

OFFICIAL STATEMENT DATED FEBRUARY 23, 2012

Refunding Issue – Book-Entry-Only

Rating: Moody’s Investors Service Aa3

In the opinion of Bond Counsel, assuming the accuracy of and compliance by the Town with its representations and covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended (the “Code”), under existing statutes, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; the Bonds are not “private activity bonds” and interest on the Bonds is not treated as a preference item for purposes of calculating the Federal alternative minimum tax, but in the case of corporations a portion of such interest may be included in alternative minimum taxable income for purposes of computing any Federal alternative minimum tax; the Bonds are “qualified tax-exempt obligations”; interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and interest on the Bonds is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. See Appendix B – “Opinion of Bond Counsel and Tax Exemption” herein.

\$8,400,000

**TOWN OF COLCHESTER, CONNECTICUT
GENERAL OBLIGATION REFUNDING BONDS, ISSUE OF 2012
BANK QUALIFIED**

Dated: Date of Delivery

Due: Serially, June 15, as shown below

Due	Amount	Interest Rate	Yield	CUSIP Number¹	Due	Amount	Interest Rate	Yield	CUSIP Number¹
2013	\$320,000	2.000%	0.550%	192792PQ6	2020	\$820,000	3.000%	1.900%	192792PX1
2014	320,000	2.000	0.650	192792PR4	2021	810,000	3.000	2.100	192792PY9
2015	320,000	2.000	0.800	192792PS2	2022	800,000	3.000	2.200	192792PZ6
2016	850,000	2.000	0.900	192792PT0	2023	560,000	2.200	2.300	192792QA0
2017	835,000	4.000	1.050	192792PU7	2024	550,000	2.250	2.350	192792QB8
2018	850,000	3.000	1.350	192792PV5	2025	540,000	2.300	2.400	192792QC6
2019	825,000	3.000	1.600	192792PW3					

¹ Copyright, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the Town and are included solely for the convenience of the holders of the Bonds. The Town is not responsible for the selection or use of these CUSIP numbers, does not undertake any responsibility for their accuracy, and makes no representation as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

The Bonds are issuable only as fully registered bonds, without coupons, and when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any multiple thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. So long as Cede & Co. is the Bondowner, as nominee for DTC, reference herein to the Bondowner or owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. See “Book-entry-only System” herein. Interest on the Bonds will be payable semiannually on the fifteenth day of June and December of each year, commencing June 15, 2012.

The Bonds are subject to redemption prior to maturity as more fully described herein.

The Bonds are offered for delivery when, as and if issued, and received by the Underwriter, subject to the final approving opinion of Day Pitney LLP, Bond Counsel, of Hartford, Connecticut. It is expected that delivery of the Bonds in definitive form will be made on or about March 1, 2012 through the facilities of DTC.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

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ISSUE SUMMARY

The information in this section is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed decision.

Issuer:	Town of Colchester, Connecticut
Issue:	\$8,400,000 General Obligation Refunding Bonds, Issue of 2012, book-entry only (the "Bonds")
Underwriter:	Piper Jaffray & Co.
Dated Date:	Date of delivery
Interest Date:	Each June 15 and December 15, commencing June 15, 2012
Principal Due:	Serially, June 15, 2013 through June 15, 2025, as detailed in this Official Statement
Purpose:	The Bonds are being issued to refund all or a portion of outstanding bonds of the Town dated August 1, 2002 and June 15, 2005.
Redemption:	The Bonds <u>are</u> subject to redemption prior to maturity as more fully described herein. (See "Optional Redemption" herein.)
Security:	The Bonds will be general obligations of the Town of Colchester, Connecticut, and the Town will pledge its full faith and credit to pay the principal of and interest on the Bonds when due.
Bank Qualification:	The Bonds <u>shall</u> be designated by the Town as qualified tax-exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Bonds.
Credit Rating:	See "Rating" herein.
Tax Exemption:	See Appendix B - "Opinion of Bond Counsel and Tax Exemption" herein.
Certifying Agent, Registrar, Transfer Agent, Paying Agent and Escrow Agent:	U.S. Bank National Association, 225 Asylum Street, Hartford, Connecticut 06103
Legal Opinion:	Day Pitney LLP of Hartford, Connecticut will act as Bond Counsel.
Delivery:	It is expected that delivery of the Bonds in book-entry-only form through the facilities of DTC will be made on or about March 1, 2012.
Final Official Statement:	This Official Statement is in a form "deemed final" by the Town for the purposes of SEC Rule 15c2-12(b)(1).

**Continuing
Disclosure:**

See Appendix C - "Form of Continuing Disclosure Agreement for Bonds" herein.

For additional copies of the Official Statement or requests for additional information, please contact:

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INTRODUCTION

The purpose of this Official Statement is to provide certain financial information and economic and demographic data relevant to the Town of Colchester, Connecticut (the "Town") in connection with the sale of \$8,400,000 General Obligation Refunding Bonds, Issue of 2012 (the "Bonds"), of the Town.

The Official Statement is not to be construed as a contract or agreement between the Town and the purchasers or holders of any of the Bonds. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, broker, salesman, or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of these Bonds, and, if given or made, such information or representation must not be relied upon. Any statements made in this Official Statement involving matters of opinion or estimates are not intended to be representations of fact, and no representation is made that any such opinion or estimate will be realized. No representation is made that past experience, as might be shown by financial or other information herein, will necessarily continue to be repeated in the future. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Town since the date hereof. All quotations and summaries and explanations of provisions of law herein do not purport to be complete, and reference is made to said laws for full and complete statements of their provisions.

The information in this Official Statement has been prepared by the Town's financial advisor, Webster Bank, National Association (the "Financial Advisor"), from information supplied by the Town's officials and other sources as indicated. The Financial Advisor does not assume responsibility for the adequacy or accuracy of the statements made herein and makes no representation that it has independently verified the same. An agreement between the Town and the Financial Advisor has been entered into to conform to Municipal Securities Rulemaking Board ("MSRB") Rule G-23. U.S. Bank National Association, of Hartford, Connecticut will act as Certifying Agent, Registrar, Transfer Agent, Paying Agent and Escrow Agent for the Bonds.

Set forth in Appendix A - "Audited Financial Statements" hereto is a copy of the report of the independent auditors for the Town with respect to the financial statements of the Town included in that appendix. The report speaks only as of its date, and only to the matters expressly set forth therein. The auditors have not been engaged to review this Official Statement or to perform audit procedures regarding the post-audit period, nor have the auditors been requested to give their consent to the inclusion of their report in Appendix A. Except as stated in their report, the auditors have not been engaged to verify the financial information set out in Appendix A and are not passing upon and do not assume responsibility for the sufficiency, accuracy or completeness of the financial information presented in that appendix.

Bond Counsel are not passing upon and do not assume responsibility for the accuracy or adequacy of the statements made in this Official Statement (other than matters expressly set forth as their opinion in Appendix B herein), and they make no representation that they have independently verified the same.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

SECTION I - SECURITIES OFFERED

Description of the Bonds

The Bonds will be dated the date of delivery and will mature on June 15 of the years and in the principal amounts as follows:

<u>Due June 15</u>	<u>Principal Amount</u>	<u>Due June 15</u>	<u>Principal Amount</u>
2013	\$320,000	2020	\$820,000
2014	320,000	2021	810,000
2015	320,000	2022	800,000
2016	850,000	2023	560,000
2017	835,000	2024	550,000
2018	850,000	2025	540,000
2019	825,000		

Interest on the Bonds will be payable semiannually on the fifteenth day of June and December of each year, commencing June 15, 2012. Interest will be calculated on the basis of a 30-day month and a 360-day year. Interest is payable to the registered owner as of the close of business on the last business day of May and November by check mailed to the registered owner; or so long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, by such other means as DTC, the Paying Agent and the Town shall agree. Principal will be payable at the principal office of U.S. Bank National Association, Hartford, Connecticut.

Optional Redemption

Bonds maturing on or before June 15, 2022 are not subject to redemption prior to maturity. Bonds maturing on and after June 15, 2023 are subject to redemption prior to maturity, at the option of the Town, on or after June 15, 2022, at any time, either in whole or in part, in such amounts and in such order of maturity (but by lot within a maturity) as the Town may determine, following notice mailed by first-class mail at least 30 days prior to the redemption date to the registered owners of the Bonds to be redeemed, at the following redemption prices, expressed as a percentage of the principal amount of the Bonds, plus accrued and unpaid interest to the date set for redemption:

<u>Period During Which Redeemed</u>	<u>Redemption Price</u>
June 15, 2022 and thereafter	100.0%

Notice of redemption shall be given by the Town or its agent by mailing a copy of the redemption notice by first-class mail at least thirty days prior to the date fixed for redemption to the registered owner of any Bonds designated for redemption in whole or in part, at the address of such registered owner as the same shall last appear on the registration books for the Bonds. Failure to give such notice by mailing to any registered owner, or any defect therein, shall not affect the validity of the redemption of any other Bonds. Upon the giving of such notice, if sufficient funds available solely for redemption are on deposit with the Paying Agent, the Bonds or portions thereof so called for redemption will cease to bear interest after the specified redemption date.

If less than all of the Bonds of any one maturity shall be called for redemption, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot in such manner as the Town in its discretion may determine; provided, however, that the portion of any Bond to be redeemed shall be in the principal amount of \$5,000 or a multiple thereof and that, in selecting Bonds for redemption, each Bond shall be considered as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by \$5,000.

The Town, so long as a book-entry-only system is used for the Bonds being called for redemption, will send any notice of redemption only to DTC (or a successor securities depository) or its nominee. Any failure of DTC to advise any DTC Participant, or of any DTC Direct Participant or Indirect Participant to notify any Indirect Participant or Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of such Bonds called for redemption. Redemption of portions of the Bonds of any maturity by the Town will reduce the outstanding principal amounts of such maturity held by DTC. In such event it is the

current practice of DTC to allocate by lot, through its book-entry-only system, among the interests held by DTC Participants in the Bonds to be redeemed, the interest to be reduced by such redemption in accordance with its own rules or other agreements with DTC Participants. The DTC Participants and Indirect Participants may allocate reductions of the interests in the Bonds to be redeemed held by the Beneficial Owners. Any such allocations of reductions of interests in the Bonds to be redeemed will not be governed by the determination of the Town authorizing the issuance of the Bonds and will not be conducted by the Town, the Registrar or Paying Agent.

Authorization and Purpose

\$8,400,000 Refunding Bonds: Pursuant to a vote taken by the Colchester Board of Selectmen at its regularly scheduled meeting of January 19, 2012, the Town of Colchester authorized the issuance of bonds in an amount up to \$10,000,000 for the purpose of refunding all or a portion of the aggregate principal amount outstanding of Town of Colchester Bonds dated August 1, 2002 and all or a portion of the aggregate principal amount outstanding of Town of Colchester Bonds dated June 15, 2005 (see “The Refunding Plan” herein).

Use of Proceeds

<u>Project</u>	<u>Amount Authorized</u>	<u>Previously Bonded</u>	<u>Notes Maturing</u>	<u>This Issue</u>
Refunding bonds ¹	\$10,000,000	N/A	N/A	\$8,400,000

¹ See “The Refunding Plan” herein.

Sources and Uses of Bond Proceeds

Proceeds of the Bonds are to be applied as follows:

Sources:

Principal amount of the Bonds	\$8,400,000.00
Net original issue premium	<u>528,414.75</u>
Total sources	\$8,928,414.75

Uses:

Escrow trust fund	\$8,809,466.45
Costs of issuance	65,000.00
Underwriter’s discount	50,400.00
Additional proceeds	<u>3,548.30</u>
Total uses	\$8,928,414.75

The Refunding Plan

A portion of the proceeds of the Bonds is being issued to advance refund the Refunded Bonds as set forth below. The refunding is contingent upon delivery of the Bonds.

<u>Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP Number¹</u>
08/01/02:	06/15/13	3.800%	\$ 270,000	06/15/12	100.00%	192792MA4
	06/15/14	4.000	270,000	06/15/12	100.00	192792MB2
	06/15/15	4.100	270,000	06/15/12	100.00	192792MC0
	06/15/16	4.150	270,000	06/15/12	100.00	192792MD8
	06/15/17	4.250	270,000	06/15/12	100.00	192792ME6
	06/15/18	4.350	270,000	06/15/12	100.00	192792MF3
	06/15/19	4.450	270,000	06/15/12	100.00	192792MG1
	06/15/20	4.550	270,000	06/15/12	100.00	192792MH9
	06/15/21	4.625	270,000	06/15/12	100.00	192792MJ5
	06/15/22	4.700	<u>270,000</u>	06/15/12	100.00	192792MK2
			\$2,700,000			
06/15/05:	06/15/16	3.500%	\$ 540,000	06/15/15	100.00%	192792NS4
	06/15/17	3.625	540,000	06/15/15	100.00	192792NT2
	06/15/18	4.000	540,000	06/15/15	100.00	192792NU9
	06/15/19	4.000	540,000	06/15/15	100.00	192792NV7
	06/15/20	4.000	540,000	06/15/15	100.00	192792NW5
	06/15/21	4.000	540,000	06/15/15	100.00	192792NX3
	06/15/22	4.000	540,000	06/15/15	100.00	192792NY1
	06/15/23	4.000	540,000	06/15/15	100.00	192792NZ8
	06/15/24	4.000	540,000	06/15/15	100.00	192792PA1
	06/15/25	4.000	<u>540,000</u>	06/15/15	100.00	192792PB9
			\$5,400,000			
			<u>\$8,100,000</u>			

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Upon delivery of the Bonds, a portion of the refunding proceeds of the Bonds will be placed in an irrevocable trust fund (the "Escrow Trust Fund") established with U.S. Bank National Association as escrow trustee (the "Escrow Trustee") under an Escrow Trust Agreement dated as of March 1, 2012 between the Escrow Trustee and the Town (the "Escrow Agreement"). The Escrow Trustee will use such proceeds to purchase a portfolio of non-callable direct obligations of, or obligations guaranteed by, the United States of America (the "Escrow Securities"). The Escrow Securities will have maturities and interest rates sufficient to meet principal and interest payments on the Refunded Bonds on the dates such payments are due. The Town will pay all costs of issuance of the Bonds, including Underwriter's discount, from proceeds of the Bonds or other funds of the Town. The Escrow Agreement requires that the Escrow Trustee call for the redemption of the Refunded Bonds. All investment income on and maturing principal of the Escrow Securities held in the Escrow Trust Fund and needed to pay the principal of and interest on the Refunded Bonds will be irrevocably deposited by the Town for payment of the Refunded Bonds.

The Connecticut General Statutes provide that upon placement in escrow of proceeds of refunding bonds sufficient to provide for the payment of the principal of and interest on the bonds to be refunded by such refunding bonds, such bonds are no longer counted in computing the Town's debt for statutory debt limitation purposes.

Verification of Mathematical Computations

American Municipal Tax Exempt Compliance Corporation (“AMTEC”) will verify from the information provided to it by the Town the mathematical accuracy as of the date of the closing of the Bonds of: (1) the computation that anticipated receipts from the Escrow Securities and cash deposits set forth in the Underwriter’s schedules will be sufficient to pay, when due, the principal, interest and applicable call premium, if any, payment requirements of the Refunded Bonds, and (2) the computations of yield on the Bonds and the Escrow Securities contained in the provided schedules. AMTEC will express no opinion on the assumptions provided to it.

Rating

On February 17, 2012, Moody’s Investors Service assigned a rating of Aa3 to the Bonds and affirmed the Aa3 rating on the Town’s parity debt outstanding. The Town furnished to the rating agency certain information and materials, some of which may not have been included in this Official Statement. The rating reflects only the view of the rating agency and is subject to revision or withdrawal, which could affect the market price of the Bonds. The rating agency should be contacted directly for its rating on the Bonds and the explanation of such rating.

Security and Remedies

The Bonds will be general obligations of the Town of Colchester, Connecticut, and the Town will pledge its full faith and credit to pay the principal of and interest on the Bonds when due.

Unless paid from other sources, the Bonds are payable from general property tax revenue. The Town has the power under Connecticut General Statutes to levy ad valorem taxes on all taxable property in the Town without limit as to rate or amount, except as to certain classified property such as certified forest land taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts. There was, however, no such classified forest land on the last completed grand list of the Town. Under existing statutes, the State of Connecticut is obligated to pay the Town the amount of tax revenue which the Town would have received except for the limitation under certain statutes upon its power to tax such dwelling houses of qualified elderly persons of low income.

Payment of the Bonds is not limited to property tax revenues or any other revenue source, but certain revenues of the Town may be restricted as to use and therefore may not be available to pay debt service on the Bonds.

There are no statutory provisions for priorities in the payment of general obligations of the Town. There are no statutory provisions for a lien on any portion of the tax levy or other revenues to secure the Bonds, or judgments thereon, in priority to other claims.

The Town is subject to suit on its general obligation bonds and notes, and a court of competent jurisdiction has power in appropriate proceedings to render a judgment against the Town. Courts of competent jurisdiction also have power in appropriate proceedings to order payment of a judgment on such bonds or notes from funds lawfully available therefor or, in the absence thereof, to order the Town to take all lawful action to obtain the same, including the raising of the required amount in the next annual tax levy. In exercising their discretion as to whether to enter such an order, the courts may take into account all relevant factors, including the current operating needs of the Town and the availability and adequacy of other remedies.

Enforcement of a claim for payment of principal of or interest on such bonds or notes would also be subject to the applicable provisions of Federal bankruptcy laws, as well as other bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors’ rights heretofore or hereafter enacted and to the exercise of judicial discretion. Section 7-566 of the Connecticut General Statutes, amended in 1993, provides that no Connecticut municipality shall file a petition in bankruptcy without the express prior written consent of the Governor. This prohibition applies to any town, city, borough, metropolitan district

and any other political subdivision of the State having the power to levy taxes and issue bonds or other obligations.

Qualification for Financial Institutions

The Bonds **shall** be designated by the Town as qualified tax-exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Bonds.

