial Section



INDEPENDENT AUDITOR'S REPORT

To the Honorable First Selectman and
Members of the Board of Finance
Town of Colchester, Connecticut

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Colchester, Connecticut (the "Town") as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Colchester, Connecticut as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof and the budgetary information for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards," we have also issued our report dated December 29, 2010, on our consideration of the Town of Colchester, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The management discussion and analysis, the schedules of funding progress and schedules of employer contributions for the pension trust fund and other post employment benefit plan are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budgetary detail, combining and individual nonmajor fund statements, capital asset schedules and other schedule, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary detail, combining and individual nonmajor fund statements, capital asset schedules and other schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The prior year comparative information has been derived from the Town's 2009 financial statements and, in our report dated January 29, 2010, we expressed unqualified opinions on the respective financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

McGladrey & Pullen, LLP

New Haven, Connecticut
December 29, 2010

Town of Colchester, Connecticut
Management's Discussion and Analysis
June 30, 2010

As management of the Town of Colchester, Connecticut we offer readers of the financial statements this overview and analysis of the financial performance of the Town of Colchester for the fiscal year ended June 30, 2010. Please read it in conjunction with the Town's financial statements, which immediately follow this section.

Financial Highlights

- ♦ The Town's total net assets at the close of the fiscal year were \$71,527,166, a decrease of \$1,983,118 over the previous fiscal year. Total net assets of Governmental Activities at fiscal year-end were \$67,293,345 and total net assets for Business-Type Activities were \$4,223,821. Of the Town's total net assets at June 30, 2010, \$6,340,352 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- ♦ At the end of the current fiscal year, the total fund balance for the General Fund was \$3,377,284, a decrease of \$528,734 from the prior fiscal year. Of the total General Fund fund balance as of June 30, 2010, \$2,974,475 represents unreserved/undesignated fund balance of the General Fund. Unreserved/undesignated General Fund fund balance represents 6.1% of total General Fund expenditures (\$48,860,187). The Town of Colchester's governmental funds reported combined ending fund balances of \$6,907,247, an increase of \$1,178,213 from the prior fiscal year.
- ♦ The Town of Colchester's total bonded debt had a decrease of \$390,000 from the prior fiscal year.

Overview of the Financial Statements

This annual report consists of three parts: 1) management's discussion and analysis (this section), 2) the basic financial statements and 3) an additional section that presents combining statements for non-major governmental funds and internal service funds. The basic financial statements include two kinds of statements:

- ♦ The first two statements are government-wide financial statements that provide both long-term and short-term information about the Town's overall financial status.
- ♦ The remaining statements are fund financial statements that focus on individual parts of the Town government, reporting the Town's operations in more detail than the government-wide statements.
- ♦ The governmental funds statements tell how general government services such as police, fire and parks were financed in the short term as well as what remains for future spending.
- ♦ Proprietary funds statements offer short and long-term financial information about the activities the government operates like business, such as the water system.
- ♦ Fiduciary funds statements provide information about the financial relationships in which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

It is important to note that the Town of Colchester implemented the new reporting requirements outlined in GASB 34 effective July 1, 2002 and this is the eighth report issued under the new reporting model.

		Fund Financial Statements		
<u>Type of Statements</u>	<u>Government-wide Financial Statements</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
<i>Scope</i>	Entire Town government (except fiduciary activities)	The activities of the Town that are not proprietary or fiduciary, such as police, fire and parks.	Activities the Town operates similar to businesses; the water system.	Instances in which the Town administers resources on behalf of someone else such as student activity funds.
<i>Required financial statements</i>	<ul style="list-style-type: none"> ➤ Statement of net assets ➤ Statement of activities 	<ul style="list-style-type: none"> ➤ Balance sheet ➤ Statement of revenues, expenditures and changes in fund balances. 	<ul style="list-style-type: none"> ➤ Statement of net assets. ➤ Statement of revenues, expenses, changes in fund net assets. ➤ Statement of cash flows. 	<ul style="list-style-type: none"> ➤ Statement of fiduciary net assets. ➤ Statement of changes in fiduciary net assets.
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital short-term and long-term.	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital, and short-term and long-term.	All assets and liabilities, both financial and capital, and short-term and long-term.
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash are received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during year, regardless of when cash is received or paid.	All additions and deductions during the year regardless of when cash is received or paid.

Figure A-1 summarizes the major features of the Town's financial statements, including the portion of the Town government they cover and the types of information that they contain. The remainder of this overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town of Colchester's finances. The statement of net assets and the statement of activities present financial information on all of the Town's assets, liabilities, expenses and revenues regardless of actual collections or disbursements. The statements provide both long-term and short-term information about the Town's overall financial status.

The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's assets and liabilities.

- ♦ Over time, increases or decreases in the Town's net assets can be an indicator of whether its financial health is improving or deteriorating, respectively.
- ♦ Other non-financial indicators need to be considered such as changes in the Town's property tax base, growth in school enrollment and the condition of the Town's infrastructure, i.e., roads, etc.

The statement of net assets presents information on all of Colchester's assets and liabilities with the difference reported as net assets. The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in some future fiscal year, such as uncollected receivables for tax revenue and earned but unpaid expenses.

The government-wide financial statements for the Town of Colchester are divided into two categories:

- ♦ Governmental activities represent most of the Town's basic services such as fire and police protection, public works, social and human services, parks and recreation, education and general administration.
- ♦ Business-type activities represent charges for fees to customers to help cover the costs of certain services it provides. The Town's water operation is included here.

The government-wide financial statements (statement of net assets and statement of activities) can be found on pages 13-14 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's funds, focusing on its most significant or "major" funds and not the Town as a whole. Funds are a method of providing an accounting mechanism in order to provide accountability over resources that have been segregated for specific activities or objectives. The Town of Colchester uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town of Colchester has three types of funds:

- ♦ **Governmental funds** include most of the Town's basic services which focus on how much cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. These statements provide a detailed short-term view that helps you determine whether there are more or fewer resources that can be spent in the near future to finance the town's programs. The government-wide statement of activities provides a broader view of the governmental activities than the governmental fund focus. The statement of net activities can be compared with the fund financial statements to better understand the long-

term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

- ♦ **Proprietary funds** are generally used for reporting services for which the Town charges a fee such as the water operations for the Town. They are reported in the same way as the government-wide statements. The Town has two types of proprietary funds. One is the enterprise fund and the other is the internal service fund.
- ♦ The enterprise fund is the same as the business-type activities. Although it provides the same type of information as the government-wide financial statements, it includes more detail and has additional information reported such as cash flows.
- ♦ The internal service fund is used to report activities that provide self-insured medical services funded by other Town programs or activities. The internal service fund transactions are included in the government-wide financial statements.
- ♦ **Fiduciary funds** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to provide services to the Town's constituency. The Town has one agency fund for student activities and one pension trust fund. The accounting for fiduciary funds is much like that used for proprietary funds.

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

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Town's financial status. The Town's combined assets exceeded liabilities by \$71,527,166 at the close of the recent fiscal year.

Net assets of the Town's Governmental Activities decreased approximately 3.2% to \$67,293,345 and total net assets for Business-type Activities increased approximately 5.7% to \$4,233,821. The amount of \$65,186,814 (\$61,620,441 for Governmental Activities and \$3,566,373 for Business-type Activities) of combined net assets at June 30, 2010, is restricted as to the purposes they can be used for or are invested in capital assets, net of related debt (buildings, roads, bridges, and so on). The remaining balance of \$6,340,352 (\$5,672,904 for Governmental Activities and \$667,448 for Business-type Activities) is unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors.

The most significant portion of the Town of Colchester's net assets (91.1%) reflects its investment in capital assets (i.e., land, buildings, vehicles, machinery & equipment and infrastructure). The Town uses these capital assets to provide services to citizens. Although the Town of Colchester's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves may not be used to liquidate these liabilities.

TOWN OF COLCHESTER, CONNECTICUT
STATEMENT OF NET ASSETS
JUNE 30, 2010 AND 2009

	June 30, 2010			June 30, 2009		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 13,271,267	\$ 767,940	\$ 14,039,207	\$ 12,266,649	\$ 636,525	\$ 12,903,174
Capital assets	81,423,578	5,969,648	87,393,226	84,083,258	6,106,132	90,189,390
Total assets	94,694,845	6,737,588	101,432,433	96,349,907	6,742,657	103,092,564
Current Liabilities	3,279,027	100,492	3,379,519	2,856,602	115,154	2,971,756
Long-Term liabilities outstanding	24,122,473	2,403,275	26,525,748	23,990,000	2,620,524	26,610,524
Total liabilities	27,401,500	2,503,767	29,905,267	26,846,602	2,735,678	29,582,280
Net Assets:						
Invested in capital assets, net of related debt	61,620,441	3,566,373	65,186,814	61,882,487	3,485,608	65,368,095
Unrestricted	5,672,904	667,448	6,340,352	7,620,818	521,371	8,142,189
Total Net Assets	\$ 67,293,345	\$ 4,233,821	\$ 71,527,166	\$ 69,503,305	\$ 4,006,979	\$ 73,510,284

Change in net assets. The Town's total net assets decreased by \$1,983,118 during the fiscal year, with net assets of Governmental Activities decreasing by \$2,209,960, and net assets of Business-type Activities increasing by \$226,842.

	Year Ended June 30, 2010			Year Ended June 30, 2009		
	Primary Govt.			Primary Govt.		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Revenues						
Program Revenues:						
Charges for Services	\$ 3,148,685	\$ 1,045,966	\$ 4,194,651	\$ 3,085,069	\$ 938,006	\$ 4,023,075
Operating Grants and Contributions	19,749,778	-	19,749,778	18,944,629	-	18,944,629
Capital Grants and Contributions	353,672	-	353,672	424,665	-	424,665
General Revenues:						
Property Tax	30,414,172	-	30,414,172	29,139,330	-	29,139,330
Grants not restricted to specific programs	220,219	-	220,219	187,664	-	187,664
Unrestricted investment earnings	27,001	650	27,651	167,532	5,376	172,908
Miscellaneous	794,310	-	794,310	-	-	-
Total Revenues	54,707,837	1,046,616	55,754,453	51,948,889	943,382	52,892,271
Expenses						
General Government	4,948,196	-	4,948,196	4,283,464	-	4,283,464
Public Safety	2,479,751	-	2,479,751	2,389,003	-	2,389,003
Public Works	3,381,190	-	3,381,190	3,508,436	-	3,508,436
Public Health & Welfare	529,356	-	529,356	616,670	-	616,670
Civic and Cultural	1,951,877	-	1,951,877	1,982,714	-	1,982,714
Education	42,422,365	-	42,422,365	41,594,272	-	41,594,272
Other	-	741,230	741,230	-	784,179	784,179
Interest on long-term debt	1,205,062	78,544	1,283,606	1,005,976	48,838	1,054,814
Total Expenses	56,917,797	819,774	57,737,571	55,380,535	833,017	56,213,552
Change in Net Assets	(2,209,960)	226,842	(1,983,118)	(3,431,646)	110,365	(3,321,281)
Net Assets Beginning	69,503,305	4,006,979	73,510,284	72,934,951	3,896,614	76,831,565
Net Assets Ending	<u>\$ 67,293,345</u>	<u>\$ 4,233,821</u>	<u>\$ 71,527,166</u>	<u>\$ 69,503,305</u>	<u>\$ 4,006,979</u>	<u>\$ 73,510,284</u>

Governmental Activities

Approximately 55.6% of the revenues were generated from property taxes, followed by 42.5% from program revenues, which include governmental revenues for Education, then .4% was derived from other restricted grants, and 1.5% from miscellaneous revenues.

