

OFFICIAL STATEMENT DATED MAY 20, 2010

New Issue/Refunding Issue

Rating: Moody's Investors Service Aa2

In the opinion of Bond Counsel, assuming the accuracy of and compliance by the Town with its representations and covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended (the "Code"), under existing statutes, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; the Bonds are not "private activity bonds" and interest on the Bonds is not treated as a preference item for purposes of calculating the Federal alternative minimum tax; interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and interest on the Bonds is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. Bond Counsel expresses no opinion as to whether interest on the Bonds is taken into account in the calculation of adjusted current earnings for purposes of the Federal alternative minimum tax imposed on corporations. See Appendix B – "Form of Opinion of Bond Counsel and Tax Exemption" herein.

\$6,595,000

**TOWN OF COLCHESTER, CONNECTICUT
GENERAL OBLIGATION BONDS, ISSUE OF 2010
BOOK-ENTRY-ONLY
BANK QUALIFIED**

Dated: Date of Delivery

Due: Serially, June 1, as shown below

Due	Amount	Interest Rate	Yield	CUSIP Number	Due	Amount	Interest Rate	Yield	CUSIP Number
2012	\$720,000	3.000%	0.920%	192792PD5	2017	\$680,000	4.000%	2.740%	192792PJ2
2013	710,000	4.000	1.300	192792PE3	2018	250,000	3.500	2.930	192792PP8
2014	350,000	2.250	1.640	192792PC7	2018	425,000	4.000	2.930	192792PK9
2014	360,000	3.000	1.640	192792PF0	2019	670,000	5.000	3.120	192792PL7
2015	690,000	3.000	2.000	192792PG8	2020	670,000	5.000	3.300	192792PM5
2016	680,000	4.000	2.400	192792PH6	2021	390,000	3.500	3.450 ¹	192792PN3

¹ Priced assuming redemption on June 1, 2020; however, any such redemption is at the optional election of the Town.

The Bonds are issuable only as fully registered bonds, without coupons, and when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any multiple thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. So long as Cede & Co. is the Bondowner, as nominee for DTC, reference herein to the Bondowner or owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. See "Book-entry-only System" herein. Interest on the Bonds will be payable semiannually on the first day of June and December of each year, commencing December 1, 2010.

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

The Bonds are offered for delivery when, as and if issued, and received by the Underwriter, subject to the final approving opinion of Day Pitney LLP, Bond Counsel, of Hartford, Connecticut. It is expected that delivery of the Bonds in definitive form will be made on or about June 3, 2010 through the facilities of DTC.

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

PiperJaffray

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ISSUE SUMMARY

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

Issuer:	Town of Colchester, Connecticut
Issue:	\$6,595,000 General Obligation Bonds, Issue of 2010, book-entry only
Underwriter:	Piper Jaffray & Co.
Dated Date:	Date of delivery
Interest Date:	Each June 1 and December 1, commencing December 1, 2010
Principal Due:	Serially, June 1, 2012 through June 1, 2021, as detailed in this Official Statement
Purpose:	The Bonds are being issued to finance various capital projects and to refund all or a portion of outstanding bonds of the Town dated June 15, 2001.
Redemption:	The Bonds are subject to redemption prior to maturity as more fully discussed herein.
Security:	The Bonds will be general obligations of the Town of Colchester, Connecticut, and the Town will pledge its full faith and credit to pay the principal of and interest on the Bonds when due.
Bank Qualification:	The Bonds <u>shall</u> be designated by the Town as qualified tax-exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Bonds.
Credit Ratings:	See "Rating" herein.
Tax Exemption:	See Appendix B – "Form of Opinion of Bond Counsel and Tax Exemption" herein.
Certifying Agent, Registrar, Transfer Agent, Paying Agent and Escrow Agent:	U.S. Bank National Association, 225 Asylum Street, Hartford, Connecticut 06103
Legal Opinion:	Day Pitney LLP of Hartford, Connecticut will act as Bond Counsel.
Delivery:	It is expected that delivery of the Bonds in book-entry-only form through the facilities of DTC will be made on or about June 3, 2010.
Final Official Statement:	This Official Statement is in a form "deemed final" by the Town for the purposes of SEC Rule 15c2-12(b)(1).
Continuing Disclosure:	See Appendix C – "Form of Continuing Disclosure Agreement for Bonds" herein.

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

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INTRODUCTION

The purpose of this Official Statement is to provide certain financial information and economic and demographic data relevant to the Town of Colchester, Connecticut (the "Town") in connection with the sale of \$6,595,000 General Obligation Bonds, Issue of 2010 (the "Bonds"), of the Town.

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

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

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

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

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

SECTION I - SECURITIES OFFERED

Description of the Bonds

The Bonds will be dated the date of delivery and will mature on June 1 of the years and in the principal amounts as follows:

<u>Due June 1</u>	<u>Principal Amount</u>	<u>Due June 1</u>	<u>Principal Amount</u>
2012	\$720,000	2017	\$680,000
2013	710,000	2018	675,000
2014	710,000	2019	670,000
2015	690,000	2020	670,000
2016	680,000	2021	390,000

Interest on the Bonds will be payable semiannually on the first day of June and December of each year, commencing December 1, 2010. Interest will be calculated on the basis of a 30-day month and a 360-day year. Interest is payable to the registered owner as of the close of business on the fifteenth day of May and November, or the preceding business day if such fifteenth day is not a business day, by check mailed to the registered owner; or so long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, by such other means as DTC, the Paying Agent and the Town shall agree. Principal will be payable at the principal office of U.S. Bank National Association, Hartford, Connecticut.

Authorization and Purpose

\$425,000 Portable Classrooms: Bonds are being issued pursuant to an appropriation and borrowing authorization totaling \$850,000 adopted at referendum on May 9, 2006 to fund the 2006 portable classrooms refurbishment and relocation project.

\$720,000 Fire Truck: Bonds are being issued pursuant to an appropriation and borrowing authorization totaling \$760,000 adopted at referendum on May 12, 2009 to fund the purchase of a fire truck.

\$515,000 Road Improvements: Bonds are being issued pursuant to an appropriation and borrowing authorization totaling \$560,000 adopted at referendum on May 12, 2009 to fund the improvement of roads.

\$225,000 Ambulance: Bonds are being issued pursuant to an appropriation and borrowing authorization totaling \$280,000 adopted at referendum on May 12, 2009 to fund the purchase of an ambulance.

\$640,000 High School Track: Bonds are being issued pursuant to an appropriation and borrowing authorization totaling \$680,000 adopted at referendum on May 12, 2009 to fund the refurbishment of the high school track.

\$4,070,000 Refunding Bonds: Pursuant to a vote taken by the Colchester Board of Selectmen at its regularly scheduled meeting of November 5, 2009, the Town of Colchester authorized the issuance of bonds in an amount up to \$8,215,000 for the purpose of refunding the aggregate principal amount outstanding of Town of Colchester Bonds dated June 15, 2001 (see "The Refunding Plan" herein).

Use of Proceeds

<u>Project</u>	<u>Amount Authorized</u>	<u>Previously Bonded</u>	<u>Notes Maturing</u>	<u>This Issue</u>
Portable classrooms	\$850,000	\$-	\$-	\$ 425,000
Fire truck	760,000	-	-	720,000
Road improvements	560,000	-	-	515,000
Ambulance	280,000	-	-	225,000
High school track	680,000	-	-	640,000
Refunding bonds ¹	8,215,000	-	-	<u>4,070,000</u>
Total		\$-	\$-	\$6,595,000

¹ See "The Refunding Plan" herein.

Sources and Uses of Bond Proceeds

Proceeds of the Bonds are to be applied as follows:

Sources:

Principal amount of the Bonds	\$6,595,000.00
Net original issue premium	<u>498,293.70</u>
Total sources	\$7,093,293.70

Uses:

Escrow trust fund	\$4,280,234.34
Project fund	2,721,225.45
Costs of issuance	50,000.00
Underwriter's discount	39,570.00
Additional proceeds	<u>2,263.91</u>
Total uses	\$7,093,293.70

The Refunding Plan

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

<u>Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP Number</u>
06/15/01	06/15/2012	5.000%	\$ 395,000	06/15/11	102.00%	192792LE7
06/15/01	06/15/2013	5.000	395,000	06/15/11	102.00	192792LF4
06/15/01	06/15/2014	5.500	395,000	06/15/11	102.00	192792LG2
06/15/01	06/15/2015	5.500	390,000	06/15/11	102.00	192792LH0
06/15/01	06/15/2016	4.750	390,000	06/15/11	102.00	192792LJ6
06/15/01	06/15/2017	4.750	390,000	06/15/11	102.00	192792LK3
06/15/01	06/15/2018	5.000	390,000	06/15/11	102.00	192792LL1
06/15/01	06/15/2019	5.250	390,000	06/15/11	102.00	192792LM9
06/15/01	06/15/2020	5.250	390,000	06/15/11	102.00	192792LN7
06/15/01	06/15/2021	5.250	<u>390,000</u>	06/15/11	102.00	192792LP2
			\$3,915,000			

Upon delivery of the Bonds, a portion of the refunding proceeds of the Bonds will be placed in an irrevocable trust fund (the "Escrow Trust Fund") established with U.S. Bank National Association as escrow trustee (the "Escrow Trustee") under an Escrow Trust Agreement dated as of June 3, 2010 between the Escrow Trustee and the Town (the "Escrow Agreement"). The Escrow Trustee will use such proceeds to purchase a portfolio of non-callable direct obligations of, or obligations guaranteed by, the United States of America (the "Escrow Securities"). The Escrow Securities will have maturities and interest rates sufficient to

meet principal and interest payments on the Refunded Bonds on the dates such payments are due. The Town will pay all costs of issuance of the Bonds, including Underwriter's discount, from proceeds of the Bonds or other funds of the Town. The Escrow Agreement requires that the Escrow Trustee call for the redemption of the Refunded Bonds. All investment income on and maturing principal of the Escrow Securities held in the Escrow Trust Fund and needed to pay the principal of and interest on the Refunded Bonds will be irrevocably deposited by the Town for payment of the Refunded Bonds.

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

Verification of Mathematical Computations

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

Optional Redemption

The Bonds maturing on or before June 1, 2020 are not subject to redemption prior to maturity. The Bonds maturing after June 1, 2020 are subject to redemption prior to maturity, at the option of the Town, on or after June 1, 2020, at any time, either in whole or in part, in such amounts and in such order of maturity (but by lot within a maturity) as the Town may determine, at the respective prices (expressed as a percentage of the principal amount of the Bonds to be redeemed) set forth in the following table, plus interest accrued and unpaid to the redemption date:

<u>Period During Which Redeemed</u>	<u>Redemption Price</u>
June 1, 2020 and thereafter	100%

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

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

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

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

Rating

On April 30, 2010, Moody's Investors Service ("Moody's") assigned a municipal-scale rating of A1 to the Bonds and affirmed the A1 rating on the Town's parity debt outstanding. On May 3, 2010, Moody's also assigned a global-scale rating of Aa2 to the Town in conjunction with its recalibration of local governmental entities to the global scale.

The Town furnished to the rating agency certain information and materials, some of which may not have been included in this Official Statement. The rating reflects only the view of the rating agency and is subject to revision or withdrawal, which could affect the market price of the Bonds. The rating agency should be contacted directly for its rating on the Bonds and the explanation of such rating.

Security and Remedies

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

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

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

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

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

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

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

Qualification for Financial Institutions

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

Book-entry-only System

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

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

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

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

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

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

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

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

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

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

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

DTC Practices

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

Underwriting

The Bonds are being purchased by Piper Jaffray & Co. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the Town at the net aggregate purchase price of \$7,053,723.70 (consisting of the principal amount of \$6,595,000.00, plus net original issue premium of \$498,293.70, less underwriter's discount of \$39,570.00), plus accrued interest, if any, from the dated date of the Bonds to the delivery date. The Underwriter will be obligated to purchase all such Bonds, if any such Bonds are purchased. The Bonds may be offered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the Bonds into

investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has entered into an agreement (the "Distribution Agreement") with Advisors Asset Management, Inc. ("AAM") for the distribution of certain municipal securities offerings, including the Bonds, allocated to the Underwriter at the original offering prices. Under the Distribution Agreement, the Underwriter will share with AAM a portion of the fee or commission, exclusive of management fees, paid to the Underwriter.

SECTION II - THE ISSUER

Description of the Town

The Town was incorporated in 1698 and covers an area of 48.7 square miles, located approximately 25 miles southeast of Hartford, Connecticut, the State capital. The Town is intersected by Connecticut Route 2, which connects with Interstate 91 in Hartford and Interstate 95 in North Stonington. Colchester is bordered on the north by the towns of Marlborough and Hebron, on the south by East Haddam and Salem, on the east by Lebanon, and on the west by East Hampton. Easy access to interstate highways, abundance of undeveloped land, affordable housing stock, and availability of public water and sewers, as well as its pleasant rural setting have attracted growth to the Town. About 89% of Colchester is zoned for residential purposes. Colchester's population nearly doubled since the 1980 Census. Its population was estimated to be 15,578 by the Connecticut Department of Public Health in 2008. Colchester was the second fastest growing Connecticut municipality in the past decade. In addition, the surrounding towns have also been growing faster than the State average.

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

Description of Government

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

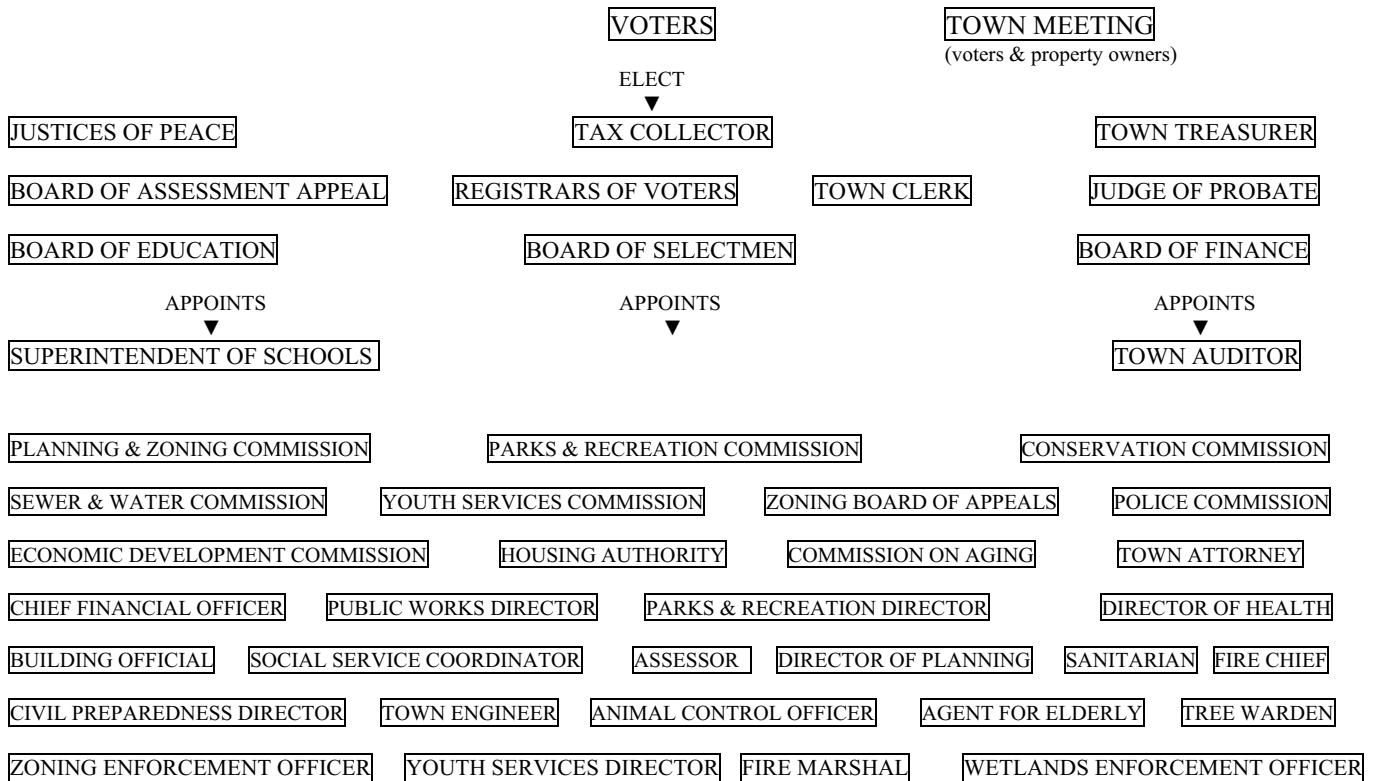
The First Selectman is the Chief Executive Officer of the Town and is a full voting and participating member of the Board of Selectmen. The First Selectman is responsible for the direction and activities of all Town departments except the Board of Education and all appointed boards. In 2001, the Town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

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

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

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

Organizational Chart



Principal Municipal Officials

<u>Office</u>	<u>Name</u>	<u>Manner of Selection/Term</u>	<u>Years of Service</u>
First Selectman	Gregg Schuster	Elected/2 years	11/09 to date
Selectman	Greg Cordova	Elected/2 years	11/05 to date
Selectman	Rosemary Coyle	Elected/2 years	01/07 to date
Selectman	James Ford	Elected/2 years	11/09 to date
Selectman	Stan Soby	Elected/2 years	07/06 to date
Town Clerk	Nancy Bray	Elected/4 years	11/99 to date
Town Treasurer	Gregg LePage	Elected/2 years	11/09 to date
Chief Financial Officer	N. Maggie Cosgrove	Appointed	04/05 to date
Town Planner	Adam Turner	Appointed	03/07 to date
Tax Collector	Tricia Coblentz	Elected/4 years	11/07 to date
Superintendent of Schools	Karen Loiselle	Appointed	07/05 to date

Municipal Services

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

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

Public Safety – Police protection is provided by the Connecticut State Police, Troop K, Colchester, two resident state troopers and full-time Colchester police officers. In addition to the training of the police

officers, the resident state troopers are responsible for the investigation and reporting of criminal activity, motor vehicle accidents, domestic disputes, and other incidents. Police officers are used to respond to accidents, domestic disputes, burglaries, and alarms, and provide coverage at community events. All police officers have either completed or are enrolled in the required classes as mandated by the Municipal Police Training Council.

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

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

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

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

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

A joint sewer treatment facility, located in the Town of East Hampton, is operated under an intermunicipal agreement with the Town of East Hampton. The Towns of Hebron and Marlborough also flow to the waste water treatment plant. Approximately 1,940 units are connected to the public sewer system, which serves nearly 33% of the Town's population. The Town's public water system, consisting of six wells, an air stripper tower, three water storage tanks, water filtration facility, and distribution system, serves 2,050 units and nearly 35% of the Town's population.

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

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

Public Library – The Cragin Memorial Library is a 20,000-square-foot, state-of-the-art facility, expanded in 2002. Visitors average 453 per day, and circulation in fiscal year 2008-09 was 157,203 items. In addition to books, periodicals, audio and video tapes, CDs and DVDs, the library provides high-speed internet connections, educational and cultural programs for all ages, and meeting rooms for community groups.

Educational System

The Colchester school system services grades pre-kindergarten through twelve and is governed by the local Board of Education. Colchester has a seven-member Board of Education elected to four-year staggered terms. The primary function of the Board is to establish policy. Some of the areas for which such policies are set include curriculum, budget requests submission, ensuring funds for education as appropriated by the Town are properly expended, implementation of State and Federal laws, and planning for facilities needed by the system, including construction and renovation. The Town has two elementary schools, one middle school, and one high school. Enrollment in the system as of October 1, 2009 was 3,204 with an operating capacity of 3,563.

School Facilities

<u>School</u>	<u>Grade</u>	<u>Date of Construction (additions)</u>	<u>Type of Construction</u>	<u>Number of Classrooms¹</u>	<u>Enrollment as of 10/1/09</u>	<u>Operating Capacity¹</u>
Colchester Elementary	Pre-K-2	2006	Brick	58	732	833
Jack Jackter Intermediate ...	3-5	1966 (1976, 2005)	Brick	61	706	850
William J. Johnston	6-8	1954 (1966, 1982, 1989)	Brick	69	762	880
Bacon Academy	9-12	1993	Brick	<u>79</u>	<u>1,004</u>	<u>1,000</u>
Total				267	3,204	3,563

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

School Enrollment

<u>As of October 1</u>	<u>Grades K-3</u>	<u>Grades 4-5</u>	<u>Grades 6-8</u>	<u>Grades 9-12</u>	<u>Total¹</u>
<i>Historical</i>					
2000	999	519	717	727	2,962
2001	1,034	490	753	770	3,047
	<u>Grades Pre-K-3</u>	<u>Grades 4-5</u>	<u>Grades 6-8</u>	<u>Grades 9-12</u>	<u>Total¹</u>
2002 ²	1,035	512	739	881	3,167
2003	1,016	516	753	879	3,164
2004	944	526	776	913	3,159
2005	957	532	769	962	3,220
	<u>Grades Pre-K-2</u>	<u>Grades 3-5</u>	<u>Grades 6-8</u>	<u>Grades 9-12</u>	<u>Total¹</u>
2006 ³	750	733	797	972	3,252
2007	770	683	800	979	3,232
2008	738	709	762	974	3,183
2009	732	706	762	1,004	3,204
<i>Projected</i>					
2010	761	695	717	1,014	3,187
2011	706	674	732	980	3,092
2012	625	684	725	978	3,012
2013	614	684	721	937	2,956

¹ Includes Special Education students.

² Effective for school year 2002-03, K-3 enrollment includes preschool.

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

Municipal Employees

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
General Government	105	103	100	103	101
Board of Education	<u>423</u>	<u>433</u>	<u>426</u>	<u>422</u>	<u>411</u>
Total	528	536	526	525	512

Employees Bargaining Organizations

<u>Employees</u>	<u>Bargaining Unit</u>	<u>Number of Members</u>	<u>Contract Expiration Date</u>
Teachers	Colchester Federation of Teachers, Local 1827 American Federation of Teachers, AFT-CT, AFL-CIO	266	06/30/11
Custodians	Local 1303-77, Council #4, AFL-CIO	32	06/30/10 ¹
Central Office (non-certified) ...	Local 818, Council #4, AFSCME, AFL-CIO	7	06/30/12
Nurses	United Professional and Service Employees Union, Local 1222	6	06/30/12
Education (Paraprofessionals, Office Professionals and Cafeteria Workers)	Colchester Federation of Education Personnel, Local 3279, AFT-CT, AFL-CIO	89	06/30/10 ¹
School Administrators	Colchester Association of School Administrators	11	06/30/11
Public Works	Municipal Employees Union Independent, Local 506, SEIU, AFL-CIO, CLC	24	06/30/10 ¹
Town Clerical Workers	Local 1303-254, Council #4, AFSCME/ AFL-CIO	15	06/30/13
Fire/ Ambulance	Colchester Firefighters Union, UPPFA, IAFF, Local 3831	6	06/30/12
Town Administrators	Municipal Employees Union Independent, Local 506, SEIU, AFL-CIO, CLC	12	06/30/11
Police	Colchester Police Local 2693T, AFSCME, Council #15	10	06/30/11

¹ In negotiation.

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

SECTION III – DEMOGRAPHIC AND ECONOMIC DATA SECTION

Current Economic Information

While Colchester remains a semi-rural residential community, the Town has focused on increasing its non-residential resources. Since 2000, Colchester's residential growth remained constant, although at a slower pace than experienced in the 1980s and 1990s. Population growth declined from 35% during the 1990 to 2000 period to 6.5% during the last nine years. In real terms the Town grew annually by approximately 300 people between 1990 and 2000 as compared to 100 people annually between 2000 and 2009. This trend is projected to continue as several large subdivisions will continue to build out.

Demographically, the Town population on average has gotten younger but there has been marked decline in post-high school residents. Only 1% of the total Colchester resident population is between 18 to 24 years of age. In 1990 7% of the population was between 18 and 25.

The school age population grew significantly as families purchasing homes in new subdivisions had on average two children under 17 per unit. The school age population constituted 25% of the total Colchester population in 1990 but increased to 32% in 2009. Working age (25 to 64) population percentage (27%) remained relatively constant, as did the share of elderly population (10%).

Fiscally, the mill rate for Colchester properties has decreased from 28.46/\$1,000 to 23.65/\$1,000 in 2009. While the mill rate has decreased, the actual total Town budget amount significantly escalated from \$30 million in 2000 to \$47 million in 2009. Almost all of the budget growth has been devoted to education spending (\$15 million increase) which is consistent with the large increase in school-aged children as noted above. Between 1996 and 2006 school enrollment increased by 25%.

Strategically the Town has sought to focus on non-residential growth in a smart growth manner. Recently the Planning and Zoning Commission rezoned almost 900 acres of residentially zoned property for business park development, a key component in the Town's economic development strategy as identified in the Town's Plan of Conservation and Development. Included in this strategy were firm commitments to limit the provision of water and sewer to only certain growth areas of the Town over the next 20 years. During the last 36 months (2007 to 2009), over 40,000 square feet of commercial development has occurred, an additional 75,000 square feet of commercial development has been approved and permitted, and 300,000 square feet of commercial development are in the final approval stage. Recently the first mixed-use development was also approved and hopes to break ground in the spring.

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

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

The Town still retains a decidedly rural character. Lands owned by the Federal government, state government and local government devoted to permanent open space encompass over 4,800 acres of land. The State officially designated several Colchester "greenways" in 2007 and the Town, in cooperation with the Colchester land trust, purchased 30 acres to complete the Ruby Cohen preserve earlier this year. The Town has also partnered with the Norwich Public Utility to purchase land surrounding the Deep River Reservoir and has worked with the Nature Conservancy in a large regional project to preserve the Salmon River.

