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Town of Chester, Connecticut

**Financial Statements
Internal Control Reports
and Compliance Reports**

For the Year Ended June 30, 2011

**Town of Chester, Connecticut
Financial Statements
For the Year Ended June 30, 2011**

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Independent Auditors' Report

Board of Finance
Town of Chester, Connecticut
Chester, Connecticut

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Chester, Connecticut as of and for the year ended June 30, 2011, which collectively comprise the Town of Chester, Connecticut's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Chester, Connecticut's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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, each major fund, and the aggregate remaining fund information of the Town of Chester, Connecticut as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

As described in Note 1, the Town has implemented authoritative accounting pronouncements promulgated by the Governmental Accounting Standards Board (GASB) *Statement 54, Fund Balance Reporting, Governmental Fund Type Definitions* and *Statement 59, Financial Instruments Omnibus*. The Town also made a prior period adjustment to the Net Assets for the Governmental Activities Fund. This decreased Net Assets by \$112,936.

Independent Auditors' Report (Continued)

In accordance with Government Auditing Standards, we have also issued our report dated November 08, 2011 on our consideration of the Town of Chester, Connecticut's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in a an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Chester, Connecticut's basic financial statements. The combining and individual fund financial statements and supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Maier + Company

November 08, 2011

**Town of Chester, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

Our discussion and analysis of Town of Chester, Connecticut's (the Government) financial performance provides an overview of the Government's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the Government's financial statements, which begin with Exhibit 1.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Chester exceeded its liabilities at the close of the most recent year by \$11,961,923. Of the net asset amount, \$3,086,464 were unrestricted net assets, which may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$563,419
- At the close of the current fiscal year, Chester's governmental fund reported a combined ending balance of \$3,178,409, an increase of \$464,195 in comparison with the prior year. Of the \$3,178,409 of fund balance, \$4,267 is nonspendable, \$295,302 is restricted, \$896,348 is committed for capital projects, and \$566,781 is assigned. Of the amount assigned \$145,766 was used to balance the subsequent year's general fund budget. The \$1,415,711 unassigned general fund balance is available for spending at the Town's discretion.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$1,415,711 or 11.31% of the general fund revenue and transfers in.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the Government as a whole and present a longer-term view of the Government's finances. Fund financial statements start with Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Government's operations in more detail than the government-wide statements by providing information about the Government's most significant funds. The remaining statements provide financial information about activities for which the Government acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the Government as a Whole

Our analysis of the Government as a whole begins with Exhibit 1. One of the most important questions asked about the Government's finances is, "Is the Government as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most

**Town of Chester, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Government's *net assets* and changes in them. You can think of the Government's net assets—the difference between assets and liabilities—as one way to measure the Government's financial health, or *financial position*. Over time, *increases or decreases* in the Government's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Government's property tax base and the condition of the Government's roads, to assess the *overall health* of the Government.

In the Statement of Net Assets and the Statement of Activities, the Government shows the following activity:

- Governmental activities—The Government's basic services are reported here, including the education, public works, and general administration. Property taxes, state and federal grants and local revenues such as fees and licenses finance most of these activities.

Reporting the Government's Most Significant Funds

Our analysis of the Government's major funds begins in the section titled "The Government's Funds". The fund financial statements begin with Exhibit 3 and provide detailed information about the most significant funds—not the Government as a whole. Some funds are required to be established by State law and by bond covenants. However, the Board of Finance establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

- *Governmental funds*—The Government's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified* accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Government's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Government's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.

The Government as Trustee

The Government is the trustee, or *fiduciary*, for the activity funds at the school. These funds do not belong to the Government. The Government's fiduciary activities are reported in separate Statements of Fiduciary Net Assets in Exhibits 5 and 6. We exclude these activities from the Government's other financial statements because the Government cannot use these assets to finance its operations. The Government is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Town of Chester, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

THE GOVERNMENT AS A WHOLE

The Government's *combined* net assets increased by \$563,419 from a year ago—*increasing* from \$11,398,504 to \$11,961,923. Last year net assets *increased* by \$997,828. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Government.

**Table 1
Change in Net Assets (on Exhibit 1)**

	2011	Change During Year		2010
		Dollars	Percent	
Current and other assets	\$ 4,120,272	\$ 218,791	5.61%	\$ 3,901,481
Capital assets	10,630,866	152,580	1.46%	10,478,286
Total assets	14,751,138	371,371	2.58%	14,379,767
Long-term debt outstanding	2,413,792	(208,640)	-7.96%	2,622,432
Other liabilities	375,423	16,592	4.62%	358,831
Total liabilities	2,789,215	(192,048)	-6.44%	2,981,263
Net assets:				
Invested in capital assets, net of related debt	8,580,266	349,651	4.25%	8,230,615
Restricted - expendable	295,193	11,422	4.03%	283,771
Unrestricted	3,086,464	202,346	7.02%	2,884,118
Total net assets	\$ 11,961,923	\$ 563,419	4.94%	\$ 11,398,504

Net capital assets increased as a result of the purchase of the new HVAC system in the amount of \$70,030 at the Chester Elementary School and the road work completed on Ridge Road in the amount of \$179,675. Construction in Progress totaled \$155,915, consisting of \$35,390 for High Street and \$120,525 for the fire house addition.

Long term debt outstanding decreased by \$208,640 as a result of payments that were made on the general obligation bond and the clean water note during the year. The general obligation bond matures in 2018 and the clean water note matures in 2030. The town also made payments on the special termination benefits for retired employees. The town will continue making such payments through 2015.

Current and other assets increased by \$218,791. Cash increased \$245,084 while net receivables decreased from a slight drop in taxes receivable as well as the sewer benefit receivable.

**Town of Chester, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

**Table 2
Change in Net Assets (on Exhibit 2)**

	2011	Change During Year		2010
		Dollars	Percent	
Revenues				
Program revenues:				
Charges for services	\$ 442,214	\$ (423,817)	-48.94%	\$ 866,031
Operating grants and contributions	1,399,632	98,816	7.60%	1,300,816
Capital grants and contributions	120,525	82,036	0.00%	38,489
General revenues:				
Property taxes	11,029,241	43,740	0.40%	10,985,501
Grants and contributions	34,431	11,104	47.60%	23,327
Interest and investment earnings	22,999	(24,403)	-51.48%	47,402
Gain (loss) on disposal of equipment	(6,349)	27,157	-81.05%	(33,506)
Other general revenues	334,194	336,100	100.00%	(1,906)
Total revenues	13,376,887	150,733	1.14%	13,226,154
Program expenses				
General government	978,745	93,149	10.52%	885,596
Public works	921,480	107,336	13.18%	814,144
Public safety	755,560	75,369	11.08%	680,191
Health and welfare	280,995	20,906	8.04%	260,089
Miscellaneous	606,912	55,176	10.00%	551,736
Education	9,197,877	110,166	1.21%	9,087,711
Interest on long-term debt	71,899	23,999	50.10%	47,900
Total expenses	12,813,468	486,101	3.94%	12,327,367
Increase (decrease) in net assets	\$ 563,419	\$ (335,368)	-37.31%	\$ 898,787

Charges for services decreased due to a decrease in WPCA assessments of \$371,500. The full amount was issued and recorded as revenue on the government wide financial statements in the prior year.

In the prior year there was a loss of \$33,506 on the sale of a loader. In the current year the town disposed of the Computer Equipment and Community Center Assets.

Taxes are up because the current year levy increased from \$10,535,559 to \$11,042,976. The mill rate remained at 22.11 in the current year.

Grants and contributions increased 47.6% in the current year as the town received FEMA money. A portion was recorded in the capital and non recurring fund as it was used to reimburse expenses for the Dock Road Project.

Other General Revenues increased 100% in the current year as the town received insurance proceeds for the Community Center. The snow on the Community Center Roof caused the roof to collapse during one of the winter storms.

**Town of Chester, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

Public works expenditures increased by 13.18%. Public Works: Winter expenses increased \$84,544 due to the numerous winter storms in 2010/2011.

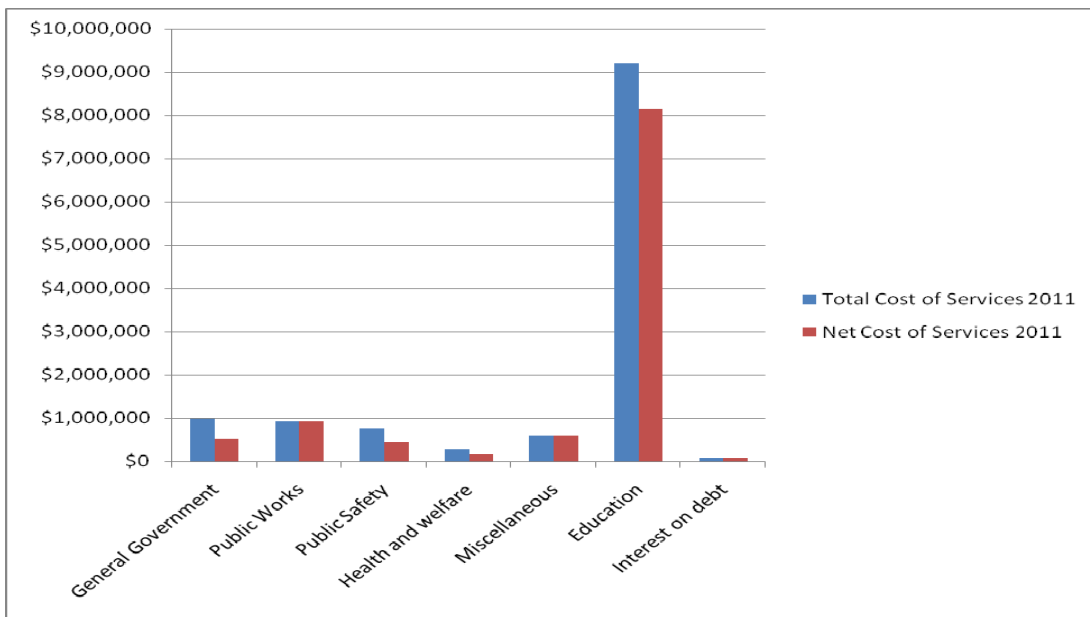
Interest on long term debt increased as there was less accrued interest in the current year.

Governmental Activities

Table 3 presents the cost of each of the Government's governmental programs as well as each governmental program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Government's taxpayers by each of these functions.

