

OFFICIAL STATEMENT DATED JUNE 7, 2005

New Issue

**Rating: Moody's Investors Service Aaa
(MBIA Insured)**

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; 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.

**TOWN OF COLCHESTER, CONNECTICUT
\$10,800,000 GENERAL OBLIGATION BONDS, ISSUE OF 2005
BOOK-ENTRY-ONLY**

Dated: June 15, 2005

Due: Serially, June 15, 2007-2025, as shown below

Due	Amount	Interest Rate	Yield	CUSIP Number	Due	Amount	Interest Rate	Yield	CUSIP Number
2007	\$645,000	4.500%	2.700%	192792NH8	2017	\$540,000	3.625%	3.650%	192792NT2
2008	645,000	3.250	2.890	192792NJ4	2018	540,000	4.000	3.750 ¹	192792NU9
2009	645,000	3.375	2.850	192792NK1	2019	540,000	4.000	3.850 ¹	192792NV7
2010	645,000	3.250	2.950	192792NL9	2020	540,000	4.000	3.900 ¹	192792NW5
2011	645,000	3.250	3.050	192792NM7	2021	540,000	4.000	3.950 ¹	192792NX3
2012	545,000	3.375	3.150	192792NN5	2022	540,000	4.000	4.000	192792NY1
2013	545,000	3.500	3.250	192792NP0	2023	540,000	4.000	4.050	192792NZ8
2014	545,000	3.500	3.350	192792NQ8	2024	540,000	4.000	4.100	192792PA1
2015	540,000	4.500	3.580	192792NR6	2025	540,000	4.000	4.125	192792PB9
2016	540,000	3.500	3.550	192792NS4					

¹ Priced assuming redemption on June 15, 2015; however, any such redemption is at the option of the Town.

Payment of the principal of and interest on the Bonds will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the issuance and delivery of the Bonds.



Interest on the Bonds will be payable semiannually on the fifteenth day of December and June of each year, commencing December 15, 2005. 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 integral 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.

The Bonds are subject to redemption prior to maturity as more fully described herein. See "Optional Redemption" herein.

The Bonds are offered for delivery when, as and if issued, subject to the final approving opinion of Day, Berry & Howard LLP, Bond Counsel, of Hartford, Connecticut. It is expected that the delivery of the Bonds in definitive form will be made on or about June 15, 2005, 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.

UBS Financial Services Inc.

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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 (the "Town")
- Issue:** \$10,800,000 General Obligation Bonds, Issue of 2005 (the "Bonds"), book-entry only
- Financial Advisor:** Webster Bank, National Association, Hartford, Connecticut
- Date of Sale:** Sealed bids and electronic bids via PARITY® on Tuesday, June 7, 2005, until 11:30 A.M. (E.D.T.)
- Location of Sale:** Webster Bank, National Association, CityPlace II, 185 Asylum Street, Government Finance, 3rd Floor Conference Room, Hartford, Connecticut 06103
- Dated Date:** June 15, 2005
- Interest Date:** Each December 15 and June 15, commencing December 15, 2005
- Principal Due:** Serially, June 15, 2007 through June 15, 2025, as detailed in this Official Statement
- Purpose:** The Bonds are being issued to provide financing for a new pre-kindergarten through grade two school and various capital equipment.
- Redemption:** The Bonds are 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, 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 **shall not** 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.
- Bond Insurance:** Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds. See Appendix E - Bond Insurance" and Exhibit I - "Specimen Municipal Bond Insurance Policy" herein.
- Credit Enhancement:** The Town does not expect to direct purchase a credit enhancement facility.
- Basis of Award:** Lowest True Interest Cost, as of the dated date
- Tax Exemption:** 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, 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; 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.

**Certifying Agent,
Registrar, Transfer
Agent and Paying
Agent:**

U.S. Bank National Association, 225 Asylum Street, Hartford, Connecticut 06103

Denominations: \$5,000 or any integral multiple thereof

Legal Opinion: Day, Berry & Howard 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 June 15, 2005.

**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.

The Preliminary Official Statement is available in electronic form at www.i-dealprospectus.com. For additional copies of the Official Statement or requests for additional information, please contact: M. Terri Larson, Senior Vice President, Webster Bank, National Association, CityPlace II, 185 Asylum Street, Hartford, Connecticut 06103, telephone (860) 692-1357.

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 \$10,800,000 General Obligation Bonds, Issue of 2005 (the "Bonds") of the Town.

The Bonds are being offered for sale at public bidding. A Notice of Sale and Proposal for Bonds dated May 25, 2005, a copy of which is included as Appendix D herein, have been furnished to prospective bidders. Reference is made to the Notice of Sale and Proposal for Bonds for the terms and conditions of the bidding.

The successful bidder for the Bonds may add a separate page on the front of this Official Statement to indicate its name, the Bond offering prices, the interest rate per annum on the Bonds, information regarding ratings and insurance (if any), and such other information as approved by the Town which the successful bidder deems appropriate.

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, 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 and acts and proceedings of the Town contained herein do not purport to be complete, and reference is made to said laws and proceedings 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 "Bank"), from information supplied by the Town's officials and other sources as indicated. The Bank 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 Bank has been entered into to conform to Municipal Securities Rulemaking Board ("MSRB") Rule G-23. Under the agreement in which the Bank is acting as Financial Advisor, the Bank has reserved the right to bid on the acquisition of or to participate in the Bond issue or other issues covered by the agreement. The Town has consented to the Bank's bidding on this issue in compliance with MSRB Rule G-23 (d)(ii). U.S. Bank National Association, of Hartford, Connecticut will act as Certifying Agent, Registrar, Transfer Agent, and Paying Agent for the Bonds.

The independent auditors for the Town are not passing upon and do not assume responsibility for the accuracy or completeness of the financial information presented in this Official Statement (other than matters expressly set forth in Appendix A - "Auditor's Section" herein), and they make no representation that they have independently verified the same.

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 - "Opinion of Bond Counsel and Tax Exemption" herein), and they make no representation that they have independently verified the same.

SECTION I - SECURITIES OFFERED

Description of the Bonds

The Bonds are being offered for sale at public bidding. Reference is made to the Notice of Sale and Proposal for Bonds in Appendix D for the terms and conditions of the bidding.

The Bonds will be dated June 15, 2005 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>
2007	\$645,000	2017	\$540,000
2008	645,000	2018	540,000
2009	645,000	2019	540,000
2010	645,000	2020	540,000
2011	645,000	2021	540,000
2012	545,000	2022	540,000
2013	545,000	2023	540,000
2014	545,000	2024	540,000
2015	540,000	2025	540,000
2016	540,000		

Interest on the Bonds will be payable semiannually on the fifteenth day of December and June of each year, commencing December 15, 2005. Interest will be calculated on the basis of twelve 30-day months and a 360-day year. Interest is payable to the registered owner as of the close of business on the last business day of November and May in each year, 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 and interest will be payable at the principal office of U.S. Bank National Association, as Paying Agent.

The Bonds are subject to redemption prior to maturity as more fully described herein. (See "Optional Redemption" herein.)

Authorization and Purpose

\$10,300,000 Pre-K through Grade 2 School: By resolution presented at a Special Town Meeting held on May 6, 2003 and adopted at a referendum held on May 13, 2003, the Town approved an appropriation for \$25,692,800 and authorized the issuance of up to \$25,692,800 bonds and notes to finance the design, construction, furnishing and equipping of, and site acquisition and improvements for a grade pre-kindergarten through grade two school.

\$500,000 Capital Equipment: By resolution presented at a Special Town Meeting held on May 3, 2005 and adopted at a referendum held on May 10, 2005, the Town approved an appropriation for \$500,000 and authorized the issuance of up to \$500,000 bonds and notes to finance the purchase of various capital equipment for the Town and Board of Education.

Use of Proceeds

<u>Project</u>	<u>Bond Amount Authorized</u>	<u>Previously Bonded</u>	<u>Notes Maturing</u>	<u>This Issue</u>
Pre-K through Grade 2 school	\$25,692,800	\$-	\$4,000,000	\$10,300,000
Capital equipment	500,000	-	-	500,000
Total	\$26,192,800	\$-	\$4,000,000	\$10,800,000

School Construction Grants

Pursuant to Public Act No. 97-11 of the June 18 Special Session of the 1997 Connecticut General Assembly ("P.A. 97-11"), the procedure by which the State of Connecticut will provide school construction grants to municipalities has been changed. Under prior law, a municipality issued bonds for the entire amount needed for a school construction project and a State grant generally was paid by the State reimbursing the municipality for a certain percentage of principal and interest payments on its bonds when due. P.A. 97-11 provides that a municipality request progress payments from the State during the course of construction of the project. The State grant will be paid directly to the municipality after it submits its request for progress payments, and, accordingly, the municipality will issue its bonds only for its share of project costs. The pre-K through grade 2 school was approved by the State for school construction grant funds that will be administered pursuant to P.A. 97-11, and the Town will receive grant funds pursuant to the new procedure.

Optional Redemption

Bonds maturing on or before June 15, 2015 are not subject to redemption prior to maturity. Bonds maturing after June 15, 2015 are subject to redemption prior to maturity, at the option of the Town, on or after June 15, 2015, 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, 2015 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.

Rating

Moody's Investors Service has assigned a rating of Aaa to the Bonds, with the understanding that a municipal bond insurance policy will be issued by MBIA Insurance Corporation concurrently with the delivery of the Bonds. On June 3, 2005, Moody's Investors Service assigned an underlying rating of A1 to the Bonds and reaffirmed the A1 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.

Bond Insurance

MBIA Insurance Corporation has made a commitment to issue a municipal bond insurance policy relating to the Bonds effective as of the date of issuance of the Bonds. See Appendix E - "Bond Insurance" and Exhibit I - "Specimen Municipal Bond Insurance Policy" herein.

Credit Enhancement

The Town does not expect to direct purchase a credit enhancement to provide for the payment of the principal of or interest on the Bonds.

Tax Exemption

Upon delivery of the Bonds, the purchaser(s) will receive an opinion from Bond Counsel substantially in the form as presented in Appendix B - "Opinion of Bond Counsel and Tax Exemption" herein.

Security and Remedies

The Bonds will be general obligations of the Town, 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 revenues. 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 taxable at limited amounts. There were 70 acres of such certified 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 on its power to tax such dwelling houses.

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 a court of competent jurisdiction has power in appropriate proceedings to render a judgment against the Town. Courts of competent jurisdiction also have the power in appropriate proceedings to order payment of a judgment on such bonds 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 the Bonds 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 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 not** 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, New York, will act as securities depository for the Bonds (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 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 Standard & Poor's highest rating: AAA. 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 Participants 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-only 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 the Bonds unless authorized by a Direct Participant in accordance with DTC's 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 the 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 the Paying Agent, on the 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 nor its nominee, the 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 the 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been provided by DTC. The Town takes no responsibility for the accuracy thereof.

DTC Practices

The Town can make no assurances that DTC, DTC 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.

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 unmatched by any municipality within the State of Connecticut. About 89% of Colchester is zoned for residential purposes. Colchester's population nearly doubled since the 1980 Census. Its population was 15,158 in 2003. Colchester was the second fastest growing Connecticut municipality in the past decade. In addition, the surrounding towns have also been growing faster than the State average.

The 1998 land use survey found that 54% or 16,975 acres is vacant or uncommitted to a specific purpose. It is estimated that Colchester could eventually contain about 15,000 total housing units or about 40,000 people, an additional 1.1 million square feet of commercial floor space, and 2.7 million square feet of industrial floor space.

Colchester's 2001 Plan of Conservation & Development (the "Plan") recommends preserving more open space. According to the Statewide Comprehensive Outdoor Recreation Plan, Colchester has slightly more State-owned open space than other towns in Connecticut. However, Colchester has much less Town-owned open space than the State average. About 45% of all land in Colchester currently participates in the farm and forest components of the PA-490 program that reduces the tax burden on those parcels and spreads development out over time. The Town's 2001 Plan recommends establishing an Open Space Committee and the land trust to encourage open space preservation. In 2001, the Town acquired for a total cost of \$510,000 two parcels of land aggregating 121 acres for open space/wetland preservation.

On November 7, 1989, a vote approved the consolidation of the Borough of Colchester with the Town of Colchester effective July 1, 1990, forming one governmental unit. On November 8, 1994, the Town adopted a Charter to become effective July 1, 1995. The Charter created a Sewer and Water Commission to administer the operations of the Sewer and Water District that was formerly under the authority of the Utility Commission. The Sewer and Water Commission provides sewage disposal and water supply to Town residents and businesses on an Enterprise Fund basis.

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 \$100,000, and all bond and note authorizations are submitted to a referendum vote.

The First Selectman, who is a member of the Board of Selectmen, 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.

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.

Municipal Services

The Town provides a broad range of services including public safety, Town roads, solid waste disposal, health, 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, two resident state troopers and full-time Colchester police officers. In addition to the training of the police officers, the resident state troopers are 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, 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 Lisbon. Recyclables, automobile batteries, leaves and brush 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, scrap metal, 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 postclosure monitoring.