Major revenue factors include the receipt of additional Federal grants under the American Recovery and Reinvestment Act (ARRA) for Special Education, and increased tax revenues resulting from a .64 mil increase in the property tax rate.

The Town's current levy collected tax rate was 98.28%, a decrease of .13% from the previous year current levy collected tax rate of 98.41%.

For governmental activities, 74.5% of the Town's expenditures relate to education, 8.7% relate to general government, 4.4% relate to public safety, 6.0% relate to public works, 3.4% relate to civic and cultural, .9% relate to public health and welfare and the remaining 2.1% relate to interest payments on long-term debt.

Major expenditure factors include an increase in Education, mainly as a result of an approved Education budget increase of 1.55% over the FY 2008-2009 budget (including Federal ARRA State Fiscal Stabilization Funds), and the expenditure of additional Federal ARRA funds for Special Education. In addition, General Government expenditures reflect an increase in employee health insurance costs.

Business-Type Activities

Business-type activities increased the Town's net assets by \$226,842. Key elements of this increase are:

- ◆ Establishment of water use fees sufficient to fund operating costs and depreciation, and provide funding for future capital needs.

Financial Analysis of the Town's Fund Financial Statements

Governmental funds. The focus of the Town of Colchester's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. This information is useful in assessing the Town's financial requirements. The unreserved fund balance can serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year.

As the Town completed the year, its governmental funds reported combined fund balances of \$6,907,247, an increase from \$5,729,034 as of June 30, 2009. This increase is mainly due to the issuance of general obligation bonds (2009 Bond Referendum Capital Projects Fund) at the end of the fiscal year for which there were unexpended bond proceeds of approximately \$1.2 million.

The general fund is the chief operating fund for the Town of Colchester. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,315,299 while total fund balance was \$3,377,284. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 6.9% of the total general fund expenditures.

At June 30, 2010, the Town of Colchester's General Fund decreased by \$528,734 from the previous year. Key factors contributing to this decrease were the planned use of fund balance to fund the budget with a small increase in the property tax mil rate, and reductions in tax and investment revenues resulting from the economic downturn.

Proprietary funds. The Town of Colchester's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Fund at the end of the year amounted to \$667,448. The Water Fund experienced an increase in net assets of \$226,842. The explanations concerning the finances of the Water Fund were addressed earlier in the discussion of the Town of Colchester's Business-type activities.

General Fund Budgetary Highlights

As provided for by Public Act 09-1, the original budget as adopted for Education expenditures and Education Cost Sharing grant revenues was reduced by \$1,932,716 to account for Federal ARRA State Fiscal Stabilization Funds passed through the State of Connecticut and paid directly to the Board of Education.

Additional appropriations were approved during the year totaling \$69,367, of which \$3,445 was funded by additional revenue and \$65,922 was appropriated from fund balance. These additional appropriations were for additional contributions to the Board of Education Capital Reserve Fund for an upgrade of the fire alarm system at the high school and additional collection fees incurred by the Fire Department funded by increased fees for ambulance services.

Budget transfers approved during the year included additional funds for snow removal, extensive vehicle maintenance for Town vehicles, overtime and temporary payroll for Police, Transfer Station, Highway and Library to provide staffing coverage due to position vacancies, legal costs for land use enforcement issues, increased banking fees, and increased workers' compensation insurance costs. Funds for these transfers were available from vacant positions throughout various Town departments, contingency funds, changes in departmental priorities, and a budget freeze on discretionary spending.

Capital Asset and Debt Administration

Capital Assets. The Town of Colchester's investment in capital assets for its governmental and business type activities as of June 30, 2010, amount to \$87,393,226 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, sidewalks, roads, highways, bridges and water and sewer lines (infrastructure). The total decrease in the Town of Colchester's investment in capital assets for the current fiscal year was \$2,796,164 or approximately 3.1 percent.

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

- ♦ Governmental Activities
 - Completed installation of portable classroom facilities at the High School
 - Started reconstruction of the High School track
- ♦ Business-type Activities
 - Completed construction of the treatment facility located on Taintor Hill Road

Town of Colchester Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 3,432,379	\$ 3,432,379	\$ -	\$ -	\$ 3,432,379	\$ 3,432,379
Land Improvements	244,582	299,120	5,979	6,976	250,561	306,096
Bldng. & Improvements	63,903,048	65,076,826	3,901,992	1,248,224	67,805,040	66,325,050
Machinery & Equipment	2,315,763	2,377,528	191,268	165,900	2,507,031	2,543,428
Infrastructure	11,105,653	12,161,276	1,870,409	1,919,145	12,976,062	14,080,421
Construction in Progress	422,153	736,129	-	2,765,887	422,153	3,502,016
Total	\$ 81,423,578	\$ 84,083,258	\$ 5,969,648	\$ 6,106,132	\$ 87,393,226	\$ 90,189,390

Additional information on the Town of Colchester's capital assets can be found in Note 7 of this report.

Long-Term Debt. At year-end the Town of Colchester had \$21,125,000 in bonds outstanding. Of this amount \$125,000 is debt, which is funded through the Water Enterprise fund. All the bonds carry bond insurance and are backed by the full faith and credit of the Town of Colchester.

Town of Colchester Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds (backed by the Town)	\$ 21,000,000	\$ 21,320,000	\$ 125,000	\$ 195,000	\$ 21,125,000	\$ 21,515,000
Clean Water Fund Loan	\$ -	\$ -	\$ 2,278,275	\$ 2,425,524	\$ 2,278,275	\$ 2,425,524

In June 2010, the Town issued \$2,525,000 of general obligation bonds to finance the 2009 Bond Referendum projects (Purchase of Fire truck and ambulance, Road improvements, and Reconstruction of High School Track) and the Bacon Academy High School Portable classroom project. In addition, the Town issued \$4,070,000 of general obligation bonds which was used to advance refund portions of the outstanding principal amounts of the general obligation bond issue of 2001. The Town advance refunded the bonds to obtain a savings of approximately \$225,000 between the old debt payments and the new debt payments, including approximately \$100,000 in the current fiscal year.

Moody's Investors Service assigned a bond rating to the Town of Aa2 (recalibrated rating scale) for the bonds issued in June 2010 and the Town's outstanding debt. In addition, Fitch Ratings changed the Town's bond rating to AA from AA- as a result of recalibrating its rating scale.

The Town has also entered into a financing agreement from the State of Connecticut Clean Water Fund loan program for the upgrade of the Taintor Hill Road Water Treatment Plant. As of June 30, 2010, the balance of the outstanding loan was \$2,278,275.

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

Economic Factors and Next Year's Budgets and Rates

As a result of the national economic downturn, the Town of Colchester's unemployment rate increased to 7.4% as of June 2010, although it remained less than the State of Connecticut rate of 8.9% for the same time period. As of November 2010, the Town's unemployment rate remained at 7.4% while the State's unemployment rate had decreased to 8.5%. In response to the economic outlook, Town officials have been proactive in providing assistance to residents in need through energy assistance applications and property tax relief options. Steps have also been taken to closely monitor FY 2010-2011 revenues and expenditures, implementing energy cost-saving measures, participating in energy rebate programs, pursuing grant opportunities, consolidation of services and regionalization efforts with surrounding Towns.

While Colchester remains a semi-rural residential community, the Town has focused on increasing its non-residential resources. Strategically, the Town has sought to focus on non-residential growth in a smart growth manner. Recently, the Planning and Zoning Commission rezoned approximately 700 acres of residentially zoned property for Business Park development, a key component in the Town's economic development strategy as identified in the Plan of Conservation and Development. Included in this strategy were firm commitments to provide water and sewer to certain growth areas only and not other areas of the Town over the next 10 years. The Town has developed a master plan for the phased expansion of the water and sewer system to serve expected non-retail development. Construction could begin in spring 2011.

During the last three years (2007 to 2010), over 40,000 square feet of commercial development has been developed, 375,000 square feet of commercial development (including a shopping center) has been approved and permitted, and 300,000 square feet of commercial development are in the initial approval phase.

The Town also focused on maintaining a strong downtown and has built on the successful rehabilitation programs of the early part of the decade with new programs to redevelop and strengthen other central areas. The Lebanon Avenue corridor that includes significant properties such as the S&S Corporation, Colchester Bakery and the Airline Trail (major rails to trails facility), has been targeted for streetscape and lighting improvements which will begin in spring 2011 (\$285,000). Several historic facilities in the downtown historical district are currently being renovated including extensive landscaping.

The Town is also focused on promoting rural "niche" agricultural uses. While Colchester does not have the large traditional "dairy-type" mega farms, it does have significant agricultural enterprises such as cheese, wine and herb production, horse training and breeding, livestock, and egg farming. The Town recently adopted a "right to farm" regulation and has developed a "made in Colchester" marketing program.

The FY 2010-2011 final adopted budget of \$47,618,651 represents an increase of \$1,378,663 or 2.98% over the adopted budget for FY 2009-2010 of \$46,239,988 (as adjusted by \$1,932,716 in accordance with PA 09-1 which allowed the Board of Finance to reduce the Education budget by the amount of ARRA-SPSF funds paid directly to the Board of Education) with a 1.42 increase in the property tax mil rate.

Requests for Information

This financial report is designed to provide a general overview of the Town of Colchester's finances for all those with an interest in the government's finances. Questions concerning any of the information should be addressed in writing to the Chief Financial Officer, Town of Colchester, 127 Norwich Avenue, Suite 203, Colchester, CT 06415.

Basic Financial Statements

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF NET ASSETS

June 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 9,544,150	\$ 372,438	\$ 9,916,588
Receivables (net of allowances for collection losses):			
Property taxes and interest	1,261,935	-	1,261,935
Assessments	387,777	-	387,777
Accounts receivable	90,436	326,889	417,325
Intergovernmental	1,931,417	-	1,931,417
Pension asset	27,430	-	27,430
Inventory	28,122	68,613	96,735
Capital assets, non-depreciable	3,854,532	-	3,854,532
Capital assets, net of accumulated depreciation	77,569,046	5,969,648	83,538,694
Total assets	94,694,845	6,737,588	101,432,433
Liabilities			
Accounts payable and accrued liabilities	2,770,886	100,492	2,871,378
Claims payable	462,183	-	462,183
Unearned revenues	45,958	-	45,958
Noncurrent liabilities:			
Due within one year	2,972,000	154,499	3,126,499
Due in more than one year	21,150,473	2,248,776	23,399,249
Total liabilities	27,401,500	2,503,767	29,905,267
Net Assets			
Investment in capital assets, net of related debt	61,620,441	3,566,373	65,186,814
Unrestricted	5,672,904	667,448	6,340,352
Total net assets	\$ 67,293,345	\$ 4,233,821	\$ 71,527,166