**Table 3
Governmental Type Activities**

	Total Cost of Services		Incr. Decr.	Net Cost of Services		Incr. Decr.
	2011	2010		2011	2010	
Governmental Activities						
General government	\$ 978,745	\$ 885,596	10.52%	\$ 527,618	\$ 75,265	601.01%
Public works	921,480	814,144	13.18%	920,180	813,344	13.14%
Public safety	755,560	680,191	11.08%	431,165	500,175	-13.80%
Health and welfare	280,995	260,089	8.04%	157,636	107,614	46.48%
Miscellaneous	606,912	551,736	10.00%	606,912	551,736	10.00%
Education	9,197,877	9,087,711	1.21%	8,137,182	7,800,125	4.32%
Interest on debt	71,899	47,900	50.10%	71,899	47,900	50.10%
Totals	\$ 12,813,468	\$ 12,327,367	3.94%	\$ 10,852,592	\$ 9,896,159	9.66%



**Town of Chester, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

THE GOVERNMENT'S FUNDS

General Fund Budgetary Highlights

Over the course of the year, the Board of Finance can revise the Government budget with additional appropriations and budget transfers. Additional appropriations increase the total budget. The Board of Finance is allowed by State Statute to make one additional appropriations up to \$20,000 per line item or department. A second additional appropriation or an appropriation over \$20,000 requires a Town Meeting. Transfers do not increase the total budget, but instead pull appropriations from one department that needs additional funding from other departments that might have excess funding. State Statutes allow these transfers to be made by the Board of Finance without a Town Meeting. Below is a summarized view of the final budget and actual results for the General Fund:

**Table 4
General Fund - Budget Summary**

	Final Budget	Actual	Variance
Revenues			
Property Taxes	\$10,977,283	\$11,143,636	\$ 166,353
Intergovernmental - general	275,017	261,017	(14,000)
Intergovernmental - education	672,828	678,286	5,458
Licenses and permits	62,950	59,787	(3,163)
Miscellaneous	356,506	365,717	9,211
Transfers in	16,097	12,914	(3,183)
Total Revenues	12,360,681	12,521,357	160,676
Expenditures			
General Government	742,087	741,918	169
Public works	847,946	847,614	332
Public safety	654,071	653,509	562
Health and welfare	127,442	127,314	128
Miscellaneous	660,392	660,366	26
Education	8,783,217	8,783,217	-
Debt service	270,247	270,245	2
Other financing uses	393,300	393,300	-
Total Expenditures	12,478,702	12,477,483	1,219
Increase (Decrease) in Fund Balance	\$ (118,021)	\$ 43,874	\$ 161,895

**Town of Chester, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

Significant variances are summarized as follows:

Revenue:

- Property taxes increased primarily because of additional prior year taxes, interest and lien fees received.
- Intergovernmental – General decreased primarily because of the net amount of the following: There was a reduction in revenue as follows: DUI grant \$7,012, miscellaneous grants \$6,350, town aid road \$4,895 and boat registration reimbursement \$4,095. The local capital improvement project funds in the amount of \$27,525 were not applied for in 10/11. These funds accumulate each year and can be applied for in the future. There was an increase in revenue as follows: Manufacturing new machinery and equipment \$27,630, judicial fine reimbursement \$3,367 and elderly tax relief for homeowners \$2,075.
- Miscellaneous – increased primarily because of the net amount of the following: There was an increase in revenue as follows: conveyance tax \$19,079, Region #4 surplus, \$9,280, ambulance \$9,000, police private duty \$3,537 and town clerk fees \$2,257. There was a decrease in revenue as follows: interest \$31,213 and police violations \$6,920.

Expenditures:

- General government - \$64,601 was transferred out from the original general government budget to various departments. The majority of the funds came from the following: assessor - \$36,719 (hired subcontractor for assessor position, instead of employee), tax collector - \$7,727 (reduced hours worked by tax clerk), town office operations - \$7,249 (less equipment repairs) and the planning and zoning commission - \$4,860 (reduced cost of POCD)
- Public works - \$139,977 was transferred to the public works budget from various departments. The majority of these fund were used for the following: general maintenance - \$6,349 (increased fuel cost and usage), winter maintenance - \$116,639 (increased winter storms), buildings and grounds - \$36,074 (unexpected maintenance and increased heating fuel cost), road maintenance – (\$14,825) (reduced road maintenance) and municipal services – (\$3,829) (less bulky waste)
- Public safety - \$15,795 was transferred out from the original public safety budget to various departments. The majority of the funds came from the following: police protection - \$3,478 (reduced resident trooper cost), safety services - \$3,448 (reduced street light cost) and emergency management - \$6,980 (reduced equipment maintenance)
- Miscellaneous - \$58,949 was transferred out from the original miscellaneous budget to various departments. The majority of the funds came from the following: employee benefits - \$23,756 (reduced medical cost and reduced FICA) Board of Finance general contingency - \$35,000 (these funds are used to cover over expenditures in other areas of the general fund budget)

**Town of Chester, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of this year, the Government had \$10,630,866 invested government activity capital assets. This amount represents a net increase (including additions and deductions) of \$152,580 from last year. This is primarily due to an increase in the construction in progress at the Chester Hose Company and High Street, the new HVAC system at Chester Elementary School, Ridge Road being reclaimed and disposal of computer equipment at the town hall. More detailed information about the Government's capital assets is presented in Note 6 to the financial statements.

Debt

At year end, the Government had \$2,050,600 in bonds and notes outstanding. This is a decrease of \$197,071 from last year. The Government's general obligation bond rating continues to carry an A2 rating. More detailed information about the Government's long-term liabilities is presented in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Government's elected and appointed officials considered many factors when setting the fiscal-year 2011 budget and tax rates.

Economic factors were considered in preparing the Town's budget for the 2012 fiscal year, including concerns of the constituents. The unemployment rate for the Town of Chester is 5.1 as of October, 2011 which is down from the prior year by .9%. This compares favorably to the State of Connecticut's unemployment rate of 8.7% and the national average rate of 9%.

The Town's adopted general fund budget for the 2012 fiscal year increased by \$77,151. This was an increase of .62% over the prior year's budget of \$12,478,702. The Town's adopted capital budget for the 2012 fiscal year decreased by \$48,300. This was a 12.28% decrease over the prior year's budget of \$393,300.

The major impact on the budgeted expenditures was Chester's share of the Regional School District #4 budget. It increased \$106,742 to \$4,723,066 as the Town's average daily membership stayed the same at 271 students, between October 1, 2009 and October 1, 2010, while the entire district decreased by 3 students. This resulted in Chester's share of the regional budget to increase from 27.51% to 27.6%.

In addition, the Chester Elementary School budget decreased by \$2,824 or .07%, to \$4,164,069.

The Town's general fund budget and capital budget decreased by \$26,767 or .72%, to \$3,668,718.

**Town of Chester, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

The Town's major source of revenue to fund the budget is from local property taxes, which are based on the values of residential and commercial real estate, personal property, and motor vehicles. The net grand list increased by \$1,535,379 or less than 1%, to \$500,981,070 between October 1, 2009 and October 1, 2010. The mil rate stayed the same at 21.11.

The Town of Chester also appropriated \$145,766 of the 2011 fiscal year fund balance in the general fund for spending in the 2012 fiscal year budget. This use of available fund balance decreased the level of taxes or charges needed to be raised during the 2012 fiscal year.

CONTACTING THE GOVERNMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Government's finances and to show the Government's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board of Finance at Town of Chester, Connecticut, 203 Middlesex Avenue, Chester, CT 06412.

Town of Chester, Connecticut
Statement of Net Assets
June 30, 2011

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,257,295
Receivables, net of allowance for collection losses	858,710
Inventory	4,267
Capital assets:	
Not being depreciated	1,095,490
Net of accumulated depreciation	9,535,376
Total assets	14,751,138
Liabilities	
Accounts payable	202,930
Accrued wages and benefits	145,828
Accrued interest	9,860
Deferred revenue	-
Net other post employment benefit obligation	16,805
Noncurrent liabilities:	
Due within one year	234,303
Due in more than one year	2,179,489
Total liabilities	2,789,215
Net Assets	
Invested in capital assets, net of related debt	8,580,266
Restricted net assets:	
Expendable	295,193
Unrestricted net assets	3,086,464
Total net assets	\$ 11,961,923

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

**Town of Chester, Connecticut
Statement of Activities
For the Year Ended June 30, 2011**

	Program Specific Revenues			Net (Expense) or Revenues and Changes in Net Assets
	Charges for Services	Operating	Capital	
Functions/Programs				
Governmental activities:				
General government	\$ (978,636)	\$ 269,371	\$ 181,756	\$ (527,509)
Public works	(921,480)	1,300	-	(920,180)
Public safety	(755,560)	24,613	180,752	(429,670)
Health and welfare	(280,995)	102,117	21,242	(157,636)
Miscellaneous	(606,912)	-	-	(606,912)
Education	(9,197,877)	44,813	1,015,882	(8,137,182)
Interest on long-term debt	(71,899)	-	-	(71,899)
Total government	\$ (12,813,359)	\$ 442,214	\$ 1,399,632	\$ (10,850,988)
General revenues:				
Property taxes, payments in lieu of taxes, interest and liens				11,029,132
Grants and contributions				34,431
Interest and investment earnings				22,999
Gain (loss) on disposal of equipment				(6,349)
Miscellaneous				336,128
Transfer In/Out				(1,934)
Total general revenues				11,414,407
Changes in net assets				563,419
Net assets, beginning of the year				11,398,504
Net assets, end of the year				<u>\$ 11,961,923</u>

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

Town of Chester, Connecticut
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Capital Nonrecurring Fund	Sewer System Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,761,073	\$ 1,178,396	\$ 67,888	\$ 249,938	\$ 3,257,295
Receivables	640,334	-	-	218,376	858,710
Inventory	-	-	-	4,267	4,267
Due from other governmental funds	74,292	-	-	8	74,300
Total assets	\$ 2,475,699	\$ 1,178,396	\$ 67,888	\$ 472,589	\$ 4,194,572
Liabilities and fund balance					
Liabilities					
Accounts payable	\$ 183,275	\$ -	\$ 11,564	\$ 8,091	\$ 202,930
Accrued expenses	145,828	-	-	-	145,828
Deferred revenue	585,111	-	-	7,994	593,105
Due to other governmental funds	8	-	-	74,292	74,300
Total liabilities	914,222	-	11,564	90,377	1,016,163
Fund balance					
Nonspendable	-	-	-	4,267	4,267
Restricted	-	-	-	295,302	295,302
Committed	-	896,348	-	-	896,348
Assigned	145,766	282,048	56,324	82,643	566,781
Unassigned	1,415,711	-	-	-	1,415,711
Total fund balance	1,561,477	1,178,396	56,324	382,212	3,178,409
Total liabilities and fund balance	\$ 2,475,699	\$ 1,178,396	\$ 67,888	\$ 472,589	

Reconciliation of net assets to fund balances - total governmental funds:

Less: Long-term liabilities not due and payable in current period:

Bonds, notes, capital leases payable and unamortized premiums on bond costs	(2,050,600)
Compensated absences and special termination benefits	(137,010)
Other post-employment benefits	(16,805)
Net pension obligation	(76,682)
Landfill closure	(149,500)
Accrued interest payable	(9,860)

Plus:

Net capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	10,630,866
Other long-term assets not available to pay for current period expenditures, recorded as deferred revenue in the funds	593,105

Net assets reported on the government-wide financial statements (Exhibit 1)**\$ 11,961,923**

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

Town of Chester, Connecticut
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Capital Nonrecurring Fund	Sewer System Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes, interest and lien fees	\$ 11,143,527	\$ -	\$ -	\$ -	\$ 11,143,527
Intergovernmental revenues	483,186	-	-	88,468	571,654
Intergovernmental revenues - education	722,504	-	-	-	722,504
Licenses and permits	59,787	-	99,337	-	159,124
Miscellaneous local revenue	231,717	353,666	318	345,024	930,725
	<u>12,640,721</u>	<u>353,666</u>	<u>99,655</u>	<u>433,492</u>	<u>13,527,534</u>
Expenditures					
Current expenditures:					
General government	741,809	-	-	93,650	835,459
Public works	847,614	-	-	100	847,714
Public safety	653,509	-	-	27,352	680,861
Health and welfare	127,314	-	94,729	11,916	233,959
Miscellaneous	660,366	-	-	-	660,366
Education	9,022,134	-	-	125,162	9,147,296
Capital outlay	-	377,395	10,060	-	387,455
Debt service	270,245	-	-	-	270,245
	<u>12,322,991</u>	<u>377,395</u>	<u>104,789</u>	<u>258,180</u>	<u>13,063,355</u>
Excess (deficiency) of revenues over expenditures	<u>317,730</u>	<u>(23,729)</u>	<u>(5,134)</u>	<u>175,312</u>	<u>464,179</u>
Other financing sources (uses)					
Operating transfers in	146,914	393,300	-	27,475	567,689
Operating transfers out	(420,770)	-	-	(146,903)	(567,673)
	<u>(273,856)</u>	<u>393,300</u>	<u>-</u>	<u>(119,428)</u>	<u>16</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	43,874	369,571	(5,134)	55,884	464,195
Fund balance, beginning of the year	<u>1,517,603</u>	<u>808,825</u>	<u>61,458</u>	<u>326,328</u>	<u>2,714,214</u>
Fund balance, end of the year	<u>\$ 1,561,477</u>	<u>\$ 1,178,396</u>	<u>\$ 56,324</u>	<u>\$ 382,212</u>	<u>\$ 3,178,409</u>