The Town extended an agreement to June 30, 2006 with Wheelabrator Technologies Inc. to dispose of solid waste accepted at its transfer station at their Lisbon Resource Recovery Facility. The Town pays a \$62.21 per-ton tipping fee and \$95.00 per haul. The Town has not pledged its full faith and credit to the payment of debt service of the Lisbon facility.

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 approximate two-square-mile land area, primarily within the former jurisdiction of the Borough of Colchester. The area, located in the center of Town, 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. Approximately 1,635 users 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 1,750 users 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 – The Town’s recreation facilities and programs under the direction of the Parks and Recreation Director and the Parks and Recreation Commission are held in a \$3 million Town-owned complex. Facilities maintained by the Recreation Commission include parks, cemeteries, recreation areas, Town greens, lighted ballfields, a lighted soccer/football field, tennis courts, and a skating pond. Organized sports programs for youths and adults are offered in addition to a summer day-camp program and trips to the beaches. The Town purchased 17 acres of land next to its existing recreation complex for further expansion.

Public Library – The Cragin Memorial Library is a 20,000-square-foot, state-of-the-art facility, expanded in 2002. Visitors average 400 per day, and circulation in fiscal year 2003–04 was 157,358 items. In addition to books, periodicals, audio and video tapes, CDs and DVDs, the library provides high-speed internet connections, educational and cultural programs for all ages, and meeting rooms for community groups.

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, 2004 was 3,159 with an operating capacity of 2,915. The construction of a new pre-kindergarten through grade two school funded in part by proceeds of the bond issue is expected to be completed by September 2006. The new elementary school will have 43 classrooms with a rated capacity of 800 students.

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 10/1/04</u>	<u>Operating Capacity¹</u>
Jack Jackter Elementary	Pre-K-3	1966 (1976)	Brick	40	944	872
Colchester Intermediate	4-5	1926 (1966, 1982)	Brick	26	526	397
William J. Johnston	6-8	1938 (1953, 1989)	Brick	32	776	483
Bacon Academy	9-12	1993	Brick	<u>61</u>	<u>913</u>	<u>1,163</u>
Total				159	3,159	2,915

¹Eleven portable classrooms are being used at various locations to accommodate student enrollment until completion of construction of the new pre-kindergarten through grade two school. Upon completion of the new elementary school in September 2006, the Town’s school facilities will have 202 classrooms with an operating capacity of 3,715 students.

School Enrollment

	<u>Grades K-3</u>	<u>Grades 4-5</u>	<u>Grades 6-8</u>	<u>Grades 9-12</u>	<u>Total</u> ¹
<i>Historical</i>					
1995	925	448	514	496	2,383
1996	998	435	594	532	2,559
1997	984	423	621	575	2,603
1998	1,016	479	639	615	2,749
1999	1,001	499	659	689	2,848
2000	1,024	539	695	770	3,028
2001	1,048	507	765	783	3,103
2002	981	515	743	869	3,108
2003	961	516	753	879	3,109
2004	944	526	776	913	3,159
<i>Projected</i>					
2005	870	525	787	940	3,122
2006	862	474	802	959	3,097
2007	841	461	787	995	3,084
2008	826	444	763	996	3,029

¹ Includes Special Education students.

Municipal Employees

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
General Government	96	91	87	83 ¹	76
Board of Education	<u>407</u>	<u>412</u>	<u>396</u>	<u>395</u>	<u>402</u>
Total	503	503	483	478	478

¹ Library employees were reclassified as General Government employees effective July 1, 2002.

Employees Bargaining Organizations

<u>Employees</u>	<u>Bargaining Unit</u>	<u>Number of Members</u>	<u>Contract Expiration Date</u>
Teachers	Colchester Education Association and Federation of Teachers	250	6/30/07
Custodians	Local 1303, Council #4, AFL-CIO	27	6/30/07
Central Office Administrators (non-certified)	C.O. Local 818 and Colchester Federation of Educational Personnel	5	6/30/05 ¹
Education (Aides, Clerks, Cafeteria Workers, Nurses and Secretaries)	Local 3279, AFT, CFEPE, AFL-CIO	103	6/30/05 ¹
School Administrators	Colchester Association of School Administrators	12	6/30/08
Public Works	Municipal Employees Union Independent	22	6/30/07
Town Clerical Workers	AFSCME/AFL-CIO, Council #4	10	6/30/05 ¹
Fire/Ambulance	Colchester Firefighters Union, UPPRA, IARR, Local 3831	4	6/30/05 ¹
Management	Municipal Employees Union Independent	9	6/30/07
Police	Colchester Police Local 26935, AFSCME, Council #15	6	6/30/07

¹In 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

Colchester continues to evolve at a very rapid pace. Colchester has experienced explosive growth in population and residential base since 1950 because of its strategic location in relation to other parts of Connecticut and availability of residential land, coupled with a convenient location, affordable prices, and the community character and amenities that are available to residents. According to the 2000 Census, during the 1990-2000 period Colchester was the fastest growing municipality in Connecticut of those municipalities with a population of more than 5,000 people.

Colchester has two regional roles: as a residential suburb for the Hartford, Norwich, New London, and Middletown metropolitan areas and as a sub-regional center offering businesses and employment for the residents of surrounding communities. Significant commercial development has occurred in the last 12 years to meet the growing demand for services. In the last four years, developments have included four professional office buildings; two medical services buildings; two shopping plazas housing establishments such as Stop & Shop supermarket, Blockbuster Video, Dunkin' Donuts, McDonald's, Subway, Wendy's and Starbucks Coffee; two financial services companies; two new restaurants; an automobile dealership; and numerous small retail and service businesses. The Town offers a Tax Incentive Package to provide partial relief from local property taxes for prospective and expanding commercial enterprises.

An integral part of commercial development in Colchester includes the revitalization of its downtown area surrounding the historic Town Green. The redevelopment, additions, new construction of commercial activities, streetscape improvements, and traffic circulation have all been part of the planning for the Town Center. The Town completed a Historical and Architectural Survey in 1991, Town Center Cultural Resource Development and Heritage Tourism Plan in 1995, and Town Center Neighborhood Strategic Plan in 1998 to develop policies, goals and standards for the physical and economic development of the Town. The Town has hired a Town Planner and appointed an Economic Development Commission to assist in expanding its commercial tax base. Their accomplishments include the creation of a tax incentive program, the creation of a motto (Business Friendly, Friendly People), the development of a brochure entitled the ABC's of Success, and the creation of a web site.

In an effort to foster commercial development within the Town, the Town initiated a program for awarding real property tax incentives to owners of new and expanding commercial enterprises in Town. The goals of the Tax Incentive Program are: 1) to encourage new job creation and expansion of existing businesses, 2) to attract forms of commercial development not currently offered, 3) to foster the development of start-up companies within the Town, and 4) to grow the Town tax base and more equitably distribute tax burdens.

Principal industries are light manufacturing of leather goods and plastic.

In January 2001, the Town adopted the 2001 Colchester Plan of Conservation & Development as the blueprint for the future of Colchester. As part of the development of the Plan, the Town conducted a survey of residents that showed a general consensus that there was a demand for additional retail and service businesses to serve the needs of residents of Colchester and surrounding communities. In addition, the Plan states that Colchester, due to its strategic location and well-qualified labor force, has the potential to establish a high-quality business park for office, research, and light industrial uses.

Population and Density

<u>Year</u>	<u>Population¹</u>	<u>Percent Change</u>	<u>Density²</u>
2003	15,158	4.2	311
2000	14,551	32.5	299
1990	10,980	41.5	225
1980	7,761	17.5	159
1970	6,603	42.1	136
1960	4,648	--	95

¹Source: U.S. Department of Commerce, Bureau of Census, Census of Population 1960–2000; State of Connecticut Department of Public Health estimate July 1, 2003.

²Source: Population per square mile: 48.7 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	1,242	8.5	223,344	6.5
5 to 9 years	1,317	9.1	244,144	7.2
10 to 14 years	1,190	8.2	241,587	7.1
15 to 19 years	824	5.7	216,627	6.4
20 to 24 years	466	3.2	187,571	5.5
25 to 34 years	2,146	14.7	451,640	13.2
35 to 44 years	3,165	21.8	581,049	17.1
45 to 54 years	1,908	13.1	480,807	14.1
55 to 59 years	566	3.9	176,961	5.2
60 to 64 years	394	2.7	131,652	3.9
65 to 74 years	656	4.5	231,565	6.8
75 to 84 years	482	3.3	174,345	5.1
85 years and over	<u>195</u>	<u>1.3</u>	<u>64,273</u>	<u>1.9</u>
Total	14,551	100.0	3,405,565	100.0
2000 median age (years) ¹	35.3	-	37.4	-
1990 median age (years) ²	32.4	-	34.4	-

Source: ¹U.S. Department of Commerce, Bureau of Census, 2000 Census.

²U.S. Department of Commerce, Bureau of Census, 1990 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.

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	<u>938</u>	<u>9.8</u>	<u>304,243</u>	<u>13.2</u>
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 Period Average</u>	<u>Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Unemployment Rate</u>		
				<u>Town of Colchester</u>	<u>Hartford Labor Market</u>	<u>State of Connecticut</u>
April 2005	8,231	7,882	349	4.2	5.2	4.8
2003	7,582	7,237	345	4.6	5.2	4.8
2002	6,828	6,539	289	4.2	4.5	4.3
2001	6,623	6,437	186	2.8	3.7	3.3
2000	6,733	6,605	128	1.9	2.4	2.3
1999	6,564	6,381	183	2.8	3.3	3.2
1998	6,463	6,240	223	3.5	3.4	3.4
1997	6,534	6,205	329	5.0	5.4	5.1
1996	6,614	6,196	418	6.3	6.1	5.7
1995	6,322	5,958	364	5.8	6.0	5.5
1994	6,464	6,102	362	5.6	5.9	5.6

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 among the most significant employers in the Town of Colchester.

<u>Employer</u>	<u>Nature of Business</u>	<u>Approximate Number of Employees¹</u>
Town of Colchester	Municipal government	493
S&S Worldwide.....	Arts & crafts manufacturing	350
Stop & Shop	Supermarket	200
Harrington Court	Convalescent/nursing home	167
Alpha Q	Aerospace manufacturing	83
Liberty Specialty Care Center	Convalescent/nursing home	75
M&J Bus Company	Transportation	39

¹Full-time equivalent.

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 in households	14,343	-	3,297,626	-
Persons per household (average)	2.75	-	2.53	-
Persons per family	3.14	-	3.08	-
Family households	3,997	76.5	881,170	67.7
Non-family households	<u>1,228</u>	<u>23.5</u>	<u>420,500</u>	<u>32.3</u>
All households	5,225	100.0	1,301,670	100.0
Family households by type				
Married couple	3,340	83.6	676,467	76.8
Female householders, no spouse	481	12.0	157,411	17.8
Other	<u>176</u>	<u>4.4</u>	<u>47,292</u>	<u>5.4</u>
Total family households	3,997	100.0	881,170	100.0
Non-family households by type				
Householders living alone	953	77.6	344,224	81.9
Other	<u>275</u>	<u>22.4</u>	<u>76,276</u>	<u>18.1</u>
Total non-family households	1,228	100.0	420,500	100.0

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

Home Sales Price Distribution, 2003

	<u>Town of Colchester</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than \$100,000	54	18.0	12,668	16.6
\$100,001 to \$ 200,000	89	29.8	27,434	36.0
\$200,001 to \$300,000	107	35.8	15,276	20.1
\$300,001 to \$400,000	35	11.7	8,135	10.7
\$400,001 or more	<u>14</u>	<u>4.7</u>	<u>12,673</u>	<u>16.6</u>
Total	299	100.0	76,186	100.0
Median value	\$210,800	-	\$189,900	-

Source: CERC, Inc.

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>
2005 ¹	463	\$13,203,610	2	\$21,285,000 ²	465	\$34,488,610
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
2001	608	11,836,138	25	1,096,025	633	12,932,163
2000	571	12,863,025	62	1,533,020	633	14,396,045
1999	593	13,244,599	59	1,386,082	652	14,630,681
1998	473	9,061,112	50	1,811,483	523	10,872,595
1997	476	10,706,317	34	891,520	510	11,597,837
1996	263	9,977,481	22	478,271	285	10,455,752
1995	381	17,796,796	34	2,049,595	415	19,846,391

¹Through April 22, 2005.

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	7,011	22.3
Commercial.....	312	1.0
Industrial	53	0.2
Public utility	56	0.2
Institutional	482	1.5
Mixed use	42	0.1
Transportation	<u>1,750</u>	<u>5.6</u>
Total developed	9,706	30.9
Open space	4,801	15.2
Agricultural/undeveloped	<u>16,975</u>	<u>53.9</u>
Total	31,482	100.0

Source: Town of Colchester, Plan of Conservation & Development, January 2000.

SECTION IV -- DEBT SECTION

Debt Summary
As of June 15, 2005
(Pro Forma)

Outstanding Short-term Debt

The Town does not have any outstanding short-term debt.