Population and Density

<u>Year</u>	<u>Population¹</u>	<u>Percent Change</u>	<u>Density²</u>
2008	15,578	7.1	317
2000	14,551	32.5	296
1990	10,980	41.5	224
1980	7,761	17.5	158
1970	6,603	42.1	134
1960	4,648	--	95

¹Source: U.S. Department of Commerce, Bureau of Census, Census of Population 1960–2000; State of Connecticut Department of Public Health estimate July 1, 2008.

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

Age Distribution of the Population

<u>Age¹</u>	<u>Town of Colchester</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Under 5 years	1,242	8.5	223,344	6.5
5 to 9 years	1,317	9.1	244,144	7.2
10 to 14 years	1,190	8.2	241,587	7.1
15 to 19 years	824	5.7	216,627	6.4
20 to 24 years	466	3.2	187,571	5.5
25 to 34 years	2,146	14.7	451,640	13.2
35 to 44 years	3,165	21.8	581,049	17.1
45 to 54 years	1,908	13.1	480,807	14.1
55 to 59 years	566	3.9	176,961	5.2
60 to 64 years	394	2.7	131,652	3.9
65 to 74 years	656	4.5	231,565	6.8
75 to 84 years	482	3.3	174,345	5.1
85 years and over	<u>195</u>	<u>1.3</u>	<u>64,273</u>	<u>1.9</u>
Total	14,551	100.0	3,405,565	100.0
2000 median age (years) ¹	35.3	–	37.4	–
1990 median age (years) ²	32.4	–	34.4	–

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

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

Income Distribution

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

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

Comparative Income Measures

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

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

Educational Attainment

Years of School Completed – Age 25 and Over

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

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

Labor Force Data

<u>Reporting Period Average</u>	<u>Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Unemployment Rate</u>		
				<u>Town of Colchester</u>	<u>Hartford Labor Market</u>	<u>State of Connecticut</u>
April 2010	9,000	8,336	664	7.4	8.6	8.5
2009	9,057	8,405	652	7.2	8.3	8.2
2008	8,936	8,487	449	5.0	5.8	5.7
2007	8,756	8,432	324	3.7	4.7	4.6
2006	8,639	8,312	327	3.8	4.5	4.4
2005	8,515	8,156	359	4.2	5.1	4.9
2004	8,414	8,044	370	4.4	5.2	4.9
2003	8,352	7,967	385	4.6	5.7	5.5
2002	8,297	7,990	307	3.7	4.5	4.4
2001	8,173	7,975	198	2.4	3.2	3.1
2000	8,082	7,939	143	1.8	2.3	2.3

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

Industry Classification

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

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

Major Employers

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

<u>Employer</u>	<u>Nature of Business</u>	<u>Approximate Number of Employees</u>
Town of Colchester	Municipal government	528
S&S Worldwide.....	Arts & crafts manufacturing	300
Genesis Health Care	Nursing home	250
Stop & Shop	Supermarket	200
Harrington Court	Convalescent/nursing home	167
Liberty Specialty Care Center	Convalescent/nursing home	120
Alpha Q	Aerospace manufacturing	75

Commute to Work 16 years of age and over

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

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

Age Distribution of Housing

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

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

Housing Units by Type of Structure

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

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

Housing Unit Vacancy Rates

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

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

Owner-occupied Housing Units

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

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

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

Number and Size of Households

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

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

New Construction Building Permits

<u>Fiscal Year</u>	<u>Residential</u>		<u>Commercial/Industrial</u>		<u>Total</u>	
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>
2009	578	\$ 8,363,696	58	\$ 2,419,565	636	\$10,783,261
2008	653	10,463,971	93	6,140,963	746	16,604,934
2007	571	15,351,726	77	1,928,394	648	17,280,120
2006	769	25,081,126	67	2,922,772	836	28,003,898
2005	582	17,702,851	32	22,239,474 ¹	614	39,942,325
2004	657	17,949,776	13	2,820,000	670	20,769,776
2003	628	15,147,353	11	2,297,856	639	17,445,209
2002	645	19,577,358	14	2,702,395	659	22,279,753
2001	608	11,836,138	25	1,096,025	633	12,932,163
2000	571	12,863,025	62	1,533,020	633	14,396,045
1999	593	13,244,599	59	1,386,082	652	14,630,681

¹ Includes permit in the amount of \$20,945,000 for new pre-K-2 school.

Source: Town of Colchester, Building Department.

Breakdown of Land Use

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

Source: Town of Colchester, Plan of Conservation & Development, January 2001.

SECTION IV - DEBT SECTION

Debt Summary Pro Forma As of June 3, 2010

Outstanding Short-term Debt

As of June 3, 2010, the Town does not have any short-term debt outstanding.

Outstanding Bonded Debt¹

<u>Dated Date</u>	<u>Final Maturity</u>	<u>Purpose</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
09/15/91	09/15/11	Various purpose	5.60-7.50	\$ 4,000,000	\$ 345,000
05/15/97	08/15/11	Refunding	3.50-5.50	13,455,000	1,265,000
06/15/01	06/15/21	Various purpose	4.00-5.50	9,460,000	790,000
08/01/02	06/15/22	Various purpose	3.00-4.70	5,985,000	3,510,000
08/01/02	06/15/12	Refunding	2.00-4.50	5,180,000	1,425,000
11/01/02	01/15/13	Refunding	3.00-4.00	1,370,000	125,000
06/15/05	06/15/25	Various purpose	3.25-4.50	10,800,000	8,865,000
07/31/09	07/31/28	Drinking Water Fund	2.12	2,496,990	2,286,884
06/03/10	06/01/21	This issue	2.25-5.00	6,595,000	<u>6,595,000</u>
Total					\$25,206,884

¹Excludes the Refunded Bonds.

Drinking Water State Revolving Fund Program

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

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

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

Overlapping/Underlying Debt

The Town does not have any overlapping or underlying debt.

Bonded Debt Maturity Schedule¹
Pro Forma
As of June 3, 2010

<u>Fiscal Year Ending</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total Payments</u>	<u>This Issue</u>	<u>Cumulative Percent of Principal Retired</u>
2010 ²	\$ 1,803,609	\$ 286,431	\$ 2,090,040	\$ -	7.16
2011	3,039,498	611,940	3,651,438	-	19.21
2012	1,946,735	497,910	2,444,645	720,000	29.79
2013	949,020	433,524	1,382,544	710,000	36.37
2014	926,354	400,855	1,327,209	710,000	42.87
2015	923,738	368,596	1,292,334	690,000	49.27
2016	926,173	330,791	1,256,964	680,000	55.64
2017	928,660	298,199	1,226,859	680,000	62.02
2018	931,200	264,609	1,195,809	675,000	68.39
2019	933,795	228,669	1,162,464	670,000	74.76
2020	936,445	192,404	1,128,849	670,000	81.13
2021	939,151	155,813	1,094,964	390,000	86.40
2022	941,916	118,960	1,060,876	-	90.14
2023	674,740	81,846	756,586	-	92.82
2024	677,625	57,362	734,987	-	95.50
2025	680,571	32,816	713,387	-	98.20
2026	143,580	8,207	151,787	-	98.77
2027	146,654	5,133	151,787	-	99.36
2028	149,793	1,993	151,786	-	99.95
2029	<u>12,627</u>	<u>22</u>	<u>12,649</u>	<u>-</u>	100.00
Total	\$18,611,884	\$4,376,080	\$22,987,964	\$6,595,000	

¹Excludes the Refunded Bonds.

²Excludes \$1,485,106 principal payments and \$585,625 interest payments made from July 1, 2009 through June 3, 2010.

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

Current Debt Statement
As of June 3, 2010
(Pro Forma)

Bonded debt ¹	
This issue	\$ 6,595,000
General purpose	3,400,284
Schools	<u>15,211,600</u>
Total bonded debt	25,206,884
Short-term debt	<u>-</u>
Total overall debt	25,206,884
Less State school grants receivable	<u>1,745,471</u>
Total overall net debt	\$23,461,413

¹ Excludes the Refunded Bonds.

Current Debt Ratios
As of June 3, 2010
(Pro Forma)

Population, 2008 ¹	15,578
Per capita income, 1999 ¹	\$27,038
Net taxable grand list, 10/1/09	\$1,275,361,503
Estimated full value @ 70%	\$1,821,945,004
Equalized net grand list (2007) ²	\$1,851,878,356

	Overall Debt	Overall Net Debt
	<u>\$25,206,884</u>	<u>\$23,461,413</u>
Per capita	\$1,618.11	\$1,506.06
To net taxable grand list	1.98%	1.84%
To estimated full value	1.38%	1.29%
To equalized net grand list	1.36%	1.27%
Ratio of debt per capita to per capita income	5.98%	5.57%

¹ State of Connecticut Department of Public Health estimate, July 1, 2008.

² State of Connecticut, Office of Policy and Management.

**Statement of Statutory Debt Limitation
As of June 3, 2010
(Pro Forma)**

Debt Limitation Base

Total tax collections, including interest and lien fees, for the fiscal year ended June 30, 2009	\$29,548,044
Reimbursement for elderly tax relief	<u>4,359</u>
Debt Limitation Base	\$29,552,403

Debt Margin

<u>Debt Limitation by Purpose</u>	<u>General Purpose</u>	<u>Schools</u>	<u>Sewers</u>	<u>Urban Renewal</u>	<u>Pension Deficit Funding</u>
2.25 x base	\$66,492,907				
4.50 x base	-	\$132,985,814			
3.75 x base	-	-	\$110,821,511		
3.25 x base	-	-	-	\$96,045,310	
3.00 x base	-	-	-	-	\$88,657,209
Total debt limitation	66,492,907	132,985,814	110,821,511	96,045,310	88,657,209
Less indebtedness: ¹					
This issue	3,535,900	3,059,100	-	-	-
Bonds payable	988,400 ²	15,211,600	-	-	-
Bonds authorized but unissued	<u>140,000</u>	<u>2,552,272</u>	-	-	-
Total overall debt	4,664,300	20,822,972	-	-	-
Less school construction grants receivable	-	<u>1,745,471</u>	-	-	-
Total overall net debt	4,664,300	19,077,501	-	-	-
Debt limitation in excess of outstanding and authorized debt	\$61,828,607	\$113,908,313	\$110,821,511	\$96,045,310	\$88,657,209

¹ Does not include the Refunded Bonds.

² \$2,411,884 water bonds excluded by statute.

The General Statutes require that in no event shall the total debt for the Town of Colchester exceed seven (7) times the annual receipts from taxation. Maximum debt for the Town of Colchester under this formula is \$206,866,821.

Five-year Debt Statement Summary

	<u>2008-09</u>	<u>2007-08</u>	<u>2006-07</u>	<u>2005-06</u>	<u>2004-05</u>
Population ¹	15,578	15,578	15,495	15,421	15,389
Net taxable grand list	\$1,249,468,721	\$1,223,766,001	\$860,496,640	\$826,761,481	\$799,934,780
Estimated full value	\$1,784,955,316	\$1,748,237,144	\$1,229,280,914	\$1,181,087,830	\$1,142,763,971
Equalized net taxable					
grand list ²	\$1,851,878,356	\$1,750,253,359	\$1,865,719,425	\$1,678,268,070	\$1,531,606,679
Per capita income ³	\$27,038	\$27,038	\$27,038	\$27,038	\$27,038
Short-term debt	\$ 2,425,524	\$ 1,895,061	\$ -	\$ -	\$ -
Bonded debt	<u>21,515,000</u>	<u>24,620,000</u>	<u>28,195,000</u>	<u>32,050,000</u>	<u>35,575,000</u>
Overall debt	23,940,524	26,515,061	28,195,000	32,050,000	35,575,000
Less school construction					
grants	<u>2,348,014</u>	<u>3,248,571</u>	<u>4,371,899</u>	<u>5,554,377</u>	<u>6,752,572</u>
Overall net debt	\$21,592,510	\$23,266,490	\$23,823,101	\$26,495,623	\$28,822,428

¹ State of Connecticut, Department of Public Health estimates.

² State of Connecticut, Office of Policy and Management.

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

Five-year Debt Statement Summary Ratios

	<u>2008-09</u>	<u>2007-08</u>	<u>2006-07</u>	<u>2005-06</u>	<u>2004-05</u>
Overall debt:					
Per capita	\$1,536.82	\$1,702.08	\$1,819.62	\$2,078.33	\$2,311.72
To net taxable grand list	1.92%	2.17%	3.28%	3.88%	4.45%
To estimated full value	1.34%	1.52%	2.29%	2.71%	3.11%
To equalized net taxable					
grand list	1.29%	1.51%	1.51%	1.91%	2.32%
Overall debt per capita to					
per capita income	5.68%	6.30%	6.73%	7.69%	8.55%
Overall net debt:					
Per capita	\$1,386.09	\$1,493.55	\$1,537.47	\$1,718.15	\$1,872.92
To net taxable grand list	1.73%	1.90%	2.77%	3.20%	3.60%
To estimated full value	1.21%	1.33%	1.94%	2.24%	2.52%
To equalized net taxable					
grand list	1.17%	1.33%	1.28%	1.58%	1.88%
Overall net debt per capita					
to per capita income	5.13%	5.52%	5.69%	6.35%	6.93%

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

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Debt Service</u>	<u>Total</u> <u>Expenditures and</u> <u>Transfers Out</u>	<u>Debt Service as Ratio to</u> <u>Total Expenditures and</u> <u>Transfers Out</u>
2009	\$3,945,936	\$50,340,124	7.84
2008	4,568,424	49,236,504	9.28
2007	5,021,082	47,851,150	10.49
2006	4,835,558	44,680,522	10.82
2005	4,597,981	41,206,210	11.16

**Authorized but Unissued Debt
As of June 3, 2010
(Pro Forma)**

Project	Date Authorized	Amount Authorized	Bonds Issued	Grants/ Paydowns	Authorized but Unissued
Jack Jackter Elementary School	01/30/01	\$22,050,000	\$ 7,876,000	\$12,887,038	\$1,286,962
Colchester Elementary School	05/13/03	25,692,800	10,300,000	14,592,490	800,310
Portable classrooms	05/09/06	850,000	425,000	-	425,000
Fire engine tank	05/12/09	760,000	720,000	-	40,000
Road improvements	05/12/09	560,000	515,000	-	45,000
Ambulance	05/12/09	280,000	225,000	-	55,000
Bacon Academy track	05/12/09	680,000	640,000	-	40,000
Total		\$50,872,800	\$20,701,000	\$27,479,528	\$2,692,272

Authority to Incur Debt

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

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

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

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

SECTION V – FINANCIAL SECTION

Comparative Assessed Valuations

<u>Grand List of 10/1</u>	<u>Residential Real Property Percent</u>	<u>Commercial and Industrial Real Property Percent</u>	<u>All Land Percent</u>	<u>Personal Property Percent</u>	<u>Motor Vehicle Percent</u>	<u>Gross Taxable Grand List</u>	<u>Less Exemptions</u>	<u>Net Taxable Grand List</u>	<u>Percent Change</u>
2009	78.1	7.9	3.1	2.7	8.2	\$1,283,291,579	\$7,930,076	\$1,275,361,503	0.6
2008	77.6	7.9	3.4	3.0	8.1	1,275,129,999	6,881,344	1,268,248,655	1.5
2007	77.1	7.8	3.2	3.1	8.8	1,254,720,501	5,251,780	1,249,468,721	2.1
2006	77.3	7.9	3.0	3.2	8.6	1,229,580,391	5,814,390	1,223,766,001	42.2
2005	72.7	8.2	3.0	4.2	11.9	866,314,163	5,817,523	860,496,640	4.1
2004	73.0	8.5	3.0	4.1	11.4	834,012,090	7,250,609	826,761,481	3.4
2003	73.3	8.6	3.2	4.0	10.9	806,778,034	6,843,254	799,934,780	–

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

Principal Taxpayers

<u>Name</u>	<u>Nature of Business</u>	<u>Taxable Valuation As of 10/1/09</u>	<u>Percent of Net Taxable Grand List¹</u>
Country Place of Colchester LTD Partners	Housing development	\$10,554,500	0.83
Connecticut Light & Power Co.	Utility	9,838,680	0.77
SSI Colchester LLC	Grocery store	8,104,000	0.63
Genesis Health Ventures of Bloomfield Inc.	Convalescent home	4,572,330	0.36
White Oak Development LLC	Housing development	4,270,300	0.33
S & S Worldwide Inc.	Shopping center	3,832,700	0.30
Balaban Road Associates, Inc.	Apartments	3,768,900	0.30
Alpha Q Inc.	Aerospace manufacturing	3,694,520	0.29
GND TOO of Colchester LLC	Apartments	3,394,800	0.27
Sharr Realty LLC	Grocery store	3,321,000	0.26
Total		\$55,351,730	4.34

¹ Based on 10/1/09 Net Taxable Grand List of \$1,275,361,503.

Property Tax Levies and Collections

<u>Fiscal Year Ended 6/30</u>	<u>Net Taxable Grand List (\$000s)</u>	<u>Mill Rate</u>	<u>Total Adjusted Tax Levy</u>	<u>Percent of Annual Levy Collected at End of Fiscal Year</u>	<u>Percent of Annual Levy Uncollected at End of Fiscal Year</u>	<u>Percent of Annual Levy Uncollected as of 3/31/10</u>
2010	\$1,268,249	23.65	\$30,070,954	-----In process-----		2.8
2009	1,249,469	23.01	28,929,185	98.4	1.6	0.6
2008	1,223,766	23.01	28,443,115	97.7	2.3	0.3
2007	860,497	32.47	28,363,487	97.4	2.6	0.5
2006	826,761	31.75	26,735,437	97.8	2.2	0.4
2005	799,935	31.02	25,197,928	98.1	1.9	0.4

Property Taxes Receivable

<u>Fiscal Year Ended 6/30</u>	<u>Current Year</u>	<u>Total</u>
2009	\$460,310	\$ 992,432
2008	649,318	1,337,117
2007	725,263	1,292,366
2006	578,155	1,014,536
2005	488,801	857,545

Intergovernmental Revenues as a Percent of Total Revenues

<u>Fiscal Year Ended 6/30</u>	<u>Intergovernmental Revenues</u>	<u>Total Revenues</u>	<u>Percent</u>
2009	\$18,522,145	\$49,427,283	37.5
2008	18,442,383	49,025,836	37.6
2007	16,604,214	46,878,639	35.4
2006	16,388,691	45,128,949	36.3
2005	14,978,666	42,498,361	35.2

Capital Improvement Program

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
<i>Sources of funds</i>					
Local sources	\$ 207,817	\$301,053	\$ 853,746	\$ 425,000	\$ 425,000
General obligation bonds	2,450,000	-	-	-	-
State/Federal grants	40,000	230,000	160,000	160,000	160,000
Capital budget	<u>167,400</u>	<u>207,697</u>	<u>516,417</u>	<u>1,195,069</u>	<u>933,250</u>
Total sources	\$2,865,217	\$738,750	\$1,530,163	\$1,780,069	\$1,518,250
<i>Uses of funds</i>					
General government	\$ 59,700	\$178,000	\$ 90,000	\$ 90,000	\$ 90,000
Public safety	971,400	37,243	421,328	561,750	721,750
Public works	633,097	333,096	584,018	400,000	160,000
Community Services	102,650	70,000	57,000	391,500	246,500
Education	<u>1,098,370</u>	<u>120,411</u>	<u>377,817</u>	<u>336,819</u>	<u>300,000</u>
Total uses	\$2,865,217	\$738,750	\$1,530,163	\$1,780,069	\$1,518,250

Financial Statements and Schedules

The comparative balance sheets and statements of revenues, expenditures, and changes in fund balance for the General Fund presented herein are derived from audited financial statements for fiscal years ended June 30, 2005 through 2009. The Town has provided budgetary information for fiscal year 2010-11 and projected results of operations for fiscal year 2009-10. The Town's independent auditors have not examined, reviewed, or compiled any of the estimates or expressed any opinion or provided any other form of assurance with respect to such estimates, and, accordingly, assume no responsibility for them. The financial information presented herein is the responsibility of the Town's management.

Comparative Balance Sheets

	<u>6/30/09</u>	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/05</u>
<i>Assets</i>					
Cash and cash equivalents	\$4,714,414	\$ 6,469,444	\$ 6,640,799	\$ 7,571,265	\$7,074,054
Property taxes receivable	1,135,265	1,555,364	1,202,457	910,676	1,025,569
Accounts receivable	5,213	17,423	24,819	126,437	98,044
Due from other governments	2,467,926	3,368,407	4,371,899	5,554,377	6,752,572
Due from other funds	-	-	-	-	114,851
Inventory	<u>24,290</u>	<u>55,458</u>	<u>31,180</u>	<u>47,578</u>	<u>24,742</u>
Total assets	\$8,347,108	\$11,466,096	\$12,271,154	\$14,210,333	\$15,089,832
<i>Liabilities and fund equity</i>					
<i>Liabilities</i>					
Accounts payable and accrued liabilities	\$1,117,429	\$ 2,044,424	\$ 1,780,668	\$ 1,863,278	\$1,743,571
Deferred revenue	3,323,661	4,602,813	5,424,291	6,323,143	7,739,431
Advance tax collections	<u>-</u>	<u>-</u>	<u>36,668</u>	<u>23,169</u>	<u>56,758</u>
Total liabilities	4,441,090	6,647,237	7,241,627	8,209,590	9,539,760
<i>Fund equity</i>					
Reserved for:					
Encumbrances	124,893	93,157	143,142	239,028	297,985
Inventory	24,290	55,458	31,180	47,578	24,742
Unreserved:					
Designated for subsequent year appropriations	220,000	638,375	725,400	1,430,665	1,719,550
Designated for specific purposes	65,922	81,050	-	-	-
Undesignated	<u>3,470,913</u>	<u>3,950,819</u>	<u>4,129,805</u>	<u>4,283,472</u>	<u>3,507,795</u>
Total fund equity	3,906,018	4,818,859	5,029,527	6,000,743	5,550,072
Total liabilities and fund equity	\$8,347,108	\$11,466,096	\$12,271,154	\$14,210,333	\$15,089,832
<i>Analysis of General Fund equity</i>					
Operating revenues	\$49,427,283	\$49,025,836	\$46,878,639	\$45,128,949	\$42,498,361
Fund equity as a percent of operating revenues	7.9	9.8	10.7	13.3	13.1
Undesignated fund equity as a percent of operating revenues ..	7.0	8.1	8.8	9.5	8.3

General Fund Revenues and Expenditures

	<u>Adopted Budget 2010-11</u>	<u>Projected Results 2009-10</u>	<u>Actual 2008-09</u>	<u>Actual 2007-08</u>	<u>Actual 2006-07</u>	<u>Actual 2005-06</u>
Revenues						
Property taxes	\$32,423,701	\$30,372,452	\$29,517,925	\$28,680,150	\$28,315,301	\$26,861,191
Intergovernmental revenues	13,610,370	13,807,767	18,522,145	18,442,383	16,604,214	16,388,691
Revenues from use of money ...	50,000	40,000	148,181	400,994	503,322	366,707
Charges for services and assessments	515,600	543,100	578,195	533,490	452,736	436,620
Licenses, permits and fees	608,899	684,272	499,254	781,336	773,165	913,406
Other	<u>410,081¹</u>	<u>127,858</u>	<u>161,583</u>	<u>187,483</u>	<u>229,901</u>	<u>162,334</u>
Total revenues	47,618,651	45,575,449	49,427,283	49,025,836	46,878,639	45,128,949
Expenditures						
Current:						
General government	3,589,507	3,431,759	3,112,367	2,909,923	2,888,173	2,155,423
Public works	2,339,519	2,145,797	2,272,385	2,011,002	2,096,713	2,213,854
Public safety	2,030,638	2,057,339	2,028,134	1,886,200	1,761,820	1,887,410
Civic and cultural	1,283,038	1,277,515	1,319,120	1,304,730	1,295,556	1,407,402
Health and welfare	419,843	436,553	429,244	403,914	400,079	436,627
Education	34,049,000	32,895,008	36,921,607	35,822,916	33,976,567	31,481,633
Debt service	<u>3,752,603</u>	<u>3,791,284</u>	<u>3,945,936</u>	<u>4,568,424</u>	<u>5,021,082</u>	<u>4,835,558</u>
Total expenditures	47,464,148	46,035,255	50,028,793	48,907,109	47,439,990	44,417,907
Excess (deficiency) of revenues over expenditures	154,503	(459,806)	(601,510)	118,727	(561,351)	711,042
Other financing sources (uses):						
Operating transfers in	-	-	-	-	1,295	2,244
Operating transfers out	<u>(154,503)</u>	<u>(216,977)</u>	<u>(311,331)</u>	<u>(329,395)</u>	<u>(411,160)</u>	<u>(262,615)</u>
Total other financing sources (uses)	(154,503)	(216,977)	(311,331)	(329,395)	(409,865)	(260,371)
Extraordinary item						
State teachers' on-behalf payments	-	-	-	(10,033,000)	-	-
State teachers' on-behalf revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,033,000</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	(676,783)	(912,841)	(210,668)	(971,216)	450,671
Fund balance, beginning of year		<u>3,906,018</u>	<u>4,818,859</u>	<u>5,029,527</u>	<u>6,000,743</u>	<u>5,550,072</u>
Fund balance, end of year		\$3,229,235	\$3,906,018	\$4,818,859	\$5,029,527	\$6,000,743

¹ Includes \$300,000 prior year fund balance.

Audit

The Town, pursuant to local ordinance and provisions of the Connecticut General Statutes, is required to undergo an annual audit by an independent public accountant. The auditor is required to conduct the audit under the guidelines outlined by the State of Connecticut, Office of Policy and Management, which also receives a copy of the audit report. For the fiscal year ended June 30, 2009, the financial statements of the various funds of the Town were audited by McGladrey & Pullen, LLP, Certified Public Accountants.

Summary of Accounting Principles

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

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

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

Pension Plan

The Town does not maintain a pension plan for municipal or Board of Education employees except faculty and professional personnel, and certain police personnel. Effective July 1, 2005, the Town established a contributory defined benefit plan (the "Police Plan") for full-time police officers, which is administered by the Town. Police officers are eligible to participate in the Police Plan and are required to contribute 6% of their annual earnings to the Police Plan. The Town is responsible for contributing to the Police Plan as necessary to provide the defined plan benefits and has contributed \$64,866 in the fiscal year 2008-09 budget for such purpose. Board of Education faculty and professional personnel participate in a contributory defined benefit plan (the "Board of Education Plan") established under Chapter 167a of the Connecticut General Statutes, which is administered by the Connecticut State Teachers' Retirement Board. Certain part-time and all full-time certified teachers are eligible to participate in the Board of Education Plan and are required to contribute 7% of their annual earnings to the Board of Education Plan. The Town does not and is not legally responsible to contribute to the Board of Education Plan. (See Appendix A – "Audited Financial Statements, Notes to Financial Statements" herein.)

Other Post-Employment Benefits ("OPEB")

The Town has a policy of providing 40-50% of certain health care benefits to retired employees should the employees have retired under a normal retirement or disability. The Town recognizes the cost of these benefits in the year when the employee services are received and recognizes the liability accumulated from prior years. The annual OPEB cost for the fiscal year ending June 30, 2009 was \$413,000.

Compensated Absences

Employees are paid by prescribed formula for absence due to vacation or sickness. Accumulated vacation and sick pay earned by Town employees is reflected as a long-term liability in the government-wide financial statements. As of June 30, 2009, the estimated obligation for employee compensated absences which is not expected to be paid with current available resources is \$2,178,000. It is the Town's policy to

recognize vacation and sick leave costs at the time payments are made. Vested sick leave and accumulated vacation leave of employees of proprietary funds is recorded as an expense and liability of these funds as the benefits accrue to employees.

Budget Adoption Procedure

The Chief Financial Officer compiles preliminary estimates from all departments and agencies, except for the Board of Education, for the annual budget for presentation by the First Selectman to the Board of Selectmen. After making such alterations or changes as it deems necessary, the Board of Selectmen presents the compiled budget to the Board of Finance. The Board of Education submits its estimates directly to the Board of Finance. The basis of budgeting is the modified accrual basis except for encumbrances. Additionally, the Town does not budget for payments made by the State of Connecticut on behalf of Colchester teachers to the State Teachers' Retirement Fund.

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

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

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

Assessment Practices

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

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

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

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

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

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

Tax Levy and Collection

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

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

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

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

Investment Practices

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

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in obligations of the United States and its agencies, highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof, and shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated investment companies (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the Connecticut STIF and the Tax Exempt Proceeds Fund. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds does not specify permitted investments. Therefore, the

laws applicable to fiduciaries and the provisions of the applicable plan generally control investment of such funds.

Risk Management

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

The Medical Self-Insurance Fund is funded by monthly contributions from all funds incurring payroll charges. Anthem Blue Cross/Blue Shield, administrator of the claims process, aids the Town in calculating “premium” rates per contract. Under the Town’s current policy, the Medical Self-Insurance Fund covers all employee claims up to \$110,000 per claim with a stop-loss policy of 125% of expected claims paid which was approximately \$5,542,000 for the year ended June 30, 2009.

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

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

SECTION VI - ADDITIONAL INFORMATION

Continuing Disclosure

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

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

The Town has not defaulted in any of its obligations under any Continuing Disclosure Agreement for the benefit of holders of its debt obligation to provide annual financial information or event notices pursuant to the Rule.

Litigation

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

Documents to Be Furnished at Closing

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

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

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

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

Concluding Statement

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

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

Town of Colchester, Connecticut

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

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

By /s/ Rosemary Coyle
Rosemary Coyle, Selectman

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

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

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

Dated May 20, 2010

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APPENDIX A - AUDITED FINANCIAL STATEMENTS

The following includes the basic financial statements of the Town of Colchester, Connecticut for the fiscal year ended June 30, 2009. The supplemental data and management letter which were a part of that report have not been reproduced herein. A copy of the complete report is available upon request from Christine R. Caruolo, CTP, Assistant Vice President, Webster Bank, National Association, CityPlace II, 185 Asylum Street, Hartford, Connecticut 06103 (telephone: (860) 692-1711).

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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, 2009, 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 basis 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, 2009, 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.

As described in Note 11 to the basic financial statements, the Town adopted GASB State 45 as of July 1, 2008.

In accordance with "Government Auditing Standards," we have also issued our report dated January 29, 2010 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 read in conjunction with this report in considering the results of our audit.

The management discussion and analysis and schedules of funding progress for pensions and other post employment benefits are not a required part of the basic financial statements, but are 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 2008 financial statements and, in our report dated December 29, 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
January 29, 2010

Town of Colchester, Connecticut
Management's Discussion and Analysis
June 30, 2009

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, 2009. 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 \$73,510,284, a decrease of \$3,321,281 over the previous fiscal year. Total net assets of Governmental Activities at fiscal year-end were \$69,503,305 and total net assets for Business-Type Activities were \$4,006,979. Of the Town's total net assets at June 30, 2009, \$8,142,189 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- ♦ At the end of the current fiscal year, the total fund balance for the General Fund was \$3,906,018, a decrease of \$912,841 from the prior fiscal year. Of the total General Fund fund balance as of June 30, 2009, \$3,470,913 represents unreserved/undesignated fund balance of the General Fund. Unreserved/undesignated General Fund fund balance represents 6.9% of total General Fund expenditures (\$50,340,124). The Town of Colchester's governmental funds reported combined ending fund balances of \$5,729,034, a decrease of \$846,096 from the prior fiscal year.
- ♦ The Town of Colchester's total bonded debt had a decrease of \$3,105,000 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 seventh report issued under the new reporting model.

Fund Financial Statements				
Type of Statements	Government-wide Financial Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	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.
Required financial statements	<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.
Accounting basis and measurement focus	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.
Type of asset/liability information	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.
Type of inflow/outflow information	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 \$73,510,284 at the close of the recent fiscal year.

Net assets of the Town's Governmental Activities decreased approximately 4.7% to \$69,503,305 and total net assets for Business-type Activities increased approximately 2.8% to \$4,006,979. The amount of \$65,368,095 (\$61,882,487 for Governmental Activities and \$3,485,608 for Business-type Activities) of combined net assets at June 30, 2009, 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 \$8,142,189 (\$7,620,818 for Governmental Activities and \$521,371 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 (88.9%) 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, 2009 AND 2008

	June 30, 2009			June 30, 2008		
	Primary Government			Primary Government		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 12,266,649	\$ 636,525	\$ 12,903,174	\$ 16,221,090	\$ 621,064	\$ 16,842,154
Capital assets	84,083,258	6,106,132	90,189,390	87,665,513	5,592,177	93,257,690
Total assets	96,349,907	6,742,657	103,092,564	103,886,603	6,213,241	110,099,844
Current Liabilities	2,856,602	115,154	2,971,756	3,902,652	156,566	4,059,218
Long-Term liabilities outstanding	23,990,000	2,620,524	26,610,524	27,049,000	2,160,061	29,209,061
Total liabilities	26,846,602	2,735,678	29,582,280	30,951,652	2,316,627	33,268,279
Net Assets:						
Invested in capital assets, net of related debt	61,882,487	3,485,608	65,368,095	63,310,513	3,432,116	66,742,629
Unrestricted	7,620,818	521,371	8,142,189	9,624,438	464,498	10,088,936
Total Net Assets	\$ 69,503,305	\$ 4,006,979	\$ 73,510,284	\$ 72,934,951	\$ 3,896,614	\$ 76,831,565

Change in net assets. The Town's total net assets decreased by \$3,321,281 during the fiscal year, with net assets of Governmental Activities decreasing by \$3,431,646, and net assets of Business-type Activities increasing by \$110,365.

	Year Ended June 30, 2009			Year Ended June 30, 2008		
	Primary Govt.			Primary Govt.		
	Governmental	Business-		Governmental	Business-	
	Activities	Type	Total	Activities	Type	Total
	Activities	Activities		Activities	Activities	
Revenues						
Program Revenues:						
Charges for Services	\$ 3,085,069	\$ 938,006	\$ 4,023,075	\$ 3,327,767	\$ 976,735	\$ 4,304,502
Operating Grants and Contributions	18,944,629	-	18,944,629	19,267,118	-	19,267,118
Capital Grants and Contributions	424,665	-	424,665	2,679,703	-	2,679,703
General Revenues:						
Property Tax	29,139,330	-	29,139,330	28,982,000	-	28,982,000
Grants not restricted to specific programs	187,664	-	187,664	170,822	-	170,822
Unrestricted investment earnings	167,532	5,376	172,908	414,938	6,290	421,228
Total Revenues	51,948,889	943,382	52,892,271	54,842,348	983,025	55,825,373
Expenses						
General Government	4,283,464	-	4,283,464	4,644,229	-	4,644,229
Public Safety	2,389,003	-	2,389,003	2,226,614	-	2,226,614
Public Works	3,508,436	-	3,508,436	3,627,083	-	3,627,083
Public Health & Welfare	616,670	-	616,670	658,253	-	658,253
Civic and Cultural	1,982,714	-	1,982,714	1,950,657	-	1,950,657
Education	41,594,272	-	41,594,272	39,770,100	-	39,770,100
Other	-	784,179	784,179	-	778,289	778,289
Interest on long term bonds	1,005,976	48,838	1,054,814	1,162,795	12,033	1,174,828
Total Expenses	55,380,535	833,017	56,213,552	54,039,731	790,322	54,830,053
Change in Net Assets	(3,431,646)	110,365	(3,321,281)	802,617	192,703	995,320
Net Assets Beginning	72,934,951	3,896,614	76,831,565	72,132,334	3,703,911	75,836,245
Net Assets Ending	\$ 69,503,305	\$ 4,006,979	\$ 73,510,284	\$ 72,934,951	\$ 3,896,614	\$ 76,831,565

Governmental Activities

Approximately 56.1% of the revenues were generated from property taxes, followed by 43.2% from program revenues, which include governmental revenues for Education, then .4% was derived from other restricted grants, and finally, .3% from investment earnings.

Major revenue factors included 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 in the prior fiscal year.

The Town's current levy collected tax rate was 98.41%, an increase of .69% over the previous year current levy collected tax rate of 97.72%.

For governmental activities, 75.1% of the Town's expenditures relate to education, 7.8% relate to general government, 4.3% relate to public safety, 6.3% relate to public works, 3.6% relate to civic and cultural, 1.1% relate to public health and welfare and the remaining 1.8% 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 2.98% over the 2007-2008 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.

Business-Type Activities

Business-type activities increased the Town's net assets by \$110,365. 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 \$5,729,034, a decrease from \$6,575,130 as of June 30, 2008. This decrease is mainly due to the appropriation of \$600,000 from undesignated fund balance as part of the adopted budget to reduce property tax increases, combined with declining revenues from building permits, conveyance taxes and investment income as a result of the economic downturn.

The general fund is the chief operating fund for the Town of Colchester. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,756,835 while total fund balance reached \$3,906,018. 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 7.5% of the total general fund expenditures.

At June 30, 2009, the Town of Colchester's General Fund decreased by \$912,841 from the previous year. Key factors contributing to this decrease were the planned use of fund balance to fund the budget with a small increase in the property tax mil rate, and reductions in revenues resulting from the economic downturn.

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

Unrestricted net assets of the Water Fund at the end of the year amounted to \$521,371. The Water Fund experienced an increase in net assets of \$110,365. 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 \$156,251, of which \$8,793 was funded by additional revenue and \$147,458 was appropriated from fund balance. These additional appropriations were for wage and benefit increases resulting from union contract settlements, additional contributions to the Board of Education Capital Reserve Fund for replacement of the fire alarm system at the high school, and additional staff hours in the Tax Collector's Office funded by increased delinquent tax collections. Budget transfers approved during the year included additional funds for snow removal, extensive vehicle maintenance for Fire and Highway vehicles, legal costs for contract negotiations and planning and zoning enforcement issues, and increased workers' compensation insurance costs. Funds for these transfers were available from vacant positions throughout various Town departments, increased credits for recycling of materials at the Transfer Station, contingency funds, and a budget freeze imposed in January 2009.

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, 2009, amount to \$90,189,390 (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 \$3,068,300 or approximately 3.3 percent.

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

- ♦ Construction in progress for governmental activities increased by \$9,007 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 \$450,178 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	
	2009	2008	2009	2008	2009	2008
Land	\$ 3,432,379	\$ 3,432,379	\$ -	\$ -	\$ 3,432,379	\$ 3,432,379
Land Improvements	299,120	360,264	6,976	7,973	306,096	368,237
Bldng. & Improvements	65,076,826	67,004,894	1,248,224	1,190,622	66,325,050	68,195,516
Machinery & Equipment	2,377,528	2,645,561	165,900	106,042	2,543,428	2,751,603
Infrastructure	12,161,276	13,495,293	1,919,145	1,971,831	14,080,421	15,467,124
Construction in Progress	736,129	727,122	2,765,887	2,315,709	3,502,016	3,042,831
Total	\$ 84,083,258	\$ 87,665,513	\$ 6,106,132	\$ 5,592,177	\$ 90,189,390	\$ 93,257,690

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

Long-Term Debt. At year-end the Town of Colchester had \$21,515,000 in bonds outstanding. Of this amount \$195,000 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	
	2009	2008	2009	2008	2009	2008
General Obligation Bonds (backed by the Town)	\$ 21,320,000	\$ 24,355,000	\$ 195,000	\$ 265,000	\$ 21,515,000	\$ 24,620,000
Clean Water Fund Interim financing	\$ -	\$ -	\$ 2,425,524	\$ 1,895,061	\$ 2,425,524	\$ 1,895,061

The Town of Colchester's total bonded debt had a decrease of \$3,105,000 (approximately 12.6 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, 2009, the Town had received interim financing in the amount of \$2,425,524 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. In September 2009, Fitch Ratings reaffirmed the AA- rating assigned to bonds issued in 2001 and 2002.

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

Economic Factors and Next Year's Budgets and Rates

As a result of the national economic downturn, the Town of Colchester's unemployment rate increased to 7.0% as of June 2009, although it remained less than the State of Connecticut rate of 8.0% for the same time period. As of December 2009, the Town's unemployment rate was 7.6% while the State's unemployment rate had increased to 8.5%. In response to the economic outlook, Town officials have been proactive in providing assistance to residents in need through energy assistance applications and property tax relief options. Steps have also been taken to closely monitor FY 2009-2010 revenues and expenditures, implementing energy cost-saving measures, participating in energy rebate programs, approving a combined Town and Board of Education purchasing policy, and pursuing grant opportunities.

While Colchester remains a semi-rural, residential community, the Town has focused on increasing its non-residential resources. Strategically, the Town has sought to focus on non-residential growth in a smart growth manner. Recently, the Planning and Zoning Commission rezoned almost 900 acres of residentially zoned property for Business Park development, a key component in the Town's economic development strategy as identified in the Plan of Conservation and Development. Included in this strategy were firm commitments to provide water and sewer to only certain growth areas and not other areas of the Town over the next 20 years. During the last 36 months (2007 to 2009), over 40,000 sq. ft. of commercial development has been developed, 75,000 sq. ft. of commercial development has been approved and permitted, and 300,000 sq. ft. of commercial development are in the final approval stage. In addition, the first mixed use development was also approved and hopes to break ground in the spring.

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

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

The FY 2009-2010 final adopted budget of \$48,172,704 represents an increase of \$538,334 or 1.13% over the original adopted budget for FY 2008-2009 of \$47,634,370 with a .64 increase in the property tax mil rate.

Requests for Information

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

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF NET ASSETS

June 30, 2009

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents	\$ 8,062,133	\$ 278,237	\$ 8,340,370
Receivables (net of allowances for collection losses):			
Property taxes and interest	1,135,265	-	1,135,265
Assessments	359,674	-	359,674
Accounts receivable	12,279	284,847	297,126
Intergovernmental	2,644,843	-	2,644,843
Pension asset	24,691	-	24,691
Inventory	27,764	73,441	101,205
Capital assets, non-depreciable	4,168,508	2,765,887	6,934,395
Capital assets, net of accumulated depreciation	79,914,750	3,340,245	83,254,995
Total assets	96,349,907	6,742,657	103,092,564
Liabilities			
Accounts payable and accrued liabilities	2,331,176	115,154	2,446,330
Claims payable	508,007	-	508,007
Unearned revenues	17,419	-	17,419
Noncurrent liabilities:			
Due within one year	3,070,000	70,000	3,140,000
Due in more than one year	20,920,000	2,550,524	23,470,524
Total liabilities	26,846,602	2,735,678	29,582,280
Net Assets			
Investment in capital assets, net of related debt	61,882,487	3,485,608	65,368,095
Unrestricted	7,620,818	521,371	8,142,189
Total net assets	\$ 69,503,305	\$ 4,006,979	\$ 73,510,284

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, 2009

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating		Governmental Activities	Business-Type Activities	Total
			Grants and Contributions	Capital Grants and Contributions			
Governmental Activities:							
General government	\$ (4,283,464)	\$ 365,065	\$ 463,772	\$ 120,234	\$ (3,334,393)	\$ -	\$ (3,334,393)
Public safety	(2,389,003)	558,751	17,083	-	(1,813,169)	-	(1,813,169)
Public works	(3,508,436)	1,077,155	-	104,397	(2,326,884)	-	(2,326,884)
Civic and cultural	(1,982,714)	368,558	67,755	-	(1,546,401)	-	(1,546,401)
Public health and welfare	(616,670)	42,661	80,313	52,356	(441,340)	-	(441,340)
Education	(41,594,272)	672,879	18,315,706	147,678	(22,458,009)	-	(22,458,009)
Interest on long-term debt	(1,005,976)	-	-	-	(1,005,976)	-	(1,005,976)
Total governmental activities	(55,380,535)	3,085,069	18,944,629	424,665	(32,926,172)	-	(32,926,172)
Business-Type Activities:							
Water	(833,017)	938,006	-	-	-	104,989	104,989
Total business-type activities	(833,017)	938,006	-	-	-	104,989	104,989
Total primary government	\$ (56,213,552)	\$ 4,023,075	\$ 18,944,629	\$ 424,665	(32,926,172)	104,989	(32,821,183)
General revenues:							
Property taxes					29,139,330	-	29,139,330
Grants and contributions not restricted to specific programs					187,664	-	187,664
Unrestricted investment earnings					167,532	5,376	172,908
Total general revenues					29,494,526	5,376	29,499,902
Change in net assets					(3,431,646)	110,365	(3,321,281)
Net assets - beginning					72,934,951	3,896,614	76,831,565
Net assets - ending					\$ 69,503,305	\$ 4,006,979	\$ 73,510,284

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

TOWN OF COLCHESTER, CONNECTICUT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2009

	Major Funds			Total Governmental Funds
	General Fund	Bonded Projects Fund	Nonmajor Governmental Funds	
Assets				
Cash and cash equivalents	\$ 4,714,414	\$ -	\$ 2,823,756	\$ 7,538,170
Receivables (net of allowances for collection losses):				
Property taxes	1,135,265	-	-	1,135,265
Assessments and user charges	-	-	359,674	359,674
Intergovernmental	2,467,926	-	176,917	2,644,843
Accounts receivable	5,213	-	7,066	12,279
Inventory	24,290	-	3,474	27,764
	<u>\$ 8,347,108</u>	<u>\$ -</u>	<u>\$ 3,370,887</u>	<u>\$ 11,717,995</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 1,117,429	\$ 880,771	\$ 290,007	\$ 2,288,207
Deferred revenue	3,323,661	-	359,674	3,683,335
Unearned revenue	-	-	17,419	17,419
Total liabilities	<u>4,441,090</u>	<u>880,771</u>	<u>667,100</u>	<u>5,988,961</u>
Fund balances (deficits)				
Reserved for:				
Encumbrances	124,893	-	173,047	297,940
Inventory	24,290	-	3,474	27,764
Unreserved, designated for:				
Subsequent years budget	220,000	-	15,000	235,000
Specific projects	65,922	-	472,238	538,160
Unreserved/undesignated, reported in:				
General fund	3,470,913	-	-	3,470,913
Special revenue funds	-	-	1,101,355	1,101,355
Capital projects funds	-	(880,771)	938,673	57,902
Total fund balances (deficits)	<u>3,906,018</u>	<u>(880,771)</u>	<u>2,703,787</u>	<u>5,729,034</u>
Total liabilities and fund balances (deficits)	<u>\$ 8,347,108</u>	<u>\$ -</u>	<u>\$ 3,370,887</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.	84,083,258
Other long-term assets are available to pay for current-period expenditures and, therefore, are deferred in the funds.	3,683,335
Pension asset	24,691
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.	15,956
Accrued interest payable	(42,969)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(23,990,000)

Net assets of governmental activities

\$ 69,503,305

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, 2009

	Major Funds			
	General	Bonded	Nonmajor	Total
	Fund	Projects	Governmental	Governmental
	Fund	Fund	Funds	Funds
REVENUES				
Property taxes	\$ 29,517,925	\$ -	\$ -	\$ 29,517,925
Intergovernmental revenues	18,522,145	120,234	1,806,809	20,449,188
Revenues from use of money	148,181	-	19,351	167,532
Fees, permits and sales	578,195	-	595,990	1,174,185
Charges for services and assessments	499,254	-	1,358,949	1,858,203
Other	161,583	-	105,019	266,602
Total revenues	49,427,283	120,234	3,886,118	53,433,635
EXPENDITURES				
Current:				
General government	3,112,367	16,747	32,915	3,162,029
Public safety	2,028,134	-	166,015	2,194,149
Public works	2,272,385	-	748,261	3,020,646
Public health and welfare	429,244	-	164,425	593,669
Civic and cultural	1,319,120	-	419,640	1,738,760
Education	36,921,607	-	2,011,201	38,932,808
Debt service	3,945,936	-	107,265	4,053,201
Capital outlay	-	68,273	516,196	584,469
Total expenditures	50,028,793	85,020	4,165,918	54,279,731
Revenue over (under)				
expenditures	(601,510)	35,214	(279,800)	(846,096)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	40,000	276,731	316,731
Transfers out	(311,331)	-	(5,400)	(316,731)
Total other financing				
sources (uses)	(311,331)	40,000	271,331	-
Net change in fund balances (deficits)	(912,841)	75,214	(8,469)	(846,096)
FUND BALANCES (DEFICITS), beginning	4,818,859	(955,985)	2,712,256	6,575,130
FUND BALANCES (DEFICITS), ending	\$ 3,906,018	\$ (880,771)	\$ 2,703,787	\$ 5,729,034

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, 2009**

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

Net change in fund balances – total governmental funds	\$	(846,096)
--	----	-----------

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.	(3,582,255)
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Net changes in revenues and receivables in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,484,746)
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Change in pension asset	24,691
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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.	3,035,000
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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.	36,225
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The net revenue of certain activities of internal service funds is reported with governmental activities.	(614,465)
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Change in net assets of governmental activities	\$	<u>(3,431,646)</u>
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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, 2009

	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
REVENUES				
Property taxes, interest and lien fees	\$ 29,553,966	\$ 29,561,639	\$ 29,517,925	\$ (43,714)
Intergovernmental revenues	15,900,561	15,900,561	15,757,145	(143,416)
Revenues from the use of money	340,000	340,000	148,181	(191,819)
Charges for services	411,600	412,720	499,254	86,534
Fees, permits and other	717,990	717,990	578,195	(139,795)
Other revenues	110,253	110,253	169,683	59,430
Total revenues	47,034,370	47,043,163	46,670,383	(372,780)
EXPENDITURES				
General government	3,251,305	3,153,235	3,108,263	44,972
Public works	2,124,196	2,288,409	2,270,916	17,493
Public safety	1,961,450	2,017,652	2,000,659	16,993
Civic and cultural	1,386,537	1,336,903	1,319,120	17,783
Public health and welfare	439,251	441,741	429,244	12,497
Education	34,295,413	34,295,413	34,229,491	65,922
Debt service	3,945,937	3,945,937	3,945,936	1
Total expenditures	47,404,089	47,479,290	47,303,629	175,661
Revenues over (under)				
expenditures	(369,719)	(436,127)	(633,246)	(197,119)
OTHER FINANCING SOURCES (USES)				
Transfers out	(230,281)	(311,331)	(311,331)	-
Total other financing (uses)	(230,281)	(311,331)	(311,331)	-
Revenues and other financing				
sources over (under) expenditures				
and other financing uses	\$ (600,000)	\$ (747,458)	\$ (944,577)	\$ (197,119)

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, 2009

	Major Fund Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund Medical Self- Insurance Fund
	Water Fund	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 278,237	\$ 523,963
Accounts receivable	284,847	-
Inventory	73,441	-
Total current assets	636,525	523,963
Capital Assets, net of accumulated depreciation	6,106,132	-
Total assets	6,742,657	523,963
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	115,154	-
Claims payable	-	508,007
Bonds payable - current	70,000	-
Total current liabilities	185,154	508,007
Noncurrent Liabilities:		
Bonds payable	125,000	-
Loan payable	2,425,524	-
Total noncurrent liabilities	2,550,524	-
Total liabilities	2,735,678	508,007
NET ASSETS		
Invested in capital assets, net of related debt	3,485,608	-
Unrestricted	521,371	15,956
Total net assets	\$ 4,006,979	\$ 15,956

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, 2009

	Major Fund Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund Medical Self- Insurance Fund
	Water Fund	
OPERATING REVENUES		
Water use fees and charges	\$ 938,006	\$ -
Premiums	-	5,310,223
Total operating revenues	<u>938,006</u>	<u>5,310,223</u>
OPERATING EXPENSES		
Claims/operating	661,566	5,198,118
Depreciation	122,613	-
Administration	-	727,350
Total operating expenses	<u>784,179</u>	<u>5,925,468</u>
Operating income (loss)	<u>153,827</u>	<u>(615,245)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	5,376	780
Interest expense	(48,838)	-
Total nonoperating revenue (expenses)	<u>(43,462)</u>	<u>780</u>
Change in net assets	110,365	(614,465)
FUND NET ASSETS, beginning	<u>3,896,614</u>	<u>630,421</u>
FUND NET ASSETS, ending	<u>\$ 4,006,979</u>	<u>\$ 15,956</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, 2009

	Major Fund Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund Medical Self- Insurance Fund
	Water Fund	
Cash Flows From Operating Activities		
Cash received from charges for services	\$ 954,009	\$ 5,318,740
Cash paid to vendors and beneficiaries	(705,064)	(5,816,286)
Net cash provided by (used in) operating activities	<u>248,945</u>	<u>(497,546)</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	(636,568)	-
Interest paid	(49,440)	-
Principal payments of debt	(70,000)	-
Proceeds from clean water loan	530,463	-
Net cash used in capital and related financing activities	<u>(225,545)</u>	<u>-</u>
Cash Flows From Investing Activities		
Interest on cash and cash equivalents	5,376	780
Net increase (decrease) in cash and cash equivalents	<u>28,776</u>	<u>(496,766)</u>
Cash and Cash Equivalents		
Beginning	249,461	1,020,729
Ending	<u>\$ 278,237</u>	<u>\$ 523,963</u>
Reconciliation of Operating Income (loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 153,827	\$ (615,245)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	122,613	-
Changes in assets and liabilities:		
Decrease in accounts receivable	16,003	8,517
Increase in inventories	(2,688)	-
Decrease in accounts payable	(40,810)	-
Increase in claims payable	-	109,182
Net cash provided by (used in) operating activities	<u>\$ 248,945</u>	<u>\$ (497,546)</u>

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

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

June 30, 2009

	Pension Trust Fund	Private Purpose Trust Fund	Agency Fund
ASSETS			
Cash and cash equivalents	\$ -	\$ 463	\$ 310,460
Investments	238,294	-	-
Total assets	<u>238,294</u>	<u>463</u>	<u>310,460</u>
LIABILITIES			
Accounts payable	8,594	-	-
Deposits held for others	-	-	310,460
Total liabilities	<u>8,594</u>	<u>-</u>	<u>310,460</u>
Net Assets Held in Trust for Pension Benefits and Other Purposes	<u>\$ 229,700</u>	<u>\$ 463</u>	<u>\$ -</u>

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

TOWN OF COLCHESTER, CONNECTICUT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

For the Year Ended June 30, 2009

	Pension Trust Fund	Private Purpose Trust Fund
ADDITIONS		
Contributions		
Employee	\$ 35,192	\$ -
Employer	64,866	-
Total contributions	<u>100,058</u>	<u>-</u>
Investment Income (Losses)		
Interest and dividends	-	1
Unrealized losses on investment	(37,545)	-
Investment income (loss)	<u>(37,545)</u>	<u>1</u>
Total additions	<u>62,513</u>	<u>1</u>
DEDUCTIONS		
Refund of employee contributions	<u>8,594</u>	<u>-</u>
Change in net assets	53,919	1
Net Assets Held in Trust		
Beginning of year	<u>175,781</u>	<u>462</u>
End of year	<u>\$ 229,700</u>	<u>\$ 463</u>

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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, 2009

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, 2009

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, 2009

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 \$670,000. 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, 2009

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, 2009

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, 2009

OPEB accounting

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

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

Fund equity and net assets

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

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

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows:

Bonds payable	\$ 21,320,000
Landfill closure costs	225,000
Compensated absences	2,178,000
OPEB obligation	<u>267,000</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u><u>\$ 23,990,000</u></u>

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

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

Capital outlay	\$ 524,653
Depreciation expense	(4,105,961)
Loss on disposal	<u>(947)</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>\$ (3,582,255)</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

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

Principal repayments:	
General obligation debt	\$ 3,035,000
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	\$ 3,035,000

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

Compensated absences	\$ 276,000
Landfill closure	15,000
Accrued interest	12,225
OPEB obligation	(267,000)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	\$ 36,225

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.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

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

The legal budget of the Town is a departmental budget.

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

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

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

Revenues and transfers, budgetary basis	\$ 46,670,383
Prior year encumbrances cancelled	(8,100)
On-behalf payments paid directly by the State of Connecticut Teachers' Retirement System	<u>2,765,000</u>
Revenues and transfers, GAAP basis	<u><u>\$ 49,427,283</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	\$ 47,614,960
On-behalf payments paid directly by the State of Connecticut Teachers' Retirement System	<u>2,765,000</u>
Encumbrances:	
June 30, 2008	85,057
June 30, 2009	<u>(124,893)</u>
Expenditures and transfers, GAAP basis	<u><u>\$ 50,340,124</u></u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

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.

Note 4. Cash, Cash Equivalents and Investments

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

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

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

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

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, 2009, approximately \$921,000 of the Town's bank balance of \$1,564,000 was uninsured and uncollateralized.

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

Cash and cash equivalents and investments of the Town consist of the following at June 30, 2009:

Cash and Cash Equivalents

Deposits with financial institutions	\$	2,833,392
State of Connecticut Short-Term Investment fund		5,491,035
MBIA-Class Account		326,866
Total cash and cash equivalents		<u>8,651,293</u>

Investments

Pension Trust Funds:		
Mutual Funds		238,294
Total cash, cash equivalents, and investments	\$	<u>8,889,587</u>

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

Statement of Net Assets

Cash and cash equivalents	\$	<u>8,340,370</u>
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Fiduciary Funds

Cash and cash equivalents		310,923
Investments		238,294
		<u>549,217</u>
	\$	<u>8,889,587</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

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	\$ 5,817,901	\$ 5,817,901

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	AAA/m	\$ 5,491,035
MBIA, Inc.	AAA	326,866
		<u>\$ 5,817,901</u>

TOWN OF COLCHESTER, CONNECTICUT**NOTES TO FINANCIAL STATEMENTS, Continued**
June 30, 2009

Note 5. Unearned Revenue/Deferred Revenue

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

	Deferred Revenues	Unearned Revenues
General Fund:		
Taxes and accrued interest on delinquent property taxes	\$ 975,647	\$ -
School construction grants	2,348,014	
Nonmajor Funds:		
Assessments receivable	359,674	-
Grants and other	-	17,419
Total	<u>\$ 3,683,335</u>	<u>\$ 17,419</u>

Note 6. Interfund Transfers

Interfund transfers during the year ended June 30, 2009 were as follows:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 311,331
Bonded Projects	40,000	-
Nonmajor Governmental Funds	276,731	5,400
Total	<u>\$ 316,731</u>	<u>\$ 316,731</u>

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2009 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	727,122	9,007	-	736,129
Total capital assets, not being depreciated	4,159,501	9,007	-	4,168,508
Capital assets, being depreciated:				
Improvements other than buildings	1,485,124	7,285	-	1,492,409
Buildings	88,574,698	-	-	88,574,698
Machinery and equipment	10,592,100	337,027	(2,076)	10,927,051
Infrastructure	34,932,210	171,334	-	35,103,544
Total capital assets being depreciated	135,584,132	515,646	(2,076)	136,097,702
Less accumulated depreciation for:				
Improvements other than buildings	1,124,860	68,429	-	1,193,289
Buildings	21,569,804	1,928,068	-	23,497,872
Machinery and equipment	7,946,539	604,113	(1,129)	8,549,523
Infrastructure	21,436,917	1,505,351	-	22,942,268
Total accumulated depreciation	52,078,120	4,105,961	(1,129)	56,182,952
Total capital assets, being depreciated, net	83,506,012	(3,590,315)	(947)	79,914,750
Governmental activities capital assets, net	\$ 87,665,513	\$ (3,581,308)	\$ (947)	\$ 84,083,258

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 2,315,709	\$ 450,178	\$ -	\$ 2,765,887
Total capital assets, not being depreciated	2,315,709	450,178	-	2,765,887
Capital assets, being depreciated:				
Buildings	2,101,466	112,000	-	2,213,466
Machinery and equipment	132,294	74,390	-	206,684
Improvements other than buildings	21,391	-	-	21,391
Infrastructure	3,180,923	-	-	3,180,923
Total capital assets, being depreciated	5,436,074	186,390	-	5,622,464
Less accumulated depreciation for:				
Buildings	910,844	54,398	-	965,242
Machinery and equipment	26,252	14,532	-	40,784
Improvements other than buildings	13,418	997	-	14,415
Infrastructure	1,209,092	52,686	-	1,261,778
Total accumulated depreciation	2,159,606	122,613	-	2,282,219
Total capital assets, being depreciated, net	3,276,468	63,777	-	3,340,245
Business-type activities capital assets, net	\$ 5,592,177	\$ 513,955	\$ -	\$ 6,106,132

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

Governmental Activities:	
General government	\$ 1,332,665
Public works	483,227
Public safety	182,287
Civic and cultural	219,130
Public health and welfare	12,924
Education	1,875,728
Total depreciation expense – governmental activities	<u>\$ 4,105,961</u>
Business-Type Activities:	
Water Fund	<u>\$ 122,613</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

Note 8. Long-Term Obligations

Long-term liability activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 24,355,000	\$ -	\$ 3,035,000	\$ 21,320,000	\$ 3,000,000
Landfill post-closure monitoring	240,000	-	15,000	225,000	15,000
Compensated absences	2,454,000		276,000	2,178,000	55,000
OPEB obligation	-	267,000	-	267,000	-
Governmental activity long-term liabilities	\$ 27,049,000	\$ 267,000	\$ 3,326,000	\$ 23,990,000	\$ 3,070,000
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 265,000	\$ -	\$ 70,000	\$ 195,000	\$ 70,000
CWF Interim financing	1,895,061	530,463	-	2,425,524	-
Business-type long-term liabilities	\$ 2,160,061	\$ 530,463	\$ 70,000	\$ 2,620,524	\$ 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, 2009

General obligation bonds outstanding as of June 30, 2009 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%	\$ 8,865,000
\$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%	4,705,000
\$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%	1,425,000
\$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%	95,000
\$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%	560,000
\$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%	3,510,000
\$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>2,160,000</u>
Total general obligation bonds payable	<u><u>\$ 21,320,000</u></u>

TOWN OF COLCHESTER, CONNECTICUT**NOTES TO FINANCIAL STATEMENTS, Continued**
June 30, 2009

The following is a summary as of June 30, 2009, of the future principal and interest requirements for the Town's general obligation bonds:

	Principal	Interest	Total
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>\$ 21,320,000</u>	<u>\$ 5,807,991</u>	<u>\$ 27,127,991</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%

\$ 195,000

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

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

	Principal	Interest	Total
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>\$ 195,000</u>	<u>\$ 16,390</u>	<u>\$ 211,390</u>

The Town received Clean Water Fund Project interim loans that are recorded as a loan payable in the Water Fund. The balance at June 30, 2009 is approximately \$2,426,000. These loans accrue interest at 2%, and will be permanently financed under the terms of the contract.

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, 2009 was approximately \$1,048,000. Additional payments for principal and interest aggregating approximately \$2,527,000 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, 2009, is as follows:

Total tax collections (including interest and lien fees) for the year ended June 30, 2009	\$ 29,548,044
Reimbursement for revenue loss:	
Tax relief for elderly	58,336
Base	<u>\$ 29,606,380</u>

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

The Connecticut General Statutes provides that total authorized debt of the Town shall not exceed seven times the above base cash receipts of \$207,244,667 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	\$ 66,614,355	\$ -	\$ -	\$ -	\$ -
4-1/2 times base	-	133,228,710	-	-	-
3-3/4 times base	-	-	111,023,925	-	-
3-1/4 times base	-	-	-	96,220,735	-
3 times base	-	-	-	-	88,819,140
Total debt limitation	66,614,355	133,228,710	111,023,925	96,220,735	88,819,140
Debt as defined by statute:					
Bonds payable ⁽¹⁾	3,189,400	18,035,600	95,000	-	-
Authorized and unissued	1,600,000	31,186,200	-	-	-
Total indebtedness	4,789,400	49,221,800	95,000	-	-
School construction grants receivable	-	(2,348,014)	-	-	-
Net indebtedness	4,789,400	46,873,786	95,000	-	-
Debt limitation in excess of outstanding and authorized debt	\$ 61,824,955	\$ 86,354,924	\$ 110,928,925	\$ 96,220,735	\$ 88,819,140

⁽¹⁾ Water bonds and Clean Water Fund interim financing totaling \$2,620,524 are excluded from this calculation pursuant to Connecticut General Statutes.

Note 9. Contingent Liabilities

Lawsuits

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

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, 2008, PERS membership consisted of:

Retirees and beneficiaries receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>11</u>
Total	<u>11</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, 2009

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
2007	\$44,587	94%	41,689
2008	44,587	108%	48,252
2009	45,732	142%	64,866

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	07/01/08
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage of Pay
Remaining Amortization Period	21 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increases	4.50%

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2009

5. Annual Pension Cost and Net Pension Asset

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

Annual required contribution	\$ 45,732
Interest on net pension obligation	(449)
Adjustment to annual required contribution	510
Annual pension cost	45,793
Contributions made	64,866
Increase in net pension asset	(19,073)
Net pension asset, July 1, 2008	(5,618)
Net pension asset, June 30, 2009	\$ (24,691)

Three Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
06/30/07	\$44,514	93.7%	\$ (1,974)
06/30/08	44,608	108.2%	(5,618)
06/30/09	45,793	141.7%	(24,691)

6. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
*July 1, 2008	\$ 175,781	\$ 364,546	\$ 188,765	48.2%	\$ 557,408	33.9%

* Subsequent to the most recent valuation date, certain economic events have had a significant adverse impact on investment portfolios. As such, these market downturns may have a significant effect on the funded ratio and on future required contributions.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

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 \$2,765,000 for the year ended June 30, 2009.