Reconciliation of the statement of revenues, expenditures and changes in fund balances (above) to the statement of activities (Exhibit 2)

Net change in fund balances - total governmental funds (above)	\$ 464,195
Transactions involving the treatment of capital outlays:	
Plus: Capital outlays treated as expenditures here, but capitalized on Exhibit 2	295,446
Plus: Contributions Received for Capital Outlays	120,525
Less: Depreciation expense recorded in Exhibit 2, but not considered in the fund statements	(255,542)
Net effects of various transactions involving fixed assets:	
Less: Net book value of fixed assets sold	(7,849)
Transactions involving the treatment of long-term debt:	
Plus: Principal repayments:	
General obligation bonds	197,071
Post-closure landfill costs	11,500
Changes in other items not requiring the use of current financial resources:	
Compensated absences benefits payable	(3,572)
Special termination benefits payable	21,428
Accrued interest payable	1,275
Post-employment benefits	(1,773)
Town pension obligation	(4,854)
Volunteer pension obligation	(12,933)
Revenue in the Statement of Activities (Exhibit 2) that is deferred in this statement	
State reimbursement of bond principal	-
Taxes, interest and lien fees	(251,473)
Grant receivable	-
Sewer assessment receivable	(18,019)
Other	7,994
Changes in net assets of governmental activities (Exhibit 2)	<u>\$ 563,419</u>

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

Town of Chester, Connecticut
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Pension Trust Funds	Agency Funds
	<hr/>	<hr/>
Assets		
Cash and cash equivalents	\$ -	\$ 10,335
Investments	1,203,567	-
	<hr/>	<hr/>
Total assets	1,203,567	10,335
	<hr/>	<hr/>
Liabilities		
Due to Others	-	10,335
	<hr/>	<hr/>
Total liabilities	-	10,335
	<hr/>	<hr/>
Net assets		
Held in trust for pension benefits	\$ 1,203,567	\$ -
	<hr/> <hr/>	<hr/> <hr/>

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

Town of Chester, Connecticut
Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2011

	<u>Pension Trust Funds</u>
Additions	
Contributions:	
Employer	\$ 121,507
Employee	<u>6,587</u>
Total Contributions	<u>128,094</u>
Net Investment Income:	
Net appreciation (depreciation) in fair value of investments	157,311
Interest and dividends	<u>9,066</u>
Total Net Investment Income	<u>166,377</u>
Total additions	<u>294,471</u>
 Deductions	
Benefits paid to plan members	<u>70,238</u>
Total deductions	<u>70,238</u>
Change in net assets	224,233
Net assets held in trust, beginning of year	<u>979,334</u>
Net assets held in trust, end of year	<u>\$ 1,203,567</u>

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 1 - Summary of Significant Accounting Policies

The Town of Chester, Connecticut (Town) is a municipal corporation governed by a selectmen–town meeting form of government. Under this form of government the town meeting is the legislative body. A town meeting is required to make appropriations, levy taxes and borrow money. The administrative branch is lead by an elected three-member board of selectmen. The selectmen oversee most of the activities not assigned specifically to another body. An elected board of education oversees the public school system. The elected Board of Finance is the budget making authority and supervises the town financial matters.

A. Reporting entity

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 criterion, provided by the Government Accounting Standards Board (GASB), has been considered and there are no agencies or entities which should be presented with this government.

B. Government-wide and fund financial statements

The *government-wide financial statements* (Exhibits 1 and 2) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Fiduciary funds are excluded from the government-wide financial statements.

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

Separate *fund financial statements* are provided for governmental funds and fiduciary funds (Exhibits 3, 4, 5 and 6). *Governmental activities*, activities which normally are supported by taxes and intergovernmental revenues, are reported in the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. *Fiduciary funds* are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the governments own programs.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

C. Fund financial statements

Separate *fund financial statements* are provided for governmental funds and fiduciary funds (Exhibits 3, 4, 5 and 6). *Governmental activities*, activities which normally are supported by taxes and intergovernmental revenues, are reported in the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. *Fiduciary funds* are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the governments own programs.

D. Measurement focus, accounting basis, 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 fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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.

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

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 and claims and judgments, are recorded only when payment is due.

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 *Capital Nonrecurring Fund* accounts for the financial revenues to be used for major capital asset construction and/or purchases funded substantially by grants and General Fund appropriations.

The *Sewer System Fund* accounts for certain revenues and expenditures for a sewer system which is available to some of the residents.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Additionally, the Town reports the following fiduciary fund types:

The *Pension Trust Funds* account for the activities of the Town's Employee's Retirement System, which accumulates resources for pension benefit payments to qualified employees, and the Town's Volunteer Firefighters' Pension Plan, which accumulates resources for pension benefit payments to qualified firefighters.

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 the government-wide 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 their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

E. Assets, liabilities, and net assets

1) Deposits and investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the Town are generally reported at fair value. Nonparticipating, interest-earning investment contracts are generally reported at cost plus accrued earnings.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town's policy for custodial credit risk is to invest in obligations allowable under the Connecticut General Statutes. In general for most of the funds, this includes deposits in allowable banks, obligations of the United States of America and obligations of any State or political subdivision, which is tax exempt. Certain Fiduciary Funds are allowed more flexibility in investing.

Credit Risk – Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity's complete failure. The Town does not have a formal credit risk policy other than restrictions to obligations allowable under the Connecticut General Statutes.

Interest Rate Risk – Interest rate risk is the risk that the government will incur losses in fair value caused by changing interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. Generally, the Town does not invest in any long-term investment obligations.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Concentration of Credit Risk – Concentration of credit risk is the risk attributed to the magnitude of a government's investments in a single issuer. The Town follows the limitations specified in the Connecticut General Statutes. Generally, the Town's deposits cannot be 75% or more of the total capital of any one depository.

2) *Receivables*

Property taxes are assessed on property values as of October 1st. The tax levy is divided into two billings; the following July 1st and January 1st. This is used to finance the fiscal year from the first billing (July 1st) to June 30th of the following year. The billings are considered due on those dates; however, the actual due date is based on a period ending 31 days after the tax bill. On these dates (August 1st and February 1st), the bill becomes delinquent at which time the applicable property is subject to lien, and penalties and interest are assessed.

Under State Statute, the Town has the right to impose a lien on a taxpayer if any personal property tax, other than a motor vehicle tax, due to the Town is not paid within the time limited by any local charter or ordinance. The lien shall be effective for a period of fifteen years from the date of filing unless discharged. A notice of tax lien shall not be effective if filed more than two years from the date of assessment for the taxes claimed to be due.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance is calculated using a two tier formula based on prior experience and current knowledge.

3) *Activity between funds*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in appropriate governmental funds to indicate that they are not available for appropriation and are not expendable financial resources.

4) *Inventories and prepaid items*

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

5) Capital assets

Capital assets (which include property, plant, equipment, and infrastructure assets) are reported in government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than the capitalization threshold for that asset type 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 estimated fair market value at the date of donation.

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

Land is considered inexhaustible and, therefore, not depreciated. Property, plant, and equipment of the Town is depreciated using the straight line method over the following estimated useful lives:

Assets	Years	Capitalization Threshold
Land	N/A	\$ 1
Buildings	20-75	\$ 1
Land improvements	50	\$ 20,000
Building improvements	20-50	\$ 20,000
Heavy equipment	30	\$ 5,000
Vehicles	12-40	\$ 5,000
Other equipment	5-25	\$ 5,000
Infrastructure:		
Bridges	30	\$ 100,000
Roads and drainage	75	\$ 100,000

6) Compensated absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay is generally lost if it is not used in the year it is earned. There is a liability for unpaid accumulated sick leave since the Town has a policy to pay certain amounts when employees separate from service with the Town. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

7) Long-term obligations

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

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

8) Fund equity

Fund equity for government-wide statements (Exhibit 1 and 2) is called Net Assets and is displayed in three components:

Invested in Capital Assets, Net of Related Debt – this consists of capital assets, including *restricted* capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – these are reported when constraints placed on net asset use are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or, (b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – is the residual classification of Net Assets. When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the Town's policy is to use its restricted resources first.

Fund equity for governmental funds (Exhibit 3 and 4) is called Fund Balance and is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the Town's policy is to use its restricted resources first. This will be followed by committed, assigned and unassigned resources in that order.

Nonspendable Fund Balance - includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Restricted Fund Balance – includes amounts that have constraints placed on the use of resources. These constraints must be either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action at a Town Meeting, and cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned Fund Balance – are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed through a formal action of the Board of Finance.

Unassigned Fund Balance - unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

F. Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) 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 and expenses during the reporting period. Actual results could differ from those estimates.

G. Subsequent Events

Subsequent events have been evaluated through the date of this report, November 08, 2011. This date represents the date the financial statements were available to be issued.

H. Changes in Financial Statements

New Statements Implemented - The Town implemented Governmental Accounting Standards Board (GASB):

- Statement 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* – This statement provides clearer fund balance classifications that can be more consistently applied. This resulted in no adjustment to beginning equity.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

- **Statement 59 – *Financial Instruments Omnibus*** – This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. This resulted in no adjustments to beginning equity.

Prior Period Adjustment - The Town made a prior period adjustment to correct the prior year liability for special terminations benefits. This reduced Net Assets for the Governmental Activities Fund by \$112,936.

Note 2 - Budgeting

A. Budget Basis

A formal, legally approved, annual budget is adopted for the General Fund only. This budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exceptions:

- **Teacher's Retirement** - The Town does not recognize as income or expenditures payments made for the teacher's retirement by the State of Connecticut on the Town's behalf in its budget. The Governmental Accounting Standards Board's Statement 24 requires that the employer government recognize payments for salaries and fringe benefits paid on behalf of its employees.
- **Excess Cost Grant** - The State reimburses the Town for certain costs incurred for special educational needs of students that exceed a set multiple of a student in the regular program. This reimbursement is the Excess Cost Grant – Student Based. Connecticut General Statute 10-76g states that this grant should reduce the education expenditures instead of being reported as revenue.
- **Encumbrances** - Unless committed through a formal encumbrance (e.g., purchase orders, signed contracts), all annual appropriations lapse at fiscal year end. Encumbrances outstanding at year end are reported on the budgetary basis statements as expenditures.

B. Budget Calendar

The Boards of Selectmen and Education submit requests for appropriation(s) to the Board of Finance. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations of the next fiscal year.

The Board of Finance holds a public hearing, at which itemized estimates of the expenditures of the Town for the next fiscal year are presented. At this time, individuals are able to recommend any appropriations, which they desire the Board of Finance to consider. The Board of Finance then considers the estimates and any other matters brought to their attention at a public meeting held subsequent to the public hearing and prior to the annual meeting. The Board of Finance prepares the proposed budget.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

The Board of Finance's estimated and recommended budget reports are submitted at the Annual Town Meeting. The Annual Town Meeting takes action on this budget. After the Annual Town Meeting the Board of Finance meets to levy a tax on the grand list which will be sufficient to cover, together with other income or revenue surplus which is appropriated, the amounts appropriated and any revenue deficit of the Town.

C. Budget Control

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level except expenditures for education, which are, by State Statutes, appropriated as one department.

The governing body may amend the annual budget subject to the requirements of the Connecticut General Statutes. The Board of Finance may make a one-time additional appropriation up to \$20,000 to any appropriations. A Town meeting must be called to make appropriations over \$20,000 or additional changes to a previously adjusted appropriation. No additional appropriations were made in the current year.