Outstanding Bonded Debt

<u>Dated Date</u>	<u>Final Maturity</u>	<u>Purpose</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
12/15/87	12/15/07	Various purpose	6.70-7.20	\$ 4,500,000	\$ 645,000
09/15/88	01/15/08	Various purpose	7.20-7.30	4,500,000	705,000
09/15/91	09/15/11	Various purpose	5.60-7.50	4,000,000	1,420,000
05/15/97	08/15/11	Refunding	3.50-5.50	13,455,000	5,840,000
06/15/01	06/15/21	Various purpose	4.00-5.50	9,460,000	6,810,000
08/01/02	06/15/22	Various purpose	3.00-4.70	5,985,000	4,885,000
08/01/02	06/15/12	Refunding	2.00-4.50	5,180,000	3,480,000
11/01/02	01/15/13	Refunding	3.00-4.00	1,370,000	990,000
06/15/05	06/15/25	This issue	3.25-4.50	10,800,000	<u>10,800,000</u>
Total					<u>\$35,575,000</u>

Overlapping/Underlying Debt

The Town does not have any overlapping or underlying debt.

**Annual Bonded Debt Maturity Schedule
As of June 15, 2005
(Pro Forma)**

<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>
2005 ¹	\$ -	\$ -	\$ -	\$ -	-
2006	3,525,000	1,119,350	4,644,350	-	9.91
2007	3,210,000	964,474	4,174,474	645,000	20.74
2008	2,930,000	815,154	3,745,154	645,000	30.79
2009	2,460,000	672,504	3,132,504	645,000	39.52
2010	2,425,000	563,244	2,988,244	645,000	48.15
2011	2,290,000	452,221	2,742,221	645,000	56.40
2012	1,690,000	361,390	2,051,390	545,000	62.68
2013	690,000	297,932	987,932	545,000	66.16
2014	665,000	266,922	931,922	545,000	69.56
2015	660,000	234,398	894,398	540,000	72.93
2016	660,000	201,878	861,878	540,000	76.30
2017	660,000	172,147	832,147	540,000	79.68
2018	660,000	142,148	802,148	540,000	83.05
2019	660,000	110,903	770,903	540,000	86.42
2020	660,000	78,412	738,412	540,000	89.80
2021	660,000	45,652	705,652	540,000	93.17
2022	270,000	12,690	282,690	540,000	95.45
2023	-	-	-	540,000	96.96
2024	-	-	-	540,000	98.48
2025	-	-	-	540,000	100.00
Total	<u>\$24,775,000</u>	<u>\$6,511,419</u>	<u>\$31,286,419</u>	<u>\$10,800,000</u>	

¹ Excludes \$3,560,000 principal payments and \$1,273,424 interest payments made from July 1, 2004 through June 15, 2005.

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

Current Debt Statement
As of June 15, 2005
(Pro Forma)

Bonded debt		
General purpose (including this issue)		\$ 6,299,885
Schools (including this issue)		28,265,615
Sewers		529,500
Water		<u>480,000</u>
Total bonded debt		35,575,000
Short-term debt		<u> -</u>
Total overall debt		35,575,000
Less:		
School construction grants receivable		6,752,572
Self-supporting debt (sewers)		529,500
Self-supporting debt (water)		<u>480,000</u>
Total grants and self-supporting debt		7,762,072
Total overall net debt		\$27,812,928

Current Debt Ratios
As of June 15, 2005
(Pro Forma)

Population 2003 ¹	15,158
Net Taxable Grand List, 10/1/04	\$826,761,481
Estimated Full Value	\$1,181,087,830
Equalized Net Taxable Grand List (2002) ²	\$1,351,728,080
Money Income per Capita (1999) ³	\$27,038

	<u>Total</u> <u>Overall Debt</u>	<u>Total Overall</u> <u>Net Debt</u>
Debt per Capita	\$2,346.95	\$1,834.87
Percent of Net Taxable Grand List	4.30%	3.36%
Percent of Estimated Full Value	3.01%	2.35%
Percent of Equalized Net Taxable Grand List	2.63%	2.06%
Debt per Capita to Money Income per Capita	8.68%	6.79%

¹ State of Connecticut Department of Public Health estimate July 1, 2003.

² State of Connecticut, Office of Policy and Management.

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

**Statement of Statutory Debt Limitation
As of June 15, 2005
(Pro Forma)**

Debt Limitation Base

Total tax collections, including interest and lien fees, for the fiscal year ended June 30, 2004	\$24,289,959
Reimbursement for revenue loss on Elderly Tax Relief	<u>60,060</u>
Debt Limitation Base	\$24,350,019

Debt Margin

	<u>General Purpose</u>	<u>Schools</u>	<u>Sewers</u>	<u>Urban Renewal</u>	<u>Pension Deficit Funding</u>
Debt Limitation by Purpose					
2.25 x base	\$54,787,543				
4.50 x base	-	\$109,575,086			
3.75 x base	-	-	\$91,312,571		
3.25 x base	-	-	-	\$79,137,562	
3.00 x base	-	-	-	-	\$73,050,057
Total debt limitation	<u>54,787,543</u>	<u>109,575,086</u>	<u>91,312,571</u>	<u>79,137,562</u>	<u>73,050,057</u>
Less indebtedness					
Bond of this issue	376,000	10,424,000	-	-	-
Bonds payable	5,923,885	17,841,615	529,500	-	-
Authorized but unissued	<u>-</u>	<u>29,856,800</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total indebtedness	6,299,885	58,122,415	529,500	-	-
Less:					
School construction grants	<u>-</u>	<u>6,752,572</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net total indebtedness	6,299,885	51,369,843	529,500	-	-
Debt limitation in excess of outstanding and authorized debt					
	\$48,487,658	\$58,205,243	\$90,783,071	\$79,137,562	\$73,050,057

Note 1: In no event shall total debt exceed seven times annual receipts from taxation. The maximum amount permitted would be \$170,450,133.

Note 2: In accordance with State Statutes, \$480,000 debt reflected in the Water Enterprise Fund is not included in the schedule above.

**Authorized but Unissued Debt
As of June 15, 2005
(Pro Forma)**

<u>Project</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Previously Bonded</u>	<u>Bonds of This Issue</u>	<u>Authorized but Unissued</u>
Jack Jackter Elementary School ¹	01/30/01	\$22,050,000	\$7,876,000	\$ -	\$14,174,000
Intermediate School Repairs ²	01/30/01	690,000	400,000	-	290,000
Grade Pre-K through 2 School ³	05/13/03	25,692,800	-	10,300,000	15,392,800
Total			\$8,276,000	\$10,300,000	\$29,856,800

¹ The Town expects State school construction grants to defray the balance of project costs.

² The Town expects State school construction grants in the amount of \$290,000 to defray project costs.

³ The Town expects to receive State school constructions grants of 64.64% of eligible project costs.

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 \$100,000 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 eight 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 no later than the end of the third 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) 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 eight years from the 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 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 (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).

**Ratio of Annual Debt Service
To Total Expenditures**

<u>Fiscal Year Ended 6/30</u>	<u>Total Bonded Debt Service</u>	<u>Total Expenditures</u>	<u>Ratio of Debt Service to Expenditures</u>
2004	\$4,779,629	\$40,446,903	11.8%
2003	4,469,420	38,837,714	11.5
2002	4,504,375	35,210,022	12.8
2001	4,315,944	32,560,404	13.3
2000	4,322,724	30,716,949	14.1

Ratios of Net Long-term Debt to Valuation, Population, and Income

Fiscal Year Ended <u>6/30</u>	Net Taxable Grand List <u>(000s)</u>	Estimated Full Value <u>(000s)</u> ¹	Net Long-term Debt <u>(000s)</u> ²	Ratio of Net Long-term Debt to Taxable Grand List (%)	Ratio of Net Long-term Debt to Estimated Full Value (%)	<u>Population</u> ³	Net Long-term Debt Per Capita	Ratio of Net Long-term Debt per Capita to Per Capita Income (%) ⁴
2004	\$784,667	\$1,120,953	\$20,562	2.6	1.8	15,158	\$1,357	5.0
2003	759,156	1,084,509	21,264	2.8	2.0	15,158	1,403	5.2
2002	693,114	990,163	16,682	2.4	1.7	14,998	1,112	4.1
2001	661,012	944,303	14,655	2.2	1.6	14,733	995	3.7
2000	632,818	904,026	14,273	2.3	1.6	14,551	981	3.6

¹Assessment Ratio 70%.

²Excluded school building grants receivable and self-supporting bonds for sewers.

³Census Bureau, 2000 Census for 2000; State of Connecticut Department of Public Health estimate for 2001-04.

⁴Census Bureau, Per Capita Money Income (1999): \$27,038.

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>
2004	73.0	8.5	3.0	4.1	11.4	\$834,012,090	\$7,250,609	\$826,761,481	3.4
2003	73.3	8.6	3.2	4.0	10.9	806,778,034	6,843,254	799,934,780	1.9
2002	72.8	8.7	3.3	3.8	11.4	790,627,666	5,960,273	784,667,393	3.4
2001	71.1	8.9	5.6	3.4	11.0	764,813,012	5,656,709	759,156,303	9.5
2000	71.6	8.7	3.9	3.8	12.0	698,719,268	5,604,785	693,114,483	-

The latest revaluation was completed and became effective October 1, 2001 for the fiscal year 2002-03.

Principal Taxpayers

<u>Name</u>	<u>Nature of Business</u>	<u>Taxable Valuation As of 10/1/04</u>	<u>Percent of Net Taxable Grand List¹</u>
Country Place of Colchester LTD Partners	Housing development	\$ 7,756,300	0.94
Connecticut Light & Power Co.	Utility	7,453,500	0.90
SS Properties Associates I	Grocery store	6,857,200	0.83
S & S Worldwide Inc.	Manufacturing	6,522,250	0.79
Genesis Health Ventures of Bloomfield Inc.	Convalescent home	4,037,000	0.49
City of Norwich	Reservoir	3,152,100	0.38
Old Hartford Road LLC	Movie theater	2,520,200	0.30
Balaban Road Associates, Inc.	Apartments	2,329,100	0.28
Foley, Brian J.	Convalescent home	1,954,500	0.24
Sharr Realty LLC	Grocery store	<u>1,868,800</u>	<u>0.23</u>
Total		\$44,450,950	5.38

¹Based on 10/1/04 Net Taxable Grand List of \$826,761,481.

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 04/30/05</u>
2005	\$799,935	31.02	\$25,195,060	----In process----		2.5
2004	784,667	30.35	24,126,635	97.9	2.1	1.1
2003	759,156	29.40	22,724,064	97.7	2.3	0.5
2002	693,114	28.46	20,026,012	97.0	3.0	0.7
2001	661,012	27.53	18,531,524	97.4	2.6	0.3
2000	632,818	27.01	17,358,588	97.5	2.5	0.1

Property Taxes Receivable

<u>Fiscal Year Ended 6/30</u>	<u>Current Year</u>	<u>Total</u>
2004	\$517,517	\$998,878
2003	516,562	950,130
2002	594,580	992,163
2001	484,484	810,251
2000	442,620	887,598

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>
2004	\$14,883,203	\$41,095,045	36.2
2003	15,024,899	39,948,008	37.6
2002	14,120,438	35,801,223	39.4
2001	13,935,168	34,155,029	40.8
2000	12,311,013	31,394,512	39.2

Capital Improvement Program

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
<i>Sources of funds</i>					
Local sources	\$ 193,000	\$1,796,667	\$1,744,333	\$1,169,333	\$ 892,496
General obligation bonds	10,800,000 ¹	456,650	7,675,750	-	-
School construction grant progress payments	11,263,800	-	-	-	-
Capital budget	-	161,000	124,000	124,000	124,000
Total sources	\$22,256,800	\$2,414,317	\$9,544,083	\$1,293,333	\$1,016,496
<i>Uses of funds</i>					
General government	\$ 70,000	\$ 177,334	\$ 65,000	\$ 95,000	\$ -
Public safety	160,000	568,000	858,000	250,000	-
Public works	211,000	230,000	-	-	-
Community Services	3,000	456,650	7,675,750	3,000	-
Education	21,812,800	982,333	945,333	945,333	1,016,496
Total uses	\$22,256,800	\$2,414,317	\$9,544,083	\$1,293,333	\$1,016,496

¹This issue.