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

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:							
General government	\$ (4,948,196)	\$ 514,249	\$ 457,601	\$ 47,623	\$ (3,928,723)	\$ -	\$ (3,928,723)
Public safety	(2,479,751)	594,190	23,236	-	(1,862,325)	-	(1,862,325)
Public works	(3,381,190)	1,091,305	132,631	203,249	(1,954,005)	-	(1,954,005)
Civic and cultural	(1,951,877)	406,817	56,827	-	(1,488,233)	-	(1,488,233)
Public health and welfare	(529,356)	27,350	133,463	343	(368,200)	-	(368,200)
Education	(42,422,365)	514,774	18,946,020	102,457	(22,859,114)	-	(22,859,114)
Interest on long-term debt	(1,205,062)	-	-	-	(1,205,062)	-	(1,205,062)
Total governmental activities	(56,917,797)	3,148,685	19,749,778	353,672	(33,665,662)	-	(33,665,662)
Business-Type Activities:							
Water	(819,774)	1,045,966	-	-	-	226,192	226,192
Total business-type activities	(819,774)	1,045,966	-	-	-	226,192	226,192
Total primary government	\$ (57,737,571)	\$ 4,194,651	\$ 19,749,778	\$ 353,672	(33,665,662)	226,192	(33,439,470)
		General revenues:					
		Property taxes			30,414,172	-	30,414,172
		Grants and contributions not restricted to specific programs			220,219	-	220,219
		Unrestricted investment earnings			27,001	650	27,651
		Miscellaneous			794,310	-	794,310
		Total general revenues			31,455,702	650	31,456,352
		Change in net assets			(2,209,960)	226,842	(1,983,118)
		Net assets - beginning			69,503,305	4,006,979	73,510,284
		Net assets - ending			<u>\$ 67,293,345</u>	<u>\$ 4,233,821</u>	<u>\$ 71,527,166</u>

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

TOWN OF COLCHESTER, CONNECTICUT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2010

	Major Funds			Total Governmental Funds
	General Fund	Bonded Projects Fund	Nonmajor Governmental Funds	
Assets				
Cash and cash equivalents	\$ 4,297,125	\$ -	\$ 4,603,641	\$ 8,900,766
Receivables (net of allowances for collection losses):				
Property taxes	1,261,935	-	-	1,261,935
Assessments and user charges	-	-	387,777	387,777
Intergovernmental	1,592,879	47,623	290,915	1,931,417
Accounts receivable	49,452	-	22,664	72,116
Inventory	22,906	-	5,216	28,122
	<u>\$ 7,224,297</u>	<u>\$ 47,623</u>	<u>\$ 5,310,213</u>	<u>\$ 12,582,133</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 1,307,985	\$ 658,222	\$ 724,992	\$ 2,691,199
Retainage payable	-	-	29,539	29,539
Deferred revenue	2,539,028	-	369,162	2,908,190
Unearned revenue	-	-	45,958	45,958
Total liabilities	<u>3,847,013</u>	<u>658,222</u>	<u>1,169,651</u>	<u>5,674,886</u>
Fund balances (deficits)				
Reserved for:				
Encumbrances	39,079	-	879,285	918,364
Inventory	22,906	-	5,216	28,122
Unreserved, designated for:				
Subsequent years budget	300,000	-	15,000	315,000
Specific projects	40,824	-	416,686	457,510
Unreserved/undesignated, reported in:				
General fund	2,974,475	-	-	2,974,475
Special revenue funds	-	-	1,299,630	1,299,630
Debt service fund	-	-	198,504	198,504
Capital projects funds	-	(610,599)	1,326,241	715,642
Total fund balances (deficits)	<u>3,377,284</u>	<u>(610,599)</u>	<u>4,140,562</u>	<u>6,907,247</u>
Total liabilities and fund balances (deficits)	<u>\$ 7,224,297</u>	<u>\$ 47,623</u>	<u>\$ 5,310,213</u>	

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

Capital assets, net of accumulated depreciation used in governmental activities are not financial resources and, therefore, are not reported in the funds.	81,423,578
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,908,190
Pension asset	27,430
Internal service funds are used by management to charge the costs of health insurance premiums to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	185,830
Accrued interest payable	(36,457)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(24,122,473)

Net assets of governmental activities \$ 67,293,345

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

TOWN OF COLCHESTER, CONNECTICUT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) -
GOVERNMENTAL FUNDS**
For the Year Ended June 30, 2010

	Major Funds		Nonmajor	Total
	General	Bonded	Governmental	Governmental
	Fund	Projects	Funds	Funds
		Fund		
REVENUES				
Property taxes	\$ 30,313,052	\$ -	\$ -	\$ 30,313,052
Intergovernmental revenues	16,597,510	47,623	4,374,396	21,019,529
Revenues from use of money	23,792	-	3,209	27,001
Fees, permits and sales	727,187	-	618,397	1,345,584
Charges for services and assessments	557,770	-	1,425,737	1,983,507
Other	112,142	-	682,168	794,310
Total revenues	48,331,453	47,623	7,103,907	55,482,983
EXPENDITURES				
Current:				
General government	3,391,100	2,733	31,770	3,425,603
Public safety	1,974,357	-	314,272	2,288,629
Public works	2,102,583	-	837,903	2,940,486
Public health and welfare	425,473	-	95,763	521,236
Civic and cultural	1,245,111	-	501,172	1,746,283
Education	35,813,628	-	4,440,615	40,254,243
Debt service	3,690,958	4,985	173,130	3,869,073
Capital outlay	-	244,733	1,329,250	1,573,983
Total expenditures	48,643,210	252,451	7,723,875	56,619,536
Revenue over (under) expenditures	(311,757)	(204,828)	(619,968)	(1,136,553)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	50,000	206,977	256,977
Transfers out	(216,977)	-	(40,000)	(256,977)
Issuance of bonds	-	425,000	2,100,000	2,525,000
Issuance of refunding bonds	-	-	4,070,000	4,070,000
Payment to escrow agent	-	-	(4,280,234)	(4,280,234)
Total other financing sources (uses)	(216,977)	475,000	2,056,743	2,314,766
Net change in fund balances (deficits)	(528,734)	270,172	1,436,775	1,178,213
FUND BALANCES (DEFICITS), beginning	3,906,018	(880,771)	2,703,787	5,729,034
FUND BALANCES (DEFICITS), ending	\$ 3,377,284	\$ (610,599)	\$ 4,140,562	\$ 6,907,247

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

TOWN OF COLCHESTER, CONNECTICUT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2010

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

Net change in fund balances – total governmental funds	\$ 1,178,213
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(2,659,680)
Net changes in revenues and receivables in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(775,145)
Change in pension asset	2,739
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	320,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(445,961)
The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>169,874</u>
Change in net assets of governmental activities	<u><u>\$ (2,209,960)</u></u>

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

TOWN OF COLCHESTER, CONNECTICUT

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGETARY BASIS -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
REVENUES				
Property taxes, interest and lien fees	\$ 30,718,359	\$ 30,718,359	\$ 30,313,052	\$ (405,307)
Intergovernmental revenues	15,773,963	13,841,247	13,722,510	(118,737)
Revenues from the use of money	240,000	240,000	23,792	(216,208)
Charges for services	483,100	486,545	557,770	71,225
Fees, permits and other	625,649	625,649	727,187	101,538
Other revenues	111,633	111,633	115,867	4,234
Total revenues	47,952,704	46,023,433	45,460,178	(563,255)
EXPENDITURES				
General government	3,417,559	3,447,527	3,389,466	58,061
Public works	2,156,524	2,191,938	2,106,299	85,639
Public safety	2,053,445	2,018,446	1,974,630	43,816
Civic and cultural	1,317,275	1,290,337	1,245,111	45,226
Public health and welfare	457,838	457,838	425,473	32,365
Education	34,827,724	32,895,008	32,854,184	40,824
Debt service	3,791,284	3,791,284	3,690,958	100,326
Total expenditures	48,021,649	46,092,378	45,686,121	406,257
Revenues over (under)				
expenditures	(68,945)	(68,945)	(225,943)	(156,998)
OTHER FINANCING SOURCES (USES)				
Transfers out	(151,055)	(216,977)	(216,977)	-
Total other financing (uses)	(151,055)	(216,977)	(216,977)	-
Revenues and other financing				
sources over (under) expenditures				
and other financing uses	\$ (220,000)	\$ (285,922)	\$ (442,920)	\$ (156,998)

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

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2010

	Major Fund Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund Medical Self- Insurance Fund
	Water Fund	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 372,438	\$ 643,384
Accounts receivable	326,889	18,320
Inventory	68,613	-
Total current assets	<u>767,940</u>	<u>661,704</u>
Capital Assets, net of accumulated depreciation	<u>5,969,648</u>	
Total assets	<u>6,737,588</u>	<u>661,704</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	100,492	13,691
Claims payable	-	462,183
Bonds payable - current	50,000	-
Loan payable- current	104,499	-
Total current liabilities	<u>254,991</u>	<u>475,874</u>
Noncurrent Liabilities:		
Bonds payable	75,000	-
Loan payable	2,173,776	-
Total noncurrent liabilities	<u>2,248,776</u>	<u>-</u>
Total liabilities	<u>2,503,767</u>	<u>475,874</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,566,373	-
Unrestricted	667,448	185,830
Total net assets	<u>\$ 4,233,821</u>	<u>\$ 185,830</u>

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

TOWN OF COLCHESTER, CONNECTICUT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
For the Year Ended June 30, 2010**

	Major Fund Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund Medical Self- Insurance Fund
	Water Fund	
OPERATING REVENUES		
Water use fees and charges	\$ 1,045,966	\$ -
Premiums	-	6,441,997
Total operating revenues	<u>1,045,966</u>	<u>6,441,997</u>
OPERATING EXPENSES		
Claims/operating	554,877	5,505,753
Depreciation	186,353	-
Administration	-	766,927
Total operating expenses	<u>741,230</u>	<u>6,272,680</u>
Operating income	<u>304,736</u>	<u>169,317</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	650	557
Interest expense	(78,544)	-
Total nonoperating revenue (expenses)	<u>(77,894)</u>	<u>557</u>
Change in net assets	226,842	169,874
FUND NET ASSETS, beginning	<u>4,006,979</u>	<u>15,956</u>
FUND NET ASSETS, ending	<u>\$ 4,233,821</u>	<u>\$ 185,830</u>

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

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2010

	Major Fund Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund Medical Self- Insurance Fund
	Water Fund	
Cash Flows From Operating Activities		
Cash received from charges for services	\$ 1,003,924	\$ 6,441,997
Cash paid to vendors and beneficiaries	(564,117)	(6,323,133)
Net cash provided by operating activities	<u>439,807</u>	<u>118,864</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	(49,869)	-
Interest paid	(79,138)	-
Principal payments of debt	(288,715)	-
Proceeds from clean water loan	71,466	-
Net cash used in capital and related financing activities	<u>(346,256)</u>	<u>-</u>
Cash Flows From Investing Activities		
Interest on cash and cash equivalents	650	557
Net increase in cash and cash equivalents	94,201	119,421
Cash and Cash Equivalents		
Beginning	278,237	523,963
Ending	<u>\$ 372,438</u>	<u>\$ 643,384</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 304,736	\$ 169,317
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	186,353	-
Changes in assets and liabilities:		
Increase in accounts receivable	(42,042)	(18,320)
Decrease in inventories	4,828	-
Increase (decrease) in accounts payable	(14,068)	13,691
Decrease in claims payable	-	(45,824)
Net cash provided by operating activities	<u>\$ 439,807</u>	<u>\$ 118,864</u>

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

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

June 30, 2010

	Pension Trust Fund	Private Purpose Trust Fund	Agency Fund
ASSETS			
Cash and cash equivalents	\$ -	\$ 463	\$ 305,602
Investments	386,718	-	-
Total assets	<u>386,718</u>	<u>463</u>	<u>305,602</u>
LIABILITIES			
Accounts payable	12,230	-	-
Deposits held for others	-	-	305,602
Total liabilities	<u>12,230</u>	<u>-</u>	<u>305,602</u>
Net Assets Held in Trust for Pension Benefits and Other Purposes	<u>\$ 374,488</u>	<u>\$ 463</u>	<u>\$ -</u>

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

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
For the Year Ended June 30, 2010

	Pension Trust Fund	Private Purpose Trust Fund
ADDITIONS		
Contributions		
Employee	\$ 43,933	\$ -
Employer	80,798	-
Total contributions	<u>124,731</u>	<u>-</u>
Investment Income		
Net appreciation in fair value of investments	23,692	-
Investment income	<u>23,692</u>	<u>-</u>
Total additions	<u>148,423</u>	<u>-</u>
DEDUCTIONS		
Refund of employee contributions	<u>3,635</u>	<u>-</u>
Change in net assets	144,788	-
Net Assets Held in Trust		
Beginning of year	<u>229,700</u>	<u>463</u>
End of year	<u><u>\$ 374,488</u></u>	<u><u>\$ 463</u></u>

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

Reporting entity

The Town of Colchester, Connecticut (the "Town") was incorporated as a town in 1698. The Town operates under a Board of Selectmen, Board of Finance and Town Meeting form of government and provides a full range of services including public safety, roads, sanitation, health, social services, culture and recreation, education, planning, zoning, and general administrative services to its residents. The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governments.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Governmental Accounting Standards Board Codification Section 2100 have been considered and there are no agencies or entities which should be presented with the Town.