Note 3 – Deposits and Investments

A. Cash and Cash Equivalents

The following is a summary of cash and cash equivalents at year end:

Governmental Funds	\$ 3,257,295
Agency Funds	10,335
Total Cash and Cash Equivalents	<u>\$ 3,267,630</u>

B. Custodial Credit Risk on Deposits

As of June 30, 2011, the carrying amount of the Town's deposits with financial institutions was:

Deposits	\$ 2,799,850
Plus: External Investment Pools treated as cash and cash equivalents	472,711
Less: Certificates of Deposit treated as investments	<u>(4,931)</u>
Total Cash and Cash Equivalents	<u>\$ 3,267,630</u>

The bank balance of the deposits was \$2,922,495 and was exposed to custodial credit risk as follows:

Covered by Federal Depository Insurance	\$ 1,156,607
Uninsured and uncollateralized	1,765,888
Total Deposits	<u>\$ 2,922,495</u>

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

C. External Investment Pools Treated as Cash and Cash Equivalents

The pooled investment funds' risk category cannot be determined since the Town does not own identifiable securities but invests as a shareholder of the investment pool. The pool, Short-Term Investment Fund (STIF), is a money market investment pool managed by the Cash Management Division of the State Treasurer's Office created by Section 3-27 of the Connecticut General Statutes (CGS). Pursuant to CGS 3-27a through 3-27f, the State, municipal entities, and political subdivisions of the State are eligible to invest in the fund. The fund is considered a "2a7-like" pool and, as such, reports its investments at amortized cost (which approximates fair value). A 2a7-like pool is not necessarily registered with the Security and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940 that allows money market mutual funds to use the amortized cost to report net assets. The pool is rated AAAM by Standard & Poor. This is the highest rating for money market funds and investment pools.

D. Credit Risk and Interest Rate Risk of Investments

As of June 30, 2011 the range of maturities of the investments was as follows:

Type of Investment	Avg. Credit Rating	Fair Value	Investment Maturity		
			N/A	Less than 1 Year	1 to 5 Years
Certificates of Deposit	*	\$ 4,931	\$ -	\$ 4,931	\$ -
Equity Mutual Funds	NA	457,983	457,983	-	-
Fixed Income Mutual Funds	A1	246,642	-	-	246,642
Money Market Portfolios	NA	498,941	498,941	-	-
		<u>\$ 1,208,498</u>	<u>\$ 956,924</u>	<u>\$ 4,931</u>	<u>\$ 246,642</u>

Note 4 – Operating Lease Receivable

The Town leases approximately 21% of the Town Hall to an unrelated tenant. The lease expires on August 31, 2012. The building cost \$1,915,200 and as of June 30, 2011, after depreciation, had a carrying value of \$1,723,467. Depreciation for the year ended June 30, 2011 was \$21,706. Minimum future rentals to be received under the lease agreement are as follows:

2012	\$ 65,990
2013	<u>10,995</u>
Total minimum future rentals	<u><u>\$ 76,985</u></u>

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 5 - Receivables

Receivables as of year end for the Town's individual funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>
Taxes	\$ 262,580	\$ -
Interest and fees on back receivables	121,128	-
Intergovernmental - other	1,134	11,002
Ambulance billings	-	16,589
Other	1,685	-
Sewer assessments *	271,796	-
Small cities housing rehab loans *	-	190,785
Gross receivables	658,323	218,376
Less: allowance for uncollectibles	(17,989)	-
Net total receivables	\$ 640,334	\$ 218,376

* Indicates a portion is long-term

Of the total taxes and interest that is due, one taxpayer owes 22% of the total tax and 59% of interest outstanding.

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

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes, interest and liens receivable	\$ 313,315	\$ -
Sewer assessments not yet due	271,796	-
Ambulance receivables not received in 60 days	7,994	-
Total deferred/unearned revenue	\$ 593,105	\$ -

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 6 - Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 796,925	\$ -	\$ -	\$ 796,925
Works of art	112,650	-	-	112,650
Construction in progress	63,977	155,915	(33,977)	185,915
	<u>973,552</u>	<u>155,915</u>	<u>(33,977)</u>	<u>1,095,490</u>
Capital assets being depreciated:				
Buildings and improvements	7,055,009	70,030	(7,532)	7,117,507
Equipment	477,545	26,328	(59,965)	443,908
Vehicles	1,684,550	18,000	-	1,702,550
Infrastructure	2,968,923	179,675	-	3,148,598
	<u>12,186,027</u>	<u>294,033</u>	<u>(67,497)</u>	<u>12,412,563</u>
Less: Accumulated depreciation:	<u>(2,681,293)</u>	<u>(255,542)</u>	<u>59,648</u>	<u>(2,877,187)</u>
Total capital assets, net	<u>\$ 10,478,286</u>	<u>\$ 194,406</u>	<u>\$ (41,826)</u>	<u>\$ 10,630,866</u>

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

Governmental activities:	
General government	\$ 45,312
Public works	47,613
Public safety	49,987
Health and welfare	38,926
Education	73,704
Total depreciation expense - governmental activities	<u>\$ 255,542</u>

Note 7 - Interfund Activities

A. Advance to/from other funds

There are no long-term loan agreements on the interfund balances.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

B. Interfund transfers:

Fund transfers are generally used to fund special projects with general fund revenues as follows:

	Transfers in to:			Total Transfers In
	General Fund	Capital Nonrecurring Fund	Other Governmental Funds	
Transfers out of:				
General Fund	\$ -	\$ 393,300	\$ 27,470	\$ 420,770
Other Governmental Funds	146,898	-	5	146,903
Fiduciary Funds	16	-	-	16
Total transfers out	<u>\$ 146,914</u>	<u>\$ 393,300</u>	<u>\$ 27,475</u>	<u>\$ 567,689</u>

C. Due to/from other funds

The following are temporary borrowings between funds. These are either expected to be paid off within one year or have no agreed payment terms:

Receivable Fund	Payable Fund	Amount
General Fund	Ambulance Fund	\$ 64,000
General Fund	Education Grants Fund	6,376
General Fund	Cafeteria Fund	3,916
Miscellaneous Grants	General Fund	8
		<u>\$ 74,300</u>

Note 8 – Long-Term Debt

A. Changes in long-term liabilities

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

	Opening Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 1,165,000	\$ -	\$ (150,000)	\$ 1,015,000	\$ 145,000
Clean Water Note	1,082,671	-	(47,071)	1,035,600	48,021
Compensated Absences	41,930	3,572	-	45,502	2,574
Post Closure Landfill Costs	161,000	-	(11,500)	149,500	11,500
Special Termination Benefits	112,936	-	(21,428)	91,508	27,208
Net Pension Obligation	58,895	17,787	-	76,682	-
	<u>\$ 2,622,432</u>	<u>\$ 21,359</u>	<u>\$ (229,999)</u>	<u>\$ 2,413,792</u>	<u>\$ 234,303</u>

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

B. General obligation bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Town. These bonds generally are issued as 20 year serial bonds with equal amounts of principal maturing each year. Payments on these bonds have been made out of the General Fund and are all charged to expenditures.

General obligation bonds currently outstanding are as follows:

Purpose	Original Amount	Matures in Year Ending	Interest Rates	Amount
General Purpose	\$ 2,215,000	2018	2-3%	\$ 1,015,000

Annual debt service requirements to maturity for general obligation bonds are as shown in the following schedule.

Year Ending	Principal	Interest	Year Ending	Principal	Interest
2012	\$ 145,000	\$ 36,866	2016	145,000	14,500
2013	145,000	31,646	2017	145,000	8,700
2014	145,000	26,100	2018	145,000	2,900
2015	145,000	20,300	Total	<u>\$ 1,015,000</u>	<u>\$ 141,012</u>

C. Clean Water Loan

The Town received a Clean Water Loan to complete a sewer connection to the Town of Deep River. This loan from the State of Connecticut's Department of Environmental Protection was issued on August 14, 2008 with interest at a rate of 2% per year. The first payment was paid on August 31, 2009 with monthly installments of principal and interest of \$5,691.19 thereafter for 20 years. Payments will be made out of the Sewer System Fund as follows:

Year Ending	Principal	Interest	Year Ending	Principal	Interest
2012	\$ 48,021	\$ 20,273	2022	58,643	9,651
2013	48,990	19,304	2023	59,827	8,468
2014	49,979	18,315	2024	61,034	7,260
2015	50,988	17,306	2025	62,266	6,028
2016	52,017	16,277	2026	63,523	4,771
2017	53,067	15,227	2027	64,805	3,489
2018	54,138	14,156	2028	66,113	2,181
2019	55,231	13,064	2029	67,448	847
2020	56,346	11,949	2030	5,681	12
2021	57,483	10,811	Total	<u>\$ 1,035,600</u>	<u>\$ 199,389</u>

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

D. Post Closure Landfill Costs

The Town has a closed landfill with no further capacity or estimated useful life. State and federal laws and regulations require that the Town perform certain maintenance and monitoring functions on its closed landfill site for thirty years after closure. These costs will be paid through the General Fund each year as part of the annual budget. Total estimated costs based on the current actual costs are included in the General Long-Term Debt Account Group. The actual costs may vary based on actual events, inflation, changes in technology and applicable laws and regulations. During the year the actual costs amounted to \$2,933.

E. Special Termination Benefits

Periodically an employee is offered a special termination benefit as an incentive to leave or retire. One employee was offered such a benefit during fiscal year 2009-2010 to be paid in equal installments of \$10,000 over five years. The Town funds this on a pay-as-you-go basis. The balance due, at a discounted present value, was \$35,460. This employee will continue to receive benefits through 2015.

In 2009-2010 another employee was offered an Incentive Pay Medical Reimbursement where the district offered to contribute benefit dollars to the participant's account for reimbursement of health insurance premiums and medical expenses of the participant and dependants after retirement. The liability was calculated based on the current year rates plus a 12% increase each year. The employee will continue to receive benefits through 2014. During this year the cost of the coverage was \$16,262. The Town funds this on a pay-as-you-go basis. The year end liability is estimated based on the present value of the estimated future insurance costs through 2014. The balance due at a discounted present value was \$56,048.

F. Debt Limitations Under Connecticut State Statutes

Connecticut General Statutes Section 7-374 sets limits on the debt, as defined by the statutes, which can be incurred by the Town and other governmental agencies within the Town. The limitations for the Town of Chester, Connecticut are as follows:

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Total tax collections (including interest and lien fees) for the year	\$ 11,116,788
Reimbursements for revenue loss on tax relief for the elderly (C.G.S. 12-129d)	18,615
Debt limitation base	<u>\$ 11,135,403</u>

	General Purpose	Schools	Sewers	Urban Renewal	Pension Deficit
Debt limitation:					
2 1/4 times base	\$ 25,054,657	\$ -	\$ -	\$ -	\$ -
4 1/2 times base	-	50,109,314	-	-	-
3 3/4 times base	-	-	41,757,761	-	-
3 1/4 times base	-	-	-	36,190,060	-
3 times base	-	-	-	-	33,406,209
	<u>25,054,657</u>	<u>50,109,314</u>	<u>41,757,761</u>	<u>36,190,060</u>	<u>33,406,209</u>
Indebtedness:					
Bonds and notes payable	1,015,000	-	1,035,600	-	-
Overlapping debt - RSD#4	-	4,148,550	-	-	-
Amount to be provided	-	-	-	-	-
	<u>1,015,000</u>	<u>4,148,550</u>	<u>1,035,600</u>	<u>-</u>	<u>-</u>
Debt limitation in excess of debt outstanding and authorized	<u>\$ 24,039,657</u>	<u>\$ 45,960,764</u>	<u>\$ 40,722,161</u>	<u>\$ 36,190,060</u>	<u>\$ 33,406,209</u>

In no case shall total indebtedness exceed seven times annual receipts from taxation \$ 77,947,821

G. Regional School District Commitments

Chester is a member of Regional School District #4, which provides education facilities for grades seven through twelve for the towns of Chester, Deep River, and Essex. As of June 30, 2011, the outstanding bonded indebtedness of the District was \$15,365,000. The Town of Chester's share will be approximately 27%. These are general obligations of Regional School District #4 and its member towns.