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, 2000 through 2004. The Town has provided budgetary information. 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>6/30/04</u>	<u>6/30/03</u>	<u>6/30/02</u>	<u>6/30/01</u>	<u>6/30/00</u>
Assets					
Cash and cash equivalents	\$4,532,947	\$4,304,395	\$6,345,111	\$10,480,198	\$5,076,210
Property taxes receivable	750,939	714,975	992,164	810,251	887,598
Accounts receivable	340,149	237,762	-	-	-
Due from other governments	-	-	-	-	122,947
Other receivables	4,578	24,225	195,019	231,011	19,489
Due from other funds	-	-	<u>103,745</u>	<u>12,850</u>	<u>332,542</u>
Total assets	<u>\$5,628,613</u>	<u>\$5,281,357</u>	<u>\$7,636,039</u>	<u>\$11,534,310</u>	<u>\$6,438,786</u>
Liabilities and fund equity					
Liabilities					
Accounts payable and accrued liabilities	\$ 645,503	\$ 727,095	\$ 419,044	\$ 428,879	\$ 321,643
Due to other funds	-	1,074	3,304,517	7,458,378	1,349,203
Deferred revenue	725,189	716,380	844,184	708,288	794,241
Bond anticipation notes payable	-	-	-	-	<u>2,100,000</u>
Total liabilities	<u>1,370,692</u>	<u>1,444,549</u>	<u>4,567,745</u>	<u>8,595,545</u>	<u>4,565,087</u>
Fund equity					
Reserved for:					
Encumbrances	98,486	62,365	172,165	-	-
Inventory	4,578	5,676	-	-	-
Unreserved:					
Designated for subsequent year appropriations	644,657	-	-	-	-
Designated for specific purposes	-	-	200,000	361,672	-
Undesignated	<u>3,510,200</u>	<u>3,768,767</u>	<u>2,696,129</u>	<u>2,577,093</u>	<u>1,873,699</u>
Total fund equity	<u>4,257,921</u>	<u>3,836,808</u>	<u>3,068,294</u>	<u>2,938,765</u>	<u>1,873,699</u>
Total liabilities and fund equity	\$5,628,613	\$5,281,357	\$7,636,039	\$11,534,310	\$6,438,786
Analysis of General Fund equity					
Operating revenues	\$41,095,045	\$39,948,008	\$35,801,223	\$34,155,029	\$31,394,512
Fund equity as a percent of operating revenues	10.4%	9.6%	8.6%	8.6%	6.0%
Undesignated fund equity as a percent of operating revenues ..	8.5%	9.4%	7.5%	7.5%	6.0%

General Fund Revenues and Expenditures

	Approved Budget 2005-06	Estimated 2004-05	2003-04	2002-03	2001-02	2000-01
Revenues						
Property taxes	\$27,082,228	\$25,275,000	\$24,292,569	\$23,063,619	\$20,125,857	\$18,776,722
Intergovernmental revenues ¹ ...	14,072,578	13,896,932	14,883,203	15,024,899	14,120,438	13,935,168
Revenues from use of money ...	225,000	225,000	157,249	229,222	343,128	422,545
Charges for services and assessments	343,200	292,200	370,692	398,319	341,484	279,460
Licenses, permits and fees	954,980	997,073	1,096,193	859,929	618,625	472,162
Other	<u>147,301</u>	<u>172,069</u>	<u>295,139</u>	<u>372,020</u>	<u>251,691</u>	<u>268,972</u>
Total revenues	42,825,287	40,858,274	41,095,045	39,948,008	35,801,223	34,155,029
Expenditures						
Current:						
General government	2,255,133	2,192,854	2,060,900	2,055,480	1,306,783	1,371,897
Public works	2,222,750	2,199,232	2,084,782	2,094,403	1,718,074	1,821,151
Public safety	1,884,940	1,826,300	1,574,014	1,617,612	1,308,306	1,058,939
Civic and cultural	1,594,621	1,511,194	1,419,630	1,336,581	674,449	639,998
Health and welfare	463,432	436,421	388,507	391,657	289,714	268,660
Education ¹	29,678,406	28,062,552	28,139,441	26,872,561	24,308,011	22,146,038
Other	-	-	-	-	1,043,368	880,586
Capital outlay	-	-	-	-	56,942	57,191
Debt service	<u>4,939,760</u>	<u>4,597,985</u>	<u>4,779,629</u>	<u>4,469,420</u>	<u>4,504,375</u>	<u>4,315,944</u>
Total expenditures	43,039,042	40,826,538	40,446,903	38,837,714	35,210,022	32,560,404
Excess of revenues over expenditures	(213,755)	31,736	648,142	1,110,294	591,201	1,594,625
Other financing sources (uses):						
Operating transfers in	-	-	111,657	67,718	-	-
Operating transfers out	(205,795)	(182,788)	(338,686)	(413,847)	(461,672)	(558,252)
Proceeds of refunding bonds ..	-	-	-	5,910,000	-	1,636,096
Payment to refunding escrow	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,905,651)</u>	<u>-</u>	<u>(1,607,403)</u>
Total other financing sources (uses)	(205,795)	(182,788)	(227,029)	(341,780)	(461,672)	(529,559)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(419,550)	(151,052)	421,113	768,514	129,529	1,065,066
Fund balance, beginning of year	<u>4,106,869</u>	<u>4,257,921</u>	<u>3,836,808</u>	<u>3,068,294</u>	<u>2,938,765</u>	<u>1,873,699</u>
Fund balance, end of year	\$3,687,319	\$4,106,869	\$4,257,921	\$3,836,808	\$3,068,294	\$2,938,765

¹ State on-behalf payments not included in 2005-06 budget or 2004-05 estimate. For fiscal years ending 2001 through 2004, on-behalf payments are included in intergovernmental revenues and educational expenditures.

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, 2004, 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 to be administered by the Town. Police officers will be eligible to participate in the Police Plan and will be required to contribute 6% of their annual earnings to the Police Plan. The Town will be responsible to contribute to the Police Plan as necessary to provide the defined plan benefits and has appropriated \$42,624 in the fiscal year 2005-2006 budget for such purpose. The formal Police Plan documents have not yet been finalized. 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% 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 – "Auditor's Section, Notes to Financial Statements" herein.)

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 in the financial statements in the General Long-term Debt Account Group. As of June 30, 2004, the estimated obligation for employee compensated absences which is not expected to be paid with current available resources is \$1,763,364. 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

Public Act 04-02 changes the revaluation cycle, requiring a revaluation every five years and a physical inspection of all real properties every ten years, with the first such inspection no later than 2009. Since the Town completed its last general revaluation in 2001, a statistical revaluation is scheduled for the assessment year commencing October 1, 2006.

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 \$100,000 per claim with a stop-loss policy of 125% of expected claims paid which was approximately \$3,673,000 for the year ended June 30, 2004.

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

Availability of Continuing Information

The Town 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 ongoing disclosure in the form of an Annual Financial Report, Recommended and Adopted Budgets, and other materials relating to its management and financial condition, as may be necessary or requested.

In accordance with the requirements of Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "SEC"), the Town will agree to provide, or cause to be provided, financial information and operating data and notices of material events with respect to the Bonds pursuant to a Continuing Disclosure Agreement to be executed substantially in the form of Appendix C to this Official Statement. The Town has complied with its obligations under prior continuing disclosure agreements with respect to the Town's bonds and notes.

The Town intends to file its official statements for primary offerings with Bloomberg Municipal Repositories, DPC Data Inc., FT Interactive Data, and Standard & Poor's Securities Evaluations, Inc., each a nationally recognized securities repository.

Litigation

Following consultation with the Town Attorney and other attorneys providing legal services to the Town, Town officials advise that the Town, 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 judgements against the Town which would materially adversely affect its financial position.

Documents to Be Furnished at Closing

The original purchaser will be furnished, subject to delivery of reoffering yield information as requested in the Notice of Sale, 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 Bonds were awarded 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, Berry & Howard 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 original purchaser of the Bonds 100 copies of the Official Statement as prepared by the Town. Additional copies may be obtained by the original purchaser at its own expense by arrangement with the printer. The copies of the Official Statement will be made available to the original purchaser no later than seven business days after the

award at the office of the Town's financial advisor. 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.

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 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 did 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 _____
Jenny Contois, First Selectman

By _____
Diana Giles, Selectman

By _____
John F. Malsbenden, Selectman

By _____
John P. McHugh, Jr., Selectman

By _____
David Stollman, Selectman

By _____
Jon L. Sandberg, Treasurer

Dated June 7, 2005

Appendix A - Auditor's Section

The following includes the basic financial statements of the Town of Colchester, Connecticut for the fiscal year ended June 30, 2004. The supplemental data and management letter which were a part of that report have not been reproduced herein. A copy of the complete report is available upon request from M. Terri Larson, CTP, Senior Vice President, Webster Bank, CityPlace II, 185 Asylum Street, Hartford, Connecticut 06103 (telephone: (860) 692-1357).

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 as of and for the year ended June 30, 2004, which collectively comprises the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town of Colchester'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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards," we have also issued our report dated October 5, 2004 on our consideration of the Town of Colchester, Connecticut's internal control over financial reporting and 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 compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The management discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements, but is 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.

McGladrey & Pullen, LLP

New Haven, Connecticut
October 5, 2004

Town of Colchester, Connecticut
Managements Discussion and Analysis
June 30, 2004

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, 2004. 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 \$62,195,405, an increase of \$6,310,296 over the previous fiscal year. Total net assets of Governmental Activities at fiscal year-end were \$59,042,013 and total net assets for Business-Type Activities were \$3,153,392. Of the Town's total net assets at June 30, 2004, \$17,431,955 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 \$4,257,921, an increase of \$421,113 from the prior fiscal year. Of the total General Fund fund balance as of June 30, 2004, \$3,510,200 represents unreserved/undesignated fund balance of the General Fund. Unreserved/undesignated General Fund fund balance represents 8.6% of total General Fund expenditures (\$40,785,589). The Town of Colchester's governmental funds reported combined ending fund balances of \$8,585,726, an decrease of \$978,301 from the prior fiscal year.
- ▶ The Town of Colchester's total bonded debt had a decrease of \$3,580,000 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 second report issued under the new reporting model.

<u>Type of Statements</u>	<u>Government-wide Financial Statements</u>	<u>Fund 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 an 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. 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 \$62,195,405 at the close of the recent fiscal year.

Net assets of the Town's Governmental Activities increased approximately 12.3% to \$59,042,013 and total net assets for Business-type Activities decreased approximately 4.7% to \$3,153,392. The amount of \$44,763,450 (\$41,935,627 for Governmental Activities and \$2,827,823 for Business-type Activities) of combined net assets at June 30, 2004, 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 \$17,431,955 (\$17,106,386 for Governmental Activities and \$325,569 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 (71.9%) 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, 2004 and 2003

	June 30, 2004			June 30, 2003		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 21,991,963	\$ 437,836	\$ 22,429,799	\$ 23,218,054	\$ 582,120	\$ 23,800,174
Capital assets	71,205,627	3,392,803	74,598,430	66,009,698	3,422,940	69,432,638
Total Assets	93,197,590	3,830,639	97,028,229	89,227,752	4,005,060	93,232,812
Current liabilities	7,857,213	197,267	8,054,480	3,315,360	54,893	3,370,253
Long-term liabilities outstanding	26,298,364	480,000	26,778,364	33,337,450	640,000	33,977,450
Total Liabilities	34,155,577	677,267	34,832,844	36,652,810	694,893	37,347,703
Net assets:						
Invested in capital assets, net of related debt	41,935,627	2,827,823	44,763,450	34,734,698	2,782,940	37,517,638
Unrestricted	17,106,386	325,569	17,431,955	17,840,244	527,227	18,367,471
Total Net Assets	\$ 59,042,013	\$ 3,153,392	\$ 62,195,405	\$ 52,574,942	\$ 3,310,167	\$ 55,885,109

Change in net assets. The Town's total net assets increased by \$6,310,296 during the fiscal year, with net assets of Governmental Activities increasing by \$6,467,071, and net assets of Business-type Activities decreasing by \$(156,775).

	Year Ended June 30, 2004			Year Ended June 30, 2003		
	Primary Government			Primary Government		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Revenues:						
Program Revenues:						
Charges for Services	\$ 2,884,010	\$ 675,901	\$ 3,559,911	\$ 2,589,574	\$ 618,862	\$ 3,208,436
Operating Grants and Contributions	14,937,122	-	14,937,122	14,279,588	-	14,279,588
Capital Grants and Contributions	6,883,314	-	6,883,314	5,336,725	-	5,336,725
General Revenues:						
Property Taxes	24,496,573	-	24,496,573	22,949,372	-	22,949,372
Grants not restricted to specific programs	338,714	-	338,714	519,233	-	519,233
Unrestricted investment earnings	168,314	-	168,314	249,154	-	249,154
Total Revenues	49,708,047	675,901	50,383,948	45,923,646	618,862	46,542,508
Expenses:						
General Government	4,395,734	-	4,395,734	3,162,728	-	3,162,728
Public Safety	1,842,361	-	1,842,361	1,870,402	-	1,870,402
Public Works	3,074,170	-	3,074,170	4,216,492	-	4,216,492
Health and Welfare	1,616,327	-	1,616,327	1,546,107	-	1,546,107
Culture and Recreation	717,289	-	717,289	1,239,188	-	1,239,188
Education	30,184,709	-	30,184,709	28,064,233	-	28,064,233
Other	-	800,563	800,563	1,802,334	905,862	2,708,196
Interest on long-term debt	1,410,386	32,113	1,442,499	-	55,880	55,880
Total Expenses	43,240,976	832,676	44,073,652	41,901,484	961,742	42,863,226
Change in net assets	6,467,071	(156,775)	6,310,296	4,022,162	(342,880)	3,679,282
Net assets – beginning	52,574,942	3,310,167	55,885,109	48,552,780	3,653,047	52,205,827
Net assets - ending	\$ 59,042,013	\$ 3,153,392	\$ 62,195,405	\$ 52,574,942	\$ 3,310,167	\$ 55,885,109

Governmental Activities

Approximately 49.3% of the revenues were derived from property taxes, followed by 49.7% generated from program revenues, which include governmental revenues for Education, then .7% from other unrestricted grants and finally, about .3% of the Town's revenue in this fiscal year was derived from investment earnings.