Book-entry-only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Town as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on, and redemption premium, if any, with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Town or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent, or the Town, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest, and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Town or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Town or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Town may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Town believes to be reliable, but the Town takes no responsibility for the accuracy thereof.

DTC Practices

The Town can make no assurances that DTC, Direct Participants, Indirect Participants or other nominees of the Beneficial Owners of the Bonds will act in a manner described in this Official Statement. DTC is required to act according to rules and procedures established by DTC and its participants which are on file with the Securities and Exchange Commission.

Underwriting

The Bonds are being purchased by Piper Jaffray & Co. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the Town at the net aggregate purchase price of \$8,878,014.75 (consisting of the principal amount of \$8,400,000, plus net original issue premium of \$528,414.75, less underwriter's discount of \$50,400.00), plus accrued interest, if any, from the dated date of the Bonds to the delivery date. The Underwriter will be obligated to purchase all such Bonds, if any such Bonds are purchased. The Bonds may be offered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Distribution Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray, including the Bonds. Under the Distribution Agreement, the Underwriter will share with Pershing LLC a portion of the fee or commission paid to the Underwriter.

SECTION II - THE ISSUER

Description of the Town

The Town was incorporated in 1698 and covers an area of 48.7 square miles, located approximately 25 miles southeast of Hartford, Connecticut, the State capital. The Town is intersected by Connecticut Route 2, which connects with Interstate 91 in Hartford and Interstate 95 in North Stonington. Colchester is bordered on the north by the towns of Marlborough and Hebron, on the south by East Haddam and Salem, on the east by Lebanon, and on the west by East Hampton. Easy access to interstate highways, abundance of undeveloped land, affordable housing stock, and availability of public water and sewers, as well as its pleasant rural setting have attracted growth to the Town. About 89% of Colchester is zoned for residential purposes. Colchester's population has more than doubled since the 1980 Census. During the past decade, Colchester was one of the fastest growing municipalities in Connecticut. In addition, the surrounding towns have also been growing faster than the State average.

Description of Government

The Town has a Town meeting form of government, with a Board of Selectmen consisting of five elected members serving concurrent two-year terms and a Board of Finance consisting of six elected members serving overlapping six-year terms. Powers and privileges are conferred and granted to the Town by the Connecticut General Statutes, as amended. The Town has a Charter. Legislative power is vested with the Board of Selectmen and the Town Meeting. The annual budget, all special appropriations exceeding 1.0% of the combined Town budget, excluding the Board of Education, and all bond and note authorizations are submitted to a referendum vote.

The First Selectman is the Chief Executive Officer of the Town and is a full voting and participating member of the Board of Selectmen. The First Selectman is responsible for the direction and activities of all Town departments except the Board of Education and all appointed boards. In 2001, the Town approved a new position of Chief Financial Officer who is directly responsible to the Boards of Selectmen and Education for the administration of the financial operation for the Town and Board of Education.

The Board of Finance is the budget-making authority and is responsible for financial and taxation matters, presenting the annual fiscal budget for Town Meeting and referendum approval and establishing the tax rate.

The Board of Education is the policy-making body for all public education, grades kindergarten through twelve. The Superintendent of Schools is directly responsible to the Board of Education for the supervision and administration of the educational system for the Town.

The Sewer and Water Commission has jurisdiction over all property of the Town used for sewage disposal and water supply for the Town and operates on an enterprise fund basis. The Director of Public Works prepares a budget and recommends rates to the Commission and Board of Selectmen, acting as the Water Pollution Control Authority for the Town, for their concurrence.

Organizational Chart



ORGANIZATIONAL CHART



Principal Municipal Officials

<u>Office</u>	<u>Name</u>	<u>Manner of Selection/Term</u>	<u>Years of Service</u>
First Selectman	Gregg Schuster	Elected/2 years	11/09 to date
Selectman	Gregory Cordova	Elected/2 years	11/05 to date
Selectman	Rosemary Coyle	Elected/2 years	01/07 to date
Selectman	James Ford	Elected/2 years	11/09 to date
Selectman	Stanley Soby	Elected/2 years	07/06 to date
Town Clerk	Nancy Bray	Elected/4 years	11/99 to date
Town Treasurer	Gregg LePage	Elected/2 years	11/09 to date
Chief Financial Officer	N. Maggie Cosgrove	Appointed	05/05 to date
Town Planner	Adam Turner	Appointed	03/07 to date
Tax Collector	Tricia Coblentz	Elected/4 years	11/07 to date
Superintendent of Schools	Karen Loiselle	Appointed	07/05 to date

Municipal Services

The Town provides a broad range of services including public safety, Town roads, solid waste disposal, youth and social services, parks and recreation, planning and zoning, police and fire protection, education, and water and sewer services. Town departments include Finance, Public Works, and Planning and Zoning. Municipal services are funded through the Town's General Fund with the exception of the sewer and water services that are funded by the Sewer and Water Commission on an Enterprise Fund basis through service charges, connection fees, special assessments against benefited properties, or a combination thereof.

Public Works - The Public Works Department is responsible for the maintenance of Town roads, public buildings, and sidewalks, and sewer and water facilities.

Public Safety - Police protection is provided by the Connecticut State Police, Troop K, Colchester, one resident state trooper supervisor and eleven full-time Colchester police officers. In addition to the training of the police officers, the resident state trooper supervisor is responsible for the investigation and reporting of criminal activity, motor vehicle accidents, domestic disputes, and other incidents. Police officers are used to respond to accidents, domestic disputes, burglaries, and alarms, and provide coverage at community events. All police officers have either completed or are enrolled in the required classes as mandated by the Municipal Police Training Council.

Fire protection is provided by the Fire Department consisting of volunteer fire officers and permanent salaried officers. All dispatching is done through the Colchester Emergency Communication Center located at Troop K.

Ambulance service is provided by the Town through the Fire Department.

Solid Waste - Curbside collection of refuse and garbage may be privately contracted by businesses and residents. Private contractors haul and dispose of collected refuse and garbage at their expense at a facility of their choice. The Town owns and operates a transfer station in Colchester accepting household waste, recyclables, e-waste, waste oil, demolition debris, automobile batteries, bulky waste, brush, leaves, and tires generated within the Town. The Town charges a fee of \$3.00 per 25-30 gallon bag to cover the cost of transportation and disposal of solid waste at the trash-to-energy plant in Preston. Recyclables, waste oil, scrap metal, e-waste, automobile batteries and leaves are disposed of by residents at no charge at the transfer station. Cost of transportation and disposal of recyclables at recycling facilities are covered by revenue paid to the Town by recycling facilities or through taxation. Bulky waste, demolition debris, brush, and tires are disposed of by residents for a fee based on a schedule established by the Town.

The Town has closed its landfill site and is in full compliance with Federal and State laws and regulations regarding post-closure monitoring.

Sewer/Water - Developed properties are served by either public water and sanitary sewer or on-site septic systems and wells. Approximately 27 miles of public water lines and 35 miles of sanitary sewer system lines serve an approximately two-square-mile land area located in the center of Town that includes most of the Town's commercial and industrial uses, higher density residential users, and public uses such as the Town Hall, schools, and the Public Safety Complex.

A joint sewer treatment facility, located in the Town of East Hampton, is operated under an intermunicipal agreement with the Town of East Hampton. The Towns of Hebron and Marlborough also flow to the waste water treatment plant. Approximately 1,986 units are connected to the public sewer system, which serves nearly 33% of the Town's population. The Town's public water system, consisting of six wells, an air stripper tower, three water storage tanks, water filtration facility, and distribution system, serves 2,096 units and nearly 35% of the Town's population.

Services to Senior Citizens - The Senior Center provides special services to senior citizens, gearing its activities to the healthy senior as well as the frail person needing supportive services to remain at home. Activities include crafts, health education, meals, exercise, volunteer development, and special-interest groups. The Center continues to assure independence of the older person and tries to enhance the quality of one's life.

Municipal Recreation Facilities - Parks & Recreation maintains over 360 acres, including the Colchester Recreation Complex, along with additional parks, cemeteries, playgrounds, ballfields, tennis courts, basketball courts, natural areas and all school grounds. Thousands of children and adults participate in hundreds of programs, activities and events offered by the department each year, from sports and after school programs to concerts and other special events.

Public Library - The Cragin Memorial Library is a 20,000-square-foot, state-of-the-art facility, expanded in 2002. Visitors average 524 per day, and circulation in fiscal year 2010-11 was 137,839 items. In addition to books, periodicals, CDs and DVDs, the library provides high-speed internet connections, educational and cultural programs for all ages, and meeting rooms for community groups. In fiscal year 2010-11, the library offered 518 programs which were attended by 7,829 people, the meeting rooms were used 825 times by a total of 8,125 people, and library staff answered 9,298 reference questions.

Educational System

The Colchester school system services grades pre-kindergarten through twelve and is governed by the local Board of Education. Colchester has a seven-member Board of Education elected to four-year staggered terms. The primary function of the Board is to establish policy. Some of the areas for which such policies are set include curriculum, budget requests submission, ensuring funds for education as appropriated by the Town are properly expended, implementation of State and Federal laws, and planning for facilities needed by the system, including construction and renovation. The Town has two elementary schools, one middle school, and one high school. Enrollment in the system as of October 1, 2011 was 3,018 with an operating capacity of 3,563.

School Facilities

<u>School</u>	<u>Grade</u>	<u>Date of Construction (additions)</u>	<u>Type of Construction</u>	<u>Number of Classrooms¹</u>	<u>Enrollment as of 10/1/11</u>	<u>Operating Capacity¹</u>
Colchester Elementary	Pre-K-2	2006	Brick	58	680	833
Jack Jackter Intermediate ...	3-5	1966 (1976, 2005)	Brick	61	654	850
William J. Johnston	6-8	1954 (1966, 1982, 1989)	Brick	69	700	880
Bacon Academy	9-12	1993	Brick	<u>79</u>	<u>984</u>	<u>1,000</u>
Total				267	3,018	3,563

¹ Twelve portable classrooms are being used at Bacon Academy to accommodate student enrollment.

School Enrollment

<u>As of October 1</u>	<u>Grades Pre-K-3</u>	<u>Grades 4-5</u>	<u>Grades 6-8</u>	<u>Grades 9-12</u>	<u>Total¹</u>
<i>Historical</i>					
2002	1,035	512	739	881	3,167
2003	1,016	516	753	879	3,164
2004	944	526	776	913	3,159
2005	957	532	769	962	3,220
	<u>Grades Pre-K-2</u>	<u>Grades 3-5</u>	<u>Grades 6-8</u>	<u>Grades 9-12</u>	<u>Total¹</u>
2006 ²	750	733	797	972	3,252
2007	770	683	800	979	3,232
2008	738	709	762	974	3,183
2009	732	706	762	1,004	3,204
2010	697	689	702	993	3,081
2011	680	654	700	984	3,018
<i>Projected</i>					
2012	609	640	695	965	2,909
2013	570	615	685	929	2,799
2014	566	584	652	904	2,706
2015	584	516	638	897	2,635

¹ Includes Special Education students.

³ Effective for school year 2006-07, grade configuration is pre-K-2, 3-5, 6-8 and 9-12.

Municipal Employees

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
General Government	105	106	105	103	100	103
Board of Education	<u>443</u>	<u>442</u>	<u>450</u>	<u>450</u>	<u>442</u>	<u>436</u>
Total	548	548	555	553	542	539

Employees Bargaining Organizations

<u>Employees</u>	<u>Bargaining Unit</u>	<u>Number of Members</u>	<u>Contract Expiration Date</u>
Teachers	Colchester Federation of Teachers, Local 1827 American Federation of Teachers, AFT-CT, AFL-CIO	261	06/30/13
Custodians	Local 1303-77, Council #4, AFL-CIO	33	06/30/13
Central Office (non-certified)	Local 818, Council #4, AFSCME, AFL-CIO	7	06/30/12
Nurses	United Professional and Service Employees Union, Local 1222	6	06/30/12
Education (Paraprofessionals and Cafeteria Workers)	Colchester Federation of Education Personnel, Local 3279, AFT-CT, AFL-CIO	93	06/30/12
Education (Office Professionals)	Local 1303-450, Council #4, AFSCME, AFL-CIO (Office Professionals)	20	06/30/13
School Administrators	Colchester Association of School Administrators	11	06/30/14
Public Works	Municipal Employees Union Independent, Local 506, SEIU, AFL-CIO, CLC	22	06/30/13
Town Clerical Workers	Local 1303-254, Council #4, AFSCME/AFL-CIO	14	06/30/14
Library	Local 1303-448, Council #4, AFSCME/ AFL-CIO	6	06/30/13
Fire/Ambulance	Colchester Firefighters Union, UPPFA, IAFF, Local 3831	6	06/30/12
Town Administrators	Municipal Employees Union Independent, Local 506, SEIU, AFL-CIO, CLC	12	06/30/14
Police	Colchester Police Local 2693T, AFSCME, Council #15	11	06/30/15

¹ In negotiation.

General Statutes Sections 7-473c, 7-474 and 10-153a to 10-153n provide a procedure for binding arbitration of collective bargaining agreements between municipal employers and organizations representing municipal employees, including certified teachers and certain other employees. The legislative body of a municipal entity may reject an arbitration panel’s decision by a two-thirds majority vote. The State of Connecticut and the employee organization must be advised in writing of the reasons for rejection. The State then appoints a new panel of either one or three arbitrators to review the decisions on each of the rejected issues. The panel must accept the last best offer of either party. In reaching its determination, the arbitration panel gives priority to the public interest and the financial capability of the municipal employer, including consideration of other demands on the financial capability of the municipal employer. Effective October 1, 1997, for binding arbitration of teachers’ contracts, in assessing the financial capability of a municipal entity, there is an irrefutable presumption that a budget reserve of 5% or less is not available for payment of the cost of any item subject to arbitration. In the light of the employer’s financial capability, the panel considers prior negotiations between the parties, the interests and welfare of the employee group, changes in the cost of living, existing employment conditions, and the wages, salaries, fringe benefits, and other conditions of employment prevailing in the labor market, including developments in private sector wages and benefits.

SECTION III - DEMOGRAPHIC AND ECONOMIC DATA SECTION

Current Economic Information

While Colchester remains a semi-rural residential community, the Town has focused on increasing its non-residential resources. Since 2000, Colchester's residential growth has remained constant, although at a slower pace than experienced in the 1980s and 1990s. The Town grew annually by approximately 300 people between 1990 and 2000 as compared to 100 people annually between 2000 and 2010. This trend is projected to continue as several large subdivisions will continue to build out. In July 2011, the two largest permitted residential developments (White Oak Farm and the Northwood Project) in the Town began new phases of development. Average home prices have been stable with the median sale price of \$240,000, in the top half of the State average.

Strategically the Town has sought to focus on non-residential growth in a smart growth and designed focused manner, and is developing a new land development regulation that reflects that philosophy. The new product will respond to contemporary development needs by focusing on design and other performance requirements rather than restrictive proscriptive standards. Included in the strategy to develop non-residential lands were firm commitments to provide water and sewer infrastructure to certain growth areas of the Town over the next 10 years. A master infrastructure plan was completed that addressed the phased expansion of the water and sewer system to serve future non-residential development including design and costing of required pump stations, pipe sizes and specifications, other infrastructure needed and costs for each phase of the expansion. The first phase of the water/sewer expansion program will commence construction in spring 2012 and be completed in nine months.

A 40,000-square-foot retail development and a 50,000-square-foot State maintenance facility are slated to begin construction in spring 2012 as well. The State facility will include construction of a regional truck and equipment facility to replace several outdated ones. The retail development will include a 40,000-square-foot building with an additional 10,000-square-foot building pad for expansion. During the four-year period 2007 to 2011, over 40,000 square feet of commercial development was developed and 375,000 square feet of commercial development was approved and permitted, including a retail center.

The Town also is 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, the Colchester Bakery and the Airline Trail, a major rails to trails facility, has been targeted for streetscape and lighting improvements. Several historic facilities in the downtown historical district are currently being renovated including extensive landscaping. The Stop & Shop center will expand with an additional 30,000 square feet of retail/restaurant space, and the Galaxy Shoppes (35,000 square feet) has leased 33% of their space over the last twelve months. The Town is also working with two existing manufacturers to develop larger spaces to house their expanding business, including new developments of 80,000 square feet and 120,000 square feet, respectively. Those developments are now in the process of being permitted.

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, and egg farming. The Town recently adopted a "right to farm" regulation and has developed a "made in Colchester" marketing program. There are also firm plans to develop a farming corridor along Westchester Road as there are numerous agriculture interests that are serving wholesale and drive-in retail clients.

Population and Density

<u>Year</u>	<u>Population¹</u>	<u>Percent Change</u>	<u>Density²</u>
2010	16,068	10.4	327
2000	14,551	32.5	296
1990	10,980	41.5	224
1980	7,761	17.5	158
1970	6,603	42.1	134
1960	4,648	--	95

¹Source: U.S. Department of Commerce, Bureau of Census, Census of Population 1960–2010.

²Source: Connecticut State Register and Manual, 49.1 square miles.

Age Distribution of the Population

<u>Age¹</u>	<u>Town of Colchester</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Under 5 years	892	5.6	202,106	5.7
5 to 9 years	1,168	7.3	222,571	6.2
10 to 14 years	1,356	8.4	240,265	6.7
15 to 19 years	1,195	7.4	250,834	7.0
20 to 24 years	754	4.7	227,898	6.4
25 to 34 years	1,468	9.1	420,377	11.8
35 to 44 years	2,489	15.5	484,438	13.5
45 to 54 years	3,157	19.6	575,597	16.1
55 to 59 years	1,023	6.4	240,157	6.7
60 to 64 years	840	5.2	203,295	5.7
65 to 74 years	933	5.8	254,944	7.1
75 to 84 years	509	3.2	166,717	4.7
85 years and over	<u>284</u>	<u>1.8</u>	<u>84,898</u>	<u>2.4</u>
Total	16,068	100.0	3,574,097	100.0
2010 median age (years) ¹	40.6	-	40.0	-
2000 median age (years) ²	35.3	-	37.4	-

Sources: ¹U.S. Department of Commerce, Bureau of Census, 2010 Census.