Note 9 – Equity

A. Restricted Net Assets

Restrictions on Net Assets at year end are summarized as follows:

	Nonexpendable	Expendable
Small Cities Block Grant	\$ -	\$ 279,366
Miscellaneous Grants	-	11,168
Preservation of Records	-	4,768
	<u>\$ -</u>	<u>\$ 295,302</u>

**Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011**

B. Fund Balances

Nonspendable Fund Balance is summarized as follows:

	Other Governmental Funds
Not in spendable form:	
Inventory	<u>\$ 4,267</u>

Restricted Fund Balance is summarized as follows:

	Other Governmental Funds
Small Cities Grant Purposes	\$ 279,366
Miscellaneous Grants	11,168
Historic Record Preservation	4,768
	<u>\$ 295,302</u>

Committed Fund Balance is summarized as follows:

	Capital Nonrecurring Fund
Various Capital Projects	<u>\$ 896,348</u>

Assigned Fund Balance is summarized as follows:

	General Fund	Capital Nonrecurring Fund	Sewer System Fund	Other Governmental Funds
To balance next year's budget	\$ 145,766	\$ -	\$ -	\$ -
Specific Capital Projects	-	282,048	-	-
Various Fund Purposes	-	-	56,324	82,643
	<u>\$ 145,766</u>	<u>\$ 282,048</u>	<u>\$ 56,324</u>	<u>\$ 82,643</u>

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 10 - Employee Retirement Systems and Pension Plans

A. Teachers' Retirement System

Teachers and certain other certified personnel in the Town are eligible to participate in the State of Connecticut Teachers' Retirement System, a multiple employer public employees retirement system described in the Connecticut General Statutes, Chapter 167a. The system has been established to provide retirement and other benefits for teachers, their survivors and beneficiaries. A member is eligible to receive a normal retirement benefit who (1) has reached the age of sixty and has accumulated twenty years of credited service in the public schools of Connecticut or (2) has attained any age and has accumulated thirty-five years of credited service, at least twenty-five years of which are service in the public schools of Connecticut. The financial report may be obtained through the State Teachers Retirement Board.

The normal retirement benefit is two percent times the number of years of credited service multiplied by their average annual salary received during the three years of highest salary. In no event will such benefit exceed seventy-five percent of the average annual salary, or be less than \$3,600. Benefits are fully vested after ten years of service.

The funding of the system is provided by required member contributions (7 percent of their annual salary) and by amounts appropriated by the State of Connecticut General Assembly. For the year ended June 30, 2011, the State contributed \$222,169 into the pension plan on behalf of the Town of Chester, Connecticut. This was recorded on the GAAP statements as revenue and expenditures in the General Fund. The Town's total payroll for all employees for the fiscal year ending June 30, 2011 was \$2,889,890 of which \$1,397,942 was covered under this pension plan.

B. Town of Chester Employee Retirement Plan

1) Plan Description - The Town of Chester is the administrator of a single employer employee retirement system (PERS) established and administered by the Town to provide pension benefits for its employees. The PERS is part of the Town's financial reporting entity and is accounted for in the Town's financial statement as a pension trust fund. A separate stand alone financial report is not issued.

2) Summary of Significant Accounting Policies and Plan Asset Matters

a) Basis of Accounting - The pension trust fund's financial statements are prepared using the accrual basis of accounting. Contributions are recognized when due, pursuant to formal commitments and contractual requirements and investment income is recognized when earned. Expenses (benefits, administration and refunds) are recognized when due and payable in accordance with the terms of the plan.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

b) Valuation of Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. There are no investments of 5% or greater in any one organization.

3) Plan Membership- As of the date of the latest actuarial valuation (January 1, 2009), membership consisted of the following:

Retirees and beneficiaries receiving benefits	1
Terminated employees entitled to benefits, but not yet receiving them	4
Active members	<u>20</u>
Total	<u><u>25</u></u>

4) Benefit Provisions

a) Benefit Provisions - The plan covers substantially all regularly employed permanent employees of the Town. In order to be eligible for the plan, the employee must complete thirty-six months of service and attain a minimum age of twenty and one-half. Participants are 100% vested after 5 years. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of valuation and the pattern of sharing of costs between the employer and the employee to this point.

b) Funding Policy - Contribution requirements of the plan members and the Town are established, and may be amended, by the Board of Selectmen. Non-union members are required to contribute 2% of their earnings to the plan. The Town is required to contribute amounts necessary to fund benefits. The Town's contributions to the plan are actuarially determined on an annual basis using the aggregate cost method. Administrative costs are financed through investment earnings.

5) Schedule of Funding Progress

The aggregate method is used. Because this method does not identify or separately amortize unfunded actuarial accrued liabilities, information about funded status and funding progress is presented using the entry age actuarial cost method for that purpose and the information is presented is intended to serve as a surrogate for the funding progress of the plan. Below is a schedule of funding progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a % of Covered Payroll ((b-a)/c)
1/1/2009	\$ 747,033	\$ 1,325,459	\$ 578,426	56.4%	\$ 860,966	67.2%
1/1/2008	\$ 816,720	\$ 1,027,226	\$ 210,506	79.5%	\$ 786,868	26.8%
1/1/2007	\$ 707,920	\$ 898,800	\$ 190,880	78.8%	\$ 596,726	32.0%

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

6) Schedule of Employer Contributions

The current year contribution of \$107,667 was 12.5% of the total covered payroll of \$860,966.

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed	Actual Contribution
6/30/2011	\$ 115,742	93.0%	\$ 107,667
6/30/2010	\$ 59,980	100.9%	\$ 60,500
6/30/2009	\$ 60,434	92.7%	\$ 56,000

7) Annual Pension Cost (APC) and Net Pension Obligation (NPO)

Three year trend information:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)	Actual Contribution Made
6/30/2011	\$ 112,521	95.7%	\$ 69,832	\$ 107,667
6/30/2010	\$ 58,228	103.9%	\$ 64,978	\$ 60,500
6/30/2009	\$ 57,971	96.6%	\$ 67,250	\$ 56,000

Annual calculation:

Actuarially required contribution (ARC)	\$ 115,742
Interest on net pension obligation	4,873
Adjustment to annual required contribution	(8,094)
Annual pension cost (APC)	<u>112,521</u>
Contributions made	<u>107,667</u>
Increase (decrease) in net pension obligation	4,854
Net pension obligation (asset), beginning of year	<u>64,978</u>
Net pension obligation (asset), end of year	<u><u>\$ 69,832</u></u>

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

8) Actuarial Assumptions and Methods - The annual required contribution for the current year was determined as part of the January 1, 2009 actuarial valuation. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial assumptions included:

Valuation date	January 1, 2009
Actuarial cost method	Aggregate Cost Method
Amortization method	Aggregate Salary Method
Remaining amortization period	N/A
Asset valuation method	5 year smoothing
Actuarial Assumptions:	
Investment rate of return	7.50%
Projected salary increase	3.50%
Underlying inflation rate	NA

C. Chester Hose Company Volunteers' Pension Plan

1) Plan Description - The Town of Chester is the administrator of a single employer employee retirement system (PERS) established and administered by the Town to provide pension benefits for its employees. The PERS is part of the Town's financial reporting entity and is accounted for in the Town's financial statement as a pension trust fund. A separate stand alone financial report is not issued.

2) Summary of Significant Accounting Policies and Plan Asset Matters

a) Basis of Accounting - The pension trust fund's financial statements are prepared using the accrual basis of accounting. Contributions are recognized when due, pursuant to formal commitments and contractual requirements and investment income is recognized when earned. Expenses (benefits, administration and refunds) are recognized when due and payable in accordance with the terms of the plan.

b) Valuation of Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. There are no investments of 5% or greater in any one organization.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

3) As of the date of the latest actuarial valuation (July 1, 2009), membership consisted of the following:

Retirees and beneficiaries receiving benefits	3
Terminated firefighters entitled to benefits, but not yet receiving them	21
Active members	33
Total	57

4) **Benefit Provisions**

a) **Benefit Provisions** - The plan covers substantially all volunteer firefighters of the Chester Hose Company. In order to be eligible for the plan, the firefighter must complete one year of service and attain a minimum age of eighteen. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of valuation and the pattern of sharing of costs between the Town and the firefighter to this point.

Normal retirement age is sixty-five. Benefits are paid in monthly payments over fifteen years. The annual benefit is based upon years of service. The plan contains no provisions for early retirement. The death benefit for the plan is equal to the participant's accrued benefits at the date of death.

Participants are fully vested after fifteen years of service.

b) **Funding Policy** - Contribution requirements of the plan members and the Town are established and may be amended by the Board of Selectmen. Plan members are not required to contribute to the plan. The Town is required to contribute amounts necessary to fund benefits. The Town's contributions to the plan are actuarially determined on an annual basis using the aggregate cost method. Administrative costs are financed through investment earnings.

5) **Schedule of Funding Progress**

The aggregate method is used. Because this method does not identify or separately amortize unfunded actuarial accrued liabilities, information about funded status and funding progress is presented using the entry age actuarial cost method for that purpose and the information is presented is intended to serve as a surrogate for the funding progress of the plan. Below is a schedule of funding progress.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a % of Covered Payroll ((b-a)/c)
7/1/2009	\$ 355,439	\$ 511,165	\$ 155,726	69.5%	N/A	N/A
7/1/2008	\$ 339,338	\$ 401,064	\$ 61,726	84.6%	N/A	N/A
7/1/2007	\$ 366,142	\$ 447,355	\$ 81,213	81.8%	N/A	N/A

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

6) Schedule of Employer Contributions

The current year contribution was \$13,840. Since this covers volunteer firefighters there is no covered payroll:

Fiscal Year End	Annual Required Contribution	Percentage Contributed	Actual Contribution
6/30/2011	\$ 26,498	52.2%	\$ 13,840
6/30/2010	\$ 14,809	128.3%	\$ 19,000
6/30/2009	\$ 20,955	90.7%	\$ 19,000

7) Annual Pension Cost (APC) and Net Pension Obligation (NPO)

Three year trend information:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)	Actual Contribution Made
6/30/2011	\$ 26,773	51.7%	\$ 6,850	\$ 13,840
6/30/2010	\$ 14,895	127.6%	\$ (6,083)	\$ 19,000
6/30/2009	\$ 21,133	89.9%	\$ (1,978)	\$ 19,000

Annual calculation:

Actuarially required contribution (ARC)	\$ 26,498
Interest on net pension obligation	(365)
Adjustment to annual required contribution	640
Annual pension cost (APC)	<u>26,773</u>
Contributions made	<u>13,840</u>
Increase (decrease) in net pension obligation	12,933
Net pension obligation (asset), beginning of year	<u>(6,083)</u>
Net pension obligation (asset), end of year	<u><u>\$ 6,850</u></u>

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Remaining amortization	30 years, open
Healthy Mortality	Life expectancies are based on mortality tables at the National Center for Health Statistics website.
Disabled Mortality	Life expectancies are based on mortality tables at the National Center for Health Statistics website.
Turnover	Determined using non group specific age-based data
Retirement	Latest of age 62, plan eligibility or current age
Disability	None
Future Retiree Coverage	10% are assumed to elect coverage at retirement
Future Dependent Coverage	It is assumed that spouses do not continue
Future Post-65 Coverage	All Others – N/A

C. Schedule of Funding Progress

There is no requirement for funding and the plan has not been funded. The Town has not yet established a formal funding plan or a trust at this time.

Below is a schedule of funding progress. (Data in the table below is only presented since the year of transition.)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a % of Covered Payroll ((b-a)/c)
7/1/2009	0 \$	8,428 \$	8,428 \$	0.00%	\$ 1,022,837	0.82%

D. Schedule of Employer Contributions

The schedule of employer contributions is as follows. (Data in the table below is only presented since the year of transition):

Year Ended June 30	Annual Required Contributions	Actual Contributions Made	Percentage Contributed
2011	\$ 1,203	\$ -	0%
2010	\$ 1,137	\$ -	0%

E. Annual Required Contribution (ARC)

The Annual Required Contribution (ARC) for the OPEB program consists of two pieces:

Past Service Cost (a catch-up accrual to amortize the Unfunded Accrued Liability). The amortization period is 30 years starting on July 1, 2009. The ARC is assumed to be paid at the beginning of the fiscal year. Interest is also calculated on the Unfunded Accrued Liability and added to the Annual Required Contribution.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Normal Cost is the present value of the portion of the projected benefit attributable to the current year (the cost of benefits earned each year should be accrued in that year).

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortized any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

F. Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Town's net OPEB obligation (asset):

Annual required contribution (ARC)	\$	1,203
Interest on net OPEB obligation		45
Adjustment to annual required contribution		(66)
Annual OPEB cost		1,182
Contributions made		-
Increase (decrease) in net OPEB obligation		1,182
Net OPEB obligation (asset), beginning of year		1,137
Net OPEB obligation (asset), end of year	\$	2,319

The Net OPEB Obligation history is as follows. (Data in the table below is only presented since the year of transition):

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2011	\$ 1,182	\$ -	0.0%	\$ 2,319
6/30/2010	\$ 1,137	\$ -	0.0%	\$ 1,137

G. Other Disclosures

The calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

**Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011**

Education:

A. Plan Description

The Chester Public Schools Other Post Employment Benefit Program is a single-employer defined benefit plan administered by the Town of Chester, Connecticut in accordance with various collective bargaining agreements. The plan does not issue a separate financial statement.

Eligibility	Teachers and Administrators - A Teacher or Administrator retiring under the Connecticut State Teachers Retirement System shall be eligible to receive health benefits for self and spouse. Normal Retirement for Teachers and Administrators is the earlier of age 60 with 20 years of service, or completion of 35 years of service regardless of age. Early retirement is the earlier of age 60 with 10 years of service, any age with 25 years of service, or age 55 with 20 years of service.
	Secretaries and Non Union - A member retiring with age 55 years or older shall be eligible to continue health insurance coverage for self and spouse. Coverage is pre-65 only.
Cost Sharing	All retirees pay 100% of the premiums

B. Actuarial Assumptions and Methods

Latest Actuarial Date	June 30, 2010
Actuarial Cost Method	Projected Unit Credit
Discount Rate	4.00%
Medical Inflation	Initial rate of 10.0% grading down to an ultimate inflation rate of 5.0% over a 10 year period.
Amortization Method	Level dollar amount
Remaining amortization	19 years, open
Participation Rate	Actives – It is assumed that 50% of active Certified employees will continue coverage upon retirement. Participants are assumed to continue in their current coverage type (single or family) and plan until age 65. After age 65, Certified participants are assumed to switch to the State plan. It is assumed that no active Non-Certified employees will continue coverage as pre-65 retirees and that they will be enrolled in the Medicare supplement plan post-65. Retirees – It is assumed that 100% of retirees will continue in their current coverage until age 65. After age 65, it is assumed that they drop coverage or enroll in the State or Medicare supplement plan.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Spouse Participation	It is assumed that spouses continue coverage until age 65.
Retirement Age	Latest of age 60, plan eligibility or current age.
Life Expectancy	Life expectancies are based on mortality tables at the National Center for Health Statistics website. The 2000 United States Life Tables for Males and United States Life Tables for Females were used.
Post-65 Implicit Subsidy	It is assumed that there is no post-65 implicit subsidy liability since these retirees are assumed to enroll in the State or Medicare supplement plan.
Withdrawal	The probability that an employee will remain employed until the assumed retirement age was determined using non-group specific age-based turnover data provided in Table 1 in Paragraph 35b of GASB 45.
Disability	None

C. Schedule of Funding Progress

There is no requirement for funding and the plan has not been funded. The Town has not yet established a formal funding plan or a trust at this time.

Below is a schedule of funding progress. (Data in the table below is only presented since the year of transition.)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a % of Covered Payroll ((b-a)/c)
6/30/2010	\$ -	\$ 312,729	\$ 312,729	0.00%	\$ 1,908,289	16.39%

D. Schedule of Employer Contributions

The schedule of employer contributions is as follows. (Data in the table below is only presented since the year of transition):

Year Ended June 30	Annual Required Contributions	Actual Contributions Made	Percentage Contributed
2011	\$ 40,519	\$ 39,462	97.4%
2010	\$ 39,497	\$ 25,602	64.8%

E. Annual Required Contribution (ARC)

The Annual Required Contribution (ARC) for the OPEB program consists of two pieces:

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Past Service Cost (a catch-up accrual to amortize the Unfunded Accrued Liability). The amortization period is 20 years starting on July 1, 2009. The ARC is assumed to be paid at the beginning of the fiscal year. Interest is also calculated on the Unfunded Accrued Liability and added to the Annual Required Contribution.

Normal Cost is the present value of the portion of the projected benefit attributable to the current year (the cost of benefits earned each year should be accrued in that year).

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortized any unfunded actuarial liabilities (or funding excess) over a period not to exceed 20 years.

F. Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Town's net OPEB obligation (asset):

Annual Required Contribution		\$	40,519
Interest on net OPEB obligation			556
Adjustment to annual required contribution			<u>(1,022)</u>
Annual OPEB cost		\$	40,053
Contributions made			<u>39,462</u>
Increase (decrease) in net OPEB obligation			591
Net OPEB obligation (asset), beginning of year			<u>13,895</u>
Net OPEB obligation (asset), end of year		\$	<u><u>14,486</u></u>

The Net OPEB Obligation history is as follows. (Data in the table below is only presented since the year of transition):

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2011	\$ 40,053	\$ 39,462	98.5%	\$ 14,486
6/30/2010	\$ 39,497	\$ 25,602	64.8%	\$ 13,895

G. Other Disclosures

The calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 12 – Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

The Town currently is a member of the Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool established under the provisions of Connecticut General Statutes section 7-479a et. seq. for some of its insurance. The Town is liable only for contributions to the pool. Members do not retain the risk of loss, as they have transferred the risk by purchasing coverage with no deductible retention. A separate agreement states limits on the member's obligation to pay indemnification obligations and expenses should CIRMA be unable to do so.

The Chester Board of Education participates in an internal service fund, which is maintained by Region School District No. 4. The Health Insurance Fund accounts for and finances the retained risk of loss for member Town employee medical benefits coverage. A third party administers the plan for which the fund pays a fee. The Health Insurance Fund provides coverage to all eligible, full-time Board of Education employees. The Town pays an annual contribution for its coverage. The fund is to be self-sustaining through members' premiums, but reinsures in excess of \$60,000 for each insured occurrence.

Note 13 - Contingent Liabilities

A. Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

B. Various lawsuits

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 14 – Jointly Governed Organization

Regional School District #4 – The Supervision District Committee established by a compact to provide supervisory services between the Boards of Education of Chester, Deep River, Essex, and Regional School District #4.

The Supervision District Committee is governed by representatives of the Boards of Education of Chester, Deep River, Essex, and Regional School District #4. The Supervision District Committee selects its staff, establishes a budget, provides facilities and equipment and develops procedures and negotiates objectives. The government has no direct control over the operation of the Supervision District Committee. The government provides approximately 27 percent of the Supervision District Committee's funding. This is calculated based on the prorated number of Chester students to the total students served. The Towns of Chester, Deep River, Essex, and Regional School District #4 provide the remaining 73 percent. The latest financial statements can be obtained by contacting the Superintendent of Schools at Regional School District #4 in Deep River, Connecticut.

Note 15– GASB Pronouncements Issued, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) is the standard setting board for governmental entities. The following are statements which have been approved by GASB, but are not yet effective:

- GASB Statement 60 – *Accounting and Financial Reporting for Service Concession Arrangements*. This statement provides guidance for governments that are either transferors or operators of service concession arrangements. A service concession arrangement is one in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant considerations, and the operator collects and is compensated by fees from third parties. This statement is effective for periods beginning after December 15, 2011.
- GASB Statement 61 – *The Financial Reporting Entity: Omnibus* – This statement modifies certain requirements for inclusion of component units in the financial reporting entity, amends the criteria for reporting component units, and clarifies the reporting of equity interests in legally separate organizations. This statement is effective for periods beginning after June 15, 2012.
- GASB Statement 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* – This statement incorporates certain authoritative literature into the GASB codification. This statement is effective for periods beginning after December 15, 2011.

Town of Chester, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

- GASB Statement 63 –*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows Of Resources and Net Position* – This statement provides guidance for transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods. This statement is effective for periods beginning after December 15, 2011.

- GASB Statement 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions* – This statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or its credit support provider. This statement is effective for periods beginning after June 15, 2011.

Town of Chester, Connecticut
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
General Fund
For the Year Ended June 30, 2011

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance
REVENUES					
Property Tax Revenues					
Grand list current year	\$ 10,877,103	\$ -	\$ 10,877,103	\$ 10,841,832	\$ (35,271)
Prior year taxes	60,000	-	60,000	215,534	155,534
Interest and lien fees	40,000	-	40,000	86,047	46,047
Tax warrants	180	-	180	114	(66)
	<u>10,977,283</u>	<u>-</u>	<u>10,977,283</u>	<u>11,143,527</u>	<u>166,244</u>
Intergovernmental Revenues - General					
Town aid road	97,606	-	97,606	92,711	(4,895)
School bond grant principal	-	-	-	-	-
Local capital improvement project	27,525	-	27,525	-	(27,525)
Manufacturing new machinery and equipment	43,500	-	43,500	71,130	27,630
Telecommunications	13,000	-	13,000	12,695	(305)
Boat registration	21,472	-	21,472	17,377	(4,095)
Elderly tax relief - circuit breaker	16,540	-	16,540	18,615	2,075
Miscellaneous grants	9,991	-	9,991	3,641	(6,350)
State owned property	14,788	-	14,788	14,873	85
Mashantucket Pequot	10,470	-	10,470	11,107	637
Judicial fine reimbursement	2,500	-	2,500	5,867	3,367
DUI grant	17,625	-	17,625	10,613	(7,012)
Veterans' tax exemption	-	-	-	2,123	2,123
Totally disabled exemption	-	-	-	265	265
	<u>275,017</u>	<u>-</u>	<u>275,017</u>	<u>261,017</u>	<u>(14,000)</u>
Intergovernmental Revenues - Education					
Education - equal (ECS)	665,733	-	665,733	673,120	7,387
Elementary school transportation	7,095	-	7,095	5,166	(1,929)
	<u>672,828</u>	<u>-</u>	<u>672,828</u>	<u>678,286</u>	<u>5,458</u>
Licenses and Permits					
Building permits	35,000	-	35,000	32,227	(2,773)
Aircraft registration	13,400	-	13,400	13,315	(85)
Planning and zoning permits	6,500	-	6,500	6,983	483
Sanitation permits	2,500	-	2,500	2,780	280
Dog licenses	2,400	-	2,400	-	(2,400)
Inland wetland permits	1,300	-	1,300	2,065	765
ZBA permits	1,000	-	1,000	1,216	216
Pistol permits	400	-	400	630	230
Fire marshal permits	100	-	100	270	170
Solicitors' licenses	200	-	200	100	(100)
Environmental fund	100	-	100	146	46
Raffle permits	50	-	50	55	5
	<u>62,950</u>	<u>-</u>	<u>62,950</u>	<u>59,787</u>	<u>(3,163)</u>
Miscellaneous					
Ambulance	125,000	-	125,000	134,000	9,000
Rental - 203 Middlesex Avenue	75,929	-	75,929	75,929	-
Interest	48,000	-	48,000	16,787	(31,213)
Town clerk fees	30,000	-	30,000	32,257	2,257
Conveyance tax	19,000	-	19,000	38,079	19,079
Park and recreation program fees	150	-	150	1,275	1,125
WPCA	1,950	-	1,950	-	(1,950)
WPCA assessment	17,000	-	17,000	15,477	(1,523)
Police private duty	10,000	-	10,000	13,537	3,537
Park and recreation park passes	7,000	-	7,000	8,202	1,202
Rental - 20 Water Street	4,680	-	4,680	5,000	320
Library fines	2,251	-	2,251	2,293	42
Rental - meeting house - community center	1,200	-	1,200	2,425	1,225
Rental - Cedar Lake shack	600	-	600	500	(100)
Copier - assessor	500	-	500	479	(21)
Copier - library	246	-	246	260	14
Police violations	13,000	-	13,000	6,080	(6,920)
Miscellaneous income	-	-	-	1,846	1,846
Region #4 Surplus	-	-	-	9,280	9,280
Donations	-	-	-	511	511
Sale obsolete items	-	-	-	1,500	1,500
	<u>356,506</u>	<u>-</u>	<u>356,506</u>	<u>365,717</u>	<u>9,211</u>

(continued)

Town of Chester, Connecticut
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
General Fund
For the Year Ended June 30, 2011

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance
Other Financing Sources					
Transfers in	16,097	-	16,097	12,914	(3,183)
TOTAL REVENUES	12,360,681	-	12,360,681	12,521,248	160,567
EXPENDITURES					
General Government					
Board of Selectmen	97,778	(1,891)	95,887	95,886	1
Finance	87,344	(1,186)	86,158	86,157	1
Town office operations	51,960	(7,249)	44,711	44,711	-
Town Clerk	77,036	(454)	76,582	76,575	7
Probate	2,085	(437)	1,648	1,647	1
Treasurer	16,603	200	16,803	16,756	47
Tax Collector	52,889	(7,727)	45,162	45,126	36
Assessor	100,586	(36,719)	63,867	63,803	64
Board of Assessment Appeals	600	(375)	225	225	-
Board of Finance	20,000	(500)	19,500	19,441	59
Registrar of Voters	12,064	369	12,433	12,433	-
Building department	26,273	(502)	25,771	25,770	1
Conservation Commission	750	(750)	-	-	-
Harbor management	1,245	(445)	800	800	-
Planning and Zoning Commission	37,510	(4,860)	32,650	32,650	-
Inland and wetlands	11,499	(654)	10,845	10,845	-
Zoning Board of Appeals	1,675	(495)	1,180	1,179	1
Economic Development Commission	1,700	(1,150)	550	500	50
Parks and Recreation Commission	98,519	605	99,124	99,124	-
Library	108,572	(381)	108,191	108,181	10
	806,688	(64,601)	742,087	741,809	278
Public Works					
Highway	389,250	107,731	496,981	496,650	331
Building and grounds	150,835	36,075	186,910	186,909	1
Municipal services	167,884	(3,829)	164,055	164,055	-
	707,969	139,977	847,946	847,614	332
Public Safety					
Fire protection	233,109	(596)	232,513	232,211	302
Police protection	233,947	(3,478)	230,469	230,469	-
Safety services	182,591	(10,676)	171,915	171,912	3
Animal control	20,219	(1,045)	19,174	18,917	257
	669,866	(15,795)	654,071	653,509	562
Health and Welfare					
Health services	31,300	-	31,300	31,288	12
Sanitation department	19,583	(528)	19,055	18,994	61
Human services department	77,191	(104)	77,087	77,032	55
	128,074	(632)	127,442	127,314	128
Miscellaneous					
Employee benefits	396,165	(23,757)	372,408	372,408	-
Retirement Board	138,207	2,920	141,127	141,102	25
Municipal insurance	78,206	(1,567)	76,639	76,639	-
Payments to organizations	16,763	-	16,763	16,763	-
Contingency account	90,000	(36,545)	53,455	53,454	1
	719,341	(58,949)	660,392	660,366	26
Education					
Chester Elementary School	4,166,893	-	4,166,893	4,166,893	-
Regional School District Number 4	4,616,324	-	4,616,324	4,616,324	-
	8,783,217	-	8,783,217	8,783,217	-
Debt Service					
Redemption of debt principal	197,071	-	197,071	197,071	-
Interest payments	73,176	-	73,176	73,174	2
	270,247	-	270,247	270,245	2
Other Financing Uses					
Operating transfers out	393,300	-	393,300	393,300	-
TOTAL EXPENDITURES	12,478,702	-	12,478,702	12,477,374	1,328

Town of Chester, Connecticut
 Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Budgetary Basis)
 General Fund
 For the Year Ended June 30, 2011

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance
Excess (Deficiency) of Revenues Over Expenditures	\$ (118,021)	\$ -	\$ (118,021)	\$ 43,874	\$ 161,895
Adjustments to Generally Accepted Accounting Principles (GAAP):					
On Behalf Revenues from Teacher's Retirement Netted in Budget				222,169	
On Behalf Expenditures from Teacher's Retirement Netted in Budget				(222,169)	
Revenues from Excess Cost Grant Netted in Budget				44,218	
Expenditures from Excess Cost Grant Netted in Budget				<u>(44,218)</u>	
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing (Uses) - GAAP Basis				<u>\$ 43,874</u>	

The General Fund budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exceptions: (1) the Town does not recognize as income or expenditures payments made for teacher's retirement by the State of Connecticut on the Town's behalf; (2) the Town recognizes encumbrances payable as an expenditure in the year they were committed; (3) the revenue from the State of Connecticut's Excess Cost Grant is net with the expenditures in accordance with the Connecticut General Statutes 10-76g.

* indicates department was over-expended

**Town of Chester, Connecticut
Fund Descriptions**

Special Revenue Funds:

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Town of Chester, Connecticut
 Combining Balance Sheet
 Special Revenue Funds
 June 30, 2011

	Dog Fund	Emergency Fuel Community Fund	Cafeteria Fund	Parks & Recreation Fund	Small Cities Fund	Historic Record Preservation Fund	Library Fund	Education Grants Fund	Ambulance Fund	Harbor Fund	Inland-Wetlands Fund	Misc. Grant Fund	Total
Assets													
Cash and cash equivalents	\$ 3,471	\$ 16,280	\$ 7,872	\$ 25,712	\$ 88,581	\$ 4,768	\$ 18,057	\$ -	\$ 67,181	\$ 3,093	\$ -	\$ 14,923	\$ 249,938
Receivables	-	-	3,554	-	190,785	-	-	6,376	16,589	-	-	1,072	218,376
Inventory	-	-	4,267	-	-	-	-	-	-	-	-	-	4,267
Due from other governmental funds	-	-	-	-	-	-	-	-	-	-	-	8	8
Total assets	\$ 3,471	\$ 16,280	\$ 15,693	\$ 25,712	\$ 279,366	\$ 4,768	\$ 18,057	\$ 6,376	\$ 83,770	\$ 3,093	\$ -	\$ 16,003	\$ 472,589
Liabilities and Fund Balance													
Liabilities													
Accounts payable	\$ 1,640	\$ 558	\$ 2,727	\$ 431	\$ -	\$ -	\$ -	\$ -	\$ 2,626	\$ 100	\$ -	\$ 9	\$ 8,091
Deferred revenue	-	-	-	-	-	-	-	-	7,994	-	-	-	7,994
Due to other governmental funds	-	-	3,916	-	-	-	-	6,376	64,000	-	-	-	74,292
Total liabilities	1,640	558	6,643	431	-	-	-	6,376	74,620	100	-	9	90,377
Fund Balance													
Nonpendable	-	-	4,267	-	-	-	-	-	-	-	-	-	4,267
Restricted	-	-	-	-	279,366	4,768	-	-	-	-	-	11,168	295,302
Committed	-	-	-	-	-	-	-	-	-	-	-	-	-
Assigned	1,831	15,722	4,783	25,281	-	-	18,057	-	9,150	2,993	-	4,826	82,643
Unassigned	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fund balance	1,831	15,722	9,050	25,281	279,366	4,768	18,057	-	9,150	2,993	-	15,994	382,212
Total liabilities and fund balance	\$ 3,471	\$ 16,280	\$ 15,693	\$ 25,712	\$ 279,366	\$ 4,768	\$ 18,057	\$ 6,376	\$ 83,770	\$ 3,093	\$ -	\$ 16,003	\$ 472,589

Town of Chester, Connecticut
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Special Revenue Funds
For the Year Ended June 30, 2011

	Dog Fund	Emergency Fuel Community Fund	Cafeteria Fund	Parks & Recreation Fund	Small Cities Fund	Historic Record Preservation Fund	Library Fund	Education Grants Fund	Ambulance Fund	Harbor Fund	Inland-Wetlands Fund	Miscellaneous Grant Fund	Total
Revenues													
Intergovernmental Revenues:													
General government	\$ -	\$ -	\$ 22,779	\$ -	\$ -	\$ -	\$ 1,731	\$ 39,150	\$ -	\$ -	\$ -	\$ 24,808	\$ 88,468
Miscellaneous local revenue	4,728	21,242	44,813	46,600	442	32,895	3,031	-	166,891	1,305	-	23,077	345,024
Total revenues	4,728	21,242	67,592	46,600	442	32,895	4,762	39,150	166,891	1,305	-	47,885	433,492
Expenditures													
Current expenditures:													
General government	-	-	-	16,657	188	32,786	4,540	-	-	-	-	39,479	93,650
Public works	-	-	-	-	-	-	-	-	100	-	-	-	100
Public safety	2,897	-	-	-	-	-	-	-	24,455	-	-	-	27,352
Health and welfare	-	11,916	-	-	-	-	-	-	-	-	-	-	11,916
Education	-	-	86,012	-	-	-	-	39,150	-	-	-	-	125,162
Total expenditures	2,897	11,916	86,012	16,657	188	32,786	4,540	39,150	24,455	100	-	39,479	258,180
Excess (deficiency) of revenues over expenditures	1,831	9,326	(18,420)	29,943	254	109	222	-	142,436	1,205	-	8,406	175,312
Other financing sources and (uses)													
Operating transfers in	-	-	27,470	-	-	-	-	-	-	-	-	5	27,475
Operating transfers out	-	-	-	(12,870)	-	-	-	-	(134,000)	-	(5)	(28)	(146,903)
Total other financing sources and (uses)	-	-	27,470	(12,870)	-	-	-	-	(134,000)	-	(5)	(23)	(119,428)
Excess (deficiency) of revenues over expenditures and other financing sources and (uses)	1,831	9,326	9,050	17,073	254	109	222	-	8,436	1,205	(5)	8,383	55,884
Fund balance, beginning of the year	-	6,396	-	8,208	279,112	4,659	17,835	-	714	1,788	5	7,611	326,328
Fund balance, end of the year	\$ 1,831	\$ 15,722	\$ 9,050	\$ 25,281	\$ 279,366	\$ 4,768	\$ 18,057	\$ -	\$ 9,150	\$ 2,993	\$ -	\$ 15,994	\$ 382,212

Town of Chester, Connecticut
Combining Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Pension Trust Funds			Agency Funds		
	Firemen's Pension Trust Fund	Town Pension Trust Fund	Total Pension Trust Funds	Student Activities	Performance Bonds	Total Agency Funds
Assets						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 5,835	\$ 4,500	\$ 10,335
Investments	367,803	835,764	1,203,567	-	-	-
Total assets	367,803	835,764	1,203,567	5,835	4,500	10,335
Liabilities						
Due to Others	-	-	-	5,835	4,500	10,335
Total liabilities	-	-	-	5,835	4,500	10,335
Net assets						
Held in trust for pension benefits and other purposes	\$ 367,803	\$ 835,764	\$ 1,203,567	\$ -	\$ -	\$ -

Town of Chester, Connecticut
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2011

Statement 4

	Pension Trust Funds		
	Firemen's Pension Trust Fund	Town Pension Trust Fund	Total Pension Trust Funds
Additions			
Contributions:			
Employer	\$ 13,840	\$ 107,667	\$ 121,507
Employee	-	6,587	6,587
Total Contributions	13,840	114,254	128,094
Investment Income:			
Net depreciation in fair value of investments	59,217	98,094	157,311
Interest and dividends	9,066	-	9,066
Total Investment Income	68,283	98,094	166,377
Total Additions	82,123	212,348	294,471
Deductions			
Distributions	45,456	24,782	70,238
Total deductions	45,456	24,782	70,238
Change in net assets	36,667	187,566	224,233
Net assets held in trust, beginning of year	331,136	648,198	979,334
Net assets held in trust, end of year	\$ 367,803	\$ 835,764	\$ 1,203,567

See Accountants' Report

Town of Chester, Connecticut
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2011

	Balance Beginning		Additions		Deductions		Balance Ending
Student Activity Fund							
Assets							
Cash	\$ 10,409	\$	13,761	\$	18,335	\$	5,835
Liabilities							
Due to students	\$ 10,409	\$	13,761	\$	18,335	\$	5,835
Performance Bonds							
Assets							
Cash	\$ 4,544	\$	-	\$	44	\$	4,500
Liabilities							
Due to other funds	\$ 44	\$	-	\$	44	\$	-
Due to others	4,500	-	-	-	-	-	4,500
	\$ 4,544	\$	-	\$	44	\$	4,500
Combined Total							
Assets							
Cash	\$ 14,953	\$	13,761	\$	18,379	\$	10,335
Liabilities							
Due to other funds	\$ 44	\$	-	\$	44	\$	-
Due to students and others	14,909	13,761	18,335	-	10,335	-	-
	\$ 14,953	\$	13,761	\$	18,379	\$	10,335

Town of Chester, Connecticut
Report of the Property Tax Collector
For the Year Ended June 30, 2011

Grand List	Beginning Receivable Balance	Current Year Levy	Lawful Corrections		Net Taxes Collectible	Collections During The Year			Transfer To Suspense	Ending Receivable Balance	
			Additions	Deductions		Taxes	Interest	Liens			Total
2009		\$ 11,042,976	\$ -	\$ 8,384	\$ 11,034,592	\$ 10,898,819	\$ 29,773	\$ 54	\$ 10,928,646	\$ 2,012	\$ 133,761
2008	145,806	-	2,562	-	148,368	85,964	21,194	582	107,740	5,315	57,089
2007	49,791	-	-	-	49,791	22,873	6,850	276	29,999	4,562	22,356
2006	19,803	-	-	-	19,803	12,947	6,065	144	19,156	707	6,149
2005	13,559	-	-	-	13,559	7,913	4,986	96	12,995	643	5,003
2004	9,311	-	-	-	9,311	4,522	3,320	78	7,920	325	4,464
2003	7,829	-	-	-	7,829	3,126	3,413	48	6,587	284	4,419
2002	3,284	-	-	-	3,284	105	144	24	273	-	3,179
2001	3,102	-	-	-	3,102	99	159	24	282	-	3,003
2000	2,962	-	-	-	2,962	94	164	24	282	-	2,868
1999	2,923	-	-	-	2,923	93	179	24	296	-	2,830
1998	4,661	-	-	-	4,661	191	402	24	617	-	4,470
1997	4,546	-	-	-	4,546	187	426	24	637	-	4,359
1996	4,546	-	-	-	4,546	187	459	24	670	-	4,359
1995	4,454	-	-	-	4,454	183	483	24	690	-	4,271
	\$ 276,577	\$ 11,042,976	\$ 2,562	\$ 8,384	\$ 11,313,731	\$ 11,037,303	\$ 78,017	\$ 1,470	\$ 11,116,790	\$ 13,848	\$ 262,580

Town of Chester, Connecticut
 Statement of Changes in Fund Balance
 Capital Nonrecurring Fund
 For the Year Ended June 30, 2011

	Beginning Unexpended Appropriation	Current Year Appropriations	Total Appropriation	Current Year Expenditures	Interest and Other Income	Intrafund Transfers	Ending Unexpended Balance
Committed Fund Balance	\$ 219,292	\$ -	219,292	\$ -	-	-	219,292
Main Street project	164,707	15,300	180,007	-	-	-	180,007
Ambulance	92,015	50,000	142,015	-	-	-	142,015
Fire Truck Replacement	120,209	16,000	136,209	-	-	-	136,209
Assessor revaluation	1,541	300,000	301,541	(249,103)	-	33,000	85,438
Road repairs	37,588	12,000	49,588	-	-	-	49,588
Highway equipment	37,318	-	37,318	-	-	-	37,318
Public works building	64,700	-	64,700	(29,779)	-	-	34,921
Firehouse expansion	11,540	-	11,540	-	-	-	11,540
Farmland preservation	36,073	-	36,073	(36,053)	-	-	20
School heat/air	5,460	-	5,460	(5,460)	-	-	-
Cedar lake cleanup	790,443	393,300	1,183,743	(320,395)	-	33,000	896,348
Assigned for Unspecified Projects	18,382	-	18,382	(57,000)	353,666	(33,000)	282,048
	\$ 808,825	\$ 393,300	\$ 1,202,125	\$ (377,395)	\$ 353,666	\$ -	\$ 1,178,396

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Finance
Town of Chester, Connecticut
Chester, Connecticut

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Chester, Connecticut as of and for the year ended June 30, 2011 and have issued our report thereon dated November 08, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town of Chester, Connecticut's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Chester, Connecticut's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Chester, Connecticut's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Government Auditing Standards Report (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Chester, Connecticut's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the management, Board of Finance, others within the Town of Chester, Connecticut, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Marien + Company

November 08, 2011

Marien + Company LLC

CERTIFIED PUBLIC ACCOUNTANTS + ADVISORS

Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance With the State Single Audit Act, and on the Schedule of Expenditures of State Financial Assistance

Board of Finance
Town of Chester, Connecticut
Chester, Connecticut

Compliance

We have audited the Town of Chester, Connecticut's compliance with the types of compliance requirements described in the *Office of Policy and Management Compliance Supplement* that could have a direct and material effect on each of the Town of Chester, Connecticut's major state programs for the year ended June 30, 2011. The major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the Town of Chester, Connecticut's management. Our responsibility is to express an opinion on the Town of Chester, Connecticut's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Chester, Connecticut's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Chester, Connecticut's compliance with those requirements.

In our opinion, the Town of Chester, Connecticut complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2011.

State Single Audit Report (Continued)

Internal Control over Compliance

Management of the Town of Chester, Connecticut is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the Town of Chester, Connecticut's internal control over compliance with requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Chester, Connecticut's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, in a timely manner.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of State Financial Assistance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chester, Connecticut as of and for the year ended June 30, 2011, and have issued our report thereon dated November 08, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town of Chester, Connecticut's basic financial statements. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

State Single Audit Report (Continued)

This report is intended solely for the information and use of the management, Board of Finance, others within the entity, the Office of Policy and Management, and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Marion + Company

November 08, 2011

Town of Chester, Connecticut
Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2011

State Program Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Expenditures
Connecticut State Library		
State Aid to Public Libraries	11000-CSL66051-17003	\$ 1,342
Connecticard	11000-CSL66051-17010	389
Department of Environmental Protection		
Boating Temp Receivable	12060-DEP44434-34907	17,377
Judicial Department		
Distributions to Towns	34001-JUD95162-40001	6,158
Department of Transportation		
Town Aid Roads - Municipal	12052-DOT57131-43455	24,723
Town Aid Roads - STO	13033-DOT57131-43459	67,988
Office of Policy and Management		
Property Tax Relief for Disability Exemption	11000-OPM20600-17011	265
Property Tax Relief for Elderly and Totally Disabled (CB)	11000-OPM20600-17018	18,615
Property Tax Relief for Veterans	11000-OPM20600-17024	2,123
PILOT for Manufacturing and Commercial Vehicles	11000-OPM20600-17031	71,130
Office of the State Comptroller		
PILOT on State Owned Property	11000-OSC15910-17004	14,873
Department of Education		
Child Nutrition Program (School Lunch State Match)	11000-SDE64370-16211	942
Health Foods Initiative	11000-SDE64370-16212	2,053
Total State Financial Assistance before Exempt Programs		<u>227,977</u>
EXEMPT PROGRAMS		
Department of Education:		
Education Cost Sharing	11000-SDE64370-17041	578,143
Public School Transportation	11000-SDE64370-17027	5,166
Special Education - Excess Cost - Student Based	11000-SDE64370-17047	44,218
Office of the State Comptroller		
Grants to Towns	12009-OSC15910-17005	11,107
Total exempt programs		<u>638,634</u>
Total State Financial Assistance		<u>\$ 866,611</u>

See Accountants' Report

Town of Chester, Connecticut
Notes to the Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2011

Various departments and agencies of the State of Connecticut have provided financial assistance to the Town of Chester, Connecticut through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including: education, general government, public works, and public safety.

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Chester, Connecticut conform to Generally Accepted Accounting Principles as applicable to governmental entities. The following is a summary of the more significant policies relating to the aforementioned grant programs.

A. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, when applicable. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 government 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 and claims and judgments, are recorded only when payment is due.

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

The Schedule of Expenditures of State Financial Assistance, contained in this report, is prepared based on regulations established by the State of Connecticut Office of Policy and Management. In accordance with these regulations (Section 4-236-22), certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule of Expenditures of State Financial Assistance.

Town of Chester, Connecticut
Notes to the Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2011

2. Loan Programs

In accordance with Section 4-236-23(a)(4)(F) of the Regulations to the State Single Audit Act, the notes to the Schedule of Expenditures of State Financial Assistance shall include loans and loan activities. The following is a summary of the various loan program activity for the year ended June 30, 2011:

Department of Environmental Protection:

Clean Water Funds 21015-OTT14230-42318:

	Issue Date	Interest Rate	Original Amount	Beginning Balance	Retired	Balance Ending
577C	08/14/09	2%	\$ 1,125,000	<u>\$ 1,082,671</u>	\$ 47,071	<u>\$ 1,035,600</u>

**Town of Chester, Connecticut
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

I. Summary of Audit Results

A. Financial Statements:

Type of auditors' report issued: Unqualified
 Internal control over financial reporting:
 • Material weakness(es) identified? Yes No
 • Significant deficiency(ies) identified? Yes None reported
 Noncompliance material to the financial statements noted? Yes No

B. State Financial Assistance:

Internal control over major programs:
 • Material weakness(es) identified? Yes No
 • Significant deficiency(ies) identified? Yes None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act? Yes No

The following schedule reflects the major programs included in the audit:

<u>State Grantor and Program</u>	<u>State Core-CT Number</u>	<u>Expenditures</u>
Department of Transportation:		
Town Aid Road – Municipal	12052-DOT57131-43455	\$24,723
Town Aid Road - STO	13033-DOT57131-43459	\$67,988
Office of Policy and Management:		
Manufacturing and Commercial Vehicles	11000-OPM20600-17031	\$71,130
Dollar threshold used to distinguish between type A and type B programs:		<u>\$100,000</u>

II. Financial Statement Findings:

No matters were reported.

III. State Financial Assistance Findings And Questioned Costs

No findings or questioned cost are reported relating to State financial assistance programs.

**Town of Chester, Connecticut
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2011**

MW-08-1 – Documentation of the Components of Internal Control over Processes

Condition: The Town of Chester, Connecticut has numerous internal controls in place over significant processes and accounts. Not all of these controls are formally documented. It is possible for controls to change over time or not be completely understood by the individuals involved in the processes.

Current Status: The finding has been corrected.

MW-08-2 – Entity Level Controls

Condition: Internal controls are a coordinated set of policies and procedures that management uses to achieve their objectives and meet their fundamental responsibilities for effectiveness, efficiency, compliance and financial reporting. The literature recognizes five sections of internal control published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO Report) in Internal Control – Integrated Framework.

Current Status: The finding has been corrected.

MW-08-3 - Segregation of Duties

Condition: The Town of Chester, Connecticut does not maintain an adequate segregation of duties for proper internal control over the financial transactions in certain areas. Proper internal control relies on the following three aspects of processing transactions being performed by separate individuals: authorizing transactions, custody of assets, and record keeping. This weakness in internal controls could lead to funds being expended in a manner not consistent with the intentions of management.

Current Status: The finding has been corrected.