Major revenue factors included an increase in the Town's mill rate of 3.3%.

The Town's current levy collected tax rate was 97.85%, an increase of .15% over the previous year current levy collected tax rate of 97.7%.

For governmental activities, 10.2% relate to general government, 69.8% of the Town's expenditures relate to education, 4.3% relate to public safety, 7.4% relate to public works, 1.6% relate to civic and cultural, 3.7% relate to public health and welfare and the remaining 3.3% relate to interest payments on long-term debt.

Major expenditure factors include an increase in the cost of education services due to negotiated wage agreements, employee health insurance cost increases, special education cost increases and rising school enrollment.

Business-Type Activities

Business-type activities decreased the Town's net assets by \$156,775. Key elements of this decrease are as follows:

- ▶ There was an increased amount of depreciation of capital assets in the current year.

Financial Analysis of the Town's Fund Financial Statements

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

As the Town completed the year, its governmental funds reported combined fund balances of \$8,585,726, a decrease from \$9,564,027 as of June 30, 2003. This decrease is mainly due to the timing of the receipt and expenditure of bond proceeds.

The general fund is the chief operating fund for the Town of Colchester. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4,154,857 while total fund balance reached \$4,257,921. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 12.9% of the total general fund expenditures.

At June 30, 2004, the Town of Colchester's General Fund increased by \$421,113 over the previous year. Key factors contributing to this increase were primarily better than expected fees from the Town Clerk's Office.

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 \$325,569. The Water Fund experienced a decrease in net assets of \$156,775. 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

The difference between the original budget and the final amended budget was \$51,836. This difference can briefly be summarized as follows:

- ▶ Increases in Public Works, Public Safety and various other departments resulted in the \$51,836 increase to the original budget.

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, 2004, amount to \$74,598,450 (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 increase in the Town of Colchester's investment in capital assets for the current fiscal year was \$5,165,812 or approximately 7.4 percent.

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

- ▶ There are a variety of projects with construction in progress as of the close of the fiscal year. The total construction in progress for governmental activities increased by \$7,674,749 from the prior fiscal year.

Town of Colchester Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2003	2004	2003	2004	2003	2004
Land	\$ 3,171,349	\$ 3,171,349	\$ -	\$ -	\$ 3,171,349	\$ 3,171,349
Land improvements	710,473	640,142	12,955	11,958	723,428	652,100
Building and improvements	26,728,805	25,778,630	1,202,098	1,659,339	27,930,903	27,437,969
Machinery and equipment	2,214,221	2,105,326	340	-	2,214,561	2,105,326
Infrastructure	20,122,310	18,772,891	2,207,547	2,153,890	22,329,857	20,926,781
Construction in Progress	13,062,540	20,737,289	-	37,636	13,062,540	20,774,925
Total	\$ 66,009,698	\$ 71,205,627	\$ 3,422,940	\$ 3,862,823	\$ 69,432,638	\$ 75,068,450

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

Long-Term Debt. At year-end the Town of Colchester had \$28,335,000 in bonds outstanding. Of this amount \$565,000 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	
	2003	2004	2003	2004	2003	2004
General Obligation Bonds (Backed by the Town)	\$ 31,275,000	\$ 27,770,000	\$ 640,000	\$ 565,000	\$ 31,915,000	\$ 28,335,000

The Town of Colchester’s total bonded debt had a decrease of \$3,505,000 (approximately 11 percent) as of the end of the fiscal year.

In July 2002, Moody’s Investors Service upgraded the Town’s bond rating to A1 from A2. In addition, Fitch Ratings upgraded the rating to AA- from A+.

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

Economic Factors and Next Year’s Budgets and Rates

Although not immune from the effects of the national economic downturn. The Town of Colchester’s unemployment rate of 3.9% as of the third quarter of 2004 was less than the State of Connecticut of 4.3% for the same time period.

Colchester continues to grow. The 2000 census revealed that the Town’s population grew by approximately one-third from 1990 to 2000. In January 2001, the Town adopted the 2001 Plan of Conservation and Development as a blueprint for the future of Colchester. It provides recommendations to encourage the preservation of open space and for meeting the demand for additional retail and service businesses to serve the needs of the residents of Colchester.

An integral part of the plan regarding commercial development in Colchester has included the revitalization of its downtown area. This revitalization included building additions and renovations, new commercial construction, street improvements, and changes in traffic circulation.

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 Finance Office, Town of Colchester, 127 Norwich Ave Suite 203, Colchester, CT 06415.

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF NET ASSETS

June 30, 2004

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 11,839,095	\$ 193,481	\$ 12,032,576
Receivables (net of allowances for collection losses):			
Property taxes	750,939	-	750,939
Accounts receivable	1,419,230	208,277	1,627,507
Intergovernmental	1,000,000	-	1,000,000
Other assets	6,120	36,078	42,198
Capital assets, net of accumulated depreciation	71,205,627	3,392,823	74,598,450
Noncurrent Assets			
Intergovernmental receivables	6,976,579	-	6,976,579
Total assets	93,197,590	3,830,659	97,028,249
Liabilities			
Accounts payable and accrued liabilities	2,513,574	112,267	2,625,841
Claims incurred but not reported	308,639	-	308,639
Noncurrent liabilities:			
Due within one year	5,035,000	85,000	5,120,000
Due in more than one year	26,298,364	480,000	26,778,364
Total liabilities	34,155,577	677,267	34,832,844
Net Assets			
Investment in capital assets, net of related debt	41,935,627	2,827,823	44,763,450
Unrestricted	17,106,386	325,569	17,431,955
Total net assets	\$ 59,042,013	\$ 3,153,392	\$ 62,195,405

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, 2004

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	Primary Government		
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ (4,395,734)	\$ 808,364	\$ 201,553	\$ 34,758	\$ (3,351,059)	\$ -	\$ (3,351,059)
Public safety	(1,842,361)	348,964	119,100	-	(1,374,297)	-	(1,374,297)
Public works	(3,074,170)	848,075	233,355	111,378	(1,881,362)	-	(1,881,362)
Civic and cultural	(1,616,327)	242,069	441,378	50,000	(882,880)	-	(882,880)
Public health and welfare	(717,289)	56,120	75,185	-	(585,984)	-	(585,984)
Education	(30,184,709)	580,418	13,866,551	6,687,178	(9,050,562)	-	(9,050,562)
Interest on long-term debt	(1,410,386)	-	-	-	(1,410,386)	-	(1,410,386)
Total governmental activities	(43,240,976)	2,884,010	14,937,122	6,883,314	(18,536,530)	-	(18,536,530)
Business-Type Activities:							
Water	(834,721)	675,901	-	-	-	(158,820)	(158,820)
Total business-type activities	(834,721)	675,901	-	-	-	(158,820)	(158,820)
Total primary government	\$ (44,075,697)	\$ 3,559,911	\$ 14,937,122	\$ 6,883,314	(18,536,530)	(158,820)	(18,695,350)
General revenues:							
Property taxes					24,496,573	-	24,496,573
Grants and contributions not restricted to specific programs					338,714	-	338,714
Unrestricted investment earnings					168,314	2,045	170,359
Total general revenues					25,003,601	2,045	25,005,646
Change in net assets					6,467,071	(156,775)	6,310,296
Net assets - beginning					52,574,942	3,310,167	55,885,109
Net assets - ending					\$ 59,042,013	\$ 3,153,392	\$ 62,195,405

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

TOWN OF COLCHESTER, CONNECTICUT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2004

	General Fund	Bonded Projects Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 4,532,947	\$ 4,506,589	\$ 2,372,459	\$ 11,411,995
Receivables (net of allowances for collection losses):				
Property taxes	750,939	-	-	750,939
Assessments	-	-	757,203	757,203
Accounts receivable	340,149	15,000	-	355,149
Loans	-	-	15,921	15,921
Other assets	4,578	-	1,541	6,119
	<u>\$ 5,628,613</u>	<u>\$ 4,521,589</u>	<u>\$ 3,147,124</u>	<u>\$ 13,297,326</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 645,503	\$ 1,127,409	\$ 217,767	\$ 1,990,679
Deferred revenues	725,189	-	495,732	1,220,921
Bond anticipation note payable	-	1,500,000	-	1,500,000
Total liabilities	<u>1,370,692</u>	<u>2,627,409</u>	<u>713,499</u>	<u>4,711,600</u>
Fund balances				
Reserved for:				
Encumbrances	98,486	-	-	98,486
Loans	-	-	15,921	15,921
Inventory	4,578	-	1,541	6,119
Unreserved:				
Designated for subsequent years budget	644,657			644,657
Unreserved/undesignated, reported in:				
General fund	3,510,200	-	-	3,510,200
Special revenue funds	-	-	1,360,113	1,360,113
Capital projects funds	-	1,894,180	1,056,050	2,950,230
Total fund balances	<u>4,257,921</u>	<u>1,894,180</u>	<u>2,433,625</u>	<u>8,585,726</u>
Total liabilities and fund balances	<u>\$ 5,628,613</u>	<u>\$ 4,521,589</u>	<u>\$ 3,147,124</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	71,205,627
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not recorded in the funds.	8,893,896
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.	313,881
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(29,957,117)

Net assets of governmental activities

\$ 59,042,013

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 -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004**

	General	Bonded	Other	Total
	Fund	Projects	Nonmajor	Governmental
	Fund	Fund	Governmental	Governmental
	Fund	Fund	Funds	Funds
REVENUES				
Property taxes	\$ 24,292,569	\$ -	\$ -	\$ 24,292,569
Intergovernmental revenues	14,883,203	6,325,842	1,606,358	22,815,403
Revenues from use of money	157,249	-	7,135	164,384
Fees, permits and sales	1,096,193	-	641,393	1,737,586
Charges for services and assessments	370,692	-	786,478	1,157,170
Other	295,139	25,816	242,300	563,255
Total revenues	41,095,045	6,351,658	3,283,664	50,730,367
EXPENDITURES				
Current:				
General government	2,060,900	-	-	2,060,900
Public safety	1,574,014	-	107,969	1,681,983
Public works	2,084,782	-	593,440	2,678,222
Public health and welfare	388,507	-	323,603	712,110
Civic and cultural	1,419,630	-	129,099	1,548,729
Education	28,139,441	-	1,686,123	29,825,564
Debt service	4,779,629	-	139,057	4,918,686
Capital outlay	-	8,062,649	219,825	8,282,474
Total expenditures	40,446,903	8,062,649	3,199,116	51,708,668
Revenue over (under) expenditures	648,142	(1,710,991)	84,548	(978,301)
OTHER FINANCING SOURCES (USES)				
Transfers in	111,657	181,460	158,523	451,640
Transfers out	(338,686)	(83,039)	(29,915)	(451,640)
Total other financing sources (uses)	(227,029)	98,421	128,608	-
Net change in fund balances	421,113	(1,612,570)	213,156	(978,301)
FUND BALANCES, beginning	3,836,808	3,506,750	2,220,469	9,564,027
FUND BALANCES, ending	\$ 4,257,921	\$ 1,894,180	\$ 2,433,625	\$ 8,585,726

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 OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004**

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

Net change in fund balances – total governmental funds	\$ (978,301)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	5,195,929
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.	(1,025,129)
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.	3,505,000
Some revenue 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.	2,390
The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>(232,818)</u>
Change in net assets of governmental activities	<u>\$ 6,467,071</u>

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

TOWN OF COLCHESTER, CONNECTICUT

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGETARY BASIS -
BUDGET AND ACTUAL - GENERAL FUND**

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes, interest and lien fees	\$ 24,527,266	\$ 24,527,266	\$ 24,167,808	\$ (359,458)
Intergovernmental revenues	14,130,402	14,130,402	13,989,203	(141,199)
Revenues from the use of money	153,500	153,500	157,249	3,749
Charges for services	254,500	254,500	370,691	116,191
Fees, permits and other	773,961	773,961	1,096,193	322,232
Other revenues	198,082	198,082	295,139	97,057
Total revenues	40,037,711	40,037,711	40,076,283	38,572
EXPENDITURES				
General government	2,256,204	2,231,606	2,049,743	181,863
Public works	2,104,577	2,151,656	2,080,219	71,437
Public safety	1,697,676	1,716,076	1,562,663	153,413
Civic and cultural	1,472,168	1,483,123	1,412,092	71,031
Health and welfare	406,792	406,792	387,507	19,285
Education	27,182,970	27,182,970	27,236,628	(53,658)
Debt service	4,779,631	4,779,631	4,779,629	2
Total expenditures	39,900,018	39,951,854	39,508,481	443,373
Revenues over (under) expenditures	137,693	85,857	567,802	481,945
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	111,657	111,657
Transfers out	(335,686)	(335,686)	(338,686)	(3,000)
Total other financing sources (uses)	(335,686)	(335,686)	(227,029)	108,657
Total	\$ (197,993)	\$ (249,829)	\$ 340,773	\$ 590,602