Government-wide fund and 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 non-fiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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.

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 and fiduciary fund financial statements. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2010

recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year when levied for. 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, landfill closure costs, and claims and judgments, are recorded only when payment is due (matured).

Property taxes, when levied for, intergovernmental revenues when the eligibility requirements are met, licenses, 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, if available. All other revenue items are considered to be measurable 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 *Bonded Projects Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities or improvements, which are financed by the issuance of general obligation bonds.

The Town reports the following major proprietary fund:

The *Water Fund* accounts for the operations of the water department.

Additionally, the Town reports the following fund types:

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

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

The *Debt Service fund* is used for the accumulation of resources for, and payment of, general long-term bonded debt, principal, interest and related costs.

The *Internal Service fund* is used to account for the Town and Board of Education's medical self-insurance fund.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2010

The Pension Trust Fund is used to account for the accumulation of resources to be used for retirement benefits.

The Private-purpose trust fund is used to account for resources legally held in trust for the benefit of individuals, private organizations or other governments.

Agency funds account for monies held as a custodian for outside groups and agencies.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for business-type activities and enterprise fund financial statements, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

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.

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 other Town funds for medical insurance premiums. Operating expenses for internal service funds include the cost of claims 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.

Accounting estimates

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2010

Property taxes

Property taxes are assessed as of October 1, levied on the following July 1, and billed and generally due in two installments, July 1 and the following January 1. Liens are filed on June 1 following the due date.

Cash equivalents

The Town considers all highly liquid investments and those investments with a maturity of three months or less when purchased to be cash equivalents.

Allowances for doubtful accounts

Accounts and notes receivable are reported net of allowance for doubtful accounts of approximately \$859,000. The allowance for doubtful accounts represents those accounts which are deemed uncollectible based upon collection history and analysis of creditor's ability to pay.

Investments

Investments are stated at fair value based upon quoted market prices. All of the Town's investments are recorded in the Pension Trust Fund. Fixed income funds are reported at fair value based on the unit prices quoted by the fund representing the fair value of the underlying investment. The Connecticut State Treasurer's Short-Term 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 through 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 a pool similar to a 2a-7. These investments are stated at amortized cost. The value of the position in the pool is the same as the value of the pool shares.

Inventories

Inventories are stated at the lower of cost or market determined on the first-in, first-out basis.

Capital assets

Capital assets, which include property, buildings, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type columns in the government-wide and proprietary fund financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$1,000 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 fair value at the date of donation.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2010

The cost 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 are capitalized as projects are constructed.

Capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

Capital Assets	Years
Buildings	40-50
Building improvements	20
Distribution and collection systems	50-100
Public domain infrastructure	50
System infrastructure	30
Machinery and equipment	5-20

In the governmental fund financial statements, capital outlay (assets) is reported as expenditures and no depreciation expense is recorded.

Compensated absences

Town and Board of Education employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. Vacation and sick leave expenses to be paid in future periods are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for amounts expected to be paid (matured), for example, as a result of employee resignations and retirements. The general fund is typically used to liquidate the liability.

Long-term obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable bond premium or discount. Significant bond issuance costs are reported as defined charges and amortized over the terms 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balance as they do not constitute either expenditures or liabilities.

Pension accounting

Pension Trust Fund

Employee contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the Town has made a formal commitment to provide the contributions. Benefits and refunds are recognized when paid. Stand-alone statements are not issued.

Governmental Funds

Expenditures are recognized when they are paid or are expected to be paid with current available resources.

Funding Policy

The Town funds the contributions to its defined benefit pension plan based on an actuarial valuation, which amount is included in the budget.

OPEB accounting

Employer contributions are recognized in the period in which the contributions are due, and the Town has made a commitment to provide the contributions.

In fiscal year 2009, the Town implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions." This pronouncement required the Town to calculate and record a net other post-employment benefit obligation (NOPEBO) at June 30, 2010. The NOPEBO is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since July 1, 2008.

Fund equity and net assets

In the government-wide and proprietary fund financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2010

balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

Unrestricted Net Assets – This category represents the net assets of the Town, which are not restricted for any project or other purpose by third parties.

In the fund financial statements, fund balances of governmental funds are classified in three separate categories. The three categories, and their general meanings, are as follows:

Reserved fund balance - indicates that portion of fund equity that is not available for appropriation or which has been legally segregated for specific purposes.

Unreserved/designated fund balance - indicates that portion of fund equity for which the Town has made tentative plans that are subject to change.

Unreserved/undesignated fund balance - indicates that portion of fund equity which is available for appropriation and expenditure in future periods, or if a deficit, for which future funding will be required.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

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

Bonds payable	\$ 21,000,000
Landfill closure costs	210,000
Compensated absences	2,400,000
OPEB obligation	<u>512,473</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u><u>\$ 24,122,473</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2010

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

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

Capital outlay	\$ 1,287,365
Depreciation expense	(3,946,120)
Loss on disposal	<u>(925)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ (2,659,680)</u></u>

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

Issuance of debt	\$ (6,595,000)
Principal repayments:	
General obligation debt includes advanced refunding	<u>6,915,000</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ 320,000</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2010

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this difference are as follows:

Compensated absences	\$ (222,000)
Landfill closure	15,000
Accrued interest	6,512
OPEB obligation	<u>(245,473)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ (445,961)</u></u>

Note 3. Budgets and Budgetary Accounting

The Town's general budget policies are as follows:

General Fund

The Chief Financial Officer compiles preliminary budgets for all departments and agencies, with the exception of the Board of Education, for presentation by the First Selectman to the Board of Selectmen. After making such alterations or changes as it deems necessary, the Board of Selectmen presents the compiled budget to the Board of Finance. The Board of Education submits its budget directly to the Board of Finance.

The Board of Finance may make such revisions to the Selectmen's and Education budget estimates as it deems desirable, holds one or more public hearings and presents a proposed budget to the Annual Town Meeting which then goes to an automatic referendum.

The legal budget of the Town is a departmental budget.

Subject to certain restrictions, additional appropriations may be approved by the Board of Finance upon recommendations of the Board of Selectmen.

Classification of certain revenues and expenditures under accounting principles generally accepted in the United States of America ("GAAP") differ from classifications used for budgetary purposes.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2010

A reconciliation of General Fund revenues as presented in accordance with GAAP and revenues and other sources presented on the budgetary basis is as follows:

Revenues and transfers, budgetary basis	\$ 45,460,178
Prior year encumbrances cancelled	(3,725)
On-behalf payments paid directly by the State of Connecticut Teachers' Retirement System	<u>2,875,000</u>
Revenues and transfers, GAAP basis	<u><u>\$ 48,331,453</u></u>

A reconciliation of expenditures of the General Fund presented in accordance with GAAP and expenditures and other uses and encumbrances presented on the budgetary basis is as follows:

Expenditures, transfers and encumbrances budgetary basis	\$ 45,903,098
On-behalf payments paid directly by the State of Connecticut Teachers' Retirement System	2,875,000
Encumbrances:	
June 30, 2009	121,168
June 30, 2010	<u>(39,079)</u>
Expenditures and transfers, GAAP basis	<u><u>\$ 48,860,187</u></u>

Special revenue funds

The Town does not have legally adopted annual budgets for its special revenue funds. Budgets for the various special revenue funds which are utilized to account for specific grant programs are established in accordance with the requirements of the grantor agencies. Such budgets are non-lapsing and may comprise more than one fiscal year.

Capital project funds

Legal authorization for expenditures of the capital project funds is provided by the related bond ordinances. Capital appropriations do not lapse until completion of the applicable projects.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2010

Note 4. Cash, Cash Equivalents and Investments

Deposits: The Town has a policy that deposits can include demand and savings accounts and certificates of deposit with Connecticut banks. The Town's custodial credit risk policy follows the State of Connecticut requirements that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk based capital ratio.

Investments: The Town and the Pension Trust Fund do not have a custodial credit risk policy for investments, however, it is their practice to follow State statutes. 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 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. The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the Connecticut Short Term Investment Fund and the Tax Exempt Proceeds Fund. Other provisions of the Statutes cover specific municipal funds with particular investment authority and do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries (i.e., prudent person rule) and the provisions of the applicable plan.

Interest rate risk: The Town and the Pension Trust Fund do not have a policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, its practice is to structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, or pension payments, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Concentrations: The Town, including the Pension Trust Fund, does not have a policy that limits the amounts invested in any one issuer. However, its practice is to maintain a diversified portfolio to minimize the risk of loss resulting from over-concentration of assets in a specific issuer.

Custodial credit risk:

Deposits: This is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2010, approximately \$3,813,000 of the Town's bank balance of approximately \$4,987,000 was uninsured and uncollateralized.

Investments: This is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town has no investments subject to this risk.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2010

Cash and cash equivalents and investments of the Town consist of the following at June 30, 2010:

Cash and Cash Equivalents

Deposits with financial institutions	\$ 5,578,946
State of Connecticut Short-Term Investment fund	4,021,043
Cutwater-Connecticut CLASS Plus	622,664
Total cash and cash equivalents	<u>10,222,653</u>

Investments

Pension Trust Funds:	
Mutual Funds	<u>386,718</u>
Total cash, cash equivalents, and investments	<u>\$ 10,609,371</u>

Cash, cash equivalents and investments are classified in the accompanying financial statements as follows:

Statement of Net Assets

Cash and cash equivalents	<u>\$ 9,916,588</u>
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Fiduciary Funds

Cash and cash equivalents	306,065
Investments	386,718
	<u>692,783</u>

Total cash, cash equivalents, and investments	<u>\$ 10,609,371</u>
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TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2010

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the exposure of the Town's debt type investments to this risk using the segmented time distribution model is as follows:

	Fair Value	Investment Maturities (in Years) Less Than 1 Year
Pooled Income Funds	\$ 4,643,707	\$ 4,643,707

Credit Risk: Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. Presented below is the minimum rating as required for each debt type investment.

	Standard & Poors	Pooled Income Fund
State Short-Term Investment Fund	AAAm	\$ 4,021,043
Cutwater-Connecticut CLASS Plus	AAAm	622,664
		<u>\$ 4,643,707</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2010

Note 5. Unearned Revenue/Deferred Revenue

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 and governmental activities report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue and deferred revenue reported in the governmental funds and governmental activities were as follows:

	Deferred Revenue	Unearned Revenue
General Fund:		
Taxes and accrued interest on delinquent property taxes	\$ 1,076,767	\$ -
School construction grants	1,462,261	-
Nonmajor Funds:		
Assessments receivable	369,162	-
Grants and other	-	45,958
Total	<u>\$ 2,908,190</u>	<u>\$ 45,958</u>

Note 6. Interfund Transfers

Interfund transfers during the year ended June 30, 2010 were as follows:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 216,977
Bonded Projects	50,000	-
Nonmajor Governmental Funds	206,977	40,000
Total	<u>\$ 256,977</u>	<u>\$ 256,977</u>

Transfers are used to account for financing by the General Fund of programs accounted for in other funds in accordance with budgetary authorizations.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2010

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,432,379	\$ -	\$ -	\$ 3,432,379
Construction in progress	736,129	427,138	(741,114)	422,153
Total capital assets, not being depreciated	4,168,508	427,138	(741,114)	3,854,532
Capital assets, being depreciated:				
Improvements other than buildings	1,492,409	-	-	1,492,409
Buildings	88,574,698	756,184	-	89,330,882
Machinery and equipment	10,927,051	530,566	(486,395)	10,971,222
Infrastructure	35,103,544	314,591	-	35,418,135
Total capital assets being depreciated	136,097,702	1,601,341	(486,395)	137,212,648
Less accumulated depreciation for:				
Improvements other than buildings	1,193,289	54,538	-	1,247,827
Buildings	23,497,872	1,929,962	-	25,427,834
Machinery and equipment	8,549,523	591,406	(485,470)	8,655,459
Infrastructure	22,942,268	1,370,214	-	24,312,482
Total accumulated depreciation	56,182,952	3,946,120	(485,470)	59,643,602
Total capital assets, being depreciated, net	79,914,750	(2,344,779)	(925)	77,569,046
Governmental activities capital assets, net	\$ 84,083,258	\$ (1,917,641)	\$ (742,039)	\$ 81,423,578

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2010

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 2,765,887	\$ 498	\$ (2,766,385)	\$ -
Total capital assets, not being depreciated	2,765,887	498	(2,766,385)	-
Capital assets, being depreciated:				
Buildings	2,213,466	2,766,385	-	4,979,851
Machinery and equipment	206,684	45,469	-	252,153
Improvements other than buildings	21,391	-	-	21,391
Infrastructure	3,180,923	3,902	-	3,184,825
Total capital assets, being depreciated	5,622,464	2,815,756	-	8,438,220
Less accumulated depreciation for:				
Buildings	965,242	112,617	-	1,077,859
Machinery and equipment	40,784	20,101	-	60,885
Improvements other than buildings	14,415	997	-	15,412
Infrastructure	1,261,778	52,638	-	1,314,416
Total accumulated depreciation	2,282,219	186,353	-	2,468,572
Total capital assets, being depreciated, net	3,340,245	2,629,403	-	5,969,648
Business-type activities capital assets, net	\$ 6,106,132	\$ 2,629,901	\$ (2,766,385)	\$ 5,969,648

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

Governmental Activities:

General government	\$ 1,179,914
Public works	464,232
Public safety	197,925
Civic and cultural	212,457
Public health and welfare	10,906
Education	1,880,686

Total depreciation expense – governmental activities \$ 3,946,120

Business-Type Activities:

Water Fund	<u>\$ 186,353</u>
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TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2010

Note 8. Long-Term Obligations

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 21,320,000	\$ 6,595,000	\$ 6,915,000	\$ 21,000,000	\$ 2,885,000
Landfill post-closure monitoring	225,000	-	15,000	210,000	15,000
Compensated absences	2,178,000	222,000	-	2,400,000	72,000
OPEB obligation	267,000	245,473	-	512,473	-
Governmental activity long-term liabilities	\$ 23,990,000	\$ 7,062,473	\$ 6,930,000	\$ 24,122,473	\$ 2,972,000
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 195,000	\$ -	\$ 70,000	\$ 125,000	\$ 50,000
CWF loans	2,425,524	71,466	218,715	2,278,275	104,499
Business-type long-term liabilities	\$ 2,620,524	\$ 71,466	\$ 288,715	\$ 2,403,275	\$ 154,499

All bonds are general obligations of the Town and are secured by the taxing authority powers of the Town.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2010

General obligation bonds outstanding as of June 30, 2010 consisted of the following:

	<u>Outstanding Amount</u>
General obligation bonds payable:	
\$10,800,000 bond, issue of 2005 due 2025, annual principal payments range from \$540,000 to \$645,000 plus interest due semi-annually at 3.25% to 4.5%	\$ 8,220,000
\$9,460,000 bond, issue of 2001 due 2011, annual principal payment of \$395,000, plus interest due semiannually at 4.0% to 5.5%	395,000
\$5,180,000 bond, issue of 2002 due 2012, annual principal payments range from \$465,000 to \$475,000 plus interest due semiannually at 2.0% to 4.5%	940,000
\$6,595,000 bond, issue 2010 due 2021, annual principal payments range from \$390,000 to \$720,000 plus interest due semiannually at 2.25% to 5.0%	6,595,000
\$4,000,000 bond, issue of 1991 due 2012, annual principal payments range from \$130,000 to \$215,000 plus interest due semiannually at 5.6% to 6.5%	345,000
\$5,985,000 bond, issue of 2002 due 2022, annual principal payments of \$270,000 plus interest due semiannually at 3.0% to 4.7%	3,240,000
\$13,455,000 bond, issue of 1997 due 2012, annual principal payments range from \$380,000 to \$885,000 plus interest due semiannually at 3.5% to 5.5%	<u>1,265,000</u>
Total general obligation bonds payable	<u><u>\$ 21,000,000</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2010

The following is a summary as of June 30, 2010, of the future principal and interest requirements for the Town's general obligation bonds:

	Principal	Interest	Total
2011	\$ 2,885,000	\$ 808,538	\$ 3,693,538
2012	2,510,000	700,034	3,210,034
2013	1,525,000	618,332	2,143,332
2014	1,525,000	560,597	2,085,597
2015	1,500,000	512,047	2,012,047
2016	1,490,000	455,977	1,945,977
2017	1,490,000	398,672	1,888,672
2018	1,485,000	340,422	1,825,422
2019	1,480,000	281,328	1,761,328
2020	1,480,000	214,213	1,694,213
2021	1,200,000	146,828	1,346,828
2022	810,000	99,090	909,090
2023	540,000	64,800	604,800
2024	540,000	43,200	583,200
2025	540,000	21,600	561,600
Total	<u>\$ 21,000,000</u>	<u>\$ 5,265,678</u>	<u>\$ 26,265,678</u>

Outstanding
Amount

Enterprise fund general obligation bonds:

\$640,000 bond issue of October 2002, due 2013, annual principal payments ranging from \$25,000 to \$70,000 plus interest due semiannually at 3.00% to 4.00%

\$ 125,000

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

The annual debt service requirements of the bonds payable in the enterprise fund are as follows:

	Principal	Interest	Total
2011	\$ 50,000	\$ 4,900	\$ 54,900
2012	50,000	3,000	53,000
2013	25,000	1,000	26,000
Total	<u>\$ 125,000</u>	<u>\$ 8,900</u>	<u>\$ 133,900</u>

The Town received Clean Water Fund Project loans that are recorded as a loan payable in the Water Fund. The balance at June 30, 2010 is approximately \$2,278,000. These loans accrue interest at 2%.

School bond reimbursements

The State of Connecticut reimburses the Town for eligible school bond principal and interest costs. The amount of such reimbursement for the year ended June 30, 2010 was approximately \$988,000. Additional payments for principal and interest aggregating approximately \$1,539,000 are expected to be received through the bonds' maturity dates.

Debt limitation

The Town's statement of debt limitation under Connecticut General Statutes, Section 7-434(b) as of June 30, 2010, is as follows:

Total tax collections (including interest and lien fees) for the year ended June 30, 2010	\$ 30,276,205
Reimbursement for revenue loss:	
Tax relief for elderly	54,408
Base	<u>\$ 30,330,613</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2010

The Connecticut General Statutes provides that total authorized debt of the Town shall not exceed seven times the above base cash receipts of \$212,314,291 nor shall the total authorized particular purpose debt exceed the individual debt limitations reflected in the table below:

	General Purpose	Schools	Sewers	Urban Renewal	Pension Deficit
Debt limitation:					
2-1/4 times base	\$ 68,243,879	\$ -	\$ -	\$ -	\$ -
4-1/2 times base	-	136,487,759	-	-	-
3-3/4 times base	-	-	113,739,799	-	-
3-1/4 times base	-	-	-	98,574,492	-
3 times base	-	-	-	-	90,991,839
Total debt limitation	68,243,879	136,487,759	113,739,799	98,574,492	90,991,839
Debt as defined by statute:					
Bonds payable ⁽¹⁾	4,198,200	16,801,800	-	-	-
Authorized and unissued	140,000	2,151,013	-	-	-
Total indebtedness	4,338,200	18,952,813	-	-	-
School construction grants receivable	-	(1,462,261)	-	-	-
Net indebtedness	4,338,200	17,490,552	-	-	-
Debt limitation in excess of outstanding and authorized debt	\$ 63,905,679	\$ 118,997,207	\$ 113,739,799	\$ 98,574,492	\$ 90,991,839

⁽¹⁾ Water bonds and Clean Water Fund interim financing totaling \$2,403,275 are excluded from this calculation pursuant to Connecticut General Statutes.

2010 General Obligation Bonds – In-substance Defeasance

On June 3, 2010, the Town issued \$4,070,000 of general obligation bonds with interest rates ranging from 2.25% to 5.0% which was used to advance refund portions of the outstanding principal amounts of the general obligation bonds of the Town dated June 15, 2001 (the "Refunding Bonds"). The proceeds of \$4,280,234 were placed in an irrevocable trust fund under an Escrow Agreement dated June 2010 between the Town and the Escrow Trustee. The Escrow Trustee used the proceeds to purchase a portfolio of non-callable direct obligations of the United States of America ("Escrow Securities"). The Escrow Securities will have maturities and interest rates sufficient to pay principal and interest payments on the Refunding Bonds on the date the payments are due.

The Town advance refunded the above bonds to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$211,000, and a savings of approximately \$225,000 between the old debt payments and the new debt payments.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

The balance in escrow was approximately \$4.2 million at June 30, 2010. The balance of the defeased bonds was approximately \$3.9 million at June 30, 2010. As a result, the refunded bonds are considered defeased and the liability has been removed from the basic financial statements.

Note 9. Contingent Liabilities

Lawsuits

The Town is currently involved in several litigation matters. In the opinion of the Town's management, the final settlement of these matters will not have a material adverse effect on the financial condition of the Town.

Note 10. Pension Fund

Police Department Defined Benefit Plan

The Town contributes to a defined benefit pension plan - the Town of Colchester Police Retirement Plan (the Plan), a single employer plan, effective July 1, 2005. The Plan is presented in the accompanying financial statements as a pension trust fund. A stand-alone report is not available for this plan.

1. Classes of Employees Covered

At July 1, 2009, PERS membership consisted of:

Retirees and beneficiaries receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>10</u>
Total	<u>10</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

2. Benefit Provisions

a. Benefit Provisions

The Town contributes to the Town of Colchester Police Pension plan, a single employer Public Employee Retirement System (PERS) established and administered by the Town to provide pension benefits for its police employees. The responsibility for holding and investment of plan assets lies with the trustee appointed by the Retirement Board. The trustees shall be the bank or Trust company having the power to act as trustee in the State of Connecticut. The current trustee is ING. The PERS is considered part of the Town's financial reporting entity and is included in the Town's financial reports as a pension trust fund. Employees are eligible to participate on the date the employee commences making employee contributions.

The retirement benefit is calculated at 2.5% of Final Average Salary during the highest 3 plan years of active employment multiplied by years of service, with a maximum pension of 60% of Final Average Salary. Years of service is computed in whole years. Participants are 100% vested after 10 years of service. If an employee leaves covered employment or dies before 10 years of service, accumulated employee contributions and related investment earnings are refunded with retirement income being forfeited. Benefits and contributions are established by the Town and may be amended only by the Town. The latest actuarial valuation reflected a change to 8.0% of pay for employee contributions (from 6.0%). The latest actuarial valuation also reflected a change to the mortality table projection from 2012 to Scale AA.

b. Funding Policy

Employees are required to contribute 8% of their weekly pay and the employer picks up mandatory contributions of 8% of pay on behalf of each participant. The Town is required to contribute the remaining amounts necessary to finance the coverage for its employees.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2010

3. Annual Pension Cost and Net Pension Asset

The Town's annual pension cost and the change in the net pension asset to the Town of Colchester's Employee Retirement Plan for the current year were:

Annual required contribution	\$ 77,704
Interest on net pension obligation	(1,852)
Adjustment to annual required contribution	2,207
Annual pension cost	78,059
Contributions made	80,798
Increase in net pension asset	(2,739)
Net pension asset, July 1, 2009	(24,691)
Net pension asset, June 30, 2010	<u>\$ (27,430)</u>

Three Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
06/30/08	\$44,608	108.2%	\$ (5,618)
06/30/09	45,793	141.7%	(24,691)
06/30/10	78,059	103.5%	(27,430)

4. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	\$ 229,699	\$ 535,745	\$ 306,046	42.9%	\$ 550,743	55.6%

Historical Trend Information – The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2010

Actuarial assumptions are as follows:

Valuation Date:	July 1, 2009
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Level Percent of Pay
Remaining Amortization Period	20 Years Closed
Asset Valuation Method:	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.5%
Projected Salary Increases	4.5%

Defined Contribution Retirement Savings Plan

Town employees are eligible to participate in a defined contribution retirement savings plan administered by the Town. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. Employer contributions are based on union contracts. Employees may make additional contributions subject to IRS regulations. The Plan is not reported as a fiduciary fund by the Town as it does not meet the reporting criterion.

Connecticut State Teachers' Retirement System

The faculty and professional personnel of the Board of Education participate in a contributory defined benefit plan, established under Chapter 167a of the Connecticut General Statutes, which is administered by the Connecticut State Teachers' Retirement Board. A teacher is eligible to receive normal retirement benefits if he or she has attained age sixty and has accumulated twenty years of credited service in the public schools of Connecticut or has attained any age and has accumulated thirty-five years of credited service, at least twenty-five of which are service in the public schools of Connecticut. The State of Connecticut Teacher 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.

Certain part-time and full-time certified teachers are eligible to participate in the plan and are required to contribute 7.25% of their annual earnings to the plan. The Town does not, and is not legally responsible to, contribute to the plan.

The State of Connecticut contributes based on actuarially determined amounts. The funding level was determined based on an actuarial valuation of the plan as a whole, which does not provide actuarial information on an individual city/town basis.

In addition, the Town has recognized revenues and expenditures for on-behalf payments for pension contributions paid directly to the Connecticut State Teachers' Retirement System by the State of Connecticut. Such on-behalf payments were approximately \$2,875,000 for the year ended June 30, 2010.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2010

Note 11. Other Postemployment Benefits

In addition to providing pension benefits, the Town instituted a policy providing 40% to 50% of certain health care benefits for retired employees. Substantially all of the Town's employees may become eligible for those benefits, if they retire under a normal retirement or with disability.

Post employment benefits

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2009, the Town recognizes the cost of postemployment healthcare in the year when the employee services are received, discloses the accumulated liability from prior years, and provides information useful in assessing potential demands on the Town's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

Plan description

The Town provides post-employment benefits for certain employees for current and future health and life insurance benefit expenses. A bi-annual actuarial valuation is made to determine whether the contributions are sufficient to meet the plan obligations. The latest actuarial valuation was made June 30, 2009.

The contribution requirements of plan members and the Town are established and may be amended by the Town. The Town determines the required contribution using the Projected Unit Credit Method.

Membership in the plan consisted of the following at June 30, 2009, the date of the last actuarial valuation.

Retirees and beneficiaries receiving benefits	28
Active plan members	426
Total	<u>454</u>

The Town's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (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 Town's contributions represent payments made for premiums for insured individuals on a pay-as-you-go method.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation was as follows:

Fiscal Year Ending	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/09	\$ 413,000	\$ 146,000	35.4%	\$ 267,000
6/30/10	414,473	169,000	40.8%	512,473

OPEB Obligation

Annual required contribution	\$ 413,000
Interest on net pension obligation	10,680
Adjustment of ARC	(9,207)
Annual OPEB cost	414,473
Contributions made	169,000
Increase in net OPEB liability	245,473
Net OPEB obligation, beginning of year	267,000
Net OPEB obligation, end of year	<u>\$ 512,473</u>

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Accrued Liability AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2009	\$ -	\$ 4,306,000	\$ (4,306,000)	0.0%	N/A	N/A

Actuarial assumptions are as follows:

Valuation Date:	June 30, 2009
Actuarial Cost Method:	Projected Unit Credit
Asset Valuation Method:	Market Value
Amortization Method:	Level Percent of Pay Closed
Remaining Amortization Period	30 Years - decreasing
Actuarial Assumptions:	
Discount rate	4.00%

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2010

Health cost trend rates

Average annual healthcare cost trend rates are assumed to be as follows:

Year	Decrease
2010	8%
2011	7%
2012	6%
2013 and later	5%

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 actual results are compared with past expectations and new estimates are made about the future.

Projections of 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 of 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.

Note 12. Risk Management

The Town is exposed to various risks of loss related to public official liability, police professional liability, theft or impairment of assets, errors and omissions, health of and/or injury to employees, natural disasters, and owners and contractors protective liability. The Town generally obtains commercial insurance for these risks, but has chosen to retain the risk for employee health and medical claims.

The Medical Self-Insurance Fund is funded by monthly contributions from all funds incurring payroll charges. Anthem Blue Cross/Blue Shield, administrator of the claims process, aids the Town in calculating "premium" rates per contract. Under the Town's current policy, the Medical Self-Insurance Fund covers all employee claims up to \$110,000 per claim with an aggregate stop loss of 125% of expected claims paid which was approximately \$5,242,000 for the year ended June 30, 2010.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency, and amount of payouts and other economic and social factors.

Changes in the balance of claim liabilities are as follows:

TOWN OF COLCHESTER, CONNECTICUT**NOTES TO FINANCIAL STATEMENTS, Continued****June 30, 2010**

	Claims Payable July 1	Claims and Changes in Estimates	Claims Paid	Claims Payable June 30,
2009-2010	\$ 508,007	\$ 5,177,706	\$ 5,223,530	\$ 462,183
2008-2009	\$ 398,825	\$ 5,144,492	\$ 5,035,310	\$ 508,007

The Town purchases commercial insurance for all other risks of loss, including blanket and umbrella policies. Coverage has not been materially reduced, nor have settled claims exceeded coverage in any of the past three years.

Note 13. Landfill Postclosure Care Cost

The Town's municipal solid waste landfill stopped accepting waste in 1994. State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the site for thirty years after closure. The remaining postclosure costs are estimated to be \$210,000 (\$15,000 per year for 14 years). Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The responsibility for postclosure monitoring will remain with the Town.

Note 14. Fund Deficits

The following funds had fund deficits as of June 30, 2010:

Bonded Projects Fund	\$ 610,599
Adult Education	4,455
Benefits Assessment Fund	86,362

The fund deficits are expected to be repaid with future revenues, future bonding or transfers.

Note 15. Pronouncements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

Statement No. 54

Fund Balance Reporting and Governmental Fund Type Definitions

This Statement will be implemented by the Town as required by the GASB during the fiscal year ending June 30, 2011. This Statement establishes accounting and financial reporting standards for all governments that report governmental funds. This Statement establishes the criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The implementation of this Statement will result in changes to the classification of fund balances in the Town's governmental funds.

Statement No. 57

OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans

The provisions of Statement No. 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011.

Statement No. 59

Financial Instrument Omnibus

The objective of Statement No. 59 is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010.

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**Required Supplementary
Information**

TOWN OF COLCHESTER, CONNECTICUT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS – PENSION PLAN

June 30, 2010

Schedule of Funding Progress - Pension Trust

Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/06	\$ 43,732	\$ 193,242	\$ 149,510	22.6%	\$ 397,531	37.6%
07/01/07	113,736	239,836	126,100	47.4%	410,312	30.7%
07/01/08	175,781	364,546	188,765	48.2%	557,408	33.9%
07/01/09	229,699	535,745	306,046	42.9%	550,743	55.6%

Schedule of Employer Contributions - Pension Trust

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2006	\$ 32,201	115%
2007	44,587	94%
2008	44,587	108%
2009	45,732	142%
2010	77,704	104%

TOWN OF COLCHESTER, CONNECTICUT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS - OPEB

June 30, 2010

<i>Schedule of Funding Progress - OPEB</i>						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (C)	UAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/2009	\$ -	\$ 4,306,000	\$ (4,306,000)	0%	N/A	N/A

<i>Schedule of Employer Contributions - OPEB</i>		
Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2009	\$ 413,000	35.4%
2010	413,000	40.9%

**Supplemental and Combining
Fund Statements and Schedules**

General Fund

TOWN OF COLCHESTER, CONNECTICUT

**GENERAL FUND
BALANCE SHEET**

June 30, 2010 With Comparative Amounts For 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and cash equivalents	\$ 4,297,125	\$ 4,714,414
Property taxes and interest receivable, net	1,261,935	1,135,265
Grants and other receivables	180,070	125,125
Inventory	22,906	24,290
School construction grant receivable	1,462,261	2,348,014
Total assets	<u>\$ 7,224,297</u>	<u>\$ 8,347,108</u>
Liabilities		
Liabilities:		
Accounts payable and accrued liabilities	1,307,985	1,117,429
Deferred revenue	2,539,028	3,323,661
Total liabilities	<u>3,847,013</u>	<u>4,441,090</u>
Fund Balance		
Reserved for encumbrances	39,079	124,893
Reserved for inventory	22,906	24,290
Designated for subsequent year budget	300,000	220,000
Designated for specific projects	40,824	65,922
Unreserved, undesignated	2,974,475	3,470,913
Total fund balance	<u>3,377,284</u>	<u>3,906,018</u>
Total liabilities and fund balance	<u>\$ 7,224,297</u>	<u>\$ 8,347,108</u>

TOWN OF COLCHESTER, CONNECTICUT

GENERAL FUND REVENUES AND TRANSFERS IN -
BUDGETARY BASIS - BUDGET AND ACTUAL
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
PROPERTY TAXES				
Current year levy	\$ 29,868,359	\$ 29,868,359	\$ 29,550,507	\$ (317,852)
Prior years levy	550,000	550,000	472,170	(77,830)
Interest and lien fees	300,000	300,000	290,375	(9,625)
Total property taxes	30,718,359	30,718,359	30,313,052	(405,307)
INTERGOVERNMENTAL				
State of Connecticut:				
In lieu of taxes	51,910	51,910	51,997	87
Elderly freeze	2,565	2,565	2,000	(565)
Elderly circuit breaker	60,464	60,464	54,408	(6,056)
Disability exemption	1,266	1,266	1,348	82
Additional veteran exemption	5,995	5,995	5,799	(196)
Property tax relief/manufacturing	23,700	23,700	40,030	16,330
Boat registration	3,264	3,264	1,672	(1,592)
Local Capital Improvement Program	119,879	119,879	118,684	(1,195)
Mashantucket Pequot/Mohegan Grant	98,519	98,519	72,912	(25,607)
FEMA-Emergency Snow Removal	-	-	11,934	11,934
Distribution to towns	15,000	15,000	9,795	(5,205)
Youth Services Grant	18,744	18,744	18,750	6
Library Grant	7,000	7,000	6,482	(518)
Total State of Connecticut	408,306	408,306	395,811	(12,495)
Education:				
Special Education	425,000	425,000	521,051	96,051
Education cost sharing	13,547,231	11,614,515	11,595,838	(18,677)
School transportation	395,216	395,216	221,600	(173,616)
School building grants	988,210	988,210	988,210	-
Educational services for the blind	10,000	10,000	-	(10,000)
Total education	15,365,657	13,432,941	13,326,699	(106,242)
Total intergovernmental	15,773,963	13,841,247	13,722,510	(118,737)
REVENUES FROM USE OF MONEY				
Investment income	240,000	240,000	23,792	(216,208)

TOWN OF COLCHESTER, CONNECTICUT

GENERAL FUND REVENUES AND TRANSFERS IN -
BUDGETARY BASIS - BUDGET AND ACTUAL, Continued
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
CHARGES FOR SERVICES				
Sanitarian fees	6,500	6,500	17,795	11,295
Restaurant inspection fees	8,500	8,500	9,555	1,055
Recreation	18,100	18,100	19,144	1,044
Ambulance	450,000	453,445	511,276	57,831
Total charges for services	483,100	486,545	557,770	71,225
LICENSES, PERMITS AND FEES				
Fire Marshal inspection fees	100	100	360	260
Sports licenses	1,000	1,000	911	(89)
Transfer station fees	164,800	164,800	143,600	(21,200)
Conservation Commission fees	5,500	5,500	3,665	(1,835)
Road inspection fees	25,499	25,499	42,039	16,540
Building code fees	150,000	150,000	253,689	103,689
Conveyance tax	130,000	130,000	122,194	(7,806)
Zoning and planning fees	8,000	8,000	16,535	8,535
Zoning appeal fees	1,800	1,800	3,450	1,650
Copier fees	16,300	16,300	17,846	1,546
Town Clerk fees	95,000	95,000	89,951	(5,049)
Vendor permits	1,000	1,000	555	(445)
Pistol permits	3,000	3,000	4,480	1,480
Library fines and fees	18,000	18,000	20,464	2,464
Dial-A-Ride	2,750	2,750	4,409	1,659
Land Records - Town	2,900	2,900	3,039	139
Total licenses, permits and fees	625,649	625,649	727,187	101,538
OTHER REVENUES				
Tuition - regular	-	-	12,276	12,276
Telecommunications tax	83,381	83,381	54,880	(28,501)
State Fund for building inspection	1,100	1,100	2,013	913
Elderly housing	13,000	13,000	14,022	1,022
Miscellaneous	12,000	12,000	25,981	13,981
Insurance reimbursement	-	-	4,641	4,641
Lebanon share probate fee	2,152	2,152	2,054	(98)
Total other revenues	111,633	111,633	115,867	4,234
Total	\$ 47,952,704	\$ 46,023,433	\$ 45,460,178	\$ (563,255)

TOWN OF COLCHESTER, CONNECTICUT

GENERAL FUND EXPENDITURES AND TRANSFERS OUT -
BUDGETARY BASIS - BUDGET AND ACTUAL
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
GENERAL GOVERNMENT				
Board of Finance	\$ 58,120	\$ 18,120	\$ 16,518	\$ 1,602
First Selectman	204,309	207,624	201,977	5,647
Ethics Commission	360	360	120	240
Information Technology	72,413	72,413	65,034	7,379
Tax Collector	156,417	156,417	154,007	2,410
Assessor	238,941	238,941	237,093	1,848
Board of Assessment Appeals	1,876	1,876	1,819	57
Accounting	239,966	255,565	251,149	4,416
Economic Development	1,430	1,430	692	738
Historic District Commission	1,830	1,830	814	1,016
Town Clerk	183,813	183,813	177,432	6,381
Elections	52,968	44,003	38,767	5,236
Legal and Insurance	1,588,585	1,648,808	1,648,807	1
Probate	6,520	6,520	6,217	303
Planning/Code Administration	434,368	434,164	420,967	13,197
Central Services and Facilities	171,763	171,763	164,953	6,810
Fair Rent Commission	290	290	-	290
Police Retirement Board	3,590	3,590	3,100	490
Total general government	3,417,559	3,447,527	3,389,466	58,061
PUBLIC WORKS				
Highway	1,165,848	1,147,554	1,129,001	18,553
Fleet maintenance	331,284	328,595	321,494	7,101
Snow removal	277,586	333,779	333,776	3
Transfer Station	282,238	282,238	225,388	56,850
Engineering	99,568	99,772	96,640	3,132
Total public works	2,156,524	2,191,938	2,106,299	85,639
PUBLIC SAFETY				
Police	1,109,286	1,070,842	1,054,947	15,895
Fire	843,934	847,166	827,914	19,252
Fire Substation	13,770	13,983	10,014	3,969
Civil preparedness	11,637	11,637	6,937	4,700
Central Alarm	74,818	74,818	74,818	-
Total public safety	2,053,445	2,018,446	1,974,630	43,816

TOWN OF COLCHESTER, CONNECTICUT

GENERAL FUND EXPENDITURES AND TRANSFERS OUT -
BUDGETARY BASIS - BUDGET AND ACTUAL, Continued
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
CIVIC AND CULTURAL				
Library services	541,867	541,867	516,829	25,038
Parks and recreation	540,020	513,082	503,869	9,213
Senior Services	235,388	235,388	224,413	10,975
Total civic and cultural	1,317,275	1,290,337	1,245,111	45,226
PUBLIC HEALTH AND WELFARE				
Health & Safety Committee	2,290	2,290	276	2,014
Social services	26,862	26,862	25,246	1,616
Youth services	247,688	247,688	240,395	7,293
Health services	180,998	180,998	159,556	21,442
Total health and welfare	457,838	457,838	425,473	32,365
BOARD OF EDUCATION				
	34,827,724	32,895,008	32,854,184	40,824
DEBT SERVICE				
Principal	2,905,000	2,905,000	2,905,000	-
Interest	886,284	886,284	785,958	100,326
Total debt service	3,791,284	3,791,284	3,690,958	100,326
OTHER FINANCING USES				
Transfers out	151,055	216,977	216,977	-
Total	\$ 48,172,704	\$ 46,309,355	\$ 45,903,098	\$ 406,257

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Nonmajor Governmental Funds

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TOWN OF COLCHESTER, CONNECTICUT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2010

	Special Revenue						
	Police Forfeiture Fund	Capital Reserve Fund	Dog License Fund	Town Aid Road Fund	Small Cities Grants	Sewer Operating Fund	Parks and Recreation Activities Fund
ASSETS							
Cash and cash equivalents	\$ -	\$ 374,563	\$ 74,631	\$384,178	\$ 45,958	\$ 295,430	\$ 72,612
Assessments and user charges receivable	-	-	-	-	-	264,419	-
Other receivables	-	-	805	-	-	-	-
Intergovernmental receivable	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-
Total assets	\$ -	\$ 374,563	\$ 75,436	\$384,178	\$ 45,958	\$ 559,849	\$ 72,612
LIABILITIES AND FUND BALANCES (DEFICITS)							
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ 3,358	\$ -	\$ -	\$ 2,930	\$ 31,322
Retainage payable	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	245,804	-
Unearned revenue	-	-	-	-	45,958	-	-
Total liabilities	-	-	3,358	-	45,958	248,734	31,322
FUND BALANCES (DEFICITS)							
Reserved for encumbrances	-	-	-	-	-	-	-
Reserved for inventory	-	-	-	-	-	-	-
Designated for subsequent year's budget	-	-	15,000	-	-	-	-
Designated for specific projects	-	298,857	-	-	-	-	-
Unreserved and undesignated	-	75,706	57,078	384,178	-	311,115	41,290
Total fund balances (deficits)	-	374,563	72,078	384,178	-	311,115	41,290
Total liabilities and fund balances (deficits)	\$ -	\$ 374,563	\$ 75,436	\$384,178	\$ 45,958	\$ 559,849	\$ 72,612

Special Revenue								
School Cafeteria Fund	Educational Grants Fund	Miscellaneous Grants Fund	Adult Education	Special Gifts Fund	Benefits Assessment Fund	Pay to Play	Use of Schools	BOE Capital Reserve Fund
\$ 228,363	\$ -	\$ 36,248	\$ -	\$ 310,231	\$ -	\$ 253	\$ 24,179	\$ 155,084
-	-	-	-	-	123,358	-	-	-
-	21,859	-	-	-	-	-	-	-
33,253	257,662	-	-	-	-	-	-	-
5,216	-	-	-	-	-	-	-	-
<u>\$ 266,832</u>	<u>\$ 279,521</u>	<u>\$ 36,248</u>	<u>\$ -</u>	<u>\$ 310,231</u>	<u>\$ 123,358</u>	<u>\$ 253</u>	<u>\$ 24,179</u>	<u>\$ 155,084</u>
\$ 59,518	\$ 253,595	\$ 11,224	\$ 4,455	\$ 29,414	\$ 86,362	\$ 253	\$ 1,378	\$ 25,896
-	-	-	-	-	-	-	-	-
-	-	-	-	-	123,358	-	-	-
-	-	-	-	-	-	-	-	-
<u>59,518</u>	<u>253,595</u>	<u>11,224</u>	<u>4,455</u>	<u>29,414</u>	<u>209,720</u>	<u>253</u>	<u>1,378</u>	<u>25,896</u>
-	1,620	59,659	-	2,168	-	-	-	11,359
5,216	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	117,829
<u>202,098</u>	<u>24,306</u>	<u>(34,635)</u>	<u>(4,455)</u>	<u>278,649</u>	<u>(86,362)</u>	<u>-</u>	<u>22,801</u>	<u>-</u>
<u>207,314</u>	<u>25,926</u>	<u>25,024</u>	<u>(4,455)</u>	<u>280,817</u>	<u>(86,362)</u>	<u>-</u>	<u>22,801</u>	<u>129,188</u>
<u>\$ 266,832</u>	<u>\$ 279,521</u>	<u>\$ 36,248</u>	<u>\$ -</u>	<u>\$ 310,231</u>	<u>\$ 123,358</u>	<u>\$ 253</u>	<u>\$ 24,179</u>	<u>\$ 155,084</u>

(Continued)

TOWN OF COLCHESTER, CONNECTICUT

COMBINING BALANCE SHEET, Continued
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2010

	Special Revenue		Capital Projects			
	Bacon Academy Summer School	Police Special Duty	2009 Bond Referendum	Sewer Construction	Debt Service	Totals
ASSETS						
Cash and cash equivalents	\$ 16,546	\$ 15,021	\$ 1,189,464	\$ 1,132,391	\$ 248,489	\$ 4,603,641
Assessments and user charges receivable	-	-	-	-	-	387,777
Other receivables	-	-	-	-	-	22,664
Intergovernmental receivable	-	-	-	-	-	290,915
Inventory	-	-	-	-	-	5,216
Total assets	<u>\$ 16,546</u>	<u>\$ 15,021</u>	<u>\$ 1,189,464</u>	<u>\$ 1,132,391</u>	<u>\$ 248,489</u>	<u>\$ 5,310,213</u>
LIABILITIES AND FUND BALANCES (DEFICITS)						
LIABILITIES						
Accounts payable	\$ 1,932	\$ 1,774	\$ 161,596	\$ -	\$ 49,985	\$ 724,992
Retainage payable	-	-	29,539	-	-	29,539
Deferred revenue	-	-	-	-	-	369,162
Unearned revenue	-	-	-	-	-	45,958
Total liabilities	<u>1,932</u>	<u>1,774</u>	<u>191,135</u>	<u>-</u>	<u>49,985</u>	<u>1,169,651</u>
FUND BALANCES (DEFICITS)						
Reserved for encumbrances	-	-	804,479	-	-	879,285
Reserved for inventory	-	-	-	-	-	5,216
Designated for subsequent year's budget	-	-	-	-	-	15,000
Designated for specific projects	-	-	-	-	-	416,686
Unreserved and undesignated	14,614	13,247	193,850	1,132,391	198,504	2,824,375
Total fund balances (deficits)	<u>14,614</u>	<u>13,247</u>	<u>998,329</u>	<u>1,132,391</u>	<u>198,504</u>	<u>4,140,562</u>
Total liabilities and fund balances (deficits)	<u>\$ 16,546</u>	<u>\$ 15,021</u>	<u>\$ 1,189,464</u>	<u>\$ 1,132,391</u>	<u>\$ 248,489</u>	<u>\$ 5,310,213</u>

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TOWN OF COLCHESTER, CONNECTICUT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES (DEFICITS)
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2010

	Special Revenue						
	Police Forfeiture Fund	Capital Reserve Fund	Dog License Fund	Town Aid Road Fund	Small Cities Grants	Sewer Operating Fund	Parks and Recreation Activities Fund
REVENUES							
Intergovernmental	\$ -	\$ -	\$ -	\$ 172,309	\$ -	\$ -	\$ -
Food sales, charges for services	-	-	-	-	-	-	-
Fines and fees	-	-	30,498	-	-	-	-
Interest income	-	-	-	-	32	426	-
Sewer assessments, use and charges for services	-	-	-	-	-	848,248	359,772
Other local revenue	-	20,047	-	-	343	85	3,028
Total revenues	-	20,047	30,498	172,309	375	848,759	362,800
EXPENDITURES							
General government	-	-	-	-	-	-	-
Public works	-	-	-	-	-	793,890	-
Education	-	-	-	-	-	-	-
Public safety	329	-	81,894	-	-	-	-
Civic and cultural	-	-	-	-	-	-	396,867
Public health and welfare	-	-	-	-	375	-	-
Capital outlay	-	81,568	-	-	-	20,050	-
Debt service	-	-	-	-	-	-	-
Total expenditures	329	81,568	81,894	-	375	813,940	396,867
Revenues over (under) expenditures	(329)	(61,521)	(51,396)	172,309	-	34,819	(34,067)
OTHER FINANCING SOURCES (USES)							
Transfers in	-	50,000	51,055	-	-	-	-
Transfers out	-	(20,000)	-	-	-	(20,000)	-
Issuance of bonds	-	-	-	-	-	-	-
Issuance of refunding bonds	-	-	-	-	-	-	-
Payment to escrow agent	-	-	-	-	-	-	-
Total other financing sources (uses)	-	30,000	51,055	-	-	(20,000)	-
Net change in fund balances (deficits)	(329)	(31,521)	(341)	172,309	-	14,819	(34,067)
FUND BALANCES (DEFICITS), beginning	329	406,084	72,419	211,869	-	296,296	75,357
FUND BALANCES (DEFICITS), ending	\$ -	\$ 374,563	\$ 72,078	\$ 384,178	\$ -	\$ 311,115	\$ 41,290

Special Revenue								
School Cafeteria Fund	Educational Grants Fund	Miscellaneous Grants Fund	Adult Education	Special Gifts Fund	Benefits Assessment Fund	Pay to Play	Use of Schools	BOE Capital Reserve Fund
\$ 255,582	\$ 3,576,234	\$ 370,271	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
539,801	-	-	-	-	27,798	-	-	-
-	-	-	-	-	-	-	-	-
384	-	-	-	-	-	-	-	-
-	-	-	280	-	-	93,100	45,461	-
-	39,858	17,000	-	143,084	-	-	-	-
795,767	3,616,092	387,271	280	143,084	27,798	93,100	45,461	-
-	-	31,383	-	387	-	-	-	-
-	-	44,013	-	-	-	-	-	-
769,522	3,528,670	-	87	2,042	-	93,100	38,277	-
-	-	186,736	-	711	-	-	-	-
-	-	39,063	-	65,242	-	-	-	-
-	-	67,918	-	27,470	-	-	-	-
-	-	-	-	-	-	-	-	128,320
-	-	-	-	-	98,515	-	-	-
769,522	3,528,670	369,113	87	95,852	98,515	93,100	38,277	128,320
26,245	87,422	18,158	193	47,232	(70,717)	-	7,184	(128,320)
-	-	20,000	-	-	-	-	-	65,922
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	20,000	-	-	-	-	-	65,922
26,245	87,422	38,158	193	47,232	(70,717)	-	7,184	(62,398)
181,069	(61,496)	(13,134)	(4,648)	233,585	(15,645)	-	15,617	191,586
\$ 207,314	\$ 25,926	\$ 25,024	\$ (4,455)	\$ 280,817	\$ (86,362)	\$ -	\$ 22,801	\$ 129,188

(Continued)

TOWN OF COLCHESTER, CONNECTICUT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES (DEFICITS), Continued
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2010

	Special Revenue		Capital Projects			
	Bacon Academy Summer School	Police Special Duty	2009 Bond Referendum	Sewer Construction	Debt Service	Totals
REVENUES						
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,374,396
Food sales, charges for services	20,300	-	-	-	-	587,899
Fines and fees	-	-	-	-	-	30,498
Interest income	-	-	-	2,367	-	3,209
Sewer assessments, use and charges for services	-	47,936	-	30,940	-	1,425,737
Other local revenue	-	-	-	-	458,723	682,168
Total revenues	20,300	47,936	-	33,307	458,723	7,103,907
EXPENDITURES						
General government	-	-	-	-	-	31,770
Public works	-	-	-	-	-	837,903
Education	8,917	-	-	-	-	4,440,615
Public safety	-	44,602	-	-	-	314,272
Civic and cultural	-	-	-	-	-	501,172
Public health and welfare	-	-	-	-	-	95,763
Capital outlay	-	-	1,077,011	22,301	-	1,329,250
Debt service	-	-	24,630	-	49,985	173,130
Total expenditures	8,917	44,602	1,101,641	22,301	49,985	7,723,875
Revenues over (under) expenditures	11,383	3,334	(1,101,641)	11,006	408,738	(619,968)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	20,000	-	206,977
Transfers out	-	-	-	-	-	(40,000)
Issuance of bonds	-	-	2,100,000	-	-	2,100,000
Issuance of refunding bonds	-	-	-	-	4,070,000	4,070,000
Payment to escrow agent	-	-	-	-	(4,280,234)	(4,280,234)
Total other financing sources (uses)	-	-	2,100,000	20,000	(210,234)	2,056,743
Net change in fund balances (deficits)	11,383	3,334	998,359	31,006	198,504	1,436,775
FUND BALANCES (DEFICITS), beginning	3,231	9,913	(30)	1,101,385	-	2,703,787
FUND BALANCES (DEFICITS), ending	\$ 14,614	\$ 13,247	\$ 998,329	\$ 1,132,391	\$ 198,504	\$ 4,140,562

Capital Assets Schedules

TOWN OF COLCHESTER, CONNECTICUT

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS -
SCHEDULE BY CATEGORY

June 30, 2010

Governmental funds capital assets:

Land	\$ 3,432,379
Buildings	89,330,882
Improvements other than buildings	1,492,409
Machinery and equipment	10,971,222
Infrastructure	35,418,135
Construction in progress	422,153
Total governmental funds capital assets	<u>\$ 141,067,180</u>

TOWN OF COLCHESTER, CONNECTICUT

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

SCHEDULE BY FUNCTION AND ACTIVITY

June 30, 2010

	Land	Buildings	Improvements Other Than Buildings	Infrastructure	Machinery and Equipment	Construction in Progress	Total
General government	\$ 3,432,379	\$ 2,467,695	\$ 1,478,624	\$ 20,975,409	\$ 323,568	\$ -	\$ 28,677,675
Public safety	-	943,898	-	24,342	3,696,871	-	4,665,111
Public works	-	397,929	-	14,149,605	2,463,680	-	17,011,214
Civic and cultural	-	7,508,839	5,385	268,779	912,057	-	8,695,060
Education	-	77,905,732	8,400	-	3,497,965	-	81,412,097
Public health and welfare	-	106,789	-	-	77,081	-	183,870
Construction in progress	-	-	-	-	-	422,153	422,153
Total	\$ 3,432,379	\$ 89,330,882	\$ 1,492,409	\$ 35,418,135	\$ 10,971,222	\$ 422,153	\$ 141,067,180

Other Schedule

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TOWN OF COLCHESTER, CONNECTICUT

SCHEDULE OF PROPERTY TAXES LEVIED, COLLECTED AND OUTSTANDING
For the Year Ended June 30, 2010

Grand List Year	Balance Uncollected		Current Levy	Lawful Corrections and Transfers to Suspense				Balance To Be Collected		
	July 1, 2009			Additions		Deletions				
1992	\$	(3,693)	\$	-	\$	-	\$	3,693	\$	-
1993		(2,003)		-		7,320		(5,238)		79
1994		490		-		4,125		(1,684)		2,931
1995		(3,733)		-		7,455		(1,136)		2,586
1996		(1,196)		-		7,728		(770)		5,762
1997		(2,618)		-		13,797		(1,019)		10,160
1998		379		-		19,565		(1,233)		18,711
1999		24,871		-		8,562		(1,641)		31,792
2000		8,579		-		31,305		(1,693)		38,191
2001		728		-		46,949		(1,566)		46,111
2002		44,896		-		40,229		(1,401)		83,724
2003		61,214		-		45,806		(1,437)		105,583
2004		71,842		-		39,273		(1,774)		109,341
2005		173,978		-		11,218		(1,860)		183,336
2006		158,388		-		30,299		(4,522)		184,165
2007		460,310		-		22,636		(55,663)		427,283
2008		-		30,091,550		113,186		(138,605)		30,066,131
	\$	992,432	\$	30,091,550	\$	449,453	\$	(217,549)	\$	31,315,886

Collections						Balance Uncollected June 30, 2010	
Taxes		Interest		Fees	Total		
\$	-	\$	-	\$	-	\$	-
	79		227		-	306	-
	-		-		-		2,931
	9		483		-	492	2,577
	65		261		-	326	5,697
	159		328		-	487	10,001
	413		537	24	974		18,298
	1,032		2,522	-	3,554		30,760
	1,887		1,403	-	3,290		36,304
	3,595		4,253	-	7,848		42,516
	5,069		5,658	24	10,751		78,655
	9,855		8,908	42	18,805		95,728
	15,597		12,858	140	28,595		93,744
	42,004		28,846	168	71,018		141,332
	67,038		23,815	588	91,441		117,127
	296,226		56,240	4,992	357,458		131,057
	29,550,407		128,871	1,582	29,680,860		515,724
\$	29,993,435	\$	275,210	\$	7,560	\$	30,276,205
						\$	1,322,451

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