Note 11. Other Postemployment Benefits

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

Post employment benefits

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2009, the Town recognizes the cost of postemployment healthcare in the year when the employee services are received, discloses the accumulated liability from prior years, and provides information useful in assessing potential demands on the Town's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

Plan description

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

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

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

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

The Town's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Town's contributions represent payments made for premiums for insured individuals on a pay-as-you-go method.

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

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

OPEB Obligation

Annual required contribution	\$ 413,000
Interest on net pension obligation	-
Annual OPEB cost	413,000
Contributions made	146,000
Increase in net OPEB liability	267,000
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	\$ 267,000

SCHEDULE OF FUNDING PROGRESS

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

The information presented was determined as part of the actuarial valuation. Additional information as of the last actuarial valuation follows:

Valuation Date:	June 30, 2009
Actuarial Cost Method:	Projected Unit Credit
Asset Valuation Method:	Market Value
Amortization Method:	Level Percent of Pay
Remaining Amortization Period	30 Years - decreasing
Actuarial Assumptions:	
Discount rate	4.00%
Health cost trend rates	Average annual healthcare cost trend rates are assumed to be as follows:

Year	Decrease
2009	9%
2010	8%
2011	7%
2012	6%
2013 and later	5%

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 \$5,542,000 for the year ended June 30, 2009.

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

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
2008-2009	\$ 398,825	\$ 5,144,492	\$ 5,035,310	\$ 508,007
2007-2008	\$ 483,311	\$ 4,424,519	\$ 4,509,005	\$ 398,825

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 \$225,000 (\$15,000 per year for 15 years). Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The responsibility for postclosure monitoring will remain with the Town.

Note 14. Fund Deficits

The following funds had fund deficits as of June 30, 2009:

Bonded Projects Fund	\$ 880,771
Educational Grants Fund	\$ 61,496
Miscellaneous Grants Fund	\$ 13,134
Adult Education	\$ 4,648
Benefits Assessment Fund	\$ 15,645
2009 Bond Referendum	\$ 30

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

TOWN OF COLCHESTER, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2009

Note 15. Pronouncements Issued, Not Yet Effective

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

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

- ♦ GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* will be implemented by the Town as required by the GASB during the fiscal year ending June 30, 2010. The statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The statement also provides authoritative guidance that specifically addresses the nature of these intangible assets.
- ♦ GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* will be implemented by the Town as required by the GASB during the fiscal year ending June 30, 2010. The statement is intended to improve how state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements.
- ♦ GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions* will be implemented by the Town as required by the GASB during the fiscal year ending June 30, 2010. This statement establishes accounting and financial reporting standards for all governments that report governmental funds. This statement establishes the criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The implementation of this statement will result in changes to the classification of fund balances in the Town's governmental funds.
- ♦ GASB Statement Number 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* will be implemented by the Town as required by the GASB during the fiscal year ending June 30, 2010. This Statement establishes accounting and financial reporting standards for related party transactions, subsequent events, and going concern considerations for all state and local governments. The implementation of this statement will not result in any change to the financial statements.

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TOWN OF COLCHESTER, CONNECTICUT

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

SCHEDULE OF FUNDING PROGRESS - PENSION

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Under Funded AAL (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	(Over)/Under Funded AAL Percentage of Covered Payroll ((b-a)/c)
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%
*July 1, 2008	175,781	364,546	188,765	48.2%	557,408	33.9%

SCHEDULE OF FUNDING PROGRESS - OPEB

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

* Subsequent to the most recent valuation date, certain economic events have had a significant adverse impact on investment portfolios. As such, these market downturns may have a significant effect on the funded ratio and on future required contributions.

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

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APPENDIX B - OPINION OF BOND COUNSEL AND TAX EXEMPTION

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

BOND COUNSEL OPINION

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

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

[FORM OF BOND COUNSEL OPINION]

(date of closing)

Town of Colchester
Colchester, Connecticut

We have represented the Town of Colchester, Connecticut as Bond Counsel in connection with the issuance by the Town of \$6,595,000 General Obligation Bonds, Issue of 2010, dated as of June 3, 2010.

We have examined a record of proceedings authorizing the Bonds, and based on our examination, we are of the opinion that the Town of Colchester is authorized to issue the Bonds; the Town is duly and legally organized; all proper proceedings for the issuance and delivery of the Bonds have been taken; no limitation of indebtedness under the laws of the State of Connecticut has been exceeded in the issuance of the Bonds; the Bonds will be valid and binding general obligations of the Town when certified as provided thereon by a duly authorized official of U.S. Bank National Association; and the Town has the power to levy ad valorem taxes to pay the Bonds against all the taxable property in the Town without limit as to rate or amount except certified forest land taxable at a limited rate pursuant to Section 12-97 of the General Statutes of Connecticut, Revision of 1958, as amended, and dwelling houses of qualified elderly people of low income taxable at limited amounts pursuant to Section 12-129b of said General Statutes or Public Act No. 06-176.

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

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

Based on such representations and agreements and on the record of proceedings authorizing the Bonds, and assuming the accuracy of such representations and compliance with such agreements, it is our opinion that, under existing statutes: (1) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; (2) the Bonds are not "private activity bonds" and interest on the Bonds is not treated as a preference item for purposes of calculating the

Federal alternative minimum tax; and (3) the Bonds are “qualified tax-exempt obligations” for purposes of the deduction for Federal income tax purposes by financial institutions of a portion of interest expense allocable to tax-exempt obligations.

Bond Counsel expresses no opinion as to whether interest on the Bonds is taken into account in the calculation of adjusted current earnings for purposes of the Federal alternative minimum tax imposed on corporations.

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

Very truly yours,

Day Pitney LLP

FEDERAL INCOME TAX.

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

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

Alternative Minimum Tax. The Code imposes an alternative minimum tax on individuals and an alternative minimum tax on corporations. The alternative minimum tax is imposed on alternative minimum taxable income, which includes preference items. The interest on certain tax-exempt “private activity bonds” is treated as a preference item. The interest on certain tax-exempt bonds issued in calendar years 2009 and 2010 is excluded from treatment as a preference item for purposes of the Federal alternative minimum tax. The Town’s Tax Compliance Agreement will contain certain representations and covenants to ensure that interest on the Bonds will not be treated as a preference item for individuals or corporations in calculating alternative minimum taxable income.

The Code also provides that for most corporations a portion of the excess of adjusted current earnings (which includes certain tax-exempt interest) over other alternative minimum taxable income will be included in alternative minimum taxable income for purposes of calculating the corporation’s alternative minimum tax. The interest on certain tax-exempt bonds issued in calendar years 2009 and 2010 is excluded from being taken into account in the calculation of adjusted current earnings for purposes of the Federal alternative minimum tax imposed on corporations. A portion of the Bonds does *not* qualify for this exclusion, and therefore a portion of the interest on the Bonds may be included in alternative minimum taxable income for purposes of computing such Federal alternative minimum tax on corporations. As the Bonds are being sold as a single series the Town has made no determination as to whether a particular bond of the issue does or does not qualify for this exclusion. Prospective purchasers of the Bonds may wish to consult with their tax advisors with respect to the treatment of interest on the Bonds in calculating adjusted current earnings for purposes of the Federal alternative minimum tax imposed on corporations.

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

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

STATE OF CONNECTICUT TAX ON INTEREST.

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

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

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

ORIGINAL ISSUE DISCOUNT.

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

The discussion in this paragraph applies to those Bonds having original issue discount. Under Section 1288 of the Code, the amount of original issue discount treated as having accrued with respect to any such bond during each day it is owned by a taxpayer is added to the cost basis of such owner for purposes of determining gain or loss upon the sale or other disposition of such bond by such owner. Accrued original issue discount on a bond is excluded from gross income of the owners thereof for Federal income tax purposes. Accrued original issue discount on a bond is also excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. Original issue discount on any bond is treated as accruing on the basis of economic accrual for such purposes, computed by a constant semiannual compounding method using the yield to maturity on such bond. The original issue discount attributable to any bond for any particular semiannual period is equal to the excess of the product of (i) one-half of the yield to maturity of such bond and (ii) the amount which would be the adjusted basis of the bond at the beginning of such semiannual period if held by the

original owner and purchased by such owner at the initial public offering price, over the interest payable on such bond during such period. The amount so treated as accruing during each semiannual period is apportioned in equal amounts among the days in that period to determine the amount of original issue discount accruing for such purposes during each such day. Owners of Bonds having original issue discount, and especially any owner who is not an original owner of a bond who bought the bond at its initial public offering price, should consult their tax advisors with respect to the Federal and state income tax consequences of the disposition of such Bonds.

ORIGINAL ISSUE PREMIUM.

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

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

GENERAL.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds. Legislation affecting municipal bonds is regularly under consideration by the United States Congress. No assurance can be given that future Federal legislation enacted or proposed after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status or market price of the Bonds or will not change the effect of other Federal tax law consequences discussed above of owning and disposing of the Bonds. No assurance can be given that future legislation, or amendments to the State income tax law, if enacted into law, will not contain provisions which could, directly or indirectly, reduce the benefit of the exclusion of the interest on the Bonds or any gain made on the sale or exchange thereof from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates.

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

APPENDIX C - FORM OF CONTINUING DISCLOSURE AGREEMENT FOR BONDS

In accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the Town will agree, pursuant to a Continuing Disclosure Agreement for Bonds to be executed by the Town substantially in the following form, to provide, or cause to be provided, (i) annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the Bonds and (iii) timely notice of a failure by the Town to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement for Bonds.

Continuing Disclosure Agreement for Bonds

This Continuing Disclosure Agreement for Bonds ("Agreement") is made as of June 3, 2010 by the Town of Colchester, Connecticut (the "Issuer") acting by its undersigned officers, duly authorized, in connection with the issuance of \$6,595,000 General Obligation Bonds, Issue of 2010, dated as of June 3, 2010 (the "Bonds"), for the benefit of the beneficial owners from time to time of the Bonds.

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

"Final Official Statement" means the official statement of the Issuer dated May 20, 2010 prepared in connection with the Bonds.

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

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

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

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

Section 2. Annual Financial Information.

(a) The Issuer agrees to provide or cause to be provided to each Repository, in accordance with the provisions of the Rule and of this Agreement, annual financial information and operating data (commencing with information and data for the fiscal year ending June 30, 2010) as follows:

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

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

- (A) amounts of the net taxable grand list applicable to the fiscal year,
- (B) listing of the ten largest taxpayers on the applicable grand list, together with each such taxpayer's taxable valuation thereon,
- (C) percentage of the annual property tax levy uncollected as of the close of the fiscal year,

- (D) schedule of annual debt service on outstanding long-term bonded indebtedness as of the close of the fiscal year,
- (E) calculation of total overall debt and total overall net debt as of the close of the fiscal year,
- (F) total overall debt and total overall net debt of the Issuer per capita,
- (G) ratios of the total overall debt and total overall net debt of the Issuer to the net taxable grand list,
- (H) statement of statutory debt limitation as of the close of the fiscal year, and
- (I) funding status of the Issuer's pension benefit obligation.

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

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

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

Section 3. Material Events.

The Issuer agrees to provide or cause to be provided, in a timely manner, to each Repository notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (g) modifications to rights of holders of the Bonds;
- (h) Bond calls;
- (i) Bond defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds; and
- (k) rating changes.

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

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

Section 5. Use of Agents.

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

Section 6. Termination.

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

Section 7. Enforcement.

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

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

Section 8. Miscellaneous.

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

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

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

(d) Notwithstanding any other provision of this Agreement, the Issuer may amend this Agreement, and any provision of this Agreement may be waived, if such amendment or waiver is made in connection with a change of circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of the Issuer, and is supported by an opinion of counsel expert in federal securities laws, to the effect that (i) such amendment or waiver would not materially adversely affect the beneficial owners of the Bonds, and (ii) the provisions of the Agreement as so amended or waived would have complied with the requirements of the Rule, taking into account any

amendments or interpretations of the Rule as well as any changes in circumstances, in each case as of the date of such amendment to the Agreement or waiver. A copy of any such amendment or waiver will be filed in a timely manner with each Repository. The annual financial information provided on the first date following adoption of any such amendment will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating or financial information provided.

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

TOWN OF COLCHESTER

By _____
Gregg B. Schuster
First Selectman

By _____
Gregory E. Cordova
Selectman

By _____
Rosemary Coyle
Selectman

By _____
James W. Ford
Selectman

By _____
Stanley F. Soby
Selectman

By _____
Gregg G. LePage
Treasurer

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