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, 2004

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
	Water Fund	Medical Self- Insurance Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 193,481	\$ 622,520
Accounts receivable	208,277	-
Inventory	36,078	-
Total current assets	<u>437,836</u>	<u>622,520</u>
Capital Assets, net	<u>3,392,823</u>	<u>-</u>
Total assets	<u>3,830,659</u>	<u>622,520</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	112,267	308,639
Current maturities	85,000	-
Total current liabilities	<u>197,267</u>	<u>308,639</u>
Bonds payable	<u>480,000</u>	<u>-</u>
Total liabilities	<u>677,267</u>	<u>308,639</u>
NET ASSETS		
Invested in capital assets (net of related debt)	2,827,823	-
Unrestricted	325,569	313,881
Total net assets	<u>\$ 3,153,392</u>	<u>\$ 313,881</u>

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

TOWN OF COLCHESTER, CONNECTICUT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS**

For the Year Ended June 30, 2004

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
	Water Fund	Medical Self- Insurance Fund
OPERATING REVENUES		
Water use fees and charges	\$ 675,901	\$ -
Premiums	-	3,841,401
Total operating revenues	675,901	3,841,401
OPERATING EXPENSES		
Claims/operating	702,810	3,374,971
Depreciation	97,753	-
Administration	-	702,058
Total operating expenses	800,563	4,077,029
Operating loss	(124,662)	(235,628)
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	2,045	2,810
Interest expense	(34,158)	-
Total nonoperating revenue (expenses)	(32,113)	2,810
Change in net assets	(156,775)	(232,818)
FUND NET ASSETS, beginning	3,310,167	546,699
FUND NET ASSETS, ending	\$ 3,153,392	\$ 313,881

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, 2004**

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
	Water Fund	Medical Self- Insurance Fund
Cash Flows From Operating Activities		
Cash received from charges for services	\$ 683,498	\$ 3,841,401
Cash paid to vendors and beneficiaries	(644,769)	(4,028,148)
Net cash provided by (used in) operating activities	<u>38,729</u>	<u>(186,747)</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	(67,636)	-
Interest paid	(34,158)	-
Principal payments of debt	(75,000)	-
Net cash used in capital and relating financing activities	<u>(176,794)</u>	<u>-</u>
Cash Flows From Investing Activities		
Interest on cash and cash equivalents	2,045	2,810
Net decrease in cash and cash equivalents	(136,020)	(183,937)
Cash and Cash Equivalents		
Beginning	329,501	806,457
Ending	<u>\$ 193,481</u>	<u>\$ 622,520</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (124,662)	\$ (235,628)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	97,753	-
Changes in assets and liabilities:		
Decrease in accounts receivable	7,598	-
Increase in accounts payable	57,374	-
Increase in claims payable	-	48,881
Decrease in inventories	666	-
Net cash provided by (used in) operating activities	<u>\$ 38,729</u>	<u>\$ (186,747)</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, 2004

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 2,236	\$ 211,379
Total assets	<u>2,236</u>	<u>211,379</u>
LIABILITIES		
Due to student groups	-	211,379
Net Assets Held in Trust	<u>\$ 2,236</u>	<u>\$ -</u>

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

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
For the Year Ended June 30, 2004

	<u>Private Purpose Trust Funds</u>
Additions	
Investment Income	<u>\$ 13</u>
Deductions	<u>-</u>
Change in net assets	13
Net Assets Held in Trust	
Beginning of year	<u>2,223</u>
End of year	<u><u>\$ 2,236</u></u>

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

Reporting entity

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

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

Government-wide fund financial statements

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

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

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2004

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. 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 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, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town, or specifically identified.

The Town reports the following major governmental funds.

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

The Bonded Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities or improvements, which are financed by the issuance of general obligation bonds.

The Town reports the following major proprietary funds:

The Water fund accounts for the operations of the water department.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2004

Additionally, the Town reports the following fund types:

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

Private-purpose trust funds are 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 enterprise 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 the government-wide and enterprise fund financial statements, subject to this same limitation. The government 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.

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

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

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.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004

Cash equivalents

The Town considers all highly liquid investments and those investments with a maturity of 90 days or less when purchased to be cash equivalents.

Inventories

Inventories are stated at cost using the consumption method on the first-in, first-out basis for governmental fund types.

The enterprise fund records inventory at the lower of cost or market using the first-in, first-out method.

Capital assets

Capital assets, which include property, 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 \$10,000 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:

<u>Capital Assets</u>	<u>Years</u>
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.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2004

Compensated absences

Town 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.

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 effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Encumbrances

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

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, 2004

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

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

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

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

Undesignated and unreserved fund balance - indicates that portion of fund equity which is available for appropriation and expenditure in future periods.

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 \$29,957,117 difference are as follows:

Bonds payable	\$ 27,770,000
Accrued interest payable	123,753
Landfill closure costs	300,000
Compensated absences	<u>1,763,364</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 29,957,117</u>

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004

allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$5,195,929 difference are as follows:

Capital outlay	\$ 8,276,470
Depreciation expense	<u>(3,080,541)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 5,195,929</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 \$3,505,000 difference are as follows:

Principal repayments: General obligation debt	<u>\$ 3,505,000</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 3,505,000</u>

Note 3. Budgets and Budgetary Accounting

The Town's general budget policies are as follows:

General Fund

The Finance Director 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.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004

Subject to certain restrictions, additional appropriations may be approved by the Board of Finance upon recommendations of the Board of Selectmen. There were additional appropriations of approximately \$52,000 during the year. General Fund unencumbered appropriations lapse at year-end.

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 presented on the budgetary basis is as follows:

Revenues, budgetary basis	\$ 40,187,940
Property tax revenue - 60 day collections	124,762
On-behalf payments paid directly by the State of Connecticut Teachers' Retirement System	<u>894,000</u>
Revenues, GAAP basis	<u>\$ 41,206,702</u>

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

Expenditures and encumbrances budgetary basis	\$ 39,847,167
On-behalf payments paid directly by the State of Connecticut Teachers' Retirement System	894,000
Encumbrances:	
June 30, 2003	(54,064)
June 30, 2004	<u>98,486</u>
Expenditures and operating transfers, GAAP basis	<u>\$ 40,785,589</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2004

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 nonlapsing 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.

Note 4. Cash, Cash Equivalents and Investments

The following is a summary of cash and cash equivalents at June 30, 2004:

Deposits:	
Demand accounts	\$ 3,019,645
Other cash equivalents:	
*State Short-Term Investment Fund	9,262,819
*MBIA Inc. - Cooperative Liquid Assets Securities System	<u>159,147</u>
Total cash and cash equivalents	<u>\$ 12,441,611</u>

* Classification by risk category is not required since the Town does not own identifiable securities, but invests as a shareholder of the investment pool. Fair value of the position of the Town is equal to the value of investment pool shares.

At June 30, 2004, the carrying amount of the Town's deposits was \$3,019,645 and the bank balance was \$4,196,537.

The insured and collateral status of the year-end bank balances of deposits were as follows:

Covered by federal depository insurance or by collateral held by the Town's agent in the Town's name	\$ 408,495
Uninsured and uncollateralized, except as described below	<u>3,788,042</u>
	<u><u>\$ 4,196,537</u></u>

The uninsured and uncollateralized balance is partially protected under provisions of the Connecticut General Statutes, which provide for protection against loss in excess of deposit insurance through assessment against segregated collateral required to be maintained by all qualified public depositories in the amount of 10% to 120% of their outstanding public deposits depending on the bank's financial strength as shown by its risk-based capital ratio. As of

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004

June 30, 2004, approximately \$379,000 of uninsured deposits were collateralized under these statutes.

It is unclear whether the collateral required for public deposits would stand if challenged by the FDIC since there is no perfected security agreements between the depository and the depositor as required by Federal laws.

The level of the Town's deposits varies significantly throughout the year as a result of higher cash flows during certain periods of the year. As a result, uninsured and uncollateralized amounts at those times were significantly higher than at year-end.

Note 5. Receivables - Fund Basis

Receivables at June 30, 2004, including the applicable allowance for collection losses, are as follows:

	General Fund	Water Fund	Nonmajor and Other Funds	Totals
Property taxes	\$ 998,878	\$ -	\$ -	\$ 998,878
Accounts receivable	340,149	-	371,660	711,809
Assessments	-	-	371,424	371,424
Water fees	-	208,277	-	208,277
Loans receivable	-	-	29,343	29,343
Total gross receivables	1,339,027	208,277	772,427	2,319,731
Allowance for collection losses	247,939	-	13,422	261,361
Total net receivables	\$ 1,091,088	\$ 208,277	\$ 759,005	\$ 2,058,370

Note 6. Interfund Transfers

Interfund transfers during the year ended June 30, 2004 were as follows:

	General Fund	Bonded Projects Fund	Nonmajor and Other Funds	Totals
Transfers out:				
General Fund	\$ -	\$ 180,163	\$ 158,523	\$ 338,686
Bonded Projects Fund	83,039	-	-	83,039
Nonmajor and Other Funds	28,618	1,297	-	29,915
Total	\$ 111,657	\$ 181,460	\$ 158,523	\$ 451,640

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004

Transfers are used to account for unrestricted revenues collected mainly in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations.

Special revenue funds transfer excess revenues to fund various projects within the Town.

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,171,349	\$ -	\$ -	\$ 3,171,349
Construction in progress	13,062,540	7,674,749	-	20,737,289
Total capital assets, not being depreciated	<u>16,233,889</u>	<u>7,674,749</u>	<u>-</u>	<u>23,908,638</u>
Capital assets, being depreciated:				
Improvements other than buildings	1,493,294	-	-	1,493,294
Buildings	41,406,918	-	-	41,406,918
Machinery and equipment	8,353,165	387,006	-	8,740,171
Infrastructure	33,837,032	214,715	-	34,051,747
Total capital assets being depreciated	<u>85,090,409</u>	<u>601,721</u>	<u>-</u>	<u>85,692,130</u>
Less accumulated depreciation for:				
Improvements other than buildings	782,821	70,331	-	853,152
Buildings	14,678,113	950,175	-	15,628,288
Machinery and equipment	6,138,944	495,901	-	6,634,845
Infrastructure	13,714,722	1,564,134	-	15,278,856
Total accumulated depreciation	<u>35,314,600</u>	<u>3,080,541</u>	<u>-</u>	<u>38,395,141</u>
Total capital assets, being depreciated, net	<u>49,775,809</u>	<u>(2,478,820)</u>	<u>-</u>	<u>47,296,989</u>
Governmental activities capital assets, net	<u>\$ 66,009,698</u>	<u>\$ 5,195,929</u>	<u>\$ -</u>	<u>\$ 71,205,627</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 67,636	\$ -	\$ 67,636
Total capital assets, not being depreciated	-	67,636	-	67,636
Capital assets, being depreciated:				
Buildings	1,885,176	-	-	1,885,176
Machinery and equipment	5,149	-	-	5,149
Improvements other than buildings	21,391	-	-	21,391
Infrastructure	3,149,207	-	-	3,149,207
Total capital assets, being depreciated	5,060,923	-	-	5,060,923
Less accumulated depreciation for:				
Buildings	683,078	42,759	-	725,837
Machinery and equipment	4,809	340	-	5,149
Improvements other than buildings	8,436	997	-	9,433
Infrastructure	941,660	53,657	-	995,317
Total accumulated depreciation	1,637,983	97,753	-	1,735,736
Total capital assets, being depreciated, net	3,422,940	(97,753)	-	3,325,187
Business-type activities capital assets, net	\$ 3,422,940	\$ (30,117)	\$ -	\$ 3,392,823

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

Governmental Activities:	
General government	\$ 2,316,382
Public works	383,315
Public safety	152,690
Civic and cultural	61,555
Public health and welfare	1,885
Education	164,714
Total depreciation expense – governmental activities	<u>\$ 3,080,541</u>
Business-Type Activities:	
Water Fund	<u>\$ 97,753</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004

Note 8. Long-Term Debt and Bond Anticipation Notes

Long-term liability activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 31,275,000	\$ -	\$ 3,505,000	\$ 27,770,000	\$ 3,475,000
Landfill post-closure monitoring	315,000	-	15,000	300,000	15,000
Compensated absences	1,747,450	15,914	-	1,763,364	45,000
Governmental activity long-term liabilities	\$ 33,337,450	\$ 15,914	\$ 3,520,000	\$ 29,833,364	\$ 3,535,000

All bonds are general obligations of the town and are secured by the general revenue raising powers of the Town.