²U.S. Department of Commerce, Bureau of Census, 2000 Census.

Income Distribution

	<u>Town of Colchester</u>		<u>State of Connecticut</u>	
	<u>Families</u>	<u>Percent</u>	<u>Families</u>	<u>Percent</u>
\$ 0 – 9,999	56	1.4	33,423	3.8
10,000 – 14,999	70	1.7	23,593	2.7
15,000 – 24,999	177	4.4	63,262	7.1
25,000 – 34,999	282	7.0	75,413	8.5
35,000 – 49,999	529	13.1	120,134	13.6
50,000 – 74,999	989	24.6	198,924	22.5
75,000 – 99,999	861	21.4	141,981	16.0
100,000 – 149,999	779	19.3	132,177	14.9
150,000 – 199,999	163	4.0	42,472	4.8
200,000 and over	<u>123</u>	<u>3.1</u>	<u>54,368</u>	<u>6.1</u>
Total	4,029	100.0	885,747	100.0

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

Comparative Income Measures

	<u>Town of Colchester</u>	<u>State of Connecticut</u>
Per capita income, 1999	\$27,038	\$28,766
Median family income, 1999	\$72,346	\$65,521
Median household income, 1999	\$64,807	\$53,935
Percent below poverty, 1999 (families)	2.1%	5.6%

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

Educational Attainment

Years of School Completed – Age 25 and Over

	<u>Town of Colchester</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than 9 th grade	307	3.2	132,917	5.8
9 th to 12 th grade, no diploma	707	7.4	234,739	10.2
High school graduate	2,576	26.9	653,300	28.5
Some college, no degree	2,046	21.4	402,741	17.5
Associate's degree	918	9.6	150,926	6.6
Bachelor's degree	2,084	21.7	416,751	18.2
Graduate or professional degree	938	9.8	304,243	13.2
Total	9,576	100.0	2,295,617	100.0
Total high school graduate or higher	-	89.4	-	84.0
Total bachelor's degree or higher	-	31.6	-	31.4

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

Labor Force Data

<u>Reporting</u> <u>Period</u>	<u>Labor</u> <u>Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Unemployment Rate</u>		
				<u>Town of</u> <u>Colchester</u>	<u>Hartford</u> <u>Labor</u> <u>Market</u>	<u>State of</u> <u>Connecticut</u>
December 2011	9,086	8,476	610	6.7	7.6	7.6
2010	9,075	8,350	725	8.0	9.2	9.1
2009	9,057	8,405	652	7.2	8.3	8.2
2008	8,936	8,487	449	5.0	5.8	5.7
2007	8,756	8,432	324	3.7	4.7	4.6
2006	8,639	8,312	327	3.8	4.5	4.4
2005	8,515	8,156	359	4.2	5.1	4.9
2004	8,414	8,044	370	4.4	5.2	4.9
2003	8,352	7,967	385	4.6	5.7	5.5
2002	8,297	7,990	307	3.7	4.5	4.4
2001	8,173	7,975	198	2.4	3.2	3.1

Source: State of Connecticut, Labor Department, Office of Research.

Industry Classification

<u>Sector</u>	<u>Town of Colchester</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Agriculture, forestry, fishing, hunting, and mining.....	36	0.5	7,445	0.4
Construction	509	6.5	99,913	6.0
Manufacturing	912	11.7	246,607	14.8
Wholesale trade	221	2.9	53,231	3.2
Retail trade	1,126	14.5	185,633	11.2
Transportation, warehousing and utilities	469	6.0	64,662	3.9
Information	118	1.5	55,202	3.3
Finance, insurance, real estate and leasing	694	8.9	163,568	9.8
Professional, scientific, management, administrative and waste management	725	9.3	168,334	10.1
Educational, health and social services	1,559	20.0	366,568	22.0
Arts, entertainment, recreation, accommodation and food services	601	7.7	111,424	6.7
Other services	363	4.7	74,499	4.5
Public administration	<u>453</u>	<u>5.8</u>	<u>67,354</u>	<u>4.1</u>
Total	7,786	100.0	1,664,440	100.0

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

Major Employers

The following are the largest employers in the Town of Colchester.

<u>Employer</u>	<u>Nature of Business</u>	<u>Approximate Number of Employees</u>
Town of Colchester	Municipal government	548
S&S Worldwide.....	Arts & crafts manufacturing	300
Genesis Health Care	Nursing home	265
Stop & Shop	Supermarket	220
Harrington Court	Convalescent/nursing home	180
Liberty Specialty Care Center	Convalescent/nursing home	120
Alpha Q	Aerospace manufacturing	75
Icord	Manufacturing	75
Connecticut State Police	Law enforcement	60

Commute to Work

16 years of age and over

	<u>Town of Colchester</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Drove alone	6,580	85.4	1,312,700	80.0
Car pools	728	9.5	154,400	9.4
Using public transportation	90	1.2	65,827	4.0
Using other means	34	0.4	12,130	0.7
Walked or worked at home	<u>272</u>	<u>3.5</u>	<u>95,766</u>	<u>5.9</u>
Total	7,704	100.0	1,640,823	100.0
Mean travel to work (minutes)	29.6	-	24.4	-

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

Age Distribution of Housing

<u>Household Characteristics</u>	<u>Town of Colchester</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Built in 1939 or earlier	696	12.9	308,896	22.3
Built in 1940-1969	1,303	24.1	571,218	41.2
Built in 1970-1979	890	16.5	203,377	14.7
Built in 1980-1989	1,267	23.4	183,405	13.2
Built in 1990-1994	618	11.4	56,058	4.0
Built in 1995-March 2000	<u>633</u>	<u>11.7</u>	<u>63,021</u>	<u>4.6</u>
Total	5,407	100.0	1,385,975	100.0

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

Housing Units by Type of Structure

<u>Household Characteristics</u>	<u>Town of Colchester</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Single-family detached	3,993	73.8	816,706	58.9
Single-family attached	135	2.5	71,185	5.1
Multifamily	1,160	21.5	485,890	35.1
Mobile home, trailer, or other	<u>119</u>	<u>2.2</u>	<u>12,194</u>	<u>0.9</u>
Total	5,407	100.0	1,385,975	100.0

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

Housing Unit Vacancy Rates

<u>Housing Units</u>	<u>Town of Colchester</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Occupied housing units	5,225	96.6	1,301,670	93.9
Vacant housing units	<u>182</u>	<u>3.4</u>	<u>84,305</u>	<u>6.1</u>
Total units	5,407	100.0	1,385,975	100.0
Homeowner vacancy rate	-	0.9	-	1.1
Rental vacancy rate	-	4.5	-	5.6

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

Owner-occupied Housing Units

	<u>Town of Colchester</u>	<u>State of Connecticut</u>
Total owner-occupied units	4,027	869,729
Persons per unit	2.91	2.67
Mean number of rooms	6.0	5.6

<u>Specified Owner-occupied Units</u>	<u>Town of Colchester</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than \$50,000	72	2.1	5,996	0.8
\$ 50,000 to \$ 99,999	165	4.8	85,221	11.7
\$100,000 to \$149,999	1,242	35.8	212,010	29.1
\$150,000 to \$199,999	1,238	35.7	156,397	21.5
\$200,000 to \$299,999	660	19.0	137,499	18.9
\$300,000 to \$499,999	68	1.9	79,047	10.9
\$500,000 or more	<u>26</u>	<u>0.7</u>	<u>52,074</u>	<u>7.1</u>
Total	3,471	100.0	728,244	100.0
Median value	\$160,400	-	\$166,900	-

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

Number and Size of Households

<u>Household Characteristics</u>	<u>Town of Colchester</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Persons per household (average)	2.68	-	2.52	-
Persons per family	3.11	-	3.08	-
Family households	4,391	74.2	908,661	66.3
Non-family households	<u>1,524</u>	<u>25.8</u>	<u>462,426</u>	<u>33.7</u>
All households	5,915	100.0	1,371,087	100.0
Family households by type				
Married couple	3,571	81.3	672,013	73.9
Female householders, no spouse	590	13.4	176,973	19.5
Other	<u>230</u>	<u>5.3</u>	<u>59,675</u>	<u>6.6</u>
Total family households	4,391	100.0	908,661	100.0
Non-family households by type				
Householders living alone	1,206	79.1	373,648	80.8
Other	<u>318</u>	<u>20.9</u>	<u>88,778</u>	<u>19.2</u>
Total non-family households	1,524	100.0	462,426	100.0

Source: U.S. Department of Commerce, Bureau of Census, 2010 Census.

New Construction Building Permits

<u>Fiscal Year</u>	<u>Residential</u>		<u>Commercial/Industrial</u>		<u>Total</u>	
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>
2012 ¹	292	\$ 1,442,820	18	\$ 3,064,385	310	\$ 4,507,205
2011	554	9,057,441	29	1,960,399	583	11,017,840
2010	533	17,262,738	54	731,554	587	17,994,292
2009	578	8,363,696	58	2,419,565	636	10,783,261
2008	653	10,463,971	93	6,140,963	746	16,604,934
2007	571	15,351,726	77	1,928,394	648	17,280,120
2006	769	25,081,126	67	2,922,772	836	28,003,898
2005	582	17,702,851	32	22,239,474 ²	614	39,942,325
2004	657	17,949,776	13	2,820,000	670	20,769,776
2003	628	15,147,353	11	2,297,856	639	17,445,209
2002	645	19,577,358	14	2,702,395	659	22,279,753

¹July 1, 2011 through December 14, 2011.

²Includes permit in the amount of \$20,945,000 for new pre-K-2 school.

Source: Town of Colchester, Building Department.

Breakdown of Land Use

<u>Land Use Category</u>	<u>Number of Acres</u>	<u>Percent</u>
Residential	8,590	27.3
Commercial.....	350	1.1
Industrial	50	0.2
Institutional/Utility	565	1.8
Mixed use	45	0.1
Transportation	<u>1,850</u>	<u>5.9</u>
Total developed	11,450	36.4
Open space	5,425	17.2
Agricultural/undeveloped	<u>14,607</u>	<u>46.4</u>
Total	31,482	100.0

Source: Town of Colchester, Planning & Code Administration Department.

SECTION IV - DEBT SECTION

**Debt Summary
Pro Forma
As of March 1, 2012**

Outstanding Short-term Debt

As of March 1, 2012, the Town does not have any short-term debt outstanding.

Outstanding Bonded Debt¹

<u>Dated Date</u>	<u>Final Maturity</u>	<u>Purpose</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
08/01/02	06/15/12	Various purpose	3.00-4.70	\$ 5,985,000	\$ 270,000
08/01/02	06/15/12	Refunding	2.00-4.50	5,180,000	465,000
11/01/02	01/15/13	Refunding	3.00-4.00	1,370,000	25,000
06/15/05	06/15/15	Various purpose	3.25-4.50	10,800,000	2,175,000
07/31/09	07/31/28	Drinking Water Fund	2.12	2,496,990	2,102,871
06/03/10	06/01/21	Various purpose	2.25-5.00	6,595,000	6,595,000
03/01/12	06/15/25	This issue	2.00-4.00	8,400,000	<u>8,400,000</u>
Total					<u>\$20,032,871</u>

¹Excludes the Refunded Bonds.

Drinking Water State Revolving Fund Program

The Town is a participant in the State of Connecticut's Drinking Water State Revolving Fund Program (General Statutes Sections 22a-475 et seq., as amended), which provides financial assistance to the Town through loans at a rate of 2.12% per annum.

Loans to each municipality are made pursuant to a Project Loan Agreement. Each municipality is obligated to repay only that amount that it draws down for the payment of project costs (Interim Funding Obligation). Each municipality must deliver to the State an obligation secured by the full faith and credit of the municipality and/or a dedicated source of revenue of such municipality.

Amortization of each loan is required to begin one year from the earlier of the project's scheduled completion date specified in the Loan Agreement or the actual project completion date. The final maturity of each loan is 20 years from the scheduled completion date. Principal and interest payments are payable 1) in equal monthly installments commencing one month after the scheduled completion date, or 2) in a single annual installment representing 1/20 of total principal not later than one year from the project's scheduled completion date specified in the Loan Agreement, and thereafter in monthly installments. Borrowers may elect to make level debt service payments or level principal payments. Borrowers may prepay their loans at any time prior to maturity without penalty.

Overlapping/Underlying Debt

The Town does not have any overlapping or underlying debt.

Bonded Debt Maturity Schedule¹
Pro Forma
As of March 1, 2012

<u>Fiscal Year Ending</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total Payments</u>	<u>This Issue</u>	<u>Cumulative Percent of Principal Retired</u>
2012 ²	\$ 2,035,830	\$ 193,872	\$ 2,229,702	\$ -	10.16
2013	1,389,020	334,791	1,723,811	320,000	18.69
2014	1,366,354	283,982	1,650,336	320,000	27.11
2015	1,343,738	243,848	1,587,586	320,000	35.42
2016	796,173	196,414	992,587	850,000	43.63
2017	798,660	166,727	965,387	835,000	51.79
2018	796,200	136,987	933,187	850,000	60.01
2019	793,794	108,642	902,436	825,000	68.09
2020	796,445	72,492	868,937	820,000	76.16
2021	519,151	36,285	555,436	810,000	82.79
2022	131,916	19,870	151,786	800,000	87.44
2023	134,740	17,046	151,786	560,000	90.91
2024	137,625	14,162	151,787	550,000	94.34
2025	140,571	11,216	151,787	540,000	97.74
2026	143,580	8,206	151,786	-	98.46
2027	146,654	5,133	151,787	-	99.19
2028	149,793	1,993	151,786	-	99.94
2029	<u>12,627</u>	<u>22</u>	<u>12,649</u>	<u>-</u>	100.00
Total	<u>\$11,632,871</u>	<u>\$1,851,688</u>	<u>\$13,484,559</u>	<u>\$8,400,000</u>	

¹Excludes the Refunded Bonds.

²Excludes \$630,906 principal payments and \$390,559 interest payments made from July 1, 2011 through March 1, 2012.

**THE TOWN OF COLCHESTER HAS NEVER DEFAULTED IN THE PAYMENT OF ITS
DEBT OBLIGATIONS EITHER AS TO PRINCIPAL OR INTEREST**

**Current Debt Statement
Pro Forma
As of March 1, 2012**

Bonded debt ¹	
This issue	\$ 8,400,000
General purpose	5,683,771
Schools	<u>5,949,100</u>
Total bonded debt	20,032,871
Short-term debt	<u>-</u>
Total overall debt	20,032,871
Less State school grants receivable	<u>283,129</u>
Total overall net debt	\$19,749,742

¹Excludes the Refunded Bonds.

**Current Debt Ratios
Pro Forma
As of March 1, 2012**

Population, 2010 ¹	16,068
Per capita income, 1999 ¹	\$27,038
Net taxable grand list, 10/1/10	\$1,297,281,494
Estimated full value @ 70%	\$1,853,259,277
Equalized net grand list (2009) ²	\$1,752,181,106

	Overall Debt	Overall Net Debt
	<u>\$20,032,871</u>	<u>\$19,749,742</u>
Per capita	\$1,246.76	\$1,229.14
To net taxable grand list	1.54%	1.52%
To estimated full value	1.08%	1.07%
To equalized net grand list	1.14%	1.13%
Ratio of debt per capita to per capita income	4.61%	4.55%

¹Source: U.S. Department of Commerce, Bureau of Census, 2010 Census.

²State of Connecticut, Office of Policy and Management.

**Statement of Statutory Debt Limitation
Pro Forma
As of March 1, 2012**

Debt Limitation Base

Total tax collections, including interest and lien fees, for the fiscal year ended June 30, 2011	\$32,565,863
Reimbursement for elderly tax relief	<u>2,000</u>
Debt Limitation Base	\$32,567,863

Debt Margin

<u>Debt Limitation by Purpose</u>	<u>General Purpose</u>	<u>Schools</u>	<u>Sewers</u>	<u>Urban Renewal</u>	<u>Pension Deficit Funding</u>
2.25 x base	\$73,277,692				
4.50 x base	-	\$146,555,384			
3.75 x base	-	-	\$122,129,486		
3.25 x base	-	-	-	\$105,845,555	
3.00 x base	-	-	-	-	\$97,703,589
Total debt limitation	<u>73,277,692</u>	<u>146,555,384</u>	<u>122,129,486</u>	<u>105,845,555</u>	<u>97,703,589</u>
Less indebtedness: ¹					
This issue	60,200	8,339,800	-	-	-
Bonds payable	3,555,900 ²	5,949,100	-	-	-
Bonds authorized but unissued	<u>140,000</u>	<u>63,741</u>	-	-	-
Total overall debt	3,756,100	14,352,641	-	-	-
Less school construction grants receivable	-	<u>283,129</u>	-	-	-
Total overall net debt	3,756,100	14,069,512	-	-	-
Debt limitation in excess of outstanding and authorized debt	\$69,521,592	\$132,485,872	\$122,129,486	\$105,845,555	\$97,703,589

¹ Does not include the Refunded Bonds.

² \$2,127,871 water bonds excluded by statute.

The General Statutes require that in no event shall the total debt for the Town of Colchester exceed seven (7) times the annual receipts from taxation. Maximum debt for the Town of Colchester under this formula is \$227,975,041.

Five-year Debt Statement Summary

	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2006-07</u>
Population ¹	16,068	16,068	15,685	15,578	15,495
Net taxable grand list	\$1,297,281,494	\$1,268,713,175	\$1,249,468,721	\$1,223,766,001	\$860,496,640
Estimated full value	\$1,853,259,277	\$1,812,447,393	\$1,784,955,316	\$1,748,237,144	\$1,229,280,914
Equalized net taxable grand list ²	\$1,752,181,106	\$1,752,979,789	\$1,851,878,356	\$1,750,253,359	\$1,865,719,425
Per capita income ³	\$27,038	\$27,038	\$27,038	\$27,038	\$27,038
Short-term debt	\$ -	\$ -	\$ 2,425,524	\$ 1,895,061	\$ -
Bonded debt	<u>20,363,776</u>	<u>23,403,275</u>	<u>21,515,000</u>	<u>24,620,000</u>	<u>28,195,000</u>
Overall debt	20,363,776	23,403,275	23,940,524	26,515,061	28,195,000
Less school construction grants	<u>575,757</u>	<u>1,462,261</u>	<u>2,348,014</u>	<u>3,248,571</u>	<u>4,371,899</u>
Overall net debt	\$19,788,019	\$21,941,014	\$21,592,510	\$23,266,490	\$23,823,101

¹ State of Connecticut, Department of Public Health estimates for 2007-2009; U.S. Department of Commerce, Bureau of Census, 2010 Census for 2010 and 2011.

² State of Connecticut, Office of Policy and Management.

³ U.S. Department of Commerce, Bureau of Census, 2000 Census.

Five-year Debt Statement Summary Ratios

	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2006-07</u>
Overall debt:					
Per capita	\$1,267.35	\$1,456.51	\$1,536.82	\$1,702.08	\$1,819.62
To net taxable grand list	1.60%	1.84%	1.92%	2.17%	3.28%
To estimated full value	1.12%	1.29%	1.34%	1.52%	2.29%
To equalized net taxable grand list	1.16%	1.34%	1.29%	1.51%	1.51%
Overall debt per capita to per capita income	4.69%	5.39%	5.68%	6.30%	6.73%
Overall net debt:					
Per capita	\$1,231.52	\$1,365.51	\$1,386.09	\$1,493.55	\$1,537.47
To net taxable grand list	1.55%	1.73%	1.73%	1.90%	2.77%
To estimated full value	1.09%	1.21%	1.21%	1.33%	1.94%
To equalized net taxable grand list	1.13%	1.25%	1.17%	1.33%	1.28%
Overall net debt per capita to per capita income	4.55%	5.05%	5.13%	5.52%	5.69%

Comparison of Annual Debt Service to General Fund Expenditures and Transfers Out

<u>Fiscal Year Ended June 30</u>	<u>Debt Service</u>	<u>Total Expenditures and Transfers Out</u>	<u>Debt Service as Ratio to Total Expenditures and Transfers Out</u>
2011	\$3,693,538	\$50,427,195	7.32
2010	3,690,958	48,860,187	7.55
2009	3,945,936	50,340,124	7.84
2008	4,568,424	49,236,504	9.28
2007	5,021,082	47,851,150	10.49
2006	4,835,558	44,680,522	10.82

**Authorized but Unissued Debt
Pro Forma
As of March 1, 2012**

<u>Project</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Bonds Issued</u>	<u>Grants/ Paydowns</u>	<u>Authorized but Unissued¹</u>
Portable classrooms	05/09/06	\$ 850,000	\$ 425,000	\$401,259	\$ 23,741
Fire engine tanker	05/12/09	760,000	720,000	-	40,000
Road improvements	05/12/09	560,000	515,000	-	45,000
Ambulance	05/12/09	280,000	225,000	-	55,000
Bacon Academy track	05/12/09	<u>680,000</u>	<u>640,000</u>	<u>-</u>	<u>40,000</u>
Total		<u>\$3,130,000</u>	<u>\$2,525,000</u>	<u>\$401,259</u>	<u>\$203,741</u>

¹ Does not include Refunding Bonds.

Authority to Incur Debt

The Town has the power to incur indebtedness as provided by the Connecticut General Statutes and the Town Charter. The issuance of bonds and notes in excess of 1.0% of the combined Town budget, excluding the Board of Education, is approved at a referendum by the voters of the Town.

When general obligation bonds have been authorized, bond anticipation notes may be issued maturing in not more than two years (CGS Sec. 7-378). Temporary notes may be renewed up to ten years from their original date of issue as long as all project grant payments are applied toward payment of temporary notes when they become due and payable, and the legislative body schedules principal reductions by the end of the third year and for each subsequent year during which such temporary notes remain outstanding in an amount equal to a minimum of 1/20th (1/30th for sewer projects and certain school projects) of the estimated net project cost (CGS Sec. 7-378a). The term of the bond issue is reduced by the amount of time temporary financing exceeds two years.

Temporary notes must be permanently funded no later than ten years from their initial borrowing date, except for sewer notes issued in anticipation of State and/or Federal grants. If a written commitment exists, the municipality may renew the sewer notes from time to time in terms not to exceed six months until such time that the final grant payments are received (CGS Sec. 7-378b).

Temporary notes may also be issued for up to 15 years for certain capital projects associated with the operation of a waterworks system (CGS Sec. 7-244a) or a sewage system (CGS Sec. 7-264a). In the first year following the completion of the project(s), or in the sixth year following the original date of issue (whichever is sooner), and in each year thereafter, the notes must be reduced by 1/15th of the total amount of the notes issued by funds derived from certain sources of payment specified by statute. Temporary notes may be issued in one-year maturities for up to 15 years in anticipation of sewer assessments receivable, such notes to be reduced annually by the amount of assessments received during the preceding year (CGS Sec. 7-269a).

SECTION V - FINANCIAL SECTION

Comparative Assessed Valuations

<u>Grand List of 10/1</u>	<u>Residential Real Property Percent</u>	<u>Commercial and Industrial Real Property Percent</u>	<u>All Land Percent</u>	<u>Personal Property Percent</u>	<u>Motor Vehicle Percent</u>	<u>Gross Taxable Grand List</u>	<u>Less Exemptions</u>	<u>Net Taxable Grand List</u>	<u>Percent Change</u>
2010	78.1	7.9	2.8	2.8	8.4	\$1,305,253,481	\$7,971,987	\$1,297,281,494	1.7
2009	78.1	7.9	3.1	2.7	8.2	1,283,291,579	7,930,076	1,275,361,503	0.6
2008	77.6	7.9	3.4	3.0	8.1	1,275,129,999	6,881,344	1,268,248,655	1.5
2007	77.1	7.8	3.2	3.1	8.8	1,254,720,501	5,251,780	1,249,468,721	2.1
2006	77.3	7.9	3.0	3.2	8.6	1,229,580,391	5,814,390	1,223,766,001	42.2
2005	72.7	8.2	3.0	4.2	11.9	866,314,163	5,817,523	860,496,640	-

The latest revaluation was completed and became effective October 1, 2006 for the fiscal year 2007-08.

Principal Taxpayers

<u>Name</u>	<u>Nature of Business</u>	<u>Taxable Valuation As of 10/1/10</u>	<u>Percent of Net Taxable Grand List¹</u>
Country Place of Colchester LTD Partners	Housing development	\$10,554,500	0.81
Connecticut Light & Power Co.	Utility	10,114,560	0.78
SSI Colchester LLC	Grocery store	8,104,000	0.62
Genesis Health Ventures of Bloomfield Inc.	Convalescent home	4,270,300	0.33
EANHoldings LLC	Leasing company	4,231,850	0.33
Alpha Q Inc.	Aerospace manufacturing	4,154,530	0.32
White Oak Development LLC	Housing development	3,901,660	0.30
S & S Worldwide Inc.	Shopping center	3,832,700	0.30
GAIA Colchester LLC	Manufacturing and distribution center	3,768,900	0.29
GND TOO of Colchester LLC	Apartments	<u>3,394,800</u>	<u>0.26</u>
Total		\$56,327,800	4.34

¹ Based on 10/1/10 Net Taxable Grand List of \$1,297,281,494.

Property Tax Levies and Collections

<u>Fiscal Year Ended 6/30</u>	<u>Net Taxable Grand List (000s)</u>	<u>Mill Rate</u>	<u>Total Adjusted Tax Levy</u>	<u>Percent of Annual Levy Collected at End of Fiscal Year</u>	<u>Percent of Annual Levy Uncollected at End of Fiscal Year</u>	<u>Percent of Annual Levy Uncollected as of 6/30/11</u>
2012	\$1,297,281	25.85	\$33,774,921	n/a	n/a	n/a
2011	1,275,362	25.07	32,238,714	98.6	1.4	1.38
2010	1,268,249	23.65	30,066,131	98.3	1.7	0.35
2009	1,249,469	23.01	28,929,185	98.4	1.6	0.33
2008	1,223,766	23.01	28,443,115	97.7	2.3	0.30
2007	860,497	32.47	28,363,487	97.4	2.6	0.41
2006	826,761	31.75	26,735,437	97.8	2.2	0.30

Property Taxes Receivable

<u>Fiscal Year Ended 6/30</u>	<u>Current Year</u>	<u>Total</u>
2011	\$445,114	\$1,199,917
2010	515,724	1,322,451
2009	460,310	992,432
2008	649,318	1,337,117
2007	725,263	1,292,366
2006	578,155	1,014,536

Intergovernmental Revenues as a Percent of Total Revenues

<u>Fiscal Year Ended 6/30</u>	<u>Intergovernmental Revenues</u>	<u>Total Revenues</u>	<u>Percent</u>
2011	\$16,821,153	\$50,665,236	33.2
2010	16,597,510	48,331,453	34.3
2009	18,522,145	49,427,283	37.5
2008	18,442,383	49,025,836	37.6
2007	16,604,214	46,878,639	35.4
2006	16,388,691	45,128,949	36.3

Capital Improvement Program

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
<i>Sources of funds</i>					
Local sources	\$597,800	\$1,077,875	\$ 1,137,400	\$ 681,000	\$ 706,600
General obligation bonds		5,475,000	13,077,500	13,077,500	-
State/Federal grants	165,000	140,000	140,000	145,000	145,000
Capital lease.....	<u>235,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total sources	\$997,800	\$6,692,875	\$14,354,900	\$13,903,500	\$851,600
<i>Uses of funds</i>					
General government	\$134,000	\$ 944,750	\$ 132,750	\$ 168,550	\$130,550
Public safety	33,300	1,710,725	178,500	58,500	153,000
Public works	477,000	3,981,900	792,150	570,950	498,050
Community services	33,000	55,500	5,906,500	5,934,500	70,000
Education	<u>320,500</u>	<u>-</u>	<u>7,345,000</u>	<u>7,171,000</u>	<u>-</u>
Total uses	\$997,800	\$6,692,875	\$14,354,900	\$13,903,500	\$851,600

The 2012-13 fiscal year includes a proposed bond issue for the replacement of fire apparatus, road reconstruction, and open space/land acquisition. Resolutions are expected to go to referendum to obtain authorization this spring. The 2013-14 and 2014-15 fiscal years include a \$26.155 million school/community center project. The project is currently in the planning stages. A building committee has been appointed to research the project and ultimately bring it to referendum.

Financial Statements and Schedules

The comparative balance sheets and statements of revenues, expenditures, and changes in fund balance for the General Fund presented herein are derived from audited financial statements for fiscal years ended June 30, 2007 through 2011. The Town has provided budgetary information for fiscal year 2011-12. The Town's independent auditors have not examined, reviewed, or compiled any of the estimates or expressed any opinion or provided any other form of assurance with respect to such estimates, and, accordingly, assume no responsibility for them. The financial information presented herein is the responsibility of the Town's management.

Comparative Balance Sheets

	<u>6/30/11</u>	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/08</u>	<u>6/30/07</u>
Assets					
Cash and cash equivalents	\$4,790,571	\$4,297,125	\$4,714,414	\$ 6,469,444	\$ 6,640,799
Property taxes receivable	1,043,312	1,261,935	1,135,265	1,555,364	1,202,457
Accounts receivable	38,616	61,386	5,213	17,423	24,819
Due from other governments	695,253	1,580,945	2,467,926	3,368,407	4,371,899
Inventory	8,162	22,906	24,290	55,458	31,180
Prepaid expenditures	15,578	-	-	-	-
Total assets	<u>\$6,591,492</u>	<u>\$7,224,297</u>	<u>\$8,347,108</u>	<u>\$11,466,096</u>	<u>\$12,271,154</u>
Liabilities and fund balance					
Liabilities					
Accounts payable and accrued liabilities	\$1,507,965	\$1,307,985	\$1,117,429	\$ 2,044,424	\$ 1,780,668
Deferred revenue	1,468,202	2,539,028	3,323,661	4,602,813	5,424,291
Advance tax collections	-	-	-	-	36,668
Total liabilities	<u>2,976,167</u>	<u>3,847,013</u>	<u>4,441,090</u>	<u>6,647,237</u>	<u>7,241,627</u>
Fund balance¹					
Nonspendable	23,740	22,906	24,290	55,458	31,180
Committed	32,000	300,000	220,000	681,050	680,000
Assigned	40,772	79,903	190,815	131,532	188,542
Unassigned	<u>3,518,813</u>	<u>2,974,475</u>	<u>3,470,913</u>	<u>3,950,819</u>	<u>4,129,805</u>
Total fund balance	3,615,325	3,377,284	3,906,018	4,818,859	5,029,527
Total liabilities and fund balance ...	\$6,591,492	\$7,224,297	\$8,347,108	\$11,466,096	\$12,271,154
Analysis of General Fund equity					
Operating revenues	\$50,665,236	\$48,331,453	\$49,427,283	\$49,025,836	\$46,878,639
Fund equity as a percent of operating revenues	7.1	6.9	7.9	9.8	10.7
Unassigned fund equity as a percent of operating revenues ..	6.9	6.2	7.0	8.1	8.8

¹ Fund balance for fiscal years 2007-10 has been restated to reflect GASB Statement No. 54, "Fund Balance Reporting and Government Fund Type Definitions." These numbers have not been reviewed by the Town's auditors, but they have been derived from the Town's audited financial statements.

General Fund Revenues and Expenditures

	<u>Adopted Budget 2011-12</u>	<u>Actual 2010-11</u>	<u>Actual 2009-10</u>	<u>Actual 2008-09</u>	<u>Actual 2007-08</u>	<u>Actual 2006-07</u>
Revenues						
Property taxes	\$33,978,711	\$32,548,912	\$30,313,052	\$29,517,925	\$28,680,150	\$28,315,301
Intergovernmental revenues	15,083,490	16,821,153	16,597,510	18,522,145	18,442,383	16,604,214
Revenues from use of money ...	40,000	27,499	23,792	148,181	400,994	503,322
Charges for services and assessments	493,100	497,629	557,770	499,254	533,490	452,736
Licenses, permits and fees	601,649	638,568	727,187	578,195	781,336	773,165
Other	<u>89,592</u>	<u>131,475</u>	<u>112,142</u>	<u>161,583</u>	<u>187,483</u>	<u>229,901</u>
Total revenues	50,286,542	50,665,236	48,331,453	49,427,283	49,025,836	46,878,639
Expenditures						
Current:						
General government	3,739,439	3,427,070	3,391,100	3,112,367	2,909,923	2,888,173
Public works	2,606,082	2,468,024	2,102,583	2,272,385	2,011,002	2,096,713
Public safety	2,077,258	1,943,222	1,974,357	2,028,134	1,886,200	1,761,820
Civic and cultural	1,352,639	1,196,544	1,245,111	1,319,120	1,304,730	1,295,556
Health and welfare	430,388	422,047	425,473	429,244	403,914	400,079
Education	36,821,590	36,998,747	35,813,628	36,921,607	35,822,916	33,976,567
Debt service	<u>3,061,530</u>	<u>3,693,538</u>	<u>3,690,958</u>	<u>3,945,936</u>	<u>4,568,424</u>	<u>5,021,082</u>
Total expenditures	50,088,926	50,149,192	48,643,210	50,028,793	48,907,109	47,439,990
Excess (deficiency) of revenues over expenditures	197,616	516,044	(311,757)	(601,510)	118,727	(561,351)
Other financing sources (uses):						
Operating transfers in	214,745	-	-	-	-	1,295
Operating transfers out	<u>(412,361)</u>	<u>(278,003)</u>	<u>(216,977)</u>	<u>(311,331)</u>	<u>(329,395)</u>	<u>(411,160)</u>
Total other financing sources (uses)	(197,616)	(278,003)	(216,977)	(311,331)	(329,395)	(409,865)
Extraordinary item						
State teachers' on-behalf payments	-	-	-	-	(10,033,000)	-
State teachers' on-behalf revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,033,000</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	238,041	(528,734)	(912,841)	(210,668)	(971,216)
Fund balance, beginning of year		<u>3,377,284</u>	<u>3,906,018</u>	<u>4,818,859</u>	<u>5,029,527</u>	<u>6,000,743</u>
Fund balance, end of year		\$3,615,325	\$3,377,284	\$3,906,018	\$4,818,859	\$5,029,527

Audit

The Town, pursuant to local ordinance and provisions of the Connecticut General Statutes, is required to undergo an annual audit by an independent public accountant. The auditor is required to conduct the audit under the guidelines outlined by the State of Connecticut, Office of Policy and Management, which also receives a copy of the audit report. For the fiscal year ended June 30, 2011, the financial statements of the various funds of the Town were audited by McGladrey & Pullen, LLP, Certified Public Accountants.

Summary of Accounting Principles

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB issued Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." The statement established a new reporting model for governments that is substantially different from prior reporting standards. The government-wide financial statements report information on all of the non-fiduciary activities of the Town. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds.

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. The Town has established separate funds for governmental functions under General Fund, Special Revenue Funds, and Capital Projects Funds in addition to an Internal Service Fund - Medical Insurance Fund - for self-insured medical services for the Town and Board of Education employees. The Town's accounting records for Governmental Funds follow the modified accrual basis of accounting; that is, revenues are recognized in the accounting period in which they become both measurable and available to finance operations of the fiscal period. The major source of revenue that is recognized under the modified accrual basis are funds received from the State of Connecticut and the Federal government. Expenditures are recognized in the accounting period in which the fund liability is incurred. The accrual basis of accounting is used for Proprietary and Fiduciary Funds. Revenues are recognized when earned and expenses are recognized when incurred. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

See "Notes to Financial Statements" in Appendix A herein for more information.

Pension Plan

The Town does not maintain a pension plan for municipal or Board of Education employees except faculty and professional personnel, and certain police personnel. Effective July 1, 2005, the Town established a contributory defined benefit plan (the "Police Plan") for full-time police officers, which is administered by the Town. Police officers are eligible to participate in the Police Plan and are required to contribute 8% of their weekly pay to the Police Plan. The Town is required to contribute 8% of pay on behalf of each participant and the amounts necessary to provide the defined plan benefits. The Town contributed \$86,428 in the June 30, 2011 fiscal year and has included \$103,359 in the fiscal year 2011-12 budget for such purpose. As of July 1, 2010, the latest actuarial valuation date for the plan, the funded ratio was 62.5%.

Board of Education faculty and professional personnel participate in a contributory defined benefit plan (the "Board of Education Plan") established under Chapter 167a of the Connecticut General Statutes, which is administered by the Connecticut State Teachers' Retirement Board. Certain part-time and all full-time certified teachers are eligible to participate in the Board of Education Plan and are required to contribute 7.25% of their annual earnings to the Board of Education Plan. The Town does not and is not legally responsible to contribute to the Board of Education Plan. (See Appendix A - "Audited Financial Statements, Notes to Financial Statements" herein.)

Other Post-Employment Benefits ("OPEB")

The Town has a policy of providing 40-50% of certain health care benefits to retired employees should the employees have retired under a normal retirement or with disability. The Town recognizes the cost of these benefits in the year when the employee services are received and recognizes the liability accumulated from prior years. The annual OPEB cost for the fiscal year ending June 30, 2011 was \$442,121. As of July 1, 2011, the latest actuarial valuation date of the OPEB obligation, the unfunded actuarial liability for the Town was \$4,209,000.

Compensated Absences

Employees are paid by prescribed formula for absence due to vacation or sickness. Accumulated vacation and sick pay earned by Town employees is reflected as a long-term liability in the government-wide financial statements. As of June 30, 2011, the estimated obligation for employee compensated absences which is not expected to be paid with current available resources was \$2,690,000. It is the Town's policy to recognize vacation and sick leave costs at the time payments are made. Vested sick leave and accumulated vacation leave of employees of proprietary funds is recorded as an expense and liability of these funds as the benefits accrue to employees.

Budget Adoption Procedure

The Chief Financial Officer compiles preliminary estimates from all departments and agencies, except for the Board of Education, for the annual budget 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 estimates directly to the Board of Finance. The basis of budgeting is the modified accrual basis except for encumbrances. Additionally, the Town does not budget for payments made by the State of Connecticut on behalf of Colchester teachers to the State Teachers' Retirement Fund.

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 adjourns to an automatic referendum.

The legal budget of the Town is a departmental budget. Transfers within each department must be approved by the Board of Selectmen and Board of Finance. Subject to certain restrictions, additional appropriations may be approved by the Board of Finance upon recommendation of the Board of Selectmen. General Fund unencumbered appropriations lapse at year-end.

The Town does not adopt budgets for all Special Revenue Funds. Budgets are utilized to account for specific grant programs and are established in accordance with the requirements of the grantor agencies. Legal authorization for expenditures of the capital project funds is provided by the related bond ordinance. Capital appropriations do not lapse until completion of the applicable projects.

Assessment Practices

The Town of Colchester had a general property revaluation effective October 1, 2006. The Town is currently in the process of finalizing a revaluation effective October 1, 2011. Under Section 12-62 of the Connecticut General Statutes, the Town must do a revaluation every five years based on generally accepted mass appraisal methods and a revaluation by physical inspection no later than ten years from the preceding physical inspection. Public Act 09-60 permits any municipality required to effect a revaluation of real property under Section 12-62 of the Connecticut General Statutes for the 2008, 2009 or 2010 assessment years upon approval of its legislative body, to delay such revaluation until the 2011 assessment year. Any required revaluation subsequent to such a delayed revaluation shall re-commence at the point in the schedule required pursuant to Section 12-62 that the municipality was following prior to such delay. Prior to the completion of each revaluation, the Assessor shall conduct a field review.

The maintenance of an equitable tax base by locating and appraising all real and personal property within the Town for inclusion onto the grand list is the responsibility of the Assessor's Office. The grand list represents the total assessed values for all taxable and tax-exempt real estate and taxable personal property and motor vehicles located within the Town on October 1. Assessments for real estate are computed at 70% of the estimated market value at the time of the last general revaluation, while assessments for motor vehicles and personal property are computed at 70% of the current fair market value. Each year a Board of Assessment Appeals determines whether taxpayer petitions for assessment reductions on the current grand list are warranted.

When a new structure, or modification to an existing structure, is undertaken, the Assessor's Office receives a copy of the permit issued by the Building Official. Upon issuance of a certification of completion, a physical inspection is conducted and a new fair market value is determined with the aid of schedules developed at the time of the last revaluation. All value adjustments are reviewed to determine equity with similar properties and estimate changes to existing income streams.

All personal property (furniture, fixtures, equipment, machinery, supplies, non-registered motor vehicles, and leased equipment) is revalued annually. Random audits are conducted periodically.

Motor vehicle registration lists are furnished to the Town by the State Department of Motor Vehicles. The Office of Policy and Management has determined that the average retail values represented by the National Automobile Dealers Association pricing guides must be utilized in preparation of the grand lists. These values are applied uniformly and equitably to all vehicles in the Town; a myriad of exemptions are then applied to qualifying applicants. The same process is applied to the Supplemental Motor Vehicle list, which represents new or replacement vehicles which were registered after the October 1 assessment date, but before the following July 1. Bills for this supplemental list are issued the following January, eighteen months after the grand list date.

The Assessor's Office is also responsible for the administration of several property exemption and payment-in-lieu-of-taxes programs which include, but are not limited to, the following: special veterans programs; elderly tax relief for homeowners and renters; farm, forest and open space; blind and disabled taxpayers; manufacturing exemptions; and State-owned property reimbursement programs.

Tax Levy and Collection

Property taxes are levied on all taxable assessed property on the grand list of October 1 prior to the beginning of the fiscal year. Real property taxes are generally payable in two equal installments on July 1 and January 1 following the levy date and personal property and motor vehicle taxes are payable in one installment on July 1 following the levy date, although a 30-day grace period is provided. Motor vehicle supplemental bills are payable on January 1. A modest estimate for outstanding interest and lien fees anticipated to be collected during the fiscal year is normally included as a revenue item in the budget. Payments not received within one month after the due date become delinquent, with interest charged at the rate of one and one-half percent per month from the due date on the tax. In accordance with State law, the oldest outstanding tax is collected first. Outstanding real estate tax accounts are lien-ed each year prior to June 30 with legal demands and alias tax warrants used in the collection of personal property and motor vehicle tax bills.

Delinquent motor vehicle and personal property accounts are transferred to a suspense account after three years at which time they cease to be carried as receivables. Real estate accounts are transferred to suspense 15 years after the due date in accordance with State statutes.

Property tax revenues are recognized when they become available. Available means due or past due and receivable within the current period or expected to be collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Property taxes receivable not expected to be collected during the available period are reflected as a deferred revenue.

Section 12-165 of the Connecticut General Statutes, as amended, requires each municipality to write off, on an annual basis, the property taxes, which are deemed to be uncollectible.

Investment Practices

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

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in obligations of the United States and its agencies, highly rated obligations of any state of the United States or of any political subdivision,

authority or agency thereof, and shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated investment companies (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 STIF and the Tax Exempt Proceeds Fund. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds does not specify permitted investments. Therefore, the laws applicable to fiduciaries and the provisions of the applicable plan generally control investment of such funds.

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 \$125,000 per claim with a stop-loss policy of 125% of expected claims paid which was approximately \$5,300,000 for the year ended June 30, 2011.

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.

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 commercial coverage in any of the past three years.

SECTION VI - ADDITIONAL INFORMATION

Continuing Disclosure

The Town will enter into a Continuing Disclosure Agreement with respect to the Bonds, substantially in the form included in Appendix C to this Official Statement (the "Continuing Disclosure Agreement for Bonds"), to provide or cause to be provided, in accordance with the requirements of the Securities and Exchange Commission Rule 15c2-12 (the "Rule"), (i) annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the Bonds and (iii) timely notice of a failure by the Town to provide the required annual financial information and operating data on or before the date specified in the Continuing Disclosure Agreement. The Underwriter's obligation to purchase the Bonds shall be conditioned upon its receiving, at or prior to the delivery of the Bonds, an executed copy of the Continuing Disclosure Agreement.

The Town of Colchester prepares, in accordance with State law, annual audited financial statements and files such annual audits with the State of Connecticut, Office of Policy and Management, within six months of the end of its fiscal year. The Town provides, and will continue to provide, to Moody's Investors Service and Fitch Ratings ongoing disclosure in the form of the annual financial report, recommended and adopted budgets, and other materials relating to its management and financial condition, as may be necessary or requested.

The Town has not defaulted in any of its obligations under any Continuing Disclosure Agreement for the benefit of holders of its debt obligation to provide annual financial information or event notices pursuant to the Rule, except that a material event notice was filed by the Town on August 11, 2011 regarding a rating downgrade on June 2, 2011.

Litigation

Following consultation with the Town Attorney, and other attorneys providing legal services to the Town, Town officials advise that the Town of Colchester, Connecticut, its officers, employees, boards and commissions are named defendants in a number of lawsuits. With regard to these pending lawsuits, it is the Town officials' opinion that such pending litigation will not be finally determined so as to result individually or in the aggregate in final judgments against the Town which would materially adversely affect its financial position.

Documents to Be Furnished at Closing

The Underwriter will be furnished, subject to delivery of reoffering yield information as requested, the following documents when the Bonds are delivered:

1. A Signature and No Litigation Certificate stating that at the time of delivery no litigation is pending or threatened affecting the validity of the Bonds or the levy or collection of taxes to pay them.
2. A certificate on behalf of the Town, signed by the Selectmen, or a majority of them, and the Treasurer, which will be dated the date of delivery and attached to a signed copy of the Official Statement, and which will certify, to the best of said officials' knowledge and belief, that at the time the bond purchase contract was executed and at the time of the delivery of the Bonds, the description and statements in the Official Statement relating to the Town and its finances were true and correct in all material respects and did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and that there has been no material adverse change in the financial condition of the Town from that set forth in or contemplated by the Official Statement.
3. A receipt for the purchase price of the Bonds.
4. The approving opinion of Day Pitney LLP, Bond Counsel, of Hartford, Connecticut.
5. An executed Continuing Disclosure Agreement substantially in the form attached hereto as Appendix C.

6. Within seven business days after the award, the Town will furnish the Underwriter of the Bonds a reasonable number of copies of the Official Statement as prepared by the Town. The copies of the Official Statement will include an additional cover page and other pages, if necessary, indicating the interest rates, rating, yields or reoffering prices, the name of the managing underwriter, and the name of the insurer, if any, of the Bonds.
7. Any other documents required by the bond purchase contract.

A record of the proceedings taken by the Town in authorizing the Bonds will be kept on file at the principal office of U.S. Bank National Association, in Hartford, Connecticut and may be examined upon reasonable notice.

Concluding Statement

This Official Statement is submitted only in connection with the sale of the Bonds by the Town of Colchester, Connecticut and may not be reproduced or used in whole or in part for any other purpose.

The following officials, in their capacity as officers of the Town, and in the name and on behalf of the Town, do hereby certify in connection with this issue that they have examined this Official Statement, and to the best of their knowledge and belief, the description and statements relating to the Town and its finances were true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Town of Colchester, Connecticut

By /s/ Gregg B. Schuster
Gregg B. Schuster, First Selectman

By /s/ Gregory E. Cordova
Gregory E. Cordova, Selectman

By /s/ Rosemary D. Coyle
Rosemary D. Coyle, Selectman

By /a/ James W. Ford
James W. Ford, Selectman

By /s/ Stanley F. Soby
Stanley F. Soby, Selectman

By /s/ Gregg G. LePage
Gregg G. LePage, Treasurer

Dated February 23, 2012

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APPENDIX A - AUDITED FINANCIAL STATEMENTS

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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, 2011, 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, 2011, and the respective changes in financial position, and cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards," we have also issued our report dated December 27, 2011, 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 plans, and budgetary comparison information 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 2010 financial statements and, in our report dated December 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 27, 2011

**Town of Colchester, Connecticut
Management's Discussion and Analysis
June 30, 2011**

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, 2011. 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 \$72,054,716, an increase of \$527,550 over the previous fiscal year. Total net assets of Governmental Activities at fiscal year-end were \$67,699,377 and total net assets for Business-Type Activities were \$4,355,339. Of the Town's total net assets at June 30, 2011, \$5,837,413 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 \$3,615,325, an increase of \$238,041 from the prior fiscal year. Of the total General Fund fund balance as of June 30, 2011, \$3,518,813 represents unassigned fund balance of the General Fund. Unassigned General Fund fund balance represents 7.4% of total General Fund budgetary expenditures (\$47,445,166). The Town of Colchester's governmental funds reported combined ending fund balances of \$7,620,716, an increase of \$713,469 from the prior fiscal year.
- The Town of Colchester's total bonded debt had a decrease of \$2,935,000 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 ninth 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 \$72,054,716 at the close of the recent fiscal year.

Net assets of the Town's Governmental Activities increased approximately .6% to \$67,699,377 and total net assets for Business-type Activities increased approximately 2.9% to \$4,355,339. The amount of \$66,217,303 (\$62,615,481 for Governmental Activities and \$3,601,822 for Business-type Activities) of combined net assets at June 30, 2011, 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 \$5,837,413 (\$5,083,896 for Governmental Activities and \$753,517 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 (90.5%) 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, 2011 AND 2010**

	June 30, 2011			June 30, 2010		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 12,480,621	\$ 869,852	\$ 13,350,473	\$ 13,271,267	\$ 767,940	\$ 14,039,207
Capital assets	79,435,193	5,850,598	85,285,791	81,423,578	5,969,648	87,393,226
Total assets	91,915,814	6,720,450	98,636,264	94,694,845	6,737,588	101,432,433
Current Liabilities	2,439,843	116,335	2,556,178	3,279,027	100,492	3,379,519
Long-Term liabilities outstanding	21,776,594	2,248,776	24,025,370	24,122,473	2,403,275	26,525,748
Total liabilities	24,216,437	2,365,111	26,581,548	27,401,500	2,503,767	29,905,267
Net Assets:						
Invested in capital assets, net of related debt	61,575,557	3,601,822	65,177,379	61,620,441	3,566,373	65,186,814
Restricted	1,039,924	-	1,039,924	-	-	-
Unrestricted	5,083,896	753,517	5,837,413	5,672,904	667,448	6,340,352
Total Net Assets	\$ 67,699,377	\$ 4,355,339	\$ 72,054,716	\$ 67,293,345	\$ 4,233,821	\$ 71,527,166

Change in net assets. The Town's total net assets increased by \$527,550 during the fiscal year, with net assets of Governmental Activities increasing by \$406,032, and net assets of Business-type Activities increasing by \$121,518.

	Year Ended June 30, 2011			Year Ended June 30, 2010		
	Primary Govt.			Primary Govt.		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Revenues						
Program Revenues:						
Charges for Services	\$ 3,149,160	\$ 1,020,647	\$ 4,169,807	\$ 3,148,685	\$ 1,045,966	\$ 4,194,651
Operating Grants and Contributions	19,908,710	-	19,908,710	19,749,778	-	19,749,778
Capital Grants and Contributions	1,566,180	-	1,566,180	353,672	-	353,672
General Revenues:						
Property Tax	32,364,590	-	32,364,590	30,414,172	-	30,414,172
Grants not restricted to specific programs	178,430	-	178,430	220,219	-	220,219
Unrestricted investment earnings	29,557	606	30,163	27,001	650	27,651
Miscellaneous	57,259	-	57,259	794,310	-	794,310
Total Revenues	57,253,886	1,021,253	58,275,139	54,707,837	1,046,616	55,754,453
Expenses						
General Government	4,570,077	-	4,570,077	4,948,196	-	4,948,196
Public Safety	2,395,948	-	2,395,948	2,479,751	-	2,479,751
Public Works	3,498,615	-	3,498,615	3,381,190	-	3,381,190
Public Health & Welfare	511,551	-	511,551	529,356	-	529,356
Civic and Cultural	1,890,367	-	1,890,367	1,951,877	-	1,951,877
Education	43,183,908	-	43,183,908	42,422,365	-	42,422,365
Other	-	847,982	847,982	-	741,230	741,230
Interest on long-term debt	797,388	51,753	849,141	1,205,062	78,544	1,283,606
Total Expenses	56,847,854	899,735	57,747,589	56,917,797	819,774	57,737,571
Change in Net Assets	406,032	121,518	527,550	(2,209,960)	226,842	(1,983,118)
Net Assets Beginning	67,293,345	4,233,821	71,527,166	69,503,305	4,006,979	73,510,284
Net Assets Ending	\$ 67,699,377	\$ 4,355,339	\$ 72,054,716	\$ 67,293,345	\$ 4,233,821	\$ 71,527,166

Governmental Activities

Approximately 56.5% of the revenues were generated from property taxes, followed by 43% from program revenues, which include governmental revenues for Education, then .3% was derived from other unrestricted grants, .1% from miscellaneous revenues, and .1% from unrestricted investment earnings.

Major revenue factors include the receipt of final school construction grant progress payments for the completion of the elementary and intermediate school projects, and increased tax revenues resulting from a 1.42 mill increase in the property tax rate.

The Town's current levy collected tax rate was 98.62%, an increase of .34% from the previous year current levy collected tax rate of 98.28%.

For governmental activities, 76.0% of the Town's expenditures relate to education, 8.0% relate to general government, 4.2% relate to public safety, 6.2% relate to public works, 3.3% relate to civic and cultural, .9% relate to public health and welfare and the remaining 1.4% 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 3.31% over the 2009-2010 budget (including Federal ARRA State Fiscal Stabilization Funds). In addition, there is a significant decrease in interest on long-term debt as final payments have been made on various general obligation bond issues.

Business-Type Activities

Business-type activities increased the Town's net assets by \$121,518. 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 unassigned 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 \$7,620,716, an increase from \$6,907,247 as of June 30, 2010. This increase is mainly due to the receipt of final school construction grant progress payments for the completion of the elementary and intermediate school projects (Bonded Projects Fund), offset by bond project expenditures for the purchase of a firetruck and ambulance, road improvements, and reconstruction of the high school track (2009 Bond Referendum).

The general fund is the chief operating fund for the Town of Colchester. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,518,813, while total fund balance was \$3,615,325. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 7.4% of the total general fund budgetary expenditures.

At June 30, 2011, the Town of Colchester's General Fund increased by \$238,041 from the previous year. Key factors contributing to this increase were an increase in the property tax collection rate and delinquent tax collections, increase in Special Education Excess cost reimbursements from the State of Connecticut, and an increase in building permit fees. In addition, unexpended funds were reported in various departments from position vacancies during the year due to unanticipated resignations and hiring delays for new positions.

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 \$753,517. The Water Fund experienced an increase in net assets of \$121,518. 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

Additional appropriations from fund balance were approved during the year totaling \$83,873. These additional appropriations were for additional contributions to the Board of Education Capital Reserve Fund for the purchase and installation of virtual servers, and funding for the additional assessment imposed by the MIRMA insurance pool to its members.

Budget transfers approved during the year included additional funds for extensive snow removal costs, security and other improvements in Town Hall offices, building repairs and environmental issues in Town Hall, overtime for Police, Fire, and Transfer Station employees to provide staffing coverage of position vacancies, materials for additional paving and drainage work, capital repairs and improvements to various Town facilities and grounds, and payment of accrued termination benefits for Health department employees associated with the transition to membership in a regional Health District. Funds for these transfers were available from vacant positions throughout various Town departments, contingency funds, changes in departmental priorities, and bond interest savings resulting from a bond refunding and bond issue completed in June 2010.

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, 2011, amount to \$85,285,791 (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 \$2,107,435 or approximately 2.4 percent.

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

- Governmental Activities
 - Completed reconstruction of the High School track.
 - Purchase of firetruck and ambulance funded by bond proceeds.
 - Significant road improvements funded by bond proceeds and General Fund appropriations.
 - Replacement of various Public Works vehicles.

Town of Colchester Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 3,432,379	\$ 3,432,379	\$ -	\$ -	\$ 3,432,379	\$ 3,432,379
Land Improvements	806,974	244,582	4,983	5,979	811,957	250,561
Bldng. & Improvements	61,981,704	63,903,048	3,784,252	3,901,992	65,765,956	67,805,040
Machinery & Equipment	2,928,234	2,315,763	242,215	191,268	3,170,449	2,507,031
Infrastructure	10,285,902	11,105,653	1,819,148	1,870,409	12,105,050	12,976,062
Construction in Progress	-	422,153	-	-	-	422,153
Total	\$ 79,435,193	\$ 81,423,578	\$ 5,850,598	\$ 5,969,648	\$ 85,285,791	\$ 87,393,226

Additional information on the Town of Colchester's capital assets can be found in Note 6 of this report.

Long-Term Debt. At year-end the Town of Colchester had \$18,190,000 in bonds outstanding. Of this amount \$75,000 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	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds (backed by the Town)	\$ 18,115,000	\$ 21,000,000	\$ 75,000	\$ 125,000	\$ 18,190,000	\$ 21,125,000
Clean Water Fund Loan	\$ -	\$ -	\$ 2,173,776	\$ 2,278,275	\$ 2,173,776	\$ 2,278,275

Additional information on the Town of Colchester's long-term debt can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

As a result of the continuing national economic downturn, the Town of Colchester's unemployment rate increased to 7.9% as of June 2011, although it remained less than the State of Connecticut rate of 9.1% for the same time period. As of November 2011, the Town's unemployment rate decreased to 6.6% and the State's unemployment rate decreased to 7.9%. 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 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.

In June 2011, Moody's Investors Service downgraded the Town's bond rating to Aa3 from Aa2 mainly due to consistent declines in reserve levels from 2006 to 2010 driven by the Town's practice of appropriating General Fund reserves to balance annual operating budgets, and revenue shortfalls in those years. Moody's went on to note that the FY 2011-2012 adopted budget did not include a fund balance appropriation which will help prevent any further decline in reserves and stabilize the Town's financial position.

In August 2011, Fitch Ratings affirmed the Town's bond rating of AA. Fitch noted that Town finances are stabilizing after four years of planned draws on General Fund fund balance, and that the Town has a below average debt burden with a rapid payout, and a strong tax collection rate. Fitch also noted the recently approved fund balance policy which sets forth that reserve levels will be maintained within a range of 7-10% of total expenditures.

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 permitting non-residential growth in a smart growth manner and is developing a new land development regulation to replace those that were originally approved more than 30 years ago. The new product will respond to contemporary development needs of current non-residential projects and will include design and other performance requirements.

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. A master infrastructure plan was developed to address the phased expansion of the water and sewer system to serve expected non-residential development including design of a Phase 1 pump station, pipe sizes and specifications, other infrastructure needed and costs for each phase of the expansion. Already a 40,000 square foot retail development and a 50,000 square foot State facility were slated to begin construction in the Fall of 2011, and the State of Connecticut will finance the water and sewer system expansion to this area of Town.

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

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, the Colchester Bakery and the Airline Trail (major rails to trails facility), has been targeted for streetscape and lighting improvements which were to begin in the Fall of 2011 (\$285,000). Several historic facilities in the downtown historical district are currently being renovated including extensive landscaping. The Stop & Shop center will expand with an additional 30,000 square feet of retail/restaurant space and the Galaxy Shoppes (35,000 square feet) has leased 33% of their space over the last 12 months.

The Town is also working with two existing manufacturers to develop larger spaces to house their expanding business including new developments of 80,000 square feet and 120,000 square feet, respectively. Those developments are now in the process of being permitted.

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. There are also firm plans to develop a farming corridor along Westchester Road as there are numerous agriculture interests that are serving wholesale as well as drive in retail clients.

The FY 2011-2012 final adopted budget of \$50,501,287 represents an increase of \$2,882,636 over the adopted budget for FY 2010-2011 of \$47,618,651 (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-SFSF funds paid directly to the Board of Education) with a .78 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.

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF NET ASSETS

June 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 10,032,873	\$ 512,282	\$ 10,545,155
Receivables (net of allowances for collection losses):			
Property taxes and interest	1,043,312	-	1,043,312
Assessments	367,335	-	367,335
Accounts receivable	60,680	298,873	359,553
Intergovernmental	926,751	-	926,751
Pension asset	20,234	-	20,234
Prepays	15,578	-	15,578
Inventory	13,858	58,697	72,555
Capital assets, non-depreciable	3,432,379	-	3,432,379
Capital assets, net of accumulated depreciation	76,002,814	5,850,598	81,853,412
Total assets	91,915,814	6,720,450	98,636,264
Liabilities			
Accounts payable and accrued liabilities	2,012,674	116,335	2,129,009
Claims payable	381,211	-	381,211
Unearned revenues	45,958	-	45,958
Noncurrent liabilities:			
Due within one year	2,606,000	156,735	2,762,735
Due in more than one year	19,170,594	2,092,041	21,262,635
Total liabilities	24,216,437	2,365,111	26,581,548
Net Assets			
Investment in capital assets, net of related debt	61,575,557	3,601,822	65,177,379
Restricted	1,039,924	-	1,039,924
Unrestricted	5,083,896	753,517	5,837,413
Total net assets	\$ 67,699,377	\$ 4,355,339	\$ 72,054,716

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, 2011

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	\$ (4,570,077)	\$ 478,748	\$ 235,260	\$ -	\$ (3,856,069)	\$ -	\$ (3,856,069)
Public safety	(2,395,948)	537,487	134,551	-	(1,723,910)	-	(1,723,910)
Public works	(3,498,615)	1,112,533	290,107	173,139	(1,922,836)	-	(1,922,836)
Civic and cultural	(1,890,367)	343,051	57,879	-	(1,489,437)	-	(1,489,437)
Public health and welfare	(511,551)	13,560	118,786	-	(379,205)	-	(379,205)
Education	(43,183,908)	663,781	19,072,127	1,393,041	(22,054,959)	-	(22,054,959)
Interest on long-term debt	(797,388)	-	-	-	(797,388)	-	(797,388)
Total governmental activities	(56,847,854)	3,149,160	19,908,710	1,566,180	(32,223,804)	-	(32,223,804)
Business-Type Activities:							
Water	(899,735)	1,020,647	-	-	-	120,912	120,912
Total business-type activities	(899,735)	1,020,647	-	-	-	120,912	120,912
Total primary government	\$ (57,747,589)	\$ 4,169,807	\$ 19,908,710	\$ 1,566,180	(32,223,804)	120,912	(32,102,892)
General revenues:							
Property taxes					32,364,590	-	32,364,590
Grants and contributions not restricted to specific programs					178,430	-	178,430
Unrestricted investment earnings					29,557	606	30,163
Miscellaneous					57,259	-	57,259
Total general revenues					32,629,836	606	32,630,442
Change in net assets					406,032	121,518	527,550
Net assets - beginning					67,293,345	4,233,821	71,527,166
Net assets - ending					\$ 67,699,377	\$ 4,355,339	\$ 72,054,716

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

TOWN OF COLCHESTER, CONNECTICUT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

	Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Bonded Projects Fund	Sewer Capital		
Assets					
Cash and cash equivalents	\$ 4,790,571	\$ 753,333	\$ 1,147,463	\$ 2,324,100	\$ 9,015,467
Receivables (net of allowances for collection losses):					
Property taxes	1,043,312	-	-	-	1,043,312
Assessments and user charges	-	-	-	367,335	367,335
Intergovernmental	695,253	-	-	231,498	926,751
Accounts receivable	38,616	-	-	22,023	60,639
Prepays	15,578	-	-	-	15,578
Inventory	8,162	-	-	5,696	13,858
	<u>\$ 6,591,492</u>	<u>\$ 753,333</u>	<u>\$ 1,147,463</u>	<u>\$ 2,950,652</u>	<u>\$ 11,442,940</u>
Liabilities					
Accounts payable and accrued liabilities	\$ 1,507,965	\$ 8,788	\$ -	\$ 409,452	\$ 1,926,205
Retainage payable	-	-	-	44,322	44,322
Deferred revenue	1,468,202	-	-	337,537	1,805,739
Unearned revenue	-	-	-	45,958	45,958
Total liabilities	<u>2,976,167</u>	<u>8,788</u>	<u>-</u>	<u>837,269</u>	<u>3,822,224</u>
Fund balances					
Nonspendable	23,740	-	-	5,696	29,436
Restricted	-	-	-	1,039,924	1,039,924
Committed	32,000	744,545	1,147,463	1,173,005	3,097,013
Assigned	40,772	-	-	-	40,772
Unassigned	3,518,813	-	-	(105,242)	3,413,571
Total fund balances	<u>3,615,325</u>	<u>744,545</u>	<u>1,147,463</u>	<u>2,113,383</u>	<u>7,620,716</u>
Total liabilities and fund balances	<u>\$ 6,591,492</u>	<u>\$ 753,333</u>	<u>\$ 1,147,463</u>	<u>\$ 2,950,652</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.	79,435,193
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,805,739
Pension asset	20,234
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.	619,396
Accrued interest payable	(25,307)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(21,776,594)</u>

Net assets of governmental activities \$ 67,699,377

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, 2011

	Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Bonded Projects Fund	Sewer Capital		
REVENUES					
Property taxes	\$ 32,548,912	\$ -	\$ -	\$ -	\$ 32,548,912
Intergovernmental revenues	16,821,153	1,328,757	-	4,079,742	22,229,652
Revenues from use of money	27,499	-	1,390	668	29,557
Fees, permits and sales	638,568	-	22,320	574,287	1,235,175
Charges for services and assessments	497,629	-	-	1,348,576	1,846,205
Other	131,475	-	-	335,361	466,836
Total revenues	50,665,236	1,328,757	23,710	6,338,634	58,356,337
EXPENDITURES					
Current:					
General government	3,427,070	22,843	-	32,023	3,481,936
Public safety	1,943,222	-	-	226,684	2,169,906
Public works	2,468,024	-	-	964,921	3,432,945
Public health and welfare	422,047	-	-	82,714	504,761
Civic and cultural	1,196,544	-	-	468,803	1,665,347
Education	36,998,747	-	-	4,161,411	41,160,158
Debt service	3,693,538	-	-	-	3,693,538
Capital outlay	-	770	28,638	1,504,869	1,534,277
Total expenditures	50,149,192	23,613	28,638	7,441,425	57,642,868
Revenue over (under) expenditures	516,044	1,305,144	(4,928)	(1,102,791)	713,469
OTHER FINANCING SOURCES (USES)					
Transfers in	-	50,000	20,000	230,193	300,193
Transfers out	(278,003)	-	-	(22,190)	(300,193)
Total other financing sources (uses)	(278,003)	50,000	20,000	208,003	-
Net change in fund balances (deficits)	238,041	1,355,144	15,072	(894,788)	713,469
FUND BALANCES (DEFICITS), beginning	3,377,284	(610,599)	1,132,391	3,008,171	6,907,247
FUND BALANCES (DEFICITS), ending	\$ 3,615,325	\$ 744,545	\$ 1,147,463	\$ 2,113,383	\$ 7,620,716

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, 2011**

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

Net change in fund balances – total governmental funds	\$ 713,469
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.	(1,988,385)
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.	(1,102,451)
Change in pension asset	(7,196)
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.	2,885,000
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.	(527,971)
The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>433,566</u>
Change in net assets of governmental activities	<u><u>\$ 406,032</u></u>

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, 2011

	Major Fund Business-Type Activities Enterprise Fund Water Fund	Governmental Activities Internal Service Fund Medical Self- Insurance Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 512,282	\$ 1,017,406
Accounts receivable	298,873	41
Inventory	58,697	-
Total current assets	869,852	1,017,447
Capital Assets, net of accumulated depreciation	5,850,598	-
Total assets	6,720,450	1,017,447
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	116,335	16,840
Claims payable	-	381,211
Bonds payable - current	50,000	-
Loan payable- current	106,735	-
Total current liabilities	273,070	398,051
Noncurrent Liabilities:		
Bonds payable	25,000	-
Loan payable	2,067,041	-
Total noncurrent liabilities	2,092,041	-
Total liabilities	2,365,111	398,051
NET ASSETS		
Invested in capital assets, net of related debt	3,601,822	-
Unrestricted	753,517	619,396
Total net assets	\$ 4,355,339	\$ 619,396

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, 2011

	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	\$ 1,020,647	\$ -
Premiums	-	6,251,417
Total operating revenues	<u>1,020,647</u>	<u>6,251,417</u>
OPERATING EXPENSES		
Claims/operating	653,553	4,997,567
Depreciation	194,429	-
Administration	-	820,814
Total operating expenses	<u>847,982</u>	<u>5,818,381</u>
Operating income	<u>172,665</u>	<u>433,036</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	606	530
Interest expense	(51,753)	-
Total nonoperating revenue (expenses)	<u>(51,147)</u>	<u>530</u>
Change in net assets	121,518	433,566
FUND NET ASSETS, beginning	<u>4,233,821</u>	<u>185,830</u>
FUND NET ASSETS, ending	<u>\$ 4,355,339</u>	<u>\$ 619,396</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, 2011

	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	\$ 1,058,579	\$ 6,269,696
Cash paid to vendors and beneficiaries	(637,275)	(5,896,204)
Net cash provided by operating activities	<u>421,304</u>	<u>373,492</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	(75,379)	-
Interest paid	(52,188)	-
Principal payments of debt	(154,499)	-
Net cash used in capital and related financing activities	<u>(282,066)</u>	<u>-</u>
Cash Flows From Investing Activities		
Interest on cash and cash equivalents	606	530
Net increase in cash and cash equivalents	139,844	374,022
Cash and Cash Equivalents		
Beginning	<u>372,438</u>	<u>643,384</u>
Ending	<u>\$ 512,282</u>	<u>\$ 1,017,406</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 172,665	\$ 433,036
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	194,429	-
Changes in assets and liabilities:		
Decrease in accounts receivable	28,016	18,279
Decrease in inventories	9,916	-
Increase in accounts payable	16,278	3,149
Decrease in claims payable	-	(80,972)
Net cash provided by operating activities	<u>\$ 421,304</u>	<u>\$ 373,492</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, 2011

	Pension Trust Fund	Private Purpose Trust Fund	Agency Fund
ASSETS			
Cash and cash equivalents	\$ -	\$ 463	\$ 290,169
Investments	607,165	-	-
Total assets	607,165	463	290,169
LIABILITIES			
Accounts payable	47,217	-	-
Deposits held for others	-	-	290,169
Total liabilities	47,217	-	290,169
Net Assets Held in Trust for Pension Benefits and Other Purposes	\$ 559,948	\$ 463	\$ -

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, 2011

	Pension Trust Fund	Private Purpose Trust Fund
ADDITIONS		
Contributions		
Employee	\$ 42,895	\$ -
Employer	86,428	-
Total contributions	<u>129,323</u>	<u>-</u>
Investment Income		
Net appreciation in fair value of investments	91,124	-
Investment income	<u>91,124</u>	<u>-</u>
Total additions	<u>220,447</u>	<u>-</u>
DEDUCTIONS		
Refund of employee contributions	34,987	-
Change in net assets	185,460	-
Net Assets Held in Trust		
Beginning of year	374,488	463
End of year	<u>\$ 559,948</u>	<u>\$ 463</u>

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS June 30, 2011

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, youth and 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 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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

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 *Sewer Capital Fund* accounts for and reports financial resources to be used for the capital expenditures for the sewer facility.

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 and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for particular purposes other than debt services or capital projects.

Capital Projects Funds are used to account for and report 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.

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-

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

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.

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.

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 \$976,000. 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.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

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.

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 deferred charges and amortized over the terms of the related debt.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

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.

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 assigned 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, 2011. 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 balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

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, the Town reported the following governmental fund balances:

- Nonspendable Fund Balance - These amounts cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.
- Restricted Fund Balance - These amounts are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislations.
- Committed Fund Balance – This represents amounts constrained prior to year-end for a specific purpose by a government using its highest level of decision making authority (Town of Colchester Board of Finance/Board of Selectmen).
- Assigned Fund Balance – Amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts.
- Unassigned Fund Balance – The residual amount not allocated to any other fund balance category in the General Fund and any residual deficit balance of any other governmental funds.

When both restricted and unrestricted amounts are available for use, it is the Town's practice to use restricted resources first. Additionally, the Town would first use committed, then assigned, and lastly unassigned.

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	\$ 18,115,000
Landfill closure costs	195,000
Compensated absences	2,690,000
OPEB obligation	<u>776,594</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u><u>\$ 21,776,594</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

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	\$ 1,900,947
Depreciation expense	(3,879,548)
Loss on disposal	<u>(9,784)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (1,988,385)</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:

Principal repayments: General obligation debt	<u>\$ 2,885,000</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 2,885,000</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

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	\$ (290,000)
Landfill closure	15,000
Accrued interest	11,150
OPEB obligation	<u>(264,121)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (527,971)</u>

Note 3. 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.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

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, 2011, approximately \$5,027,000 of the Town's bank balance of approximately \$7,134,000 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.

Cash and cash equivalents and investments of the Town consist of the following at June 30, 2011:

Cash and Cash Equivalents	
Deposits with financial institutions	\$ 7,016,401
State of Connecticut Short-Term Investment fund	3,696,488
Cutwater-Connecticut CLASS Plus	122,898
Total cash and cash equivalents	<u>10,835,787</u>
Investments	
Pension Trust Funds:	
Mutual Funds	<u>607,165</u>
Total cash, cash equivalents, and investments	<u>\$ 11,442,952</u>

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

Statement of Net Assets	
Cash and cash equivalents	<u>\$ 10,545,155</u>
Fiduciary Funds	
Cash and cash equivalents	290,632
Investments	607,165
	<u>897,797</u>
Total cash, cash equivalents, and investments	<u>\$ 11,442,952</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

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) <u>Less Than 1 Year</u>
Pooled Income Funds	\$ 3,819,386	\$ 3,819,386

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	\$ 3,696,488
Cutwater-Connecticut CLASS Plus	AAAm	122,898
		<u>\$ 3,819,386</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Note 4. 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
	<u> </u>	<u> </u>
General Fund:		
Taxes and accrued interest on delinquent property taxes	\$ 892,445	\$ -
School construction grants	575,757	-
Nonmajor Funds:		
Assessments receivable	337,537	-
Grants and other	-	45,958
Total	<u>\$ 1,805,739</u>	<u>\$ 45,958</u>

Note 5. Interfund Transfers

Interfund transfers during the year ended June 30, 2011 were as follows:

	Transfers In	Transfers Out
	<u> </u>	<u> </u>
General Fund	\$ -	\$ (278,003)
Bonded Projects	50,000	-
Sewer Capital Fund	20,000	-
Nonmajor Governmental Funds	230,193	(22,190)
Total	<u>\$ 300,193</u>	<u>\$ (300,193)</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, 2011

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2011 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	422,153	213,537	(635,690)	-
Total capital assets, not being depreciated	<u>3,854,532</u>	<u>213,537</u>	<u>(635,690)</u>	<u>3,432,379</u>
Capital assets, being depreciated:				
Improvements other than buildings	1,492,409	647,288	(103,597)	2,036,100
Buildings	89,330,882	31,595	-	89,362,477
Machinery and equipment	10,971,222	1,230,923	(417,831)	11,784,314
Infrastructure	35,418,135	413,294	-	35,831,429
Total capital assets being depreciated	<u>137,212,648</u>	<u>2,323,100</u>	<u>(521,428)</u>	<u>139,014,320</u>
Less accumulated depreciation for:				
Improvements other than buildings	1,247,827	77,088	(95,789)	1,229,126
Buildings	25,427,834	1,952,939	-	27,380,773
Machinery and equipment	8,655,459	616,476	(415,855)	8,856,080
Infrastructure	24,312,482	1,233,045	-	25,545,527
Total accumulated depreciation	<u>59,643,602</u>	<u>3,879,548</u>	<u>(511,644)</u>	<u>63,011,506</u>
Total capital assets, being depreciated, net	<u>77,569,046</u>	<u>(1,556,448)</u>	<u>(9,784)</u>	<u>76,002,814</u>
Governmental activities capital assets, net	<u>\$ 81,423,578</u>	<u>\$ (1,342,911)</u>	<u>\$ (645,474)</u>	<u>\$ 79,435,193</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, being depreciated:				
Buildings	\$ 4,979,851	\$ -	\$ -	\$ 4,979,851
Machinery and equipment	252,153	75,379	-	327,532
Improvements other than buildings	21,391	-	-	21,391
Infrastructure	3,184,825	-	-	3,184,825
Total capital assets, being depreciated	<u>8,438,220</u>	<u>75,379</u>	<u>-</u>	<u>8,513,599</u>
Less accumulated depreciation for:				
Buildings	1,077,859	117,740	-	1,195,599
Machinery and equipment	60,885	24,432	-	85,317
Improvements other than buildings	15,412	996	-	16,408
Infrastructure	1,314,416	51,261	-	1,365,677
Total accumulated depreciation	<u>2,468,572</u>	<u>194,429</u>	<u>-</u>	<u>2,663,001</u>
Total capital assets, being depreciated, net	<u>5,969,648</u>	<u>(119,050)</u>	<u>-</u>	<u>5,850,598</u>
Business-type activities capital assets, net	<u>\$ 5,969,648</u>	<u>\$ (119,050)</u>	<u>\$ -</u>	<u>\$ 5,850,598</u>

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

Governmental Activities:	
General government	\$ 1,043,181
Public works	454,590
Public safety	223,506
Civic and cultural	229,628
Public health and welfare	8,111
Education	<u>1,920,532</u>
Total depreciation expense – governmental activities	<u>\$ 3,879,548</u>
Business-Type Activities:	
Water Fund	<u>\$ 194,429</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Note 7. Long-Term Obligations

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 21,000,000	\$ -	\$ 2,885,000	\$ 18,115,000	\$ 2,510,000
Landfill post-closure monitoring	210,000	-	15,000	195,000	15,000
Compensated absences	2,400,000	290,000	-	2,690,000	81,000
OPEB obligation	512,473	264,121	-	776,594	-
Governmental activity long-term liabilities	\$ 24,122,473	\$ 554,121	\$ 2,900,000	\$ 21,776,594	\$ 2,606,000
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 125,000	\$ -	\$ 50,000	\$ 75,000	\$ 50,000
CWF loans	2,278,275	-	104,499	2,173,776	106,735
Business-type long-term liabilities	\$ 2,403,275	\$ -	\$ 154,499	\$ 2,248,776	\$ 156,735

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, 2011

General obligation bonds outstanding as of June 30, 2011 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%	\$ 7,575,000
\$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%	465,000
\$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%	130,000
\$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%	2,970,000
\$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>380,000</u>
Total general obligation bonds payable	<u><u>\$ 18,115,000</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

The following is a summary as of June 30, 2011, of the future principal and interest requirements for the Town's general obligation bonds:

	Principal	Interest	Total
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	\$ 18,115,000	\$ 4,457,140	\$ 22,572,140

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%

\$ 75,000

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

	Principal	Interest	Total
2012	\$ 50,000	\$ 3,000	\$ 53,000
2013	25,000	1,000	26,000
Total	\$ 75,000	\$ 4,000	\$ 79,000

The Town received Clean Water Fund Project loans that are recorded as a loan payable in the Water Fund. The balance at June 30, 2011 is approximately \$2,174,000. These loans accrue interest at 2%.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

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, 2011 was \$943,448. Additional payments for principal and interest aggregating \$595,358 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, 2011, is as follows:

Total tax collections (including interest and lien fees) for the year ended June 30, 2011	\$ 32,565,863
Reimbursement for revenue loss:	
Tax relief for elderly	<u>47,773</u>
Base	<u><u>\$ 32,613,636</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

The Connecticut General Statutes provides that total authorized debt of the Town shall not exceed seven times the above base cash receipts of \$228,295,452 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	\$ 73,380,681	\$ -	\$ -	\$ -	\$ -
4-1/2 times base	-	146,761,362	-	-	-
3-3/4 times base	-	-	122,301,135	-	-
3-1/4 times base	-	-	-	105,994,317	-
3 times base	-	-	-	-	97,840,908
Total debt limitation	73,380,681	146,761,362	122,301,135	105,994,317	97,840,908
Debt as defined by statute:					
Bonds payable ⁽¹⁾	3,690,900	14,424,100	-	-	-
Authorized and unissued	140,000	63,741	-	-	-
Total indebtedness	3,830,900	14,487,841	-	-	-
School construction grants receivable	-	(575,757)	-	-	-
Net indebtedness	3,830,900	13,912,084	-	-	-
Debt limitation in excess of outstanding and authorized debt	\$ 69,549,781	\$ 132,849,278	\$ 122,301,135	\$ 105,994,317	\$ 97,840,908

⁽¹⁾ Water bonds and Clean Water Fund interim financing totaling \$2,248,776 are excluded from this calculation pursuant to Connecticut General Statutes.

Note 8. 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.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Note 9. 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, 2010, PERS membership consisted of:

Retirees and beneficiaries receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>7</u>
Total	<u><u>7</u></u>

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 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 reflects no material changes in funding method or assumptions and no material changes in plan provisions or coverage.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

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.

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	\$ 93,178
Interest on net pension obligation	(2,057)
Adjustment to annual required contribution	<u>2,503</u>
Annual pension cost	93,624
Contributions made	<u>86,428</u>
Increase in net pension asset	7,196
Net pension asset, July 1, 2010	<u>(27,430)</u>
Net pension asset, June 30, 2011	<u><u>\$ (20,234)</u></u>

Three Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
06/30/09	\$45,793	141.7%	\$(24,691)
06/30/10	78,059	103.5%	(27,430)
06/30/11	93,624	92.3%	(20,234)

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, 2010	\$ 374,488	\$ 599,560	\$ 225,072	62.5	\$ 421,643	53.4%

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, 2011

Actuarial assumptions are as follows:

Valuation Date:	July 1, 2010
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Level Dollar
Remaining Amortization Period	19 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 \$2,955,000 for the year ended June 30, 2011.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Note 10. Other Postemployment Benefits

In addition to providing pension benefits, the Town provides 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.

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
June 30, 2011	\$ 442,121	\$ 178,000	40.3%	\$ 776,594

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

OPEB Obligation

Annual required contribution	\$ 440,000
Interest on net pension obligation	20,499
Adjustment of ARC	<u>(18,378)</u>
Annual OPEB cost	442,121
Contributions made	<u>178,000</u>
Increase in net OPEB liability	264,121
Net OPEB obligation, beginning of year	<u>512,473</u>
Net OPEB obligation, end of year	<u><u>\$ 776,594</u></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%
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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

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 11. 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 \$125,000 per claim with an aggregate stop loss of 125% of expected claims paid which was approximately \$5,300,000 for the year ended June 30, 2011.

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:

	Claims Payable July 1	Claims and Changes in Estimates	Claims Paid	Claims Payable June 30,
2010-2011	\$ 462,183	\$ 5,218,803	\$ 5,299,775	\$ 381,211
2009-2010	\$ 508,007	\$ 5,177,706	\$ 5,223,530	\$ 462,183

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 12. 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 \$195,000 (\$15,000 per year for 13 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.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Note 13. Fund Balance

In fiscal year 2011, the Town adopted GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The statement establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The details for the Town's fund balance are the following:

	General Fund	Bonded Projects Fund	Sewer Capital Fund	Nonmajor Governmental Funds
Fund balances:				
Non-spendable:				
Prepays	\$ 15,578	\$ -	\$ -	\$ -
Inventory	8,162	-	-	5,696
	<u>23,740</u>	<u>-</u>	<u>-</u>	<u>5,696</u>
Restricted:				
General government	-	-	-	76,189
Education	-	-	-	279,694
Civic and cultural	-	-	-	106,964
Capital projects	-	-	-	363,966
Public safety	-	-	-	62,431
Public health and welfare	-	-	-	150,680
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,039,924</u>
Committed:				
General government	32,000	-	-	-
Debt service	-	-	-	198,504
Capital outlay	-	744,545	1,147,463	573,246
Education	-	-	-	2,844
Public safety	-	-	-	18,205
Public works	-	-	-	380,206
	<u>32,000</u>	<u>744,545</u>	<u>1,147,463</u>	<u>1,173,005</u>
Assigned:				
General government	2,566	-	-	-
Public safety	3,477	-	-	-
Public health and welfare	30	-	-	-
Education	34,699	-	-	-
	<u>40,772</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unassigned	3,518,813	-	-	(105,242)
	<u>3,518,813</u>	<u>-</u>	<u>-</u>	<u>(105,242)</u>
Total fund balance	<u>\$ 3,615,325</u>	<u>\$ 744,545</u>	<u>\$ 1,147,463</u>	<u>\$ 2,113,383</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

Fund Deficits

The following funds had fund deficits as of June 30, 2011:

Parks and Recreation Activities	\$	(19,631)
Adult Education		(4,090)
Benefits Assessment		(81,521)

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

Note 14. Governmental Accounting Standards Board (GASB) Statements

The Town adopted the following statements during the year ended June 30, 2011:

- **GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.** This Statement is intended to improve the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints. As explained in Note 13 to the basic financial statements, the Town reclassified the fund balances for governmental funds.
- **GASB Statement No. 59, *Financial Instruments Omnibus*.** This Statement is intended to update and improve existing standards regarding financial reporting of certain financial instruments and external investment pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investment pools, addressing the applicability of GASB 53, Accounting and Financial Reporting for Derivative Instruments, and applying the reporting provisions for interest-earning investment contracts of GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

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:

- **GASB Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*,** was issued in December 2009. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). This Statement amends Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, to permit certain OPEB plans to use an alternative measurement method. Consistent with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, requirement that a defined benefit OPEB plan obtain an actuarial valuation. In addition, this

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. The provisions of this Statement will be effective for the Town beginning with its year ending June 30, 2012.

- **GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements***, issued November 2010, will be effective for the Town beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Specifically, this Statement improves financial reporting by establishing recognition, measurement, and disclosure requirements SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.
- **GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34***, issued November 2010, will be effective for the Town beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.
- **GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements***, issued January 2011, will be effective for the Town beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.
- **GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***, issued July 2011, will be effective for the Town beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, Basic Financial

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

Statements-and Management's Discussion and Analysis-for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

- **GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*** (an amendment of GASB Statement No. 53), issued July 2011, will be effective for the Town beginning with its year ending June 30, 2012. This Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (a) the collectibility of swap payments is considered to be probable, (b) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (c) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied.

TOWN OF COLCHESTER, CONNECTICUT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS – PENSION PLAN
June 30, 2011**

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%
07/01/10	374,488	599,560	225,072	62.5%	421,643	53.4%

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%
2011	93,178	93%

TOWN OF COLCHESTER, CONNECTICUT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS - OPEB
June 30, 2011**

Schedule of Funding Progress - OPEB

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

Schedule of Employer Contributions - OPEB

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2009	\$ 413,000	35.4%
2010	413,000	40.9%
2011	440,000	40.5%

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF REVENUES AND EXPENDITURES - BUDGETARY BASIS -
 BUDGET AND ACTUAL - GENERAL FUND
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes, interest and lien fees	\$ 32,423,701	\$ 32,423,701	\$ 32,548,912	\$ 125,211
Intergovernmental revenues	13,610,370	13,610,370	13,866,153	255,783
Revenues from the use of money	50,000	50,000	27,499	(22,501)
Charges for services	515,600	515,600	497,629	(17,971)
Fees, permits and other	608,899	608,899	638,568	29,669
Other revenues	110,081	110,081	132,766	22,685
Total revenues	47,318,651	47,318,651	47,711,527	392,876
EXPENDITURES				
General government	3,589,507	3,503,270	3,428,828	74,442
Public works	2,339,519	2,475,070	2,464,274	10,796
Public safety	2,030,638	2,030,519	1,942,915	87,604
Civic and cultural	1,283,038	1,234,505	1,196,544	37,961
Public health and welfare	419,843	438,554	422,077	16,477
Education	34,049,000	34,049,000	34,018,987	30,013
Debt service	3,752,603	3,693,603	3,693,538	65
Total expenditures	47,464,148	47,424,521	47,167,163	257,358
Revenues over (under) expenditures	(145,497)	(105,870)	544,364	650,234
OTHER FINANCING SOURCES (USES)				
Transfers out	(154,503)	(278,003)	(278,003)	-
Total other financing (uses)	(154,503)	(278,003)	(278,003)	-
Revenues and other financing sources over (under) expenditures and other financing uses	\$ (300,000)	\$ (383,873)	\$ 266,361	\$ 650,234

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

TOWN OF COLCHESTER, CONNECTICUT

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2011**

Note 1. 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.

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	\$ 47,711,527
Prior year encumbrances cancelled	(1,291)
On-behalf payments paid directly by the State of Connecticut Teachers' Retirement System	<u>2,955,000</u>
Revenues and transfers, GAAP basis	<u>\$ 50,665,236</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION, Continued
June 30, 2011

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	\$ 47,445,166
On-behalf payments paid directly by the State of Connecticut Teachers' Retirement System	2,955,000
Encumbrances:	
June 30, 2010	37,572
June 30, 2011	<u>(10,543)</u>
Expenditures and transfers, GAAP basis	<u>\$ 50,427,195</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.

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APPENDIX B - OPINION OF BOND COUNSEL AND TAX EXEMPTION

The following information has been prepared by Bond Counsel in connection with this bond issue. Bond Counsel are not passing upon and do not assume responsibility for the accuracy or completeness of the statements made in the Official Statement (other than matters in this Appendix), and they make no representation that they have independently verified the same.

BOND COUNSEL OPINION

The legal opinion of the firm of Day Pitney LLP of Hartford, Connecticut, Bond Counsel, will be furnished to the initial purchaser when the Bonds are delivered, and a copy of the legal opinion will be included in the record of proceedings of the Town authorizing the Bonds. The opinion will be dated and given on and will speak only as of the date of original delivery of the Bonds to the initial purchaser.

The opinion of Day Pitney LLP with respect to the Bonds will be substantially in the following form:

[FORM OF BOND COUNSEL OPINION]

(date of closing)

Town of Colchester
Colchester, Connecticut

We have represented the Town of Colchester, Connecticut as Bond Counsel in connection with the issuance by the Town of \$8,400,000 General Obligation Refunding Bonds, Issue of 2012, dated as of March 1, 2012.

We have examined a record of proceedings authorizing the Bonds, and based on our examination, we are of the opinion that the Town of Colchester is authorized to issue the Bonds; the Town is duly and legally organized; all proper proceedings for the issuance and delivery of the Bonds have been taken; no limitation of indebtedness under the laws of the State of Connecticut has been exceeded in the issuance of the Bonds; the Bonds will be valid and binding general obligations of the Town when certified as provided thereon by a duly authorized official of U.S. Bank National Association; and the Town has the power to levy ad valorem taxes to pay the Bonds against all the taxable property in the Town without limit as to rate or amount except certified forest land taxable at a limited rate and dwelling houses of qualified elderly people of low income or of qualified disabled persons taxable at limited amounts.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met in order that interest on the Bonds is excluded from gross income for Federal income tax purposes. The Town officials authorized to issue the Bonds have executed written representations and agreements on behalf of the Town relating to compliance with such provisions of the Code to ensure that the interest on the Bonds will be excluded from gross income for Federal income tax purposes. The representations and agreements also provide that the Bonds are designated or deemed designated as "qualified tax-exempt obligations" for purposes of the deduction for Federal income tax purposes by financial institutions of a portion of interest expense allocable to tax-exempt obligations.

Based on such representations and agreements and on the record of proceedings authorizing the Bonds, and assuming the accuracy of such representations and compliance with such agreements, it is

our opinion that, under existing statutes: (1) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; (2) the Bonds are not “private activity bonds” and interest on the Bonds is not treated as a preference item for purposes of calculating the Federal alternative minimum tax, but in the case of corporations a portion of such interest may be included in alternative minimum taxable income for purposes of computing any Federal alternative minimum tax; and (3) the Bonds are “qualified tax-exempt obligations” for purposes of the deduction for Federal income tax purposes by financial institutions of a portion of interest expense allocable to tax-exempt obligations.

Based on the record of proceedings authorizing the Bonds, it is our opinion that, under existing statutes: (1) interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and (2) interest on the Bonds is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax.

Very truly yours,

Day Pitney LLP

FEDERAL INCOME TAX.

Interest Excluded From Gross Income. The Internal Revenue Code of 1986, as amended (the “Code”) establishes certain requirements that must be met in order that interest on the Bonds is excluded from the gross income of the owners thereof for Federal income tax purposes. Some of these requirements must be continuously met subsequent to delivery of the Bonds. Failure to comply with any of these requirements may cause the interest on the Bonds to be includable in gross income for Federal income tax purposes retroactively to the date of their issuance irrespective of the date on which such noncompliance occurs.

The Town officials authorized to issue the Bonds will enter into a Tax Compliance Agreement in connection with the delivery of the Bonds, which will contain certain representations and covenants on behalf of the Town relating to compliance with such requirements of the Code to ensure that the interest on the Bonds will be excluded from the gross income of the owners thereof for Federal income tax purposes.

Alternative Minimum Tax. The Code imposes an alternative minimum tax on individuals and an alternative minimum tax on corporations. The alternative minimum tax is imposed on alternative minimum taxable income, which includes preference items. The interest on certain tax-exempt “private activity bonds” is treated as a preference item. The Town’s Tax Compliance Agreement will contain certain representations and covenants to ensure that the Bonds are not “private activity” Bonds so that interest on the Bonds will not be treated as a preference item for individuals or corporations in calculating alternative minimum taxable income.

The Code provides, however, that for most corporations a portion of the excess of adjusted current earnings (which includes certain tax-exempt interest) over other alternative minimum taxable income will be included in alternative minimum taxable income for purposes of calculating the corporation’s alternative minimum tax.

Financial Institutions. The Code provides that commercial banks, thrift institutions and certain other financial institutions may not deduct the portion of their interest expense allocable to tax-exempt obligations acquired after August 7, 1986, other than “qualified tax-exempt obligations”. The Town’s Tax Compliance Agreement will contain certain representations and covenants to ensure that the Bonds will be “qualified tax-exempt obligations” for purposes of the deduction for Federal income tax purposes by financial institutions of a portion of interest expense allocable to tax-exempt obligations.

Additional Federal Income Tax Matters. In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral Federal income tax consequences to certain taxpayers, including without limitation, taxpayers otherwise eligible for the earned income credit, recipients of Social Security and certain Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, certain insurance companies, certain S corporations and foreign corporations subject to the branch profits tax. Prospective purchasers of the Bonds may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

STATE OF CONNECTICUT TAX ON INTEREST.

The opinion of Bond Counsel will state in substance that, based on the record of proceedings authorizing the Bonds, under existing statutes: (1) interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and (2) interest on the Bonds is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax.

Interest on the Bonds is included in gross income for purposes of the Connecticut corporation business tax.

Owners of the Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the Bonds and the disposition thereof, including the extent to which gains and losses from the sale or exchange of the Bonds held as capital assets reduce and increase, respectively, amounts taken into account in computing the Connecticut income tax on individuals, trusts and estates and may affect the net Connecticut minimum tax on such taxpayers who are also required to pay the Federal alternative minimum tax.

ORIGINAL ISSUE DISCOUNT.

The initial public offering price of certain of the Bonds may be less than the amount payable on the Bonds at maturity. The excess of the amount payable at maturity over the initial public offering price at which a substantial amount of such Bonds are sold constitutes original issue discount. Any prices set forth on the cover page of the Official Statement may or may not reflect the prices at which a substantial amount of the Bonds were ultimately sold to the public.

The discussion in this paragraph applies to those Bonds having original issue discount. Under Section 1288 of the Code, the amount of original issue discount treated as having accrued with respect to any such bond during each day it is owned by a taxpayer is added to the cost basis of such owner for purposes of determining gain or loss upon the sale or other disposition of such bond by such owner. Accrued original issue discount on a bond is excluded from gross income of the owners thereof for Federal income tax purposes. Accrued original issue discount on a bond is also excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. Original issue discount on any bond is treated as accruing on the basis of economic accrual for such purposes, computed by a constant semiannual compounding method using the yield to maturity on such bond. The original issue discount attributable to any bond for any particular semiannual period is equal to the excess of the product of (i) one-half of the yield to maturity of such bond and (ii) the amount which would be the adjusted basis of the bond at the beginning of such semiannual period if held by the original owner and purchased by such owner at the initial public offering price, over the interest payable on such bond during such period. The amount so treated as accruing during each semiannual period is apportioned in equal amounts among the days in that period to determine the amount of original issue discount accruing for such purposes during each such day. Owners of Bonds having original issue discount, and especially any owner who is not an original owner of a bond who bought the bond at its initial public offering price, should consult their tax advisors with respect to the Federal and state income tax consequences of the disposition of such Bonds.

ORIGINAL ISSUE PREMIUM.

The initial public offering price of certain of the Bonds may be greater than the amount payable on the Bonds at maturity. The excess of the initial public offering price at which a substantial amount of such Bonds are sold over the amount payable thereon at maturity constitutes original issue premium. Any prices set forth on the cover page of the Official Statement may or may not reflect the prices at which a substantial amount of the Bonds were ultimately sold to the public.

The discussion in this paragraph applies to those Bonds having original issue premium. Under Sections 1016 and 171 of the Code, the amount of original issue premium treated as having amortized with respect to any bond during each day it is owned by a taxpayer is subtracted from the cost basis of such owner for purposes of determining gain or loss upon the sale or other disposition of such bond by such owner. Original issue premium on any bond is treated as amortizing on the basis of the taxpayer's yield to maturity on such bond using the taxpayer's cost basis and a constant semiannual compounding method. As a consequence of the resulting cost basis reduction, under certain circumstances an owner of a bond acquired with original issue premium may realize a taxable gain upon disposition thereof even though it is sold or redeemed for an amount equal to or less than such owner's original cost of acquiring the bond. Amortized original issue premium on a bond is not allowed as a deduction from gross income for Federal income tax purposes. Amortized original issue premium on a bond also does not reduce Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and does not reduce amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. Owners of Bonds having original issue premium, and especially any owner who is not an original owner of a bond who bought the bond at its initial public offering price, should consult their tax advisors with respect to the Federal and state income tax consequences of the disposition of such Bonds.

GENERAL.

Bond Counsel has not undertaken to advise in the future whether events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds. Legislation affecting municipal bonds is regularly under consideration by the United States Congress. For example, on September 13, 2011, S.B. 1549, the "American Jobs Act of 2011" (the "Jobs Act"), was introduced into the United States Senate, which legislation, if enacted as introduced, would have subjected to federal income taxation a portion of the interest on all tax-exempt bonds (including the Bonds) received for taxable years beginning on or after January 1, 2013 by certain individuals with incomes above specified limits. The Jobs Act was not enacted; however, on February 13, 2012, President Obama released his fiscal 2013 Federal budget request, which includes a proposal to cap at 28% the value of tax preferences, including tax-exempt interest for municipal bonds. No assurance can be given that Federal legislation enacted or proposed after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status or market price of the Bonds or will not change the effect of other Federal tax law consequences discussed above of owning and disposing of the Bonds, and Bond Counsel expresses no opinion thereon. No assurance can be given that future legislation, or amendments to the income tax law of the State of Connecticut, if enacted into law, will not contain provisions that could, directly or indirectly, reduce the benefit of the exclusion of the interest on the Bonds or any gain made on the sale or exchange thereof from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts, and estates, and Bond Counsel expresses no opinion thereon. Prospective owners of the Bonds are advised to consult their tax advisors regarding the potential tax consequences of proposed Federal or State of Connecticut tax legislation affecting municipal bonds.

The information above does not purport to deal with all aspects of Federal or State of Connecticut taxation that may be relevant to a particular owner of the Bonds. Prospective owners of the Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal, state and local tax consequences of owning and disposing of the Bonds, including any tax consequences arising under the laws of any other state or other taxing jurisdiction.

APPENDIX C - FORM OF CONTINUING DISCLOSURE AGREEMENT FOR BONDS

In accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the Town will agree, pursuant to a Continuing Disclosure Agreement for Bonds to be executed by the Town substantially in the following form, to provide, or cause to be provided, (i) annual financial information and operating data, (ii) in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of certain events with respect to the Bonds and (iii) timely notice of a failure by the Town to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement for Bonds.

Continuing Disclosure Agreement for Bonds

This Continuing Disclosure Agreement for Bonds ("Agreement") is made as of March 1, 2012 by the Town of Colchester, Connecticut (the "Issuer") acting by its undersigned officers, duly authorized, in connection with the issuance of \$8,400,000 General Obligation Refunding Bonds, Issue of 2012, dated as of March 1, 2012 (the "Bonds"), for the benefit of the beneficial owners from time to time of the Bonds.

Section 1. Definitions. For purposes of this Agreement, the following capitalized terms shall have the following meanings:

"Final Official Statement" means the official statement of the Issuer dated February 23, 2012 prepared in connection with the Bonds.

"MSRB" means the Municipal Securities Rulemaking Board established under the Securities Exchange Act of 1934, as amended, or any successor thereto.

"Repository" means the MSRB or any other information repository established pursuant to the Rule as amended from time to time.

"Rule" means Rule 15c2-12 under the Securities Exchange Act of 1934, as of the date of this Agreement.

"SEC" means the Securities and Exchange Commission of the United States, or any successor thereto.

Section 2. Annual Financial Information.

(a) The Issuer agrees to provide or cause to be provided to each Repository, in accordance with the provisions of the Rule and of this Agreement, annual financial information and operating data (commencing with information and data for the fiscal year ending June 30, 2011) as follows:

(i) Financial statements of the Issuer's general fund: any bonded projects, water permanent enterprise, internal service and trust or agency funds, for the prior fiscal year which statements shall be prepared in accordance with generally accepted accounting principles or mandated state statutory principles as in effect from time to time. As of the date of this Agreement, the Issuer prepares its financial statements in accordance with generally accepted accounting principles. The financial statements will be audited.

(ii) The following financial information and operating data to the extent not included in the financial statements described in (i) above:

- (A) amounts of the net taxable grand list applicable to the fiscal year,
- (B) listing of the ten largest taxpayers on the applicable grand list, together with each such taxpayer's taxable valuation thereon,
- (C) percentage of the annual property tax levy uncollected as of the close of the fiscal year,
- (D) schedule of annual debt service on outstanding long-term bonded indebtedness as of the close of the fiscal year,
- (E) calculation of total overall debt and total overall net debt as of the close of the fiscal year,
- (F) total overall debt and total overall net debt of the Issuer per capita,
- (G) ratios of the total overall debt and total overall net debt of the Issuer to the net taxable grand list,
- (H) statement of statutory debt limitation as of the close of the fiscal year, and
- (I) funding status of the Issuer's pension benefit obligation.

(b) The financial information and operating data described above will be provided on or before the date eight months after the close of the fiscal year for which such information is being provided. The Issuer's fiscal year currently ends on June 30.

(c) Annual financial information and operating data may be provided in whole or in part by cross-reference to other documents available to the public on the MSRB's Internet Web site referenced in the Rule as amended from time to time or filed with the SEC. All or a portion of the financial information and operating data may be provided in the form of a comprehensive annual financial report.

(d) The Issuer reserves the right (i) to provide financial statements which are not audited if no longer required by law, (ii) to modify from time to time the format of the presentation of such information or data, and (iii) to modify the accounting principles it follows to the extent required by law, by changes in generally accepted accounting principles, or by changes in accounting principles adopted by the Issuer; provided that the Issuer agrees that any such modification will be done in a manner consistent with the Rule.

Section 3. Notice of Certain Events.

The Issuer agrees to provide or cause to be provided, in a timely manner not in excess of ten business days after the occurrence of the event, to each Repository notice of the occurrence of any of the following events with respect to the Bonds:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;

- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the bonds, or other material events affecting the tax status of the Bonds;
- (g) modifications to rights of holders of the Bonds, if material;
- (h) Bond calls, if material, and tender offers;
- (i) Bond defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar event of the Issuer;
- (m) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Section 4. Notice of Failure to Provide Annual Financial Information.

The Issuer agrees to provide or cause to be provided, in a timely manner, to each Repository notice of any failure by the Issuer to provide annual financial information as set forth in Section 2(a) hereof on or before the date set forth in Section 2(b) hereof.

Section 5. Use of Agents.

Annual financial information and operating data and notices to be provided pursuant to this Agreement may be provided by the Issuer or by any agents which may be employed by the Issuer for such purpose from time to time.

Section 6. Termination.

The obligations of the Issuer under this Agreement shall terminate upon the earlier of (i) payment or legal defeasance, at maturity or otherwise, of all of the Bonds, or (ii) such time as the Issuer ceases to be an obligated person with respect to the Bonds within the meaning of the Rule.

Section 7. Enforcement.

The Issuer acknowledges that the undertakings set forth in this Agreement are intended to be for the benefit of, and enforceable by, the beneficial owners from time to time of the Bonds. In the event the Issuer shall fail to perform its duties hereunder, the Issuer shall have the option to cure such failure within a reasonable time (but not exceeding 30 days with respect to the undertakings set forth in Section 2 of this Agreement or five business days with respect to the undertakings set forth in Sections 3 and 4 of this Agreement) from the time the Issuer's Chief Financial Officer, or a successor, receives written notice from any beneficial owner of the Bonds of such failure. The present address of the Chief Financial Officer is Town Hall, 127 Norwich Avenue, Colchester, Connecticut 06415.

In the event the Issuer does not cure such failure within the time specified above, the beneficial owner of any Bonds shall be entitled only to the remedy of specific performance. The parties expressly acknowledge and agree that no monetary damages shall arise or be payable hereunder nor shall any failure to comply with this Agreement constitute an event of default with respect to the Bonds.

Section 8. Miscellaneous.

(a) All documents provided by the Issuer to a Repository pursuant to the Issuer's undertakings set forth in Sections 2, 3 and 4 of this Agreement shall be in an electronic format as prescribed by the MSRB from time to time and shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(b) The Issuer shall have no obligation to provide any information, data or notices other than as set forth in this Agreement; provided, however, nothing in this Agreement shall be construed as prohibiting the Issuer from providing such additional information, data or notices from time to time as it deems appropriate in connection with the Bonds. If the Issuer elects to provide any such additional information, data or notices, the Issuer shall have no obligation under this Agreement to update or continue to provide further additional information, data or notices of the type so provided.

(c) This Agreement shall be governed by the laws of the State of Connecticut.

(d) Notwithstanding any other provision of this Agreement, the Issuer may amend this Agreement, and any provision of this Agreement may be waived, if such amendment or waiver is made in connection with a change of circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of the Issuer, and is supported by an opinion of counsel expert in federal securities laws, to the effect that (i) such amendment or waiver would not materially adversely affect the beneficial owners of the Bonds, and (ii) the provisions of the Agreement as so amended or waived would have complied with the requirements of the Rule, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances, in each case as of the date of such amendment to the Agreement or waiver. A copy of any such amendment or waiver will be filed in a timely manner with each Repository. The annual financial information provided on the first date following adoption of any such amendment will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating or financial information provided.

(e) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same instrument.

TOWN OF COLCHESTER

By _____
Gregg B. Schuster
First Selectman

By _____
Gregory E. Cordova
Selectman

By _____
Rosemary D. Coyle
Selectman

By _____
James W. Ford
Selectman

By _____
Stanley F. Soby
Selectman

By _____
Gregg G. LePage
Treasurer