

McGladrey & Pullen

Certified Public Accountants

TOWN OF COLCHESTER, CONNECTICUT

**FINANCIAL REPORT
JUNE 30, 2008**

TOWN OF COLCHESTER, CONNECTICUT

FINANCIAL REPORT

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TOWN OF COLCHESTER, CONNECTICUT

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Financial Section

McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Colchester, Connecticut (the "Town") as of and for the year ended June 30, 2008, 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, 2008, and the respective changes in financial position, and where applicable, cash flows thereof and the 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 December 29, 2008 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 the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budgetary detail, combining and individual nonmajor fund statements, capital asset schedules and other schedule, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary detail, combining and individual nonmajor fund statements, capital asset schedules and other schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The prior year comparative information has been derived from the Town's 2007 financial statements and, in our report dated January 28, 2008, we expressed unqualified opinions on the respective financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

McGladrey & Pullen, LLP

New Haven, Connecticut
December 29, 2008

Town of Colchester, Connecticut
Management's Discussion and Analysis
June 30, 2008

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, 2008. 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 \$76,831,565, an increase of \$995,320 over the previous fiscal year. Total net assets of Governmental Activities at fiscal year-end were \$72,934,951 and total net assets for Business-Type Activities were \$3,896,614. Of the Town's total net assets at June 30, 2008, \$10,088,936 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 \$4,818,859, a decrease of \$210,668 from the prior fiscal year. Of the total General Fund fund balance as of June 30, 2008, \$3,950,819 represents unreserved/undesignated fund balance of the General Fund. Unreserved/undesignated General Fund fund balance represents 8.0% of total General Fund expenditures (\$49,236,504). The Town of Colchester's governmental funds reported combined ending fund balances of \$6,575,130, an increase of \$1,026,873 from the prior fiscal year.
- ♦ The Town of Colchester's total bonded debt had a decrease of \$3,575,000 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 sixth report issued under the new reporting model.

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

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

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

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

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

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

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

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

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

Fund Financial Statements

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

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

net activities can be compared with the fund financial statements to better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Town's financial status. The Town's combined assets exceeded liabilities by \$76,831,565 at the close of the recent fiscal year.

Net assets of the Town's Governmental Activities increased approximately 1.1% to \$72,934,951 and total net assets for Business-type Activities increased approximately 5.2% to \$3,896,614. The amount of \$66,742,629 (\$63,310,513 for Governmental Activities and \$3,432,116 for Business-type Activities) of combined net assets at June 30, 2008, 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 \$10,088,936 (\$9,624,438 for Governmental Activities and \$464,498 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 (86.9%) 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, 2008 AND 2007

	June 30, 2008			June 30, 2007		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 16,221,090	\$ 621,064	\$ 16,842,154	\$ 16,843,792	\$ 579,396	\$ 17,423,188
Capital assets	87,665,513	5,592,177	93,257,690	90,466,766	3,534,970	94,001,736
Total assets	103,886,603	6,213,241	110,099,844	107,310,558	4,114,366	111,424,924
Current Liabilities	3,902,652	156,566	4,059,218	5,022,224	75,455	5,097,679
Long-Term liabilities outstanding	27,049,000	2,160,061	29,209,061	30,156,000	335,000	30,491,000
Total liabilities	30,951,652	2,316,627	33,268,279	35,178,224	410,455	35,588,679
Net Assets:						
Invested in capital assets, net of related debt	63,310,513	3,432,116	66,742,629	62,606,766	3,199,970	65,806,736
Unrestricted	9,624,438	464,498	10,088,936	9,525,568	503,941	10,029,509
Total Net Assets	\$ 72,934,951	\$ 3,896,614	\$ 76,831,565	\$ 72,132,334	\$ 3,703,911	\$ 75,836,245

Change in net assets. The Town's total net assets increased by \$995,320 during the fiscal year, with net assets of Governmental Activities increasing by \$802,617, and net assets of Business-type Activities increasing by \$192,703.

	Year Ended June 30, 2008			Year Ended June 30, 2007		
	Primary Govt.			Primary Govt.		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Revenues						
Program Revenues:						
Charges for Services	\$ 3,327,767	\$ 976,735	\$ 4,304,502	\$ 3,085,781	\$ 943,177	\$ 4,028,958
Operating Grants and Contributions	19,267,118	-	19,267,118	17,386,566	-	17,386,566
Capital Grants and Contributions	2,679,703	-	2,679,703	4,036,180	-	4,036,180
General Revenues:						
Property Tax	28,982,000	-	28,982,000	28,535,212	-	28,535,212
Grants not restricted to specific programs	170,822	-	170,822	167,837	-	167,837
Unrestricted investment earnings	414,938	6,290	421,228	588,215	4,872	593,087
Donation of capital assets	-	-	-	261,030	-	261,030
Total Revenues	54,842,348	983,025	55,825,373	54,060,821	948,049	55,008,870
Expenses						
General Government	4,644,229	-	4,644,229	4,578,030	-	4,578,030
Public Safety	2,226,614	-	2,226,614	2,084,319	-	2,084,319
Public Works	3,627,083	-	3,627,083	3,294,988	-	3,294,988
Public Health & Welfare	658,253	-	658,253	931,186	-	931,186
Civic and Cultural	1,950,657	-	1,950,657	1,916,572	-	1,916,572
Education	39,770,100	-	39,770,100	38,917,003	-	38,917,003
Other	-	778,289	778,289	-	718,722	718,722
Interest on long term bonds	1,162,795	12,033	1,174,828	1,228,829	10,990	1,239,819
Total Expenses	54,039,731	790,322	54,830,053	52,950,927	729,712	53,680,639
Change in Net Assets	802,617	192,703	995,320	1,109,894	218,337	1,328,231
Net Assets Beginning	72,132,334	3,703,911	75,836,245	71,022,440	3,485,574	74,508,014
Net Assets Ending	<u>\$ 72,934,951</u>	<u>\$ 3,896,614</u>	<u>\$ 76,831,565</u>	<u>\$ 72,132,334</u>	<u>\$ 3,703,911</u>	<u>\$ 75,836,245</u>

Governmental Activities

Approximately 52.8% of the revenues were generated from property taxes, followed by 46.1% from program revenues, which include governmental revenues for Education, then .8% was derived from investment earnings, and finally, .3% from other unrestricted grants.

Major revenue factors included additional operating grant funds from the State of Connecticut. There was also a reduction in the amount received as capital grant funds from the State of Connecticut School Construction progress payments for the construction of the new elementary school and the expansion/renovation of the intermediate school as the projects were completed during the year.

The Town's current levy collected tax rate was 97.72%, an increase of .28% over the previous year current levy collected tax rate of 97.44%.

For governmental activities, 73.6% of the Town's expenditures relate to education, 8.6% relate to general government, 4.1% relate to public safety, 6.7% relate to public works, 3.6% relate to civic and cultural, 1.2% relate to public health and welfare and the remaining 2.2% relate to interest payments on long-term debt.

Major expenditure factors include an increase in Education, mainly as a result of an approved Education budget increase of 4.4% over the 2006-2007 budget and an increase in on-behalf payments for pension contributions paid directly to the Connecticut State Teachers' Retirement System by the State of Connecticut. Public works expenditures also increased due to costs associated with grant funded site improvements for the Lyman Viaduct project.

Business-Type Activities

Business-type activities increased the Town's net assets by \$192,703. Key elements of this increase are:

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

Financial Analysis of the Town's Fund Financial Statements

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

As the Town completed the year, its governmental funds reported combined fund balances of \$6,575,130, an increase from \$5,548,257 as of June 30, 2007. This increase is mainly due to the receipt of school construction progress payments related to the completion of construction of a new elementary school and expansion of the intermediate school.

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 \$4,670,244 while total fund balance reached \$4,818,859. 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 10.0% of the total general fund expenditures.

At June 30, 2008, the Town of Colchester's General Fund decreased by \$210,668 from the previous year. Key factors contributing to this decrease were the planned use of fund balance to fund the budget with no increase in the property tax mil rate, offset by additional revenue from the State of Connecticut for Special Education, and additional fees for ambulance services.

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 \$464,498. The Water Fund experienced an increase in net assets of \$192,703. The explanations concerning the finances of the Water Fund were addressed earlier in the discussion of the Town of Colchester's Business-type activities.

General Fund Budgetary Highlights

Additional appropriations were approved during the year totaling \$32,636, of which \$14,916 was funded by additional revenue and \$17,720 was appropriated from fund balance. These additional appropriations were for additional Police overtime associated with special duty assignments for which additional revenues were received, additional costs of voter registration and elections for which grant funds were received, and to provide funding for significant Fire vehicle repairs. Budget transfers approved during the year included additional funds for snow removal, legal costs for contract negotiations and planning and zoning enforcement issues, increased workers compensation insurance costs, technology purchases, and additional staff hours in the Tax Collector's office. Funds for these transfers were available from vacant positions throughout various Town departments, increased credits for recycling of materials at the Transfer Station and contingency funds.

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, 2008, amount to \$93,257,690 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, sidewalks, roads, highways, bridges and water and sewer lines (infrastructure). The total decrease in the Town of Colchester's investment in capital assets for the current fiscal year was \$744,046 or approximately .8 percent.

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

- Construction in progress for governmental activities increased by \$696,832 from the prior fiscal year, mainly due to the installation of portable classroom facilities at the high school.
- Construction in progress for business-type activities increased by \$2,107,164 due to the upgrade of the existing pump and treatment facility located on Taintor Hill Road.

**Town of Colchester Capital Assets
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 3,432,379	\$ 3,432,379	\$ -	\$ -	\$ 3,432,379	\$ 3,432,379
Land Improvements	360,264	428,441	7,973	8,969	368,237	437,410
Bldng. & Improvements	67,004,894	68,932,961	1,190,622	1,216,242	68,195,516	70,149,203
Machinery & Equipment	2,645,561	2,731,996	106,042	76,698	2,751,603	2,808,694
Infrastructure	13,495,293	14,910,699	1,971,831	2,024,516	15,467,124	16,935,215
Construction in Progress	727,122	30,290	2,315,709	208,545	3,042,831	238,835
Total	\$ 87,665,513	\$ 90,466,766	\$ 5,592,177	\$ 3,534,970	\$ 93,257,690	\$ 94,001,736

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 \$24,620,000 in bonds outstanding. Of this amount \$265,000 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	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds (backed by the Town)	\$ 24,355,000	\$ 27,860,000	\$ 265,000	\$ 335,000	\$ 24,620,000	\$ 28,195,000
Clean Water Fund Interim financing	\$ -	\$ -	\$ 1,895,061	\$ -	\$ 1,895,061	\$ -

The Town of Colchester's total bonded debt had a decrease of \$3,575,000 (approximately 12.8 percent) as of the end of the fiscal year. The Town has also entered into an interim financing agreement from the State of Connecticut Clean Water Fund loan program for the upgrade of the Taintor Hill Road Water Treatment Facility. As of June 30, 2008, the Town had received interim financing in the amount of \$1,895,061 for this project. The loan terms are expected to be finalized in 2009.

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+. In June 2005, Moody's reaffirmed the A1 rating of the Town's outstanding debt and assigned an underlying rating of A1 to bonds issued at that time.

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

Economic Factors and Next Year's Budgets and Rates

As a result of the national economic downturn, the Town of Colchester's unemployment rate increased to 5.2% as of June 2008, although it remained less than the State of Connecticut rate of 5.7% for the same time period. As of November 2008, the Town's unemployment rate was 5.4% while the State's unemployment rate had increased to 6.4%. In response to the economic outlook, Town officials have been proactive in providing assistance to residents in need through energy assistance applications and property tax relief options. Steps have also been taken to closely monitor FY 2008-2009 revenues and expenditures, including executing a five year contract for the purchase of electricity at a fixed rate for generation service charges, implementing energy cost-saving measures, participating in energy rebate programs, developing a combined Town and Board of Education purchasing policy, and pursuing grant opportunities. In addition, the Town has developed a list of potential projects to be submitted for funding under a possible Federal financial stimulus package. As requested by the Governor's Office, this list has been submitted to the State of Connecticut.

Economic development continues to be a top priority for the Town. As part of these efforts, the Board of Selectmen established a Business Development Task Force which submitted its report in December 2008 to the Board, and a Lebanon Avenue Revitalization Committee which has put together a plan for redevelopment in this area. The Town intends to pursue a request for grant funding for this project in 2009. In addition, meetings are being held with potential developers, and informational resources including a brochure have been created.

The FY 2008-2009 final adopted budget of \$47,634,370 represents an increase of \$693,635 or 1.5% over the original adopted budget for FY 2007-2008 of \$46,940,735 and does not include any increase in the property tax mil rate.

Requests for Information

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

Basic Financial Statements

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF NET ASSETS

June 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 10,434,613	\$ 249,461	\$ 10,684,074
Receivables (net of allowances for collection losses):			
Property taxes and interest	1,555,364	-	1,555,364
Assessments	417,428	-	417,428
Accounts receivable	29,123	300,850	329,973
Loans receivable	3,055	-	3,055
Intergovernmental	3,722,712	-	3,722,712
Inventory	58,795	70,753	129,548
Capital assets, non-depreciable	4,159,501	2,315,709	6,475,210
Capital assets, net of accumulated depreciation	83,506,012	3,276,468	86,782,480
Total assets	103,886,603	6,213,241	110,099,844
Liabilities			
Accounts payable and accrued liabilities	3,434,079	156,566	3,590,645
Claims payable	398,825	-	398,825
Unearned revenues	69,748	-	69,748
Noncurrent liabilities:			
Due within one year	3,111,000	70,000	3,181,000
Due in more than one year	23,938,000	2,090,061	26,028,061
Total liabilities	30,951,652	2,316,627	33,268,279
Net Assets			
Investment in capital assets, net of related debt	63,310,513	3,432,116	66,742,629
Unrestricted	9,624,438	464,498	10,088,936
Total net assets	\$ 72,934,951	\$ 3,896,614	\$ 76,831,565

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, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:							
General government	\$ (4,644,229)	\$ 585,948	\$ 395,631	\$ 366,697	\$ (3,295,953)	\$ -	\$ (3,295,953)
Public safety	(2,226,614)	526,054	362,728	-	(1,337,832)	-	(1,337,832)
Public works	(3,627,083)	1,106,167	185,622	163,475	(2,171,819)	-	(2,171,819)
Civic and cultural	(1,950,657)	37,808	46,709	-	(1,866,140)	-	(1,866,140)
Public health and welfare	(658,253)	517,603	227,734	-	87,084	-	87,084
Education	(39,770,100)	554,187	18,048,694	2,149,531	(19,017,688)	-	(19,017,688)
Interest on long-term debt	(1,162,795)	-	-	-	(1,162,795)	-	(1,162,795)
Total governmental activities	(54,039,731)	3,327,767	19,267,118	2,679,703	(28,765,143)	-	(28,765,143)
Business-Type Activities:							
Water	(790,322)	976,735	-	-	-	186,413	186,413
Total business-type activities	(790,322)	976,735	-	-	-	186,413	186,413
Total primary government	\$ (54,830,053)	\$ 4,304,502	\$ 19,267,118	\$ 2,679,703	(28,765,143)	186,413	(28,578,730)
General revenues:							
Property taxes					28,982,000	-	28,982,000
Grants and contributions not restricted to specific programs					170,822	-	170,822
Unrestricted investment earnings					414,938	6,290	421,228
Total general revenues					29,567,760	6,290	29,574,050
Extraordinary item:							
State teachers' on-behalf payments (Note 11)					10,033,000	-	10,033,000
State teachers' on-behalf revenue (Note 11)					(10,033,000)	-	(10,033,000)
					-	-	-
Change in net assets					802,617	192,703	995,320
Net assets - beginning					72,132,334	3,703,911	75,836,245
Net assets - ending					\$ 72,934,951	\$ 3,896,614	\$ 76,831,565

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

TOWN OF COLCHESTER, CONNECTICUT

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2008

	Major Funds			Total
	General	Bonded	Nonmajor	Total
	Fund	Projects	Governmental	Governmental
	Fund	Fund	Funds	Funds
Assets				
Cash and cash equivalents	\$ 6,469,444	\$ -	\$ 2,944,440	\$ 9,413,884
Receivables (net of allowances for collection losses):				
Property taxes	1,555,364	-		1,555,364
Assessments and user charges	-	-	417,428	417,428
Intergovernmental	3,368,407	-	354,305	3,722,712
Accounts receivable	17,423	-	3,183	20,606
Loans	-	-	3,055	3,055
Inventory	55,458	-	3,337	58,795
	<u>\$ 11,466,096</u>	<u>\$ -</u>	<u>\$ 3,725,748</u>	<u>\$ 15,191,844</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 2,044,424	\$ 955,985	\$ 378,476	\$ 3,378,885
Deferred revenue	4,602,813	-	565,268	5,168,081
Unearned revenue	-	-	69,748	69,748
Total liabilities	<u>6,647,237</u>	<u>955,985</u>	<u>1,013,492</u>	<u>8,616,714</u>
Fund balances (deficits)				
Reserved for:				
Encumbrances	93,157	4,321	65,726	163,204
Loans	-	-	3,055	3,055
Inventory	55,458	-	3,337	58,795
Unreserved, designated for:				
Subsequent years budget	638,375	-	5,000	643,375
Specific projects	81,050	-	467,163	548,213
Unreserved/undesignated, reported in:				
General fund	3,950,819	-	-	3,950,819
Special revenue funds	-	-	1,026,119	1,026,119
Capital projects funds	-	(960,306)	1,141,856	181,550
Total fund balances (deficits)	<u>4,818,859</u>	<u>(955,985)</u>	<u>2,712,256</u>	<u>6,575,130</u>
Total liabilities and fund balances	<u>\$ 11,466,096</u>	<u>\$ -</u>	<u>\$ 3,725,748</u>	

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

Capital assets, net of accumulated depreciation used in governmental activities are not financial resources and, therefore, are not reported in the funds.	87,665,513
Other long-term assets are available to pay for current-period expenditures and, therefore, are deferred in the funds.	5,168,081
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.	630,421
Accrued interest payable	(55,194)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(27,049,000)
Net assets of governmental activities	<u>\$ 72,934,951</u>

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

TOWN OF COLCHESTER, CONNECTICUT

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

For the Year Ended June 30, 2008

	Major Funds		Nonmajor	Total
	General	Bonded	Governmental	Governmental
	Fund	Projects	Funds	Funds
		Fund		
REVENUES				
Property taxes	\$ 28,680,150	\$ -	\$ -	\$ 28,680,150
Intergovernmental revenues	18,442,383	2,310,933	2,035,585	22,788,901
Revenues from use of money	400,994	-	13,944	414,938
Fees, permits and sales	781,336	-	590,161	1,371,497
Charges for services and assessments	533,490	-	1,275,182	1,808,672
Other	187,483	11,500	221,851	420,834
Total revenues	49,025,836	2,322,433	4,136,723	55,484,992
EXPENDITURES				
Current:				
General government	2,909,923	-	33,651	2,943,574
Public safety	1,886,200	-	134,621	2,020,821
Public works	2,011,002	-	1,069,682	3,080,684
Public health and welfare	403,914	-	310,271	714,185
Civic and cultural	1,304,730	-	365,033	1,669,763
Education	35,822,916	-	1,894,867	37,717,783
Debt service	4,568,424	-	115,940	4,684,364
Capital outlay	-	1,171,573	455,372	1,626,945
Total expenditures	48,907,109	1,171,573	4,379,437	54,458,119
Revenue over (under)				
expenditures	118,727	1,150,860	(242,714)	1,026,873
OTHER FINANCING SOURCES (USES)				
Transfers in	-	112,268	232,127	344,395
Transfers out	(329,395)	-	(15,000)	(344,395)
Total other financing				
sources (uses)	(329,395)	112,268	217,127	-
Extraordinary Item				
State teachers' on-behalf payments (Note 11)	(10,033,000)	-	-	(10,033,000)
State teachers' on-behalf revenue (Note 11)	10,033,000	-	-	10,033,000
Total extraordinary item	-	-	-	-
Net change in fund balances (deficits)	(210,668)	1,263,128	(25,587)	1,026,873
FUND BALANCES (DEFICITS), beginning	5,029,527	(2,219,113)	2,737,843	5,548,257
FUND BALANCES (DEFICITS), ending	\$ 4,818,859	\$ (955,985)	\$ 2,712,256	\$ 6,575,130

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

TOWN OF COLCHESTER, CONNECTICUT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS) OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008**

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

Net change in fund balances – total governmental funds	\$ 1,026,873
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(2,801,253)
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.	(642,644)
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 expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(381,431)
The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>96,072</u>
Change in net assets of governmental activities	<u><u>\$ 802,617</u></u>

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

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF REVENUES AND EXPENDITURES - BUDGETARY BASIS -

BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
REVENUES				
Property taxes, interest and lien fees	\$ 28,923,875	\$ 28,923,875	\$ 28,680,150	\$ (243,725)
Intergovernmental revenues	15,588,418	15,591,883	15,957,384	365,501
Revenues from the use of money	425,000	425,000	400,994	(24,006)
Charges for services	439,500	450,951	533,490	82,539
Fees, permits and other	756,310	756,310	781,336	25,026
Other revenues	127,632	127,632	215,569	87,937
Total revenues	46,260,735	46,275,651	46,568,923	293,272
EXPENDITURES				
General government	3,008,717	3,000,344	2,913,856	86,488
Public works	2,027,402	2,038,398	2,012,471	25,927
Public safety	1,927,072	1,955,956	1,894,244	61,712
Civic and cultural	1,345,394	1,345,394	1,303,756	41,638
Public health and welfare	429,945	431,074	404,164	26,910
Education	33,304,385	33,304,385	33,303,297	1,088
Debt service	4,568,425	4,568,425	4,568,424	1
Total expenditures	46,611,340	46,643,976	46,400,212	243,764
Revenues over (under) expenditures	(350,605)	(368,325)	168,711	537,036
OTHER FINANCING SOURCES (USES)				
Transfers out	(329,395)	(329,395)	(329,395)	-
Total other financing (uses)	(329,395)	(329,395)	(329,395)	-
Revenues and other financing sources over (under) expenditures and other financing uses	\$ (680,000)	\$ (697,720)	\$ (160,684)	\$ 537,036

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, 2008

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund Medical Self- Insurance Fund
	Water Fund	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 249,461	\$ 1,020,729
Accounts receivable	300,850	8,517
Inventory	70,753	-
Total current assets	621,064	1,029,246
Capital Assets, net of accumulated depreciation	5,592,177	-
Total assets	6,213,241	1,029,246
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	156,566	-
Claims payable - current	-	398,825
Bonds payable - current	70,000	-
Total current liabilities	226,566	398,825
Noncurrent Liabilities:		
Bonds payable	195,000	-
Loan payable	1,895,061	-
Total noncurrent liabilities	2,090,061	-
Total liabilities	2,316,627	398,825
NET ASSETS		
Invested in capital assets, net of related debt	3,432,116	-
Unrestricted	464,498	630,421
Total net assets	\$ 3,896,614	\$ 630,421

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, 2008

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
	Water Fund	Medical Self- Insurance Fund
OPERATING REVENUES		
Water use fees and charges	\$ 976,735	\$ -
Premiums	-	5,238,298
Total operating revenues	<u>976,735</u>	<u>5,238,298</u>
OPERATING EXPENSES		
Claims/operating	667,051	4,423,245
Depreciation	111,238	-
Administration	-	728,850
Total operating expenses	<u>778,289</u>	<u>5,152,095</u>
Operating income	<u>198,446</u>	<u>86,203</u>
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	6,290	9,869
Interest expense	(12,033)	-
Total nonoperating revenue (expenses)	<u>(5,743)</u>	<u>9,869</u>
Change in net assets	<u>192,703</u>	<u>96,072</u>
FUND NET ASSETS, beginning	<u>3,703,911</u>	<u>534,349</u>
FUND NET ASSETS, ending	<u>\$ 3,896,614</u>	<u>\$ 630,421</u>

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

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended June 30, 2008

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund Medical Self- Insurance Fund
	Water Fund	
Cash Flows From Operating Activities		
Cash received from charges for services	\$ 909,780	\$ 5,229,781
Cash paid to vendors and beneficiaries	(590,032)	(5,236,581)
Net cash provided by (used in) operating activities	319,748	(6,800)
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	(2,168,445)	-
Interest paid	(12,565)	-
Principal payments of debt	(70,000)	-
Proceeds from clean water loan	1,895,061	-
Net cash used in capital and related financing activities	(355,949)	-
Cash Flows From Investing Activities		
Interest on cash and cash equivalents	6,290	9,869
Net (decrease) increase in cash and cash equivalents	(29,911)	3,069
Cash and Cash Equivalents		
Beginning	279,372	1,017,660
Ending	\$ 249,461	\$ 1,020,729
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities		
Operating income	\$ 198,446	\$ 86,203
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	111,238	-
Changes in assets and liabilities:		
Increase in accounts receivable	(66,955)	(8,517)
Increase in inventories	(4,624)	-
Increase in accounts payable	81,643	-
Decrease in claims payable	-	(84,486)
Net cash provided by (used in) operating activities	\$ 319,748	\$ (6,800)

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, 2008

	Pension Trust Fund	Private Purpose Trust Fund	Agency Fund
<hr/>			
ASSETS			
Cash and cash equivalents	\$ -	\$ 462	\$ 275,984
Investments	175,781	-	-
Total assets	<hr/> 175,781	<hr/> 462	<hr/> 275,984
<hr/>			
LIABILITIES			
Deposits held for others	-	-	275,984
	<hr/>	<hr/>	<hr/>
Net Assets Held in Trust for Pension			
Benefits and Other Purposes	<hr/> \$ 175,781	<hr/> \$ 462	<hr/> \$ -
	<hr/>	<hr/>	<hr/>

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, 2008

	Pension Trust Fund	Private Purpose Trust Fund
ADDITIONS		
Contributions		
Employee	\$ 30,514	\$ -
Employer	48,252	-
Total contributions	<u>78,766</u>	<u>-</u>
Investment Income (Losses)		
Interest and dividends	-	5
Unrealized losses on investment	(16,721)	-
Investment income (loss)	<u>(16,721)</u>	<u>5</u>
Total additions	<u>62,045</u>	<u>5</u>
DEDUCTIONS		
Distributions	-	1,800
	<u>-</u>	<u>1,800</u>
Change in net assets	62,045	(1,795)
Net Assets Held in Trust		
Beginning of year	<u>113,736</u>	<u>2,257</u>
End of year	<u>\$ 175,781</u>	<u>\$ 462</u>

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

Reporting entity

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

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

Government-wide fund and financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2008

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year when levied for. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, when levied for, intergovernmental revenues when the eligibility requirements are met, licenses, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, if available. All other revenue items are considered to be measurable only when cash is received by the Town.

The Town reports the following major governmental funds.

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

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

The Town reports the following major proprietary fund:

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2008

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.

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

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

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

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

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

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

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

Accounting estimates

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2008

Property taxes

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

Cash equivalents

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

Allowances for doubtful accounts

Accounts and notes receivable are reported net of allowance for doubtful accounts of approximately \$660,000. The allowance for doubtful accounts represents those accounts which are deemed uncollectible based upon collection history and analysis of creditor's ability to pay.

Investments

Investments are stated at fair value based upon quoted market prices. All of the Town's investments are recorded in the Pension Trust Fund. Fixed income funds are reported at fair value based on the unit prices quoted by the fund representing the fair value of the underlying investment. The Connecticut State Treasurer's Short-Term Investment Fund is an investment pool managed by the State of Connecticut Office of the State Treasurer. Investments must be made in instruments authorized by Connecticut General Statutes 3-27c through 3-27e. Investment guidelines are adopted by the State Treasurer. The fair value of the position in the pool is the same as the value of the pool shares.

The balance of the pooled fixed income investments were invested in a pool similar to a 2a-7. These investments are stated at amortized cost. The value of the position in the pool is the same as the value of the pool shares.

Inventories

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2008

Capital assets

Capital assets, which include property, buildings, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type columns in the government-wide and proprietary fund financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation.

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

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

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

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

Compensated absences

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2008

Long-term obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable bond premium or discount.

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.

Pension accounting

Pension Trust Fund

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

Governmental Funds

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

Funding Policy

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2008

Fund equity and net assets

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

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

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

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

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

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

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

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

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

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds, and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$27,049,000 difference are as follows:

Bonds payable	\$ 24,355,000
Landfill closure costs	240,000
Compensated absences	<u>2,454,000</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u><u>\$ 27,049,000</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds, and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$(2,801,253) difference are as follows:

Capital outlay	\$ 1,326,590
Depreciation expense	(4,124,495)
Loss on disposal	<u>(3,348)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (2,801,253)</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 increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 3,505,000</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2008

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$(381,431) difference are as follows:

Compensated absences	\$ (413,000)
Landfill closure	15,000
Accrued interest	<u>16,569</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ (381,431)</u></u>

Note 3. Budgets and Budgetary Accounting

The Town's general budget policies are as follows:

General Fund

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

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

The legal budget of the Town is a departmental budget.

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

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

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

Revenues and transfers, budgetary basis	\$ 46,568,923
Prior year encumbrances cancelled	(28,087)
On-behalf payments paid directly by the State of Connecticut Teachers' Retirement System	<u>2,485,000</u>
Revenues and transfers, GAAP basis	<u><u>\$ 49,025,836</u></u>

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

Expenditures, transfers and encumbrances budgetary basis	\$ 46,729,607
On-behalf payments paid directly by the State of Connecticut Teachers' Retirement System	2,485,000
Encumbrances:	
June 30, 2007	115,054
June 30, 2008	<u>(93,157)</u>
Expenditures and transfers, GAAP basis	<u><u>\$ 49,236,504</u></u>

Special revenue funds

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

Capital project funds

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

Note 4. Cash, Cash Equivalents and Investments

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

Investments: The Town and the Pension Trust Fund do not have a credit risk policy for investments, however, it is their practice to follow State statutes. The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: (1) obligations of the United States and its agencies (2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof; and (3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the Connecticut Short Term Investment Fund and the Tax Exempt Proceeds Fund. Other provisions of the Statutes cover specific municipal pension funds with particular investment authority and do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries (i.e., prudent person rule) and the provisions of the applicable plan. The Town and Pension Trust Fund do not have a custodial credit risk policy.

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

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

Custodial credit risk:

Deposits: This is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2008, approximately \$2,586,000 of the Town's bank balance of \$3,175,000 was uninsured and uncollateralized.

Investments: This is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

Cash and cash equivalents of the Town consist of the following at June 30, 2008:

Cash and Cash Equivalents	
Deposits with financial institutions	\$ 3,584,169
State of Connecticut Short-Term Investment fund	7,190,711
MBIA-Class Account	185,640
Total cash and cash equivalents	10,960,520
Investments	
Pension Trust Funds:	
Mututal Funds	175,781
Total cash, cash equivalents, and investments	\$ 11,136,301

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

Statement of Net Assets	
Cash and cash equivalents	\$ 10,684,074
Fiduciary Funds	
Cash and cash equivalents	276,446
Investments	175,781
	452,227
	\$ 11,136,301

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

	Fair Value	Investment Maturities (in Years) Less Than 1 Year
Pooled Income Funds	\$ 7,376,351	\$ 7,376,351

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

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

	Average Rating	Pooled Income Fund
State Short-Term Investment Fund	AAAm	\$ 7,190,711
MBIA, Inc.	AAA	185,640
		<u>\$ 7,376,351</u>

Note 5. Unearned Revenue/Deferred Revenue

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

	Deferred Revenues	Unearned Revenues
General Fund:		
Taxes and accrued interest on delinquent property taxes	\$ 1,354,242	\$ -
School construction grants	3,248,571	-
Grants and other	-	69,748
Nonmajor Funds:		
Assessments receivable	417,428	-
Grants and other	147,840	-
Total	<u>\$ 5,168,081</u>	<u>\$ 69,748</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

Note 6. Interfund Transfers

Interfund transfers during the year ended June 30, 2008 were as follows:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 329,395
Bonded Projects	112,268	-
Nonmajor Governmental Funds	232,127	15,000
Total	\$ 344,395	\$ 344,395

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,432,379	\$ -	\$ -	\$ 3,432,379
Construction in progress	30,290	696,832	-	727,122
Total capital assets, not being depreciated	3,462,669	696,832	-	4,159,501
Capital assets, being depreciated:				
Improvements other than buildings	1,485,124	-	-	1,485,124
Buildings	88,574,698	-	-	88,574,698
Machinery and equipment	10,122,768	532,633	(63,301)	10,592,100
Infrastructure	34,835,085	97,125	-	34,932,210
Total capital assets being depreciated	135,017,675	629,758	(63,301)	135,584,132
Less accumulated depreciation for:				
Improvements other than buildings	1,056,683	68,177	-	1,124,860
Buildings	19,641,737	1,928,067	-	21,569,804
Machinery and equipment	7,390,772	615,720	(59,953)	7,946,539
Infrastructure	19,924,386	1,512,531	-	21,436,917
Total accumulated depreciation	48,013,578	4,124,495	(59,953)	52,078,120
Total capital assets, being depreciated, net	87,004,097	(3,494,737)	(3,348)	83,506,012
Governmental activities capital assets, net	\$ 90,466,766	\$ (2,797,905)	\$ (3,348)	\$ 87,665,513

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 208,545	\$ 2,107,164	\$ -	\$ 2,315,709
Total capital assets, not being depreciated	208,545	2,107,164	-	2,315,709
Capital assets, being depreciated:				
Buildings	2,082,020	19,446	-	2,101,466
Machinery and equipment	90,459	41,835	-	132,294
Improvements other than buildings	21,391	-	-	21,391
Infrastructure	3,180,923	-	-	3,180,923
Total capital assets, being depreciated	5,374,793	61,281	-	5,436,074
Less accumulated depreciation for:				
Buildings	865,778	45,066	-	910,844
Machinery and equipment	13,761	12,491	-	26,252
Improvements other than buildings	12,422	996	-	13,418
Infrastructure	1,156,407	52,685	-	1,209,092
Total accumulated depreciation	2,048,368	111,238	-	2,159,606
Total capital assets, being depreciated, net	3,326,425	(49,957)	-	3,276,468
Business-type activities capital assets, net	\$ 3,534,970	\$ 2,057,207	\$ -	\$ 5,592,177

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

Governmental Activities:

General government	\$ 1,340,143
Public works	479,806
Public safety	208,804
Civic and cultural	217,093
Public health and welfare	13,379
Education	1,865,270

Total depreciation expense – governmental activities	<u>\$ 4,124,495</u>
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Business-Type Activities:

Water Fund	<u>\$ 111,238</u>
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TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

Note 8. Long-Term Obligations

Long-term liability activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 27,860,000	\$ -	\$ 3,505,000	\$ 24,355,000	\$ 3,035,000
Landfill post-closure monitoring	255,000	-	15,000	240,000	15,000
Compensated absences	2,041,000	572,000	159,000	2,454,000	61,000
Governmental activity long-term liabilities	\$ 30,156,000	\$ 572,000	\$ 3,679,000	\$ 27,049,000	\$ 3,111,000
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 335,000	\$ -	\$ 70,000	\$ 265,000	\$ 70,000
CWF Interim financing	-	1,895,061	-	1,895,061	-
Business-type long-term liabilities	\$ 335,000	\$ 1,895,061	\$ 70,000	\$ 2,160,061	\$ 70,000

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

General obligation bonds outstanding as of June 30, 2008 consisted of the following:

	<u>Outstanding Amount</u>
General obligation bonds payable:	
\$10,800,000 bond, issue of 2005 due 2025, annual principal payments range from \$645,000 to \$540,000 plus interest due semi-annually at 3.25% to 4.5%	\$ 9,510,000
\$9,460,000 bond, issue of 2001 due 2021, annual principal payments range from \$390,000 to \$670,000, plus interest due semiannually at 4.0% to 5.5%	5,100,000
\$5,180,000 bond, issue of 2002 due 2012, annual principal payments range from \$595,000 to \$465,000 plus interest due semiannually at 2.0% to 4.5%	1,925,000
\$730,000 bond, issue of 2002 due 2013, annual principal payments range from \$95,000 to \$110,000 plus interest due semiannually at 3.0% to 4.0%	195,000
\$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 6.5%	775,000
\$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%	3,785,000
\$13,455,000 bond, issue of 1997 due 2012, annual principal payments range from \$380,000 to \$1,000,000 plus interest due semiannually at 3.5% to 5.5%	<u>3,065,000</u>
Total general obligation bonds payable	<u><u>\$ 24,355,000</u></u>

TOWN OF COLCHESTER, CONNECTICUT**NOTES TO FINANCIAL STATEMENTS, Continued**
June 30, 2008

The following is a summary as of June 30, 2008, of the future principal and interest requirements for the Town's general obligation bonds:

	Principal	Interest	Total
2009	\$ 3,035,000	\$ 1,018,201	\$ 4,053,201
2010	3,000,000	889,798	3,889,798
2011	2,885,000	760,403	3,645,403
2012	2,185,000	650,509	2,835,509
2013	1,210,000	570,657	1,780,657
2014	1,210,000	521,572	1,731,572
2015	1,200,000	469,972	1,669,972
2016	1,200,000	413,152	1,613,152
2017	1,200,000	364,522	1,564,522
2018	1,200,000	314,947	1,514,947
2019	1,200,000	262,103	1,462,103
2020	1,200,000	208,013	1,408,013
2021	1,200,000	153,653	1,353,653
2022	810,000	99,090	909,090
2023	540,000	64,800	604,800
2024	540,000	43,200	583,200
2025	540,000	21,600	561,600
Total	<u>\$ 24,355,000</u>	<u>\$ 6,826,192</u>	<u>\$ 31,181,192</u>

Enterprise fund general obligation bonds:

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

\$ 265,000

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

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

	Principal	Interest	Total
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>\$ 265,000</u>	<u>\$ 26,505</u>	<u>\$ 291,505</u>

The Town received Clean Water Fund Project interim loans that are recorded as a loan payable in the Water Fund. It is expected that the loan terms will be finalized in 2009. The balance at June 30, 2008 is approximately \$1,895,000.

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, 2008 was approximately \$1,123,000. Additional payments for principal and interest aggregating approximately \$3,575,000 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, 2008, is as follows:

Total tax collections (including interest and lien fees) for the year ended June 30, 2008	\$ 28,625,736
Reimbursement for revenue loss:	
Tax relief for elderly	54,485
Base	<u>\$ 28,680,221</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2008

The Connecticut General Statutes provides that total authorized debt of the Town shall not exceed seven times the above base cash receipts of \$200,761,540 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	\$ 64,530,497	\$ -	\$ -	\$ -	\$ -
4-1/2 times base	-	129,060,995	-	-	-
3-3/4 times base	-	-	107,550,829	-	-
3-1/4 times base	-	-	-	93,210,718	-
3 times base	-	-	-	-	86,040,663
Total debt limitation	64,530,497	129,060,995	107,550,829	93,210,718	86,040,663
Debt as defined by statute:					
Bonds payable ⁽¹⁾	3,718,600	20,441,400	195,000	-	-
Authorized and unissued	-	30,506,200	-	-	-
Total indebtedness	3,718,600	50,947,600	195,000	-	-
School construction grants receivable	-	(3,248,571)	-	-	-
Net indebtedness	3,718,600	47,699,029	195,000	-	-
Debt limitation in excess of outstanding and authorized debt	\$ 60,811,897	\$ 81,361,966	\$ 107,355,829	\$ 93,210,718	\$ 86,040,663

⁽¹⁾ Water bonds and Clean Water Fund interim financing totaling \$2,160,061 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 opinion of the Town's management, the final settlement of these matters will not have a material adverse effect on the financial condition of the Town.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

Note 10. Pension Fund

Police Department Defined Benefit Plan

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

1. Classes of Employees Covered

At July 1, 2007, PERS membership consisted of:

Retirees and beneficiaries receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>8</u>
Total	<u>8</u>

2. Benefit Provisions

a. Benefit Provisions

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

The retirement benefit is calculated at 2.5% of Final Average Salary during the highest 3 plan years of active employment multiplied by years of service, with a maximum pension of 60% of Final Average Salary. Years of service is computed in whole years. Participants are 100% vested after 10 years of service. If an employee leaves covered employment or dies before 10 years of service, accumulated employee contributions and related investment earnings are refunded with retirement income being forfeited. Benefits and contributions are established by the Town and may be amended only by the Town.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

b. Funding Policy

Employees are required to contribute 6% of their weekly pay and the employer picks up mandatory contributions of 6% of pay on behalf of each participant. The Town is required to contribute the remaining amounts necessary to finance the coverage for its employees.

3. Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Actual Contribution
2006	\$32,201	115%	\$37,000
2007	\$44,587	94%	\$41,689
2008	\$44,587	108%	\$48,252

4. Actuarial Assumptions

The data presented in the schedules of funding progress and schedules of contributions were determined as part of the actuarial valuation at the date indicated. Additional information for the plan as of the latest valuation date is as follows:

Latest Actuarial Value Date	07/01/07
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage of Pay
Remaining Amortization Period	22 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Projected Salary Increases	4.50%

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

5. Annual Pension Cost and Net Pension Obligation (Asset)

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

Annual required contribution	\$ 44,587
Interest on net pension obligation	(158)
Adjustment to annual required contribution	179
Annual pension cost	44,608
Contributions made	48,252
Increase in net pension obligation (asset)	(3,644)
Net pension obligation (asset), July 1, 2007	(1,974)
Net pension obligation (asset), June 30, 2008	<u>\$ (5,618)</u>

Three Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
06/30/06	\$32,201	114.9%	\$(4,799)
06/30/07	\$44,514	93.7%	\$(1,974)
06/30/08	\$44,608	108.2%	\$(5,618)

6. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2005	N/A	\$ 115,794	\$ 115,794	0.0%	\$ 328,490	35.3%
July 1, 2006	\$ 43,732	\$ 193,242	\$ 149,510	22.6%	\$ 397,531	37.6%
July 1, 2007	\$ 113,736	\$ 239,836	\$ 126,100	47.4%	\$ 410,312	30.7%

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2008

Defined Contribution Retirement Savings Plan

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

Connecticut State Teachers' Retirement System

The faculty and professional personnel of the Board of Education participate in a contributory defined benefit plan, established under Chapter 167a of the Connecticut General Statutes, which is administered by the Connecticut State Teachers' Retirement Board. A teacher is eligible to receive normal retirement benefits if he or she has attained age sixty and has accumulated twenty years of credited service in the public schools of Connecticut or has attained any age and has accumulated thirty-five years of credited service, at least twenty-five of which are service in the public schools of Connecticut. The State of Connecticut Teacher Retirement System is considered to be a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106.

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

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

In addition, the Town has recognized revenues and expenditures for on-behalf payments for pension contributions paid directly to the Connecticut State Teachers' Retirement System by the State of Connecticut. Such on-behalf payments were approximately \$2,485,000 for the year ended June 30, 2008 (see Note 11 for further disclosure).

Note 11. Extraordinary Item

The State of Connecticut issued approximately \$2.3 billion in taxable general obligation bonds to be used for deposit into the State of Connecticut Teachers' Retirement Fund. As contributions to the fund represent on-behalf payment to the Town, an amount of \$10,033,000 has been recorded as an extraordinary item in the Town's financial statements.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2008

Note 12. Risk Management

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

The Medical Self-Insurance Fund is funded by monthly contributions from all funds incurring payroll charges. Anthem Blue Cross/Blue Shield, administrator of the claims process, aids the Town in calculating "premium" rates per contract. Under the Town's current policy, the Medical Self-Insurance Fund covers all employee claims up to \$110,000 per claim with an aggregate stop loss of 125% of expected claims paid which was approximately \$5,334,000 for the year ended June 30, 2008.

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

Changes in the balance of claim liabilities are as follows:

	Claims Payable July 1	Claims and Changes in Estimates	Claims Paid	Claims Payable June 30
2007-2008	\$ 483,311	\$ 4,424,519	\$ 4,509,005	\$ 398,825
2006-2007	\$ 389,143	\$ 4,200,517	\$ 4,106,349	\$ 483,311

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

Note 13. Landfill Postclosure Care Cost

The Town's municipal solid waste landfill stopped accepting waste in 1994. State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the site for thirty years after closure. The remaining postclosure costs are estimated to be \$240,000 (\$15,000 per year for 16 years). Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The responsibility for postclosure monitoring will remain with the Town.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

Note 14. Fund Deficits

The following funds had fund deficits as of June 30, 2008:

Bonded Projects Fund	\$	955,985
Miscellaneous Grants Fund	\$	110,120
Adult Education	\$	3,539

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

Note 15. Pronouncements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2008 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. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," issued June 2004, will be effective for the Town for the June 30, 2009 fiscal year. This Statement establishes standards for the measurement, recognition and display of other post-employment benefits, expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.
- ♦ GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," issued December 31, 2006, will be effective for the Town beginning with its fiscal year June 30, 2009, but the liability should be measured at July 1, 2008 so that beginning net assets can be restated. This Statement identifies the circumstances under which a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted, if the pollution poses an imminent danger to the public or the environment, if the government has violated a pollution prevention permit or license, if the government has been named as a responsible party for cleaning up the pollution, if the government began to clean up the pollution, and if the government is named in a lawsuit. In addition, it provides disclosure information about their pollution obligations associated with clean-up efforts.
- ♦ GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets," issued June, 2007. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in Statement No. 34, "Basic Financial Statements - and Management's Discussion and analysis - for State and Local Governments." This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific authoritative guidance that addresses these

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2008

questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

- ♦ GASB Statement No. 52, "Land and Other Real Estate Held as Investment by Endowments". This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2008.
- ♦ GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

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**Supplemental and Combining
Fund Statements and Schedules**

General Fund

TOWN OF COLCHESTER, CONNECTICUT

GENERAL FUND

BALANCE SHEET

June 30, 2008 With Comparative Amounts For 2007

	2008	2007
Assets		
Cash and cash equivalents	\$ 6,469,444	\$ 6,640,799
Property taxes and interest receivable, net	1,555,364	1,202,457
Grants and other receivables	137,259	24,819
Inventory	55,458	31,180
School construction grant receivable	3,248,571	4,371,899
Total assets	\$ 11,466,096	\$ 12,271,154
Liabilities		
Liabilities:		
Accounts payable and accrued liabilities	2,044,424	1,780,668
Deferred revenue	4,602,813	5,424,291
Advance tax collections	-	36,668
Total liabilities	6,647,237	7,241,627
Fund Balance		
Reserved for encumbrances	93,157	143,142
Reserved for inventory	55,458	31,180
Designated for subsequent year budget	638,375	725,400
Designated for specific projects	81,050	-
Unreserved, undesignated	3,950,819	4,129,805
Total fund balance	4,818,859	5,029,527
Total liabilities and fund balance	\$ 11,466,096	\$ 12,271,154

TOWN OF COLCHESTER, CONNECTICUT

**GENERAL FUND REVENUES AND TRANSFERS IN -
BUDGETARY BASIS - BUDGET AND ACTUAL**

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
PROPERTY TAXES				
Current year levy	\$ 28,333,875	\$ 28,333,875	\$ 27,780,419	\$ (553,456)
Prior years levy	350,000	350,000	582,387	232,387
Interest and lien fees	240,000	240,000	317,344	77,344
Total property taxes	28,923,875	28,923,875	28,680,150	(243,725)
INTERGOVERNMENTAL				
State of Connecticut:				
Per Capita grant	14,500	14,500	18,448	3,948
In lieu of taxes	65,495	65,495	65,612	117
Elderly freeze	6,436	6,436	4,243	(2,193)
Elderly circuit breaker	62,342	62,342	54,485	(7,857)
Disability exemption	1,740	1,740	1,189	(551)
Additional veteran exemption	8,405	8,405	5,099	(3,306)
Property tax relief/manufacturing	36,332	36,332	25,437	(10,895)
Boat registration	3,264	3,264	3,264	-
Local Capital Improvement Program	117,627	117,627	119,835	2,208
Mashantucket Pequot/Mohegan Grant	128,438	128,438	134,778	6,340
Help America Vote Act	-	3,465	3,465	-
Distribution to towns	2,000	2,000	17,319	15,319
Youth Services Grant	18,745	18,745	18,744	(1)
Library Grant	3,500	3,500	7,079	3,579
Total State of Connecticut	468,824	472,289	478,997	6,708
Education:				
Special Education	400,000	400,000	782,780	382,780
Education cost sharing	12,976,438	12,976,438	12,960,643	(15,795)
School transportation	415,637	415,637	394,830	(20,807)
School building grants	1,327,519	1,327,519	1,328,623	1,104
Educational services for the blind	-	-	11,511	11,511
Total education	15,119,594	15,119,594	15,478,387	358,793
Total intergovernmental	15,588,418	15,591,883	15,957,384	365,501
REVENUES FROM USE OF MONEY				
Investment income	425,000	425,000	400,994	(24,006)

TOWN OF COLCHESTER, CONNECTICUT

GENERAL FUND REVENUES AND TRANSFERS IN -
BUDGETARY BASIS - BUDGET AND ACTUAL, Continued
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
CHARGES FOR SERVICES				
Special Duty - Police	18,000	29,451	44,880	15,429
Sanitarian fees	24,000	24,000	9,460	(14,540)
Restaurant inspection fees	8,500	8,500	9,900	1,400
Recreation	14,000	14,000	16,475	2,475
Ambulance	375,000	375,000	452,775	77,775
Total charges for services	439,500	450,951	533,490	82,539
LICENSES, PERMITS AND FEES				
Fire Marshal inspection fees	200	200	160	(40)
Sports licenses	1,800	1,800	2,079	279
Transfer station fees	160,000	160,000	170,546	10,546
Conservation Commission fees	4,000	4,000	2,183	(1,817)
Road inspection fees	39,460	39,460	82,848	43,388
Building code fees	200,000	200,000	137,283	(62,717)
Conveyance tax	170,000	170,000	201,179	31,179
Zoning and planning fees	8,500	8,500	10,718	2,218
Zoning appeal fees	1,500	1,500	900	(600)
Copier fees	19,050	19,050	18,295	(755)
Town Clerk fees	125,000	125,000	127,634	2,634
Vendor permits	600	600	1,210	610
Pistol permits	700	700	2,170	1,470
Library fines and fees	15,000	15,000	18,483	3,483
Senior program fees	200	200	-	(200)
Dial-A-Ride	2,500	2,500	2,277	(223)
Historic District Commission fees	-	-	96	96
Land Records - Town	4,300	4,300	3,275	(1,025)
Preservation surcharge	3,500	3,500	-	(3,500)
Total licenses, permits and fees	756,310	756,310	781,336	25,026

TOWN OF COLCHESTER, CONNECTICUT

GENERAL FUND REVENUES AND TRANSFERS IN -
BUDGETARY BASIS - BUDGET AND ACTUAL, Continued
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
OTHER REVENUES				
Tuition - regular	24,000	24,000	9,170	(14,830)
Telecommunications tax	82,399	82,399	86,591	4,192
State Fund for building inspection	1,500	1,500	1,456	(44)
Elderly housing	11,500	11,500	11,963	463
Miscellaneous	5,000	5,000	45,826	40,826
Insurance reimbursement	-	-	8,770	8,770
Lebanon share probate fee	3,233	3,233	1,938	(1,295)
Restitution-Transfer Station	-	-	40,000	40,000
Aquifer protection fee	-	-	8,000	8,000
Reimbursement for administration	-	-	955	955
Benefit assessment	-	-	900	900
Total other revenues	127,632	127,632	215,569	87,937
 Total	 \$ 46,260,735	 \$ 46,275,651	 \$ 46,568,923	 \$ 293,272

TOWN OF COLCHESTER, CONNECTICUT

GENERAL FUND EXPENDITURES AND TRANSFERS OUT -
BUDGETARY BASIS - BUDGET AND ACTUAL

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
GENERAL GOVERNMENT				
Board of Finance	\$ 62,548	\$ 22,548	\$ 22,251	\$ 297
First Selectman	193,439	169,196	165,302	3,894
Ethics Commission	1,088	1,088	60	1,028
Information Technology	55,059	68,809	63,962	4,847
Tax Collector	134,413	142,230	141,339	891
Assessors	234,110	229,893	217,015	12,878
Board of Tax Review	1,734	1,734	1,568	166
Accounting	242,018	242,096	236,458	5,638
Economic Development	5,036	5,036	1,086	3,950
Historic District Commission	2,376	2,376	1,819	557
Town Clerk	172,466	172,504	166,390	6,114
Elections	45,053	48,518	43,670	4,848
Legal and Insurance	1,253,249	1,285,688	1,285,253	435
Probate	9,600	9,600	6,402	3,198
Planning/Code Administration	439,345	439,345	410,293	29,052
Central Services and Facilities	152,890	155,390	148,488	6,902
Fair Rent Commission	404	404	-	404
Police Retirement Board	3,889	3,889	2,500	1,389
Total general government	3,008,717	3,000,344	2,913,856	86,488
PUBLIC WORKS				
Highway	1,114,440	1,092,440	1,080,616	11,824
Fleet maintenance	310,215	310,215	304,608	5,607
Snow removal	193,100	295,428	295,426	2
Transfer Station	316,823	247,491	242,597	4,894
Engineering	92,824	92,824	89,224	3,600
Total public works	2,027,402	2,038,398	2,012,471	25,927

TOWN OF COLCHESTER, CONNECTICUT

GENERAL FUND EXPENDITURES AND TRANSFERS OUT -
BUDGETARY BASIS - BUDGET AND ACTUAL, Continued
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
PUBLIC SAFETY				
Police	1,006,714	1,017,878	978,348	39,530
Fire	807,666	826,303	810,888	15,415
Fire Substation	15,154	14,237	13,419	818
Civil preparedness	19,371	19,371	13,422	5,949
Central Alarm	78,167	78,167	78,167	-
Total public safety	1,927,072	1,955,956	1,894,244	61,712
CIVIC AND CULTURAL				
Library services	537,320	537,320	531,746	5,574
Parks and recreation	561,585	561,585	547,020	14,565
Senior Services	246,489	246,489	224,990	21,499
Total civic and cultural	1,345,394	1,345,394	1,303,756	41,638
PUBLIC HEALTH AND WELFARE				
Health & Safety Committee	2,290	2,316	2,311	5
Social services	33,349	33,349	28,711	4,638
Youth services	234,347	235,347	226,814	8,533
Health services	159,959	160,062	146,328	13,734
Total health and welfare	429,945	431,074	404,164	26,910
BOARD OF EDUCATION	33,304,385	33,304,385	33,303,297	1,088
DEBT SERVICE				
Principal	3,400,000	3,400,000	3,400,000	-
Interest	1,168,425	1,168,425	1,168,424	1
Total debt service	4,568,425	4,568,425	4,568,424	1
OTHER FINANCING USES				
Transfers out	329,395	329,395	329,395	-
Total	\$ 46,940,735	\$ 46,973,371	\$ 46,729,607	\$ 243,764

Nonmajor Governmental Funds

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TOWN OF COLCHESTER, CONNECTICUT

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2008

	Special Revenue						
	Police Forfeiture Fund	Capital Reserve Fund	Dog License Fund	Town Aid Road Fund	Small Cities Grants	Sewer Operating Fund	Parks and Recreation Activities Fund
ASSETS							
Cash and cash equivalents	\$ 329	\$ 452,892	\$ 77,020	\$ 304,061	\$ 69,748	\$ 220,154	\$ 97,391
Assessments and user charges receivable	-	-	-	-	-	267,005	-
Other receivables	-	-	376	-	-	-	-
Intergovernmental receivable	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-
Loans receivable	-	-	-	-	3,055	-	-
Total assets	\$ 329	\$ 452,892	\$ 77,396	\$ 304,061	\$ 72,803	\$ 487,159	\$ 97,391
LIABILITIES AND FUND BALANCES (DEFICITS)							
LIABILITIES							
Accounts payable	\$ -	\$ 1,523	\$ 5,211	\$ 46,216	\$ -	\$ 3,403	\$ 17,516
Deferred revenue	-	-	-	-	-	267,005	-
Unearned revenue	-	-	-	-	69,748	-	-
Total liabilities	-	1,523	5,211	46,216	69,748	270,408	17,516
FUND BALANCES (DEFICITS)							
Reserved for encumbrances	-	3,975	-	-	-	-	-
Reserved for inventory	-	-	-	-	-	-	-
Reserved for loans	-	-	-	-	3,055	-	-
Designated for subsequent year's budget	-	-	5,000	-	-	-	-
Designated for specific projects	-	371,687	-	-	-	-	-
Unreserved and undesignated	329	75,707	67,185	257,845	-	216,751	79,875
Total fund balances (deficits)	329	451,369	72,185	257,845	3,055	216,751	79,875
Total liabilities and fund balances (deficits)	\$ 329	\$ 452,892	\$ 77,396	\$ 304,061	\$ 72,803	\$ 487,159	\$ 97,391

Special Revenue									
School Cafeteria Fund	Educational Grants Fund	Miscellaneous Grants Fund	Adult Education	Special Gifts Fund	Benefits Assessment Fund	Pay to Play	Use of Schools	BOE Capital Reserve Fund	
\$ 169,322	\$ -	\$ -	\$ -	\$ 221,878	\$ 55,614	\$ 70	\$ 7,569	\$ 126,536	
-	-	-	-	-	150,423	-	-	-	
-	-	-	-	-	-	-	2,807	-	
29,687	150,780	173,838	-	-	-	-	-	-	
3,337	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
<u>\$ 202,346</u>	<u>\$ 150,780</u>	<u>\$ 173,838</u>	<u>\$ -</u>	<u>\$ 221,878</u>	<u>\$ 206,037</u>	<u>\$ 70</u>	<u>\$ 10,376</u>	<u>\$ 126,536</u>	
\$ 7,799	\$ 150,780	\$ 136,118	\$ 3,539	\$ 5,887	\$ -	\$ -	\$ 484	\$ -	
-	-	147,840	-	-	150,423	-	-	-	
-	-	-	-	-	-	-	-	-	
<u>7,799</u>	<u>150,780</u>	<u>283,958</u>	<u>3,539</u>	<u>5,887</u>	<u>150,423</u>	<u>-</u>	<u>484</u>	<u>-</u>	
-	30,691	-	-	-	-	-	-	31,060	
3,337	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	95,476	
<u>191,210</u>	<u>(30,691)</u>	<u>(110,120)</u>	<u>(3,539)</u>	<u>215,991</u>	<u>55,614</u>	<u>70</u>	<u>9,892</u>	<u>-</u>	
<u>194,547</u>	<u>-</u>	<u>(110,120)</u>	<u>(3,539)</u>	<u>215,991</u>	<u>55,614</u>	<u>70</u>	<u>9,892</u>	<u>126,536</u>	
<u>\$ 202,346</u>	<u>\$ 150,780</u>	<u>\$ 173,838</u>	<u>\$ -</u>	<u>\$ 221,878</u>	<u>\$ 206,037</u>	<u>\$ 70</u>	<u>\$ 10,376</u>	<u>\$ 126,536</u>	

(Continued)

TOWN OF COLCHESTER, CONNECTICUT

COMBINING BALANCE SHEET, Continued

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2008

	Capital Projects	
	Sewer Construction	Totals
ASSETS		
Cash and cash equivalents	\$ 1,141,856	\$ 2,944,440
Assessments and user charges receivable	-	417,428
Other receivables	-	3,183
Intergovernmental receivable	-	354,305
Inventory	-	3,337
Loans receivable	-	3,055
Total assets	\$ 1,141,856	\$ 3,725,748
LIABILITIES AND FUND BALANCES (DEFICITS)		
LIABILITIES		
Accounts payable	\$ -	\$ 378,476
Deferred revenue	-	565,268
Unearned revenue	-	69,748
Total liabilities	-	1,013,492
FUND BALANCES (DEFICITS)		
Reserved for encumbrances	-	65,726
Reserved for inventory	-	3,337
Reserved for loans	-	3,055
Designated for subsequent year's budget	-	5,000
Designated for specific projects	-	467,163
Unreserved and undesignated	1,141,856	2,167,975
Total fund balances (deficits)	1,141,856	2,712,256
Total liabilities and fund balances (deficits)	\$ 1,141,856	\$ 3,725,748

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TOWN OF COLCHESTER, CONNECTICUT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICITS)**

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2008

	Special Revenue						
	Police Forfeiture Fund	Capital Reserve Fund	Dog License Fund	Town Aid Road Fund	Small Cities Grants	Sewer Operating Fund	Parks and Recreation Activities Fund
REVENUES							
Intergovernmental	\$ -	\$ -	\$ -	\$ 175,995	\$ 138,956	\$ -	\$ -
Food sales, charges for services	-	-	-	-	-	-	-
Fines and fees	-	-	26,230	-	-	-	-
Interest income	-	-	-	-	-	2,826	-
Sewer assessments, use and charges for services	-	-	-	-	-	786,682	330,744
Other local revenue	-	40,635	-	-	44,542	8,170	-
Total revenues	-	40,635	26,230	175,995	183,498	797,678	330,744
EXPENDITURES							
General government	-	-	-	-	-	-	-
Public works	-	-	-	-	-	735,620	-
Education	-	-	-	-	-	-	-
Public safety	-	-	83,335	-	-	-	-
Civic and cultural	-	-	-	-	-	-	303,965
Public health and welfare	-	-	-	-	186,419	-	-
Capital outlay	-	211,463	-	50,691	-	20,500	-
Debt service	-	-	-	-	-	-	-
Total expenditures	-	211,463	83,335	50,691	186,419	756,120	303,965
Revenues over (under) expenditures	-	(170,828)	(57,105)	125,304	(2,921)	41,558	26,779
OTHER FINANCING SOURCES (USES)							
Transfers in	-	75,000	62,127	-	-	-	-
Transfers out	-	-	-	-	-	(15,000)	-
Total other financing sources (uses)	-	75,000	62,127	-	-	(15,000)	-
Net change in fund balances (deficits)	-	(95,828)	5,022	125,304	(2,921)	26,558	26,779
FUND BALANCES (DEFICITS), beginning	329	547,197	67,163	132,541	5,976	190,193	53,096
FUND BALANCES (DEFICITS), ending	\$ 329	\$ 451,369	\$ 72,185	\$ 257,845	\$ 3,055	\$ 216,751	\$ 79,875

Special Revenue Fund								
School Cafeteria Fund	Educational Grants Fund	Miscellaneous Grants Fund	Adult Education	Special Gifts Fund	Benefits Assessment Fund	Pay to Play	Use of Schools	BOE Capital Reserve Fund
\$ 181,306	\$ 1,090,133	\$ 449,195	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
526,036	-	-	-	-	37,895	-	-	-
-	-	-	-	-	-	-	-	-
252	-	-	-	-	846	-	-	-
-	-	-	18,981	-	-	60,994	34,141	-
-	2,650	8,961	-	72,125	-	-	-	44,768
707,594	1,092,783	458,156	18,981	72,125	38,741	60,994	34,141	44,768
-	-	30,322	-	3,329	-	-	-	-
-	-	329,444	-	-	4,618	-	-	-
684,016	1,092,783	-	23,294	2,538	-	60,924	31,312	-
-	-	51,286	-	-	-	-	-	-
-	-	32,270	-	28,798	-	-	-	-
-	-	71,049	-	52,803	-	-	-	-
-	-	40,000	-	-	-	-	-	68,987
-	-	-	-	-	115,940	-	-	-
684,016	1,092,783	554,371	23,294	87,468	120,558	60,924	31,312	68,987
23,578	-	(96,215)	(4,313)	(15,343)	(81,817)	70	2,829	(24,219)
-	-	-	-	-	-	-	-	80,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	80,000
23,578	-	(96,215)	(4,313)	(15,343)	(81,817)	70	2,829	55,781
170,969	-	(13,905)	774	231,334	137,431	-	7,063	70,755
\$ 194,547	\$ -	\$ (110,120)	\$ (3,539)	\$ 215,991	\$ 55,614	\$ 70	\$ 9,892	\$ 126,536

(Continued)

TOWN OF COLCHESTER, CONNECTICUT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICITS), Continued**

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2008

	Capital Projects	
	Sewer Construction	Totals
REVENUES		
Intergovernmental	\$ -	\$ 2,035,585
Food sales, charges for services	-	563,931
Fines and fees	-	26,230
Interest income	10,020	13,944
Sewer assessments, use and charges for services	43,640	1,275,182
Other local revenue	-	221,851
Total revenues	53,660	4,136,723
EXPENDITURES		
General government	-	33,651
Public works	-	1,069,682
Education	-	1,894,867
Public safety	-	134,621
Civic and cultural	-	365,033
Public health and welfare	-	310,271
Capital outlay	63,731	455,372
Debt service	-	115,940
Total expenditures	63,731	4,379,437
Revenues over (under) expenditures	(10,071)	(242,714)
OTHER FINANCING SOURCES (USES)		
Transfers in	15,000	232,127
Transfers out	-	(15,000)
Total other financing sources (uses)	15,000	217,127
Net change in fund balances (deficits)	4,929	(25,587)
FUND BALANCES (DEFICITS), beginning	1,136,927	2,737,843
FUND BALANCES (DEFICITS), ending	\$ 1,141,856	\$ 2,712,256

Capital Assets Schedules

TOWN OF COLCHESTER, CONNECTICUT

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

June 30, 2008

Governmental funds capital assets:

Land	\$ 3,432,379
Buildings	88,574,698
Improvements other than buildings	1,485,124
Machinery and equipment	10,592,100
Infrastructure	34,932,210
Construction in progress	727,122
Total governmental funds capital assets	\$ 139,743,633

TOWN OF COLCHESTER, CONNECTICUT

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

SCHEDULE BY FUNCTION AND ACTIVITY

June 30, 2008

	Land	Buildings	Improvements Other Than Buildings	Infrastructure	Machinery and Equipment	Construction in Progress	Total
General government	\$ 3,432,379	\$ 2,467,695	\$ 1,478,624	\$ 20,975,409	\$ 267,456	\$ -	\$ 28,621,563
Public safety	-	937,823	-	15,447	3,540,111	-	4,493,381
Public works	-	397,929	-	13,672,575	2,383,224	-	16,453,728
Civic and cultural	-	7,499,844	-	268,779	807,720	-	8,576,343
Education	-	77,164,618	6,500	-	3,516,507	-	80,687,625
Public health and welfare	-	106,789	-	-	77,082	-	183,871
Construction in progress	-	-	-	-	-	727,122	727,122
Total	\$ 3,432,379	\$ 88,574,698	\$ 1,485,124	\$ 34,932,210	\$ 10,592,100	\$ 727,122	\$ 139,743,633

Other Schedule

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TOWN OF COLCHESTER, CONNECTICUT

SCHEDULE OF PROPERTY TAXES LEVIED, COLLECTED AND OUTSTANDING

For the Year Ended June 30, 2008

Grand List Year	Balance Uncollected July 1, 2007	Current Levy	Lawful Corrections and Transfers to Suspense		Balance To Be Collected
			Additions	Deletions	
1991	\$ 185	\$ -	\$ -	\$ (185)	\$ -
1992	(2,358)	-	-	(1,335)	(3,693)
1993	(1,771)	-	-	(312)	(2,083)
1994	674	-	-	(184)	490
1995	(3,229)	-	-	(387)	(3,616)
1996	(270)	-	-	(668)	(938)
1997	(152)	-	-	(1,321)	(1,473)
1998	2,526	-	-	(1,161)	1,365
1999	34,522	-	-	(4,259)	30,263
2000	25,507	-	-	(5,022)	20,485
2001	33,618	-	4,167	(6,035)	31,750
2002	108,677	-	-	(19,493)	89,184
2003	137,949	-	316	(7,886)	130,379
2004	230,752	-	13,795	(20,153)	224,394
2005	725,263	-	3,451	(41,219)	687,495
2006	-	28,865,826	77,085	(499,796)	28,443,115
	<u>\$ 1,291,893</u>	<u>\$ 28,865,826</u>	<u>\$ 98,814</u>	<u>\$ (609,416)</u>	<u>\$ 29,647,117</u>

Collections					Balance Uncollected June 30, 2008
Taxes	Interest	Fees	Total		
\$ -	\$ -	\$ -	\$ -	\$ -	-
-	-	-	-	-	(3,693)
-	-	-	-	-	(2,083)
-	-	-	-	-	490
26	24	-	50	-	(3,642)
92	196	-	288	-	(1,030)
187	383	6	576	-	(1,660)
138	545	-	683	-	1,227
835	668	24	1,527	-	29,428
5,605	7,436	78	13,119	-	14,880
16,132	12,067	108	28,307	-	15,618
16,486	13,726	186	30,398	-	72,698
40,238	26,442	432	67,112	-	90,141
79,138	38,849	844	118,831	-	145,256
357,326	87,641	2,754	447,721	-	330,169
27,793,797	121,384	1,943	27,917,124	-	649,318
\$ 28,310,000	\$ 309,361	\$ 6,375	\$ 28,625,736	\$ 1,337,117	

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