Bond anticipation notes

Bond anticipation note transactions for the year ended June 30, 2004 were as follows:

Outstanding July 1, 2003	\$ -
New Borrowings	1,500,000
Repayments	<u>-</u>
Outstanding, June 30, 2004	<u>\$ 1,500,000</u>

General obligation bonds and notes payable outstanding as of June 30, 2004 consisted of the following:

	<u>Outstanding Amount</u>
General obligation bonds payable:	
\$9,460,000 bond, issue of 2001 due 2021, annual principal payment range from \$390,000 to \$670,000, plus interest due semiannually at 4.0% to 5.5%	\$ 7,470,000
\$4,500,000 bond, issue of 1987 due 2008, annual principal payments of \$215,000 plus interest due semiannually at 6.7% to 7.2%	860,000

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004

	<u>Outstanding Amount</u>
\$4,500,000 bond, issue of 1988 due 2009, annual principal payments of \$235,000 plus interest due semiannually at 7.2% to 7.3%	940,000
\$5,180,000 bond, issue of 2002 due 2012, annual principal payments range from \$494,000 to \$465,000 plus interest due semiannually at 2.0%	4,025,000
\$730,000 bond, issue of 2002 due 2013, annual principal payments range from \$103,000 to \$25,000 plus interest due semiannually at 3.0% to 4.0%	620,000
\$4,000,000 bond, issue of 1991 due 2012, annual principal payments range from \$215,000 to \$130,000 plus interest due semiannually at 5.6% to 7.5%	1,635,000
\$5,985,000 bond, issue of 2002 due 2023, annual principal payments range from \$550,000 to \$270,000 plus interest due semiannually at 3.0% to 4.7%	5,435,000
\$14,450,000 bond, issue of 1997 due 2012, annual principal payments range from \$885,000 to \$1,000,000 plus interest due semiannually at 3.5% to 5.5%	<u>6,785,000</u>
Total general obligation bonds payable	<u><u>\$ 27,770,000</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004

The following is a summary as of June 30, 2004, of the future principal and interest requirements for the Town's general obligation bonds:

	Principal	Interest	Total
2005	\$ 3,475,000	\$ 1,253,784	\$ 4,728,784
2006	3,450,000	1,102,260	4,552,260
2007	3,140,000	949,633	4,089,633
2008	2,860,000	802,589	3,662,589
2009	2,390,000	662,389	3,052,389
2010	2,355,000	555,754	2,910,754
2011	2,240,000	447,321	2,687,321
2012	1,640,000	358,390	1,998,390
2013	665,000	296,933	961,933
2014	665,000	266,923	931,923
2015	660,000	234,398	894,398
2016	660,000	201,878	861,878
2017	660,000	172,148	832,148
2018	660,000	142,148	802,148
2019	660,000	110,903	770,903
2020	660,000	78,413	738,413
2021	660,000	45,653	705,653
2022	270,000	12,690	282,690
Total	<u>\$ 27,770,000</u>	<u>\$ 7,694,207</u>	<u>\$ 35,464,207</u>

Enterprise fund general obligation bonds:

\$640,000 bond issue of October 2002, annual principal payments ranging from \$103,000 to \$24,000 plus interest due semiannually at 3.00% to 4.00%

\$ 565,000

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004

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

	Principal	Interest	Total
2005	\$ 85,000	\$ 19,640	\$ 104,640
2006	75,000	17,090	92,090
2007	70,000	14,840	84,840
2008	70,000	12,565	82,565
2009	70,000	10,115	80,115
2010	70,000	7,490	77,490
2011	50,000	4,900	54,900
2012	50,000	3,000	53,000
2013	25,000	1,000	26,000
Total	<u>\$ 565,000</u>	<u>\$ 90,640</u>	<u>\$ 655,640</u>

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, 2004 was approximately \$1,229,000. Additional payments for principal and interest aggregating approximately \$9,962,000 are expected to be received through the bonds' maturity dates.

Debt limitation

The Town's statement of debt limitation under Connecticut General Statutes, Section 7-434(b) as of June 30, 2004, is as follows:

Total tax collections (including interest and lien fees) for the year ended June 30, 2004	\$ 24,289,959
Reimbursement for revenue loss:	
Tax relief for elderly	60,060
Base	<u>\$ 24,350,019</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004

The Connecticut General Statutes provides that total authorized debt of the Town shall not exceed seven times the above base cash receipts of \$24,350,019 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	\$54,787,543	\$ -	\$ -	\$ -	\$ -
4-1/2 times base	-	109,575,085	-	-	-
3-3/4 times base	-	-	91,312,571	-	-
3-1/4 times base	-	-	-	79,137,562	-
3 times base	-	-	-	-	73,050,057
Total debt limitation	54,787,543	109,575,085	91,312,571	79,137,562	73,050,057
Debt as defined by statute:					
Bonds payable ⁽¹⁾	9,815,245	18,834,755	620,000	-	-
Authorized and unissued ⁽¹⁾	1,420,000	39,866,800	-	-	-
Total indebtedness	11,235,245	58,701,555	620,000	-	-
Debt limitation in excess of of outstanding and authorized debt	\$43,552,298	\$ 50,873,530	\$ 90,692,571	\$ 79,137,562	\$ 73,050,057

⁽¹⁾ Water bonds of \$565,000 are excluded from this calculation pursuant to Connecticut General Statutes.

Note 9. Contingent Liabilities and Commitments

Lawsuits

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

Note 10. Pension Fund

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2004

accumulated thirty-five years of credited service, at least twenty-five of which are service in the public schools of Connecticut. The financial statements of the Plan are available from the Connecticut State Teachers' Retirement Board, 21 Grand Street, Hartford, CT 06105.

Certain part-time and full-time certified teachers are eligible to participate in the plan and are required to contribute 7% 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 \$894,000 for the year ended June 30, 2004.

The Town does not maintain a pension plan for other employees.

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. 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 \$100,000 per claim with an aggregate stop loss of 125% of expected claims paid which was approximately \$3,673,000 for the year ended June 30, 2004.

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.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004

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
2003-2004	\$ 259,758	\$ 3,423,852	\$ 3,374,971	\$ 308,639
2002-2003	\$ 281,447	\$ 2,963,002	\$ 2,984,691	\$ 259,758

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 \$300,000 (\$15,000 per year for 20 years). Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The responsibility for postclosure monitoring will remain with the Town.

Note 13. Pronouncements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2004 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 No. 40, Deposit and Investment Risk Disclosures, issued March 2003, will be effective for the government beginning with its year ending June 30, 2005. This Statement establishes and modifies disclosure requirements related to investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. This Statement also establishes and modifies disclosure requirements for deposit risks.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2004

- ▶ GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, will be effective for the government beginning with its year ending June 30, 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.
- ▶ GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, issued April 2004, will be effective in phases using the same criteria applied in the implementation of the new governmental reporting model, starting with periods beginning after June 30, 2008. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance.
- ▶ GASB Statement No. 44, Economic Condition Reporting: The Statistical Section, issued in May 2004, will be effective for the Town beginning with its year ending June 30, 2006. This Statement improves the understandability and usefulness of statistical section information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model required by Statement No. 34 and related statements.
- ▶ GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued June 2004, will be effective for the Town beginning with its year ending June 30, 2009. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

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, Berry & Howard LLP of Hartford, Connecticut, Bond Counsel, will be furnished to the successful bidder 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 successful bidder.

The opinion of Day, Berry & Howard 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 \$10,800,000 General Obligation Bonds, Issue of 2005, dated as of June 15, 2005.

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 pursuant to Section 12-97 of the General Statutes of Connecticut, Revision of 1958, as amended, and dwelling houses of qualified elderly people of low income taxable at limited amounts pursuant to Section 12-129b of said General Statutes.

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.

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; and (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.

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, Berry & Howard 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 75% of the excess of adjusted current earnings (which includes 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 Bonds will *not* 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.

Changes in Federal Tax Law. Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that 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.

ADDITIONAL FEDERAL INCOME TAX MATTERS.

The following is a brief discussion of certain Federal income tax matters with respect to the Bonds under existing statutes. It does not purport to deal with all aspects of Federal 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 tax consequences of owning and disposing of the Bonds.

As noted above, interest on the Bonds may be taken into account in computing the tax liability of corporations subject to the Federal alternative minimum tax imposed by Section 55 of the Code. Interest on the Bonds may also be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Ownership of the Bonds may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, and individuals otherwise eligible for the earned income credit, and to taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes.

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 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.

* * * * *

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds. No assurance can be given that future 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. No assurance can be given that future legislation, or amendments to the State income tax law, if enacted into law, will not contain provisions which 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.

The information above does not purport to deal with all aspects of Federal or State taxation that may be relevant to particular investors. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal and state tax consequences of owning and disposing of the Bonds, including any tax consequences arising under the laws of any 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) 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 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 June 15, 2005 by the Town of Colchester, Connecticut (the "Issuer") acting by its undersigned officers, duly authorized, in connection with the issuance of \$10,800,000 General Obligation Bonds, Issue of 2005, dated as of June 15, 2005 (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 June 7, 2005 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.

"NRMSIR" means any nationally recognized municipal securities information repository recognized by the SEC from time to time. As of the date of this Agreement the NRMSIRs are:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962

www.bloomberg.com/markets/muni_contactinfo.html

Email: [Munis@Bloomberg.com](mailto:munis@bloomberg.com)

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107

<http://www.dpcdata.com>

Email: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390

<http://www.interactivedata.com>

Email: NRMSIR@FTID.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street - 45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
Email: nrmsir_repository@sandp.com

"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.

"SID" means any state information depository established or designated by the State of Connecticut and recognized by the SEC from time to time. As of the date of this Agreement no SID has been established or designated by the State of Connecticut.

Section 2. Annual Financial Information.

(a) The Issuer agrees to provide or cause to be provided to each NRMSIR and any SID, 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, 2005 as follows:

(i) Financial statements of the Issuer's general fund and any bonded projects, water, 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 Issuer's net taxable grand list,

- (H) statement of statutory debt limitation of the Issuer 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 previously provided to each NRMSIR and any SID, or filed with the SEC. If the document to be referenced is a final official statement, it must be available from the MSRB. 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. Material Events.

The Issuer agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) any SID, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults;
- (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 or events affecting the tax-exempt status of the Bonds;
- (g) modifications to rights of holders of the Bonds;
- (h) Bond calls;
- (i) Bond defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds; and
- (k) rating changes.

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 (i) each NRMSIR or the MSRB and (ii) any SID, 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 First Selectman, or a successor, receives written notice from any beneficial owner of the Bonds of such failure. The present address of the First Selectman 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) 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.

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

(c) 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 Agreement as so amended would have complied with the requirements of the Rule as of the date of the Agreement, taking into account any amendments or interpretations of the Rules as well as any changes in circumstances. A copy of any such amendment will be filed in a timely manner with (i) the NRMSIRs or the MSRB and (ii) any SID. 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.

(d) Any filing under this Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council ("MAC") as provided at <http://www.disclosureusa.org> unless the

United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to MAC dated September 7, 2004.

TOWN OF COLCHESTER

By _____
Jenny Contois, First Selectman

By _____
Diana N. Giles, Selectman

By _____
John F. Malsbenden, Selectman

By _____
John P. McHugh, Jr., Selectman

By _____
David M. Stollman, Selectman

By _____
Jon L. Sandberg, Treasurer

Appendix D - Notice of Sale and Proposal for Bonds

NOTICE OF SALE
\$10,800,000
Town of Colchester, Connecticut
General Obligation Bonds

SEALED PROPOSALS and ELECTRONIC BIDS via PARITY® will be received by the Town of Colchester, Connecticut at Webster Bank, National Association, CityPlace II, Government Finance, 3rd Floor Conference Room, 185 Asylum Street, Hartford, Connecticut, until **11:30 A.M. (Eastern Daylight Time) on TUESDAY,**

JUNE 7, 2005,

for the purchase, when issued, at not less than par and accrued interest from the date of the Bonds to the date of delivery, of the whole of

\$10,800,000 General Obligation Bonds, Issue of 2005
Payable annually on June 15 as follows:

\$645,000 in 2007 through 2011
\$545,000 in 2012 through 2014
\$540,000 in 2015 through 2025

The Bonds will be dated June 15, 2005, with interest payable on December 15, 2005 and thereafter semiannually on each June 15 and December 15.

DTC Book Entry. The Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates made to the public. The Bonds will be issued in registered form and one bond certificate for each maturity will be issued to The Depository Trust Company (“DTC”), New York, New York, registered in the name of its nominee, Cede & Co., and immobilized in its custody. A book-entry system will be employed, evidencing ownership of the Bonds in principal amounts of \$5,000, with transfers of ownership effected on the records of DTC and its Participants pursuant to rules and procedures adopted by DTC and its Participants. The purchaser, as a condition to delivery of the Bonds, will be required to deposit the bond certificates with DTC, registered in the name of Cede & Co. Principal of, redemption premium, if any, and interest on the Bonds will be payable by the Town or its agent to DTC or its nominee as registered owner of the Bonds. Principal, redemption premium, if any, and interest payments by DTC to Participants of DTC will be the responsibility of DTC; principal, redemption premium, if any, and interest payments to Beneficial Owners by Participants of DTC will be the responsibility of such Participants and other nominees of Beneficial Owners. The Town will not be responsible or liable for payments by DTC to its Participants or by DTC Participants or Indirect Participants to Beneficial Owners or for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds and the Town fails to identify another qualified securities depository to replace DTC, or (b) the Town determines to discontinue the book-entry system of evidence and transfer of ownership of the Bonds, the Town will authenticate and deliver replacement Bonds in the form of fully registered certificates. Any such replacement Bonds will provide that interest will be payable by check mailed by the Paying Agent to the registered owner whose name appears on the registration books of the Town as of the close of business on the record date preceding each interest payment date. The record dates will be the last day of May and November (or the preceding business day if such last day is not a business day).

Redemption. Bonds maturing after June 15, 2015 are subject to redemption prior to maturity, at the option of the Town, on or after June 15, 2015, 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, plus accrued interest to the date set for redemption:

<u>Period During Which Redeemed</u>	<u>Redemption Price</u>
June 15, 2015 and thereafter	100%

Proposals. Each proposal must specify the amount bid for the Bonds (which shall be the aggregate par value of the Bonds, and, at the option of the bidder, a premium and must specify in a multiple of one-twentieth or one eighth of one percent the rate or rates of interest per annum which the Bonds are to bear, but shall not specify (a) more than one interest rate for any Bonds having a like maturity, or (b) any interest rate for any Bonds which exceeds the interest rate specified in such proposal for any other Bonds by more than two (2%) percentage points. In addition to the amount bid for the Bonds, the purchaser must pay an amount equal to the interest on the Bonds accrued to the date of delivery. For the purpose of the bidding process, the time as maintained on PARITY® shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the Town, as described under "Basis of Award" below, represented by the rate or rates of interest and the bid price specified in their respective bids.

Sealed Proposals Bidding Procedure. All sealed proposals for the purchase of Bonds shall be submitted on forms furnished by the Town and submitted at the time and place indicated above. All proposals must be enclosed in sealed envelopes marked on the outside, in substance, "Proposal for Colchester Bonds." All proposals should be addressed to Ms. Jenny Contois, First Selectman, Town of Colchester, Webster Bank, National Association, CityPlace II, Government Finance, 3rd Floor Conference Room, 185 Asylum Street, Hartford, Connecticut.

Electronic Proposals Bidding Procedure. Electronic bids for the purchase of the Bonds must be submitted through the facilities of PARITY® until **11:30 A.M. (Eastern Daylight Time) on TUESDAY, JUNE 7, 2005.** Any prospective bidder must be a subscriber of Dalcomp's Bidcomp competitive bidding system. Further information about PARITY®, including any fee charged, may be obtained from PARITY®, 1359 Broadway, 2nd Floor, New York, New York 10018, Attention: Customer Service Department (telephone: (212) 849-5021 - email notice: parity@i-deal.com). The Town neither will confirm any subscription nor be responsible for any failure of a prospective bidder to subscribe.

Once an electronic bid made through the facilities of PARITY® is communicated to the Town, it shall constitute an irrevocable offer, in response to this Notice, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the Town. By submitting a bid for the Bonds via PARITY®, the bidder represents and warrants to the Town that such bidder's bid for the purchase of the Bonds is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder by an irrevocable offer and that acceptance of such bid by the Town will bind the bidder by a legal, valid and enforceable contract, for the purchase of the Bonds on the terms described in this Notice. **The Town shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of PARITY®, the use of such facilities being the sole risk of the prospective bidder.**

Disclaimer - Each PARITY® prospective electronic bidder shall be solely responsible to make necessary arrangements to access PARITY® for the purposes of submitting its bid in a timely manner and in compliance with the requirements of this Notice of Sale. Neither the Town nor PARITY® shall have any duty or obligation to undertake such arrangements to bid for any prospective bidder or to provide or assure such access to any prospective bidder, and neither the Town nor PARITY® shall be responsible for a bidder's failure to make a bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by, PARITY®. The Town is using PARITY® as a communication

mechanism, and not as the Town's agent, to conduct the electronic bidding for the Bonds. The Town is not bound by any advice and determination of PARITY® to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the bid requirements herein set forth. All costs and expenses incurred by prospective bidders in connection with their subscription to, arrangements with and submission of bids via PARITY® are the sole responsibility of the bidders; and the Town is not responsible, directly or indirectly, for any such costs or expenses. If a prospective bidder encounters any difficulty in arranging to bid or submitting, modifying or withdrawing a bid for the Bonds, the prospective bidder should telephone PARITY® at (212) 849-5021. If any provision of this Notice shall conflict with information provided by PARITY®, this Notice of Sale shall control.

For the purpose of the electronic bidding process, the time as maintained on PARITY® shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the Town, as described under "Basis of Award" below, represented by the rate or rates of interest and the bid price specified in their respective bids. All electronic bids shall be deemed to incorporate the provisions of this Notice and the form of Proposals for Bonds.

Basis of Award. As between proposals which comply with this Notice, the Bonds will be sold to the responsible bidder offering to purchase the Bonds at the lowest true interest cost to the Town. For the purpose of determining the successful bidder, the true interest cost to the Town will be the annual interest rate, compounded semiannually, which, when used to discount all payments of principal and interest payable on the Bonds to June 15, 2005, the date of the Bonds, results in an amount equal to the purchase price for the Bonds, excluding interest accrued to the date of delivery. If there is more than one responsible bidder making said offer at the same lowest true interest cost, the Bonds will be sold to the responsible bidder whose proposal is selected by the Town by lot from among all such proposals. It is requested that each proposal be accompanied by a statement of the percentage of true interest cost completed to four decimal places. Such statement shall not be considered as part of the proposal.

The right is reserved to reject any and all proposals and to reject any proposal not complying with this Notice of Sale and to waive any irregularity or informality with respect to any proposal.

The Town further reserves the right to postpone the sale to another time and date in its sole discretion for any reason, including internet difficulties. The Town will use its best efforts to notify prospective bidders in a timely manner of any need for a postponement. If the sale is postponed, an alternative bid date will be published on Bloomberg at least 48 hours prior to such alternative bid date. Upon the establishment of an alternative bid date, any bidder may submit proposals for the purchase of the Bonds in accordance with the provisions of this Notice of Sale.

Certifying and Paying Agent. The Bonds will be authenticated by U.S. Bank National Association, Hartford, Connecticut. U.S. Bank National Association will act as Registrar and Paying Agent.

Delivery. At or prior to the delivery of the Bonds the successful bidder shall be furnished, without cost, with (a) the approving opinion of Day, Berry & Howard LLP of Hartford, Connecticut, Bond Counsel, substantially in the form set out in Appendix B to the Official Statement; (b) a signature and no litigation certificate, in form satisfactory to said firm, dated as of the date of delivery of the Bonds, and stating that there is no litigation pending, or to the knowledge of the signer or signers thereof threatened, affecting the validity of the Bonds or the power of the Town to levy and collect taxes to pay them; (c) a signed copy of the Official Statement prepared for this bond issue; (d) a certificate of Town Officials relating to the accuracy and completeness of the Official Statement; (e) a Continuing Disclosure Agreement; and (f) a receipt of payment for the Bonds. U.S. Bank National Association will keep the original opinion and certificates and copies of the supporting documents, which may be examined at its principal office in Hartford, Connecticut, upon reasonable notice.

Bond Counsel Opinion. The opinion of Bond Counsel will cover the following matters: (1) that the Bonds will be valid general obligations of the Town when duly certified; (2) that, 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, 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; and (3) that, under existing statutes, 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. The Bonds will *not* be "qualified tax-exempt obligations" for purposes of the deduction by financial institutions of interest expense that is allocable to tax-exempt obligations.

Official Statement. The Town of Colchester has prepared an Official Statement for the Bond issue which is dated May 25, 2005. The Town deems such Official Statement final as of its date for purposes of SEC Rule 15c2-12(b)(1), but it is subject to revision or amendment. The Town will make available to the winning purchaser 100 copies of the Official Statement as prepared by the Town at the Town's expense. The copies of the Official Statement will be made available to the winning purchaser at the office of the Town's financial advisor, Webster Bank, National Association, Hartford, Connecticut, by the delivery of the Bonds or by the seventh business day after the day bids on the Bonds are received if earlier. If the Town's financial advisor is provided with the necessary information from the winning purchaser by noon of the day following the day bids on the Bonds are received, the copies of the Official Statement will include an additional cover page and other pages indicating the interest rates, ratings, yields or reoffering prices, the name of the managing underwriter, the name of the insurer, if any, on the Bonds and any corrections. The purchaser shall arrange with the financial advisor the method of delivery of the copies of the Official Statement to the purchaser. Additional copies of the Official Statement may be obtained by the purchaser at its own expense by arrangement with the printer.

Continuing Disclosure Agreement. The Town will enter into a Continuing Disclosure Agreement with respect to the Bonds, substantially in the form attached as Appendix C to the Official Statement (the "Continuing Disclosure Agreement for Bonds"), to provide or cause to be provided, in accordance with the requirements of SEC Rule 15c2 12, (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 on or before the date specified in the Continuing Disclosure Agreement for Bonds. The winning bidder'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 for Bonds.

CUSIP Numbers. The deposit of the Bonds with DTC under a book-entry system requires the assignment of CUSIP numbers prior to delivery. It is anticipated that the Town will apply for CUSIP numbers for the Bonds prior to delivery. Neither the failure to print such CUSIP number on any bond, nor any error with respect thereto, shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the Town; provided, however, that the Town assumes no responsibility for any CUSIP Service Bureau charge or other charge that may be imposed for the assignment of such numbers, which charges shall be the responsibility of and shall be paid for by the purchaser.

Delivery Date and Payment. It is expected that the closing on the Bonds will occur on or about June 15, 2005 through the facilities of the Depository Trust Company, New York, New York, against payment in immediately available Federal funds.

More Information. For more information regarding this issue and the Town reference is made to the Official Statement. Proposal forms and copies of the Official Statement may be obtained from Ms. M. Terri Larson, Senior Vice President, Webster Bank, National Association, Government Finance, CityPlace

II, 185 Asylum Street, 3rd Floor, Hartford, Connecticut 06103-3494 (telephone: (860) 692-1357) or from Ms. N. Maggie Cosgrove, Chief Financial Officer, Town of Colchester, Town Hall, 127 Norwich Avenue, Colchester, Connecticut 06415 (telephone: (860) 537-7229).

JENNY CONTOIS,
First Selectman

DIANA N. GILES,
Selectman

JOHN F. MALSSENDEN,
Selectman

JOHN P. MCHUGH, JR,
Selectman

JON L. SANDBERG,
Treasurer

DAVID M. STOLLMAN
Selectman

May 25, 2005

PROPOSAL FOR BONDS

June 7, 2005

Ms. Jenny Contois
 First Selectman
 Town of Colchester
 c/o Webster Bank, National Association
 CityPlace II
 Government Finance
 3rd Floor Conference Room
 185 Asylum Street
 Hartford, Connecticut 06103-3494

Subject to the provisions and in accordance with the terms of the annexed Notice of Sale dated May 25, 2005 which is hereby made a part of this proposal, we hereby offer to purchase all of the aggregate principal amount of \$10,800,000 General Obligation Bonds, Issue of 2005, of the Town of Colchester described in said Notice of Sale, and to pay therefor the price of par plus a premium of plus interest accrued on said Bonds to the date of their delivery, provided that the Bonds maturing in the several years set forth below shall bear interest from their date until maturity at the respective rates per annum stated in the following table:

<u>Year of Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Year of Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>
2007	\$645,000	_____ %	2017	\$540,000	_____ %
2008	\$645,000	_____ %	2018	\$540,000	_____ %
2009	\$645,000	_____ %	2019	\$540,000	_____ %
2010	\$645,000	_____ %	2020	\$540,000	_____ %
2011	\$645,000	_____ %	2021	\$540,000	_____ %
2012	\$545,000	_____ %	2022	\$540,000	_____ %
2013	\$545,000	_____ %	2023	\$540,000	_____ %
2014	\$545,000	_____ %	2024	\$540,000	_____ %
2015	\$540,000	_____ %	2025	\$540,000	_____ %
2016	\$540,000	_____ %			

We acknowledge receipt of the Official Statement referred to in the Notice of Sale.

Name of Bidder: _____

Address of Bidder: _____

Signature of Officer or
 Authorized Agent of Bidder: _____

Telephone Number: _____

The following is our computation of the percentage of true interest cost, made as provided in the above mentioned Notice of Sale, and certain other information, which is not part of the foregoing proposal.

Percent of True Interest Cost _____ %
 (four decimals)

Gross Interest \$ _____

Premium \$ _____

Appendix E - Bond Insurance

Bond Insurance

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Exhibit I for a specimen of MBIA's policy (the "Policy").

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the headings Appendix E - "Bond Insurance" and Exhibit I - "Specimen Municipal Bond Insurance Policy." Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Town to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims

against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2004, MBIA had admitted assets of \$10.4 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2005 MBIA had admitted assets of \$10.6 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$3.6 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2004 and December 31, 2003 and for each of the three years in the period ended December 31, 2004, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2004 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2005 and for the three

month periods ended March 31, 2005 and March 31, 2004 included in the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2005, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2004; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarter ended March 31, 2005) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

This policy is not covered by the Connecticut Insurance Guaranty Association specified in Article 7 of the Connecticut Financial Guaranty Act.

STD-CT

Exhibit I -- Specimen Municipal Bond Insurance Policy

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

This policy is not covered by the Connecticut Insurance Guaranty Association specified in Section 7 of the Connecticut Financial Guaranty Act.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary