

Annual Financial Report

of the

**Town of Killingly,
Connecticut**

For The Year Ended June 30, 2006

TOWN OF KILLINGLY, CONNECTICUT

ANNUAL FINANCIAL REPORT

AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

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Introductory Section



December 27, 2006

Town Council
Town of Killingly
Danielson, Connecticut 06239

State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, I hereby submit the audited financial statements of the Town of Killingly, Connecticut, for the fiscal year ended June 30, 2006.

This report consists of management's representations concerning the finances of the Town of Killingly. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Killingly has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the Town of Killingly's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefit, the Town of Killingly's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Killingly's financial statements have been audited by Kostin, Ruffkess & Company, LLC. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Killingly for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Killingly's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Killingly was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies and a similar State Single Audit. The standards governing Single Audit engagements require the independent auditors to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports have been included as part of the annual financial report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Town of Killingly's MD&A can be found immediately following the report of the independent auditors.

Profile of the Town

The Town of Killingly is a quiet and relaxed country town consisting of 50 square miles and located in northeastern Connecticut. Killingly was settled in the mid-1600s and incorporated in 1708. The Town of Killingly is comprised of the Borough of Danielson and seven villages. The town is within easy access to Hartford, CT; Auburn/Worcester, MA; and Providence, RI via Route 6 and interstate 395.

The Town of Killingly has adopted a home rule council-manager government. The Town Council is the legislative/policy-making body with an annual budget requiring ratification by a town meeting vote. The nine (9) members of the Town Council are elected on a partisan basis by districts for two year concurrent terms. The Town Council appoints a Town Manager (chief executive officer) for an indefinite term. Town's chief executive officer serves at the pleasure of the Town Council and is chosen solely on the basis of qualifications, education and experience.

Killingly Public Schools offer vibrant, comprehensive programs to approximately 3,100 pre-kindergarten through grade 12 students in five separate schools facilities. A nine (9) member Board of Education is elected by the community for four years with four (4) members elected at one election and five (5) members elected at the alternate election two years later. The Board of Education appoints a Superintendent of Schools. The duties of the Board of Education and the Superintendent of Schools are proscribed by the General Statutes of Connecticut.

Factors Affecting Financial Condition

The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the Town of Killingly operates.

Local Economy. Killingly grew and developed as a collection of mill villages that relied on waterpower from the many streams and rivers to produce quality textiles. The Town's development has been rejuvenated in the modern era with the development of the Killingly Industrial Park located adjacent to Exit 94 off Interstate 395. The Killingly Industrial Park provides employment for 3,200 workers in 2.1 million square feet of industrial space.

Killingly's largest taxpayers and employer, Frito-Lay, Inc., is one of several large manufacturing and distribution companies located in our town, employing over 2,769. The town also includes many great choices for retail shopping. In 2006, the values of building permits are up \$4,653,388 over 2005.

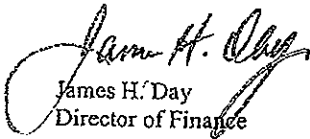
Long-term Financial Planning. Prepared as part of the annual budget process, a five year plan of capital improvement projects attempts to identify and provide a responsible funding/execution plan for public betterments to ensure a stable community infrastructure.

Cash Management. Cash temporarily idle during the year was invested in demand deposits, Equity Mutual Funds and Pooled Fixed Income Fund. The Town is limited to existing State of Connecticut Statutes as to the investment instruments it can purchase. Therefore, the unofficial Town investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio within the State's Guidelines. The average annualized yield for the fiscal year ending June 30, 2006 was 3.87%.

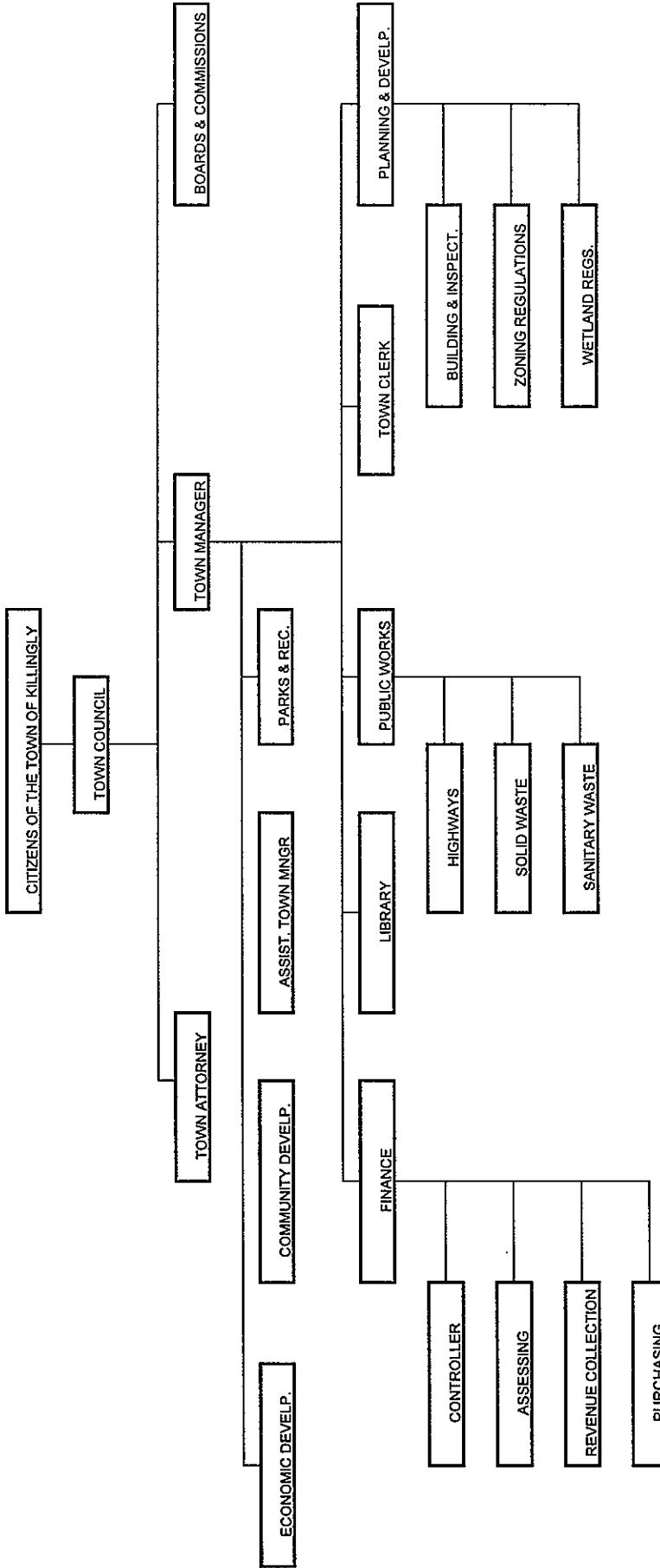
Risk Management. The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. Insurance coverage is purchased from the Connecticut Interlocal Risk Management Agency (CIRMA), a risk sharing pool created by a Special Act of the Connecticut General Assembly. Employee health insurance is self-funded by the Town up to a stop loss of \$75,000. The potential claims and administrative fees paid are appropriated in the annual budget. The health care increase is basically unchanged for the 2006-2007 fiscal year.

The Finance Department continuously strives to enhance the quality and ensure the integrity of the financial information provided to elected officials and staff, as well as to the citizens of the Town of Killingly. The Finance Department will continue to pursue its goals: to provide the highest degree of public credibility and confidence in its operations; working to foster and maintain a local government environment which demonstrates fiscal accountability, efficiency, integrity, and stability; and of course, the overall strive towards excellence.

Respectfully submitted,


James H. Day
Director of Finance

TOWN OF KILLINGLY, CONNECTICUT ORGANIZATIONAL CHART



TOWN OF KILLINGLY, CONNECTICUT

**LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2006**

TOWN COUNCIL

Janice Thurlow, Chairman
Joyce Ricci
Bradford C. Gauthier
David A. Bettencourt
Mark Johnston
Peter Kissa
John W. LaGarde
Robert Loiselle
Harold Reeves

Dr. Lavius Robinson, Board of Education Liaison

TOWN DEPARTMENTS

Melissa Bonin, Assessor
Joseph A. Pajak, Building Official
Mary Bromm, Community Development Administrator
Elsie Bisset, Economic Development Coordinator
Bruce J. Chimento, P.E., Director of Public Works/Town Engineer
James H. Day, Director of Finance/Treasurer
Thomas Dooley, Parks and Recreation Director
Linda Walden, Director of Planning & Development
David Sabourin, Highway Superintendent
Patricia Monahan, Revenue Collector
William M. Silver, Superintendent of Schools
Elizabeth Wilson, Town Clerk
Bruce E. Benway, Town Manager
Ray Allen, Fire Marshal
Marie C. Chartier, Library Director

AUDITORS

Kostin, Ruffkess & Company, LLC

Financial Section



**KOSTIN,
RUFFKESS
& COMPANY, LLC**

Business Advisors and Certified Public Accountants

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Springfield, MA

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INDEPENDENT AUDITORS' REPORT

Town Council
Town of Killingly, 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 Killingly, Connecticut, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic 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 Killingly, Connecticut, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and sewer operating fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2007, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management Discussion and Analysis and Schedule of Funding Progress - Killingly Retirement System on pages 8 through 17 and page 54, respectively, are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

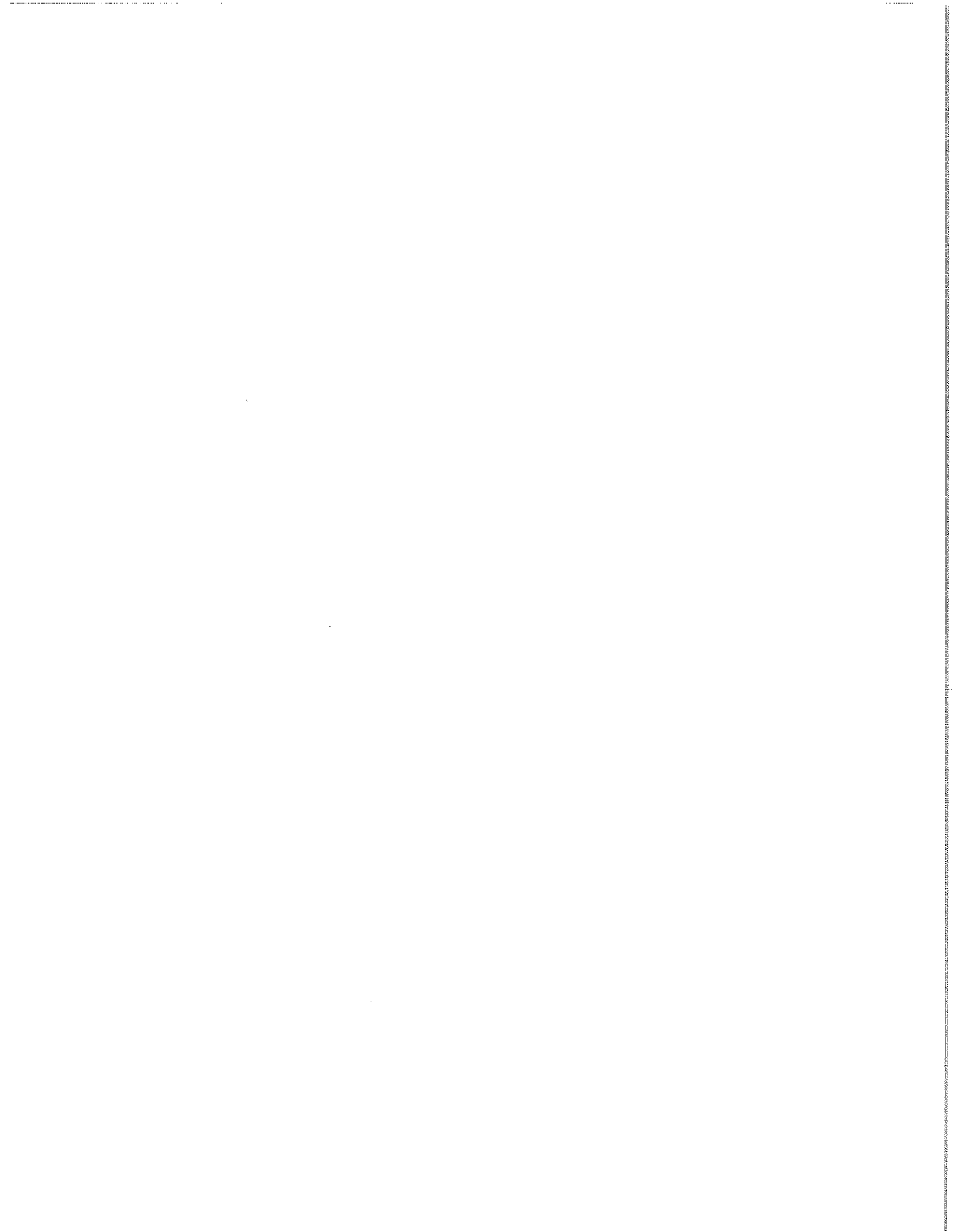


Town of Killingly, Connecticut
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Killingly, Connecticut's basic financial statements. The introductory section, trend information and the accompanying financial information listed as supplemental schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements and other schedules as listed in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and trend information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Kostin, Ruffkless & Company, LLC

New London, Connecticut
January 16, 2007





Town of Killingly

172 Main Street
Danielson, CT 06239

Phone: 860-779-5334

Fax: 860-779-5382

Management's Discussion and Analysis For the Year Ended June 30, 2006

As management of the Town of Killingly, Connecticut, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Killingly for the fiscal year ended June 30, 2006.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$44,478,743 (*net assets*). Of this amount, \$13,806,958 (*unrestricted net assets*) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$425,371. The increase is primarily due to payments of debt service which are budgeted and taxed for in the fund financials and recorded as a reduction of the liability on the government wide financial statements.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$11,697,618, an increase of \$719,752 from the prior year. Approximately 96% of this total amount, \$11,172,571 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$5,730,838 or 14.5% of total budgetary general fund expenditures.
- The Town of Killingly's total long-term obligations decreased by \$2,197,507 (12.5%) during the current fiscal year. The key factor in this was scheduled principal payments on bonded debt of \$1,958,770.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. One of the most important questions asked about the Town's finances should be: "Is the Town as a whole better off or worse off as a result of the year's activities?" The *statement of net assets* and *statement of activities* report information about the Town 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 private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

You will need to consider other non-financial factors such as; changes in the Town's property tax base and the condition of the Town's roads to fully assess the overall health of the Town.

The *statement of activities* presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements of the Town present only governmental activities whose functions are principally supported by taxes and intergovernmental revenues. The governmental activities of the Town include general government, public works, recreation and leisure, public safety, community development and human services, education, and interest expense.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains seventy (70) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Sewer Operating Fund and the Capital Improvements Fund, all of which are considered to be major funds. Data from the other sixty-seven (67) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in Schedules 5 and 6 in this report.

Governmental funds (continued)

The Town adopts an annual budget for its general and sewer operating fund. A budgetary comparison statement is presented to demonstrate compliance with the adopted budget.

Proprietary fund. The Town maintains one proprietary fund – the Health Benefits Internal Service Fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for its self-insured medical benefits. Because this service predominately benefits governmental functions, it has been included within governmental activities in the government-wide financial statements.

The data for the internal service fund is provided in Exhibits H, I, and J of this report.

Fiduciary funds. The Town is the trustee, or fiduciary, for its employees' pension plan. It is also responsible for other assets that, because of a trust agreement, can be used only for the trust beneficiaries. All of the Town's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets (Exhibits K and L). We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with non major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found in Schedules 5 through 6 of this report.

Management's Discussion and Analysis (continued)

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a Town's financial position. The Town's combined net assets increased by 1.7 percent from a year ago – increasing from \$44,053,372 to \$44,843,743.

TOWN OF KILLINGLY NET ASSETS

	2006	2005 AS RESTATED
Current and other assets.....	\$19,378,688	\$ 19,398,984
Capital assets.....	<u>42,699,432</u>	<u>44,856,244</u>
TOTAL ASSETS.....	<u>62,078,120</u>	<u>64,255,228</u>
Long-term liabilities outstanding.....	15,427,690	17,625,197
Other liabilities.....	<u>2,171,687</u>	<u>2,576,659</u>
TOTAL LIABILITIES.....	<u>17,599,377</u>	<u>20,201,856</u>
NET ASSETS:		
Invested in capital assets, net of related debt.....	30,146,737	30,301,087
Restricted.....	525,048	927,939
Unrestricted.....	<u>13,806,958</u>	<u>12,824,346</u>
TOTAL NET ASSETS.....	<u>\$44,478,743</u>	<u>\$44,053,372</u>

The Town's investment in capital assets (e.g. land, buildings and improvements, improvements other than buildings, machinery and equipment and infrastructure), net of related debt to acquire these assets, represents 67.8% of the Town's net assets. These assets are used to provide services to Town citizens, and it should be noted that these assets are not available for future spending. While the Town's investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (1.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (31.0%) may be used to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all the categories of net assets. The same situation held true for the prior fiscal year.

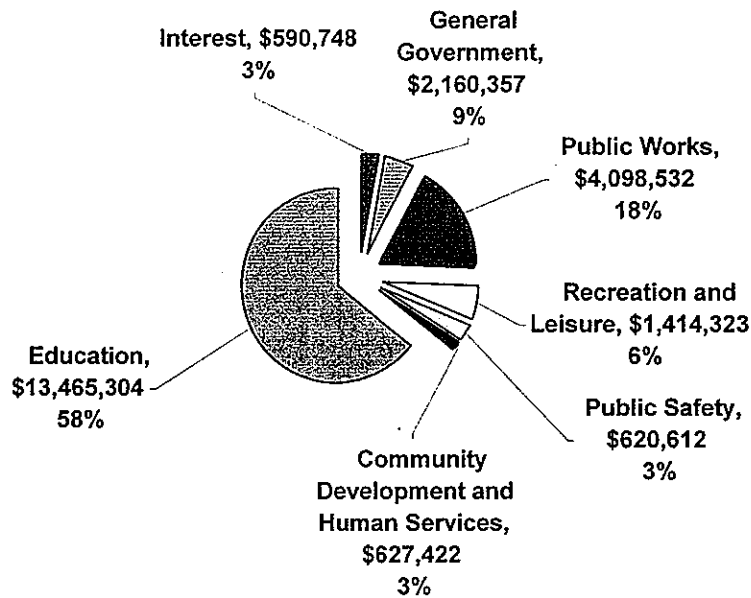
Management's Discussion and Analysis (continued)

The Town's net assets increased by \$425,371 during the current fiscal year. Key elements of this increase are as follows:

TOWN OF KILLINGLY CHANGES IN NET ASSETS

	2006	2005	% CHANGE
REVENUES:			
Program revenues:			
Charges for services.....	\$ 7,025,344	\$ 6,580,157	7%
Operating grants and contributions	18,086,069	17,052,170	6%
Capital grants and contributions....	624,834	1,027,973	(39%)
GENERAL REVENUES:			
Property taxes.....	21,327,501	19,102,487	12%
Grants and contributions not restricted specific programs.....	1,305,515	1,314,737	(1%)
Other.....	769,653	533,570	44%
TOTAL REVENUES.....	49,138,916	45,611,094	
EXPENSES:			
General Government.....	3,031,014	3,120,704	(35%)
Public Works	7,605,508	7,181,018	55%
Recreation and Leisure.....	1,544,109	1,629,451	6%
Public Safety	622,082	667,207	(7%)
Community Development and Human Services.....	1,057,302	802,871	9%
Education.....	34,262,782	32,222,678	5%
Interest on Long-Term Debt.....	590,748	490,174	21%
TOTAL EXPENSES.....	48,713,545	46,114,103	
CHANGE IN NET ASSETS.....	425,371	(503,009)	
NET ASSETS - JULY 1, 2005 (AS RESTATED).....	44,053,372	44,556,381	
NET ASSETS - JUNE 30, 2006.....	\$ 44,478,743	\$ 44,053,372	

Town of Killingly, Connecticut - Net Expenses (Expenses offset by revenue derived by the functions) June 30, 2006

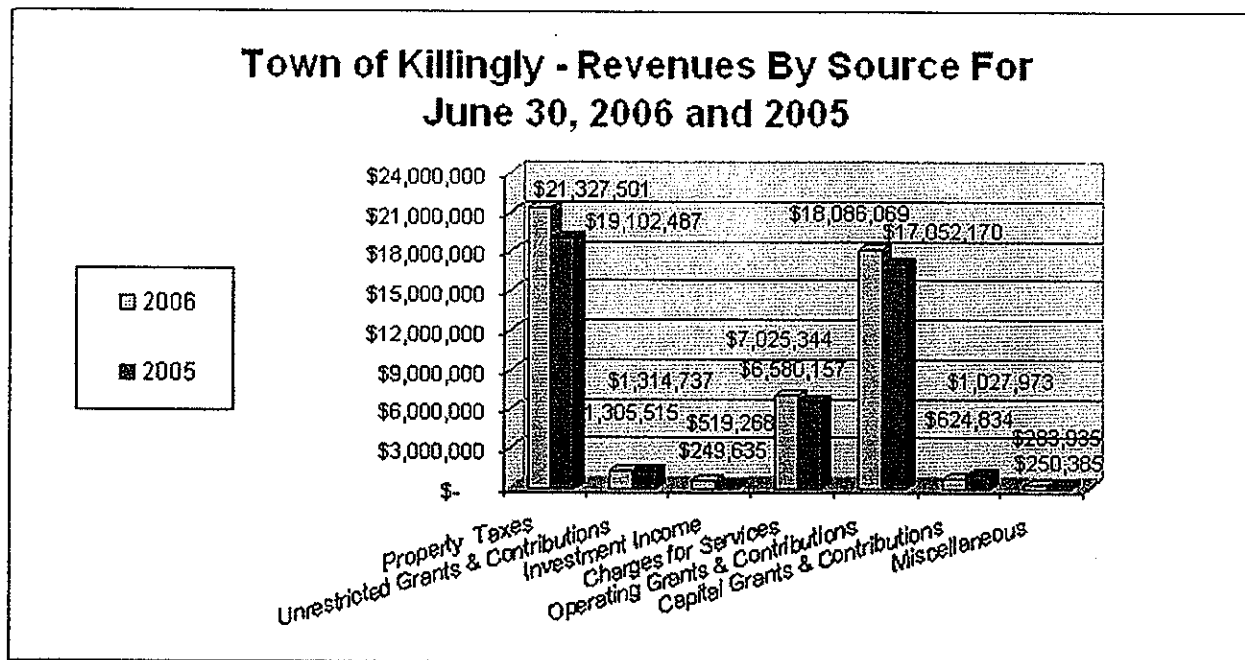


Major revenue factors included:

- Property tax revenues recorded for 2005-06 reflect an increase of \$2,225,014 or 11.6%. The taxable grand list increase of 4.8% combined with the increase in the mill rate of 1.5 mills, generated an increase of \$2,002,136 in the property tax levy.
- Capital grants and contributions decreased \$403,139 or (39%) due to decrease in State funding.
- Operating and capital grants for governmental activities increased by 4%, mostly as a result of an increase in the Educational Equalization Grant.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. However, there were a couple of exceptions noted below.

- Public works expenses increased due to non-capitalizable expenditures for repairs and maintenance.
- Community development and human services expenses increased due to the grant expenses for the Community Development Block Grant.
- Education expenses increased due to salaries and benefits, rising fuel oil and diesel costs.



This chart reflects the sources of revenue for 2005 and 2006, which provides services the taxpayers of Killingly receive. Property taxes of \$21,327,501 and operating grants and contributions make up the majority of revenue.

Financial Analysis of the Town's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$11,697,618, an increase of \$719,752 from the prior year. \$11,172,571 of this total amount constitutes unreserved fund balance, which is available for spending at the Town's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$329,067), 2) for inventory (\$46,313), 3) for permanently restricted endowments (\$119,634), and 4) (\$30,033) for commitments.

The general fund is the operating fund of the Town. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was \$5,263,935, while total fund balance reached \$6,053,377. As a measure of the general fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 13.3% of total general fund budgetary expenditures, while total fund balance represents 15.3% of that same amount.

Management's Discussion and Analysis (continued)

The fund balance of the Town's general fund increased by \$1,838,913 during the current fiscal year. Key factors in this growth are as follows:

Revenues

- Property tax revenue collected during the year was \$531,298 more than budgeted.
- Licenses, permits, and fees collected during the year were \$142,600 more than budgeted.
- Investment Income was \$275,652 more than budgeted.
- Other Revenues were approximately \$511,000 more than budgeted.

Expenditures

Moderate under expenditures were generated in all functions. The total under expenditure of the budget was a net \$512,896.

The final amended budget included an additional appropriation from the general fund balance in the amount of \$17,000 for KHS Asbestos Abatement in the Capital Projects Fund, which was funded from the General Fund undesignated fund balance.

All of the above allocations were funded from the Town's General Fund Undesignated Fund Balance.

Capital Improvements Fund. This fund accounts for financial resources to be used for the acquisition of major equipment or construction of facilities. Appropriations are made annually by the Town Council and citizen referendum, when required, pursuant to the Town Charter. Expenditures for capital projects and equipment for 2005-06 were \$2,005,878 in the Capital Improvements Fund. Total fund balance in the fund decreased by \$1,657,214 primarily due to expenditures in excess of grant revenues.

Sewer Operating Fund. The fund balance increased by \$30,467 net of a positive operations of \$921,971 and transfers out to the general fund of \$583,244, \$305,760 to the Capital Nonrecurring Fund, and \$2,500 to the insurance reserve fund.

Capital Assets and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental activities as of June 30, 2006, amounts to \$42,699,432 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, machinery and equipment, and infrastructure.

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

- Infrastructure additions of \$840,000 for road and bridge improvements.
- Machinery and equipment additions of \$468,707 for school buses and public works equipment.

Capital Assets and Debt Administration

TOWN OF KILLINGLY CAPITAL ASSETS
(Net of Accumulated Depreciation)

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land.....	\$ 2,332,356	\$ 2,332,356
Land improvements...	1,059,941	1,175,150
Buildings and improvements	22,201,403	22,955,558
Machinery and equipment	3,504,702	3,577,560
Infrastructure	13,601,030	14,815,620
TOTAL.....	<u>\$42,699,432</u>	<u>\$44,856,244</u>

Additional information on the Town's capital assets can be found in Note III. C.

Long-term debt. At the end of the current fiscal year, the Town had total bonded debt outstanding of \$12,213,895. This entire amount comprises debt backed by the full faith and credit of the Town. This debt will be partially retired by \$3,434,386 in State of Connecticut grants for school building projects.

**TOWN OF KILLINGLY'S
OUTSTANDING DEBT
LONG-TERM
OBLIGATIONS**

	<u>2006</u>	<u>2005</u>
General Obligation Bonds	\$ 12,213,895	\$ 14,172,665
Capital Lease Obligations	338,800	382,492
Landfill Closure/Postclosure Care Costs	750,000	780,000
BOE Early Retirement Incentive	1,242,031	1,419,464
Compensated Absences	882,964	870,576
Total	<u>\$ 15,427,690</u>	<u>\$ 17,625,197</u>

The Town's total debt decreased by \$2,197,507, or 12.5%, during the current fiscal year.

The Town received an "A1" rating from Moody's at the time of the last bond issue.

State statutes limit the amount of general obligation debt a governmental entity may issue to 7 times total tax collections including interest and lien fees and the tax relief for elderly freeze grant. The current debt limitation for the Town is \$152,255,257, which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town's long-term debt can be found in Note III. E.

Management's Discussion and Analysis (continued)

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the Town is currently 6.4%, which is a decrease from a rate of 6.5% a year ago. This compares unfavorably to the 5.4% rate for the Willimantic-Danielson region, the state's average unemployment rate of 4.9% and the national average rate of 5.1%.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the Town's budget for the 2007 fiscal year.

Economic Factors and Next Year's Budgets and Rates (continued)

During the current fiscal year, unreserved fund balance in the general fund increased to \$5,730,838. The Town appropriated \$400,000 of this amount for spending in the 2007 fiscal year, with the intentions of offsetting the need to raise taxes. The Town Council made a conscious effort to keep the 2007 expenditures in line and adopted a budget that represented a mere 5.1% increase over the 2006 adopted budget.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information, contact the Director of Finance, Town of Killingly, P.O. Box 6000, 172 Main Street, Killingly, Connecticut 06239.

Basic Financial Statements

EXHIBIT A

(1 of 2)

TOWN OF KILLINGLY, CONNECTICUTSTATEMENT OF NET ASSETS
JUNE 30, 2006

	GOVERNMENTAL ACTIVITIES
<u>ASSETS</u>	
Current assets:	
Cash.....	\$ 2,253,991
Investments.....	11,235,547
Receivables:	
Property taxes.....	405,634
Assessments and use charges.....	345,649
Intergovernmental.....	1,299,352
Other.....	124,101
Other assets.....	74,016
Total current assets.....	15,738,290
Noncurrent assets:	
Restricted assets:	
Temporarily restricted:	
Cash.....	1
Permanently restricted:	
Cash.....	841
Investments.....	118,793
Total restricted assets.....	119,635
Receivables (net):	
Property taxes.....	293,734
Assessments and use charges.....	806,520
Intergovernmental.....	2,420,509
Total receivables (net).....	3,520,763
Capital assets (net of accumulated depreciation):	
Land.....	2,332,356
Land improvements.....	1,059,941
Buildings and improvements.....	22,201,403
Machinery and equipment.....	3,504,702
Infrastructure.....	13,601,030
Total capital assets (net of accumulated depreciation).....	42,699,432
Total noncurrent assets.....	46,339,830
TOTAL ASSETS.....	62,078,120

(Continued)

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

EXHIBIT A

(2 of 2)

TOWN OF KILLINGLY, CONNECTICUT**STATEMENT OF NET ASSETS
JUNE 30, 2006****GOVERNMENTAL
ACTIVITIES****LIABILITIES****LIABILITIES:****Current liabilities:**

Accounts payable.....	\$ 1,403,306
Accrued liabilities.....	438,288
Accrued interest payable.....	152,199
Unearned revenue.....	<u>177,894</u>

Total current liabilities.....	<u>2,171,687</u>
--------------------------------	------------------

Noncurrent liabilities:

Long-term liabilities due within one year.....	2,510,423
Long-term liabilities due in more than one year.....	<u>12,917,267</u>

Total noncurrent liabilities.....	<u>15,427,690</u>
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TOTAL LIABILITIES.....	<u>17,599,377</u>
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NET ASSETS

Invested in capital assets, net of related debt.....	30,146,737
--	------------

Restricted for:**Endowments:**

Expendable.....	1
Nonexpendable.....	119,634
Other purposes.....	405,413
Unrestricted.....	<u>13,806,958</u>

TOTAL NET ASSETS.....	<u>\$ 44,478,743</u>
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(Concluded)

EXHIBIT B

TOWN OF KILLINGLY, CONNECTICUT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET EXPENSES AND CHANGES IN NET ASSETS	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES
GOVERNMENTAL ACTIVITIES:					
General government.....	\$ 3,031,014	\$ 870,657	\$	\$	\$ (2,160,357)
Public works.....	7,605,508	3,240,286	115,000	151,690	(4,098,532)
Recreation and leisure.....	1,544,109	129,786			(1,414,323)
Public safety.....	622,082	1,470			(620,612)
Community development and human services.....	1,057,302	67,791	349,498	12,591	(627,422)
Education.....	34,262,782	2,715,354	17,621,571	460,553	(13,465,304)
Interest.....	590,748				(590,748)
TOTAL.....	\$ 48,713,545	\$ 7,025,344	\$ 18,086,069	\$ 624,834	\$ (22,977,298)
GENERAL REVENUES:					
Property taxes.....					\$ 21,327,501
Grants and contributions not restricted to specific programs.....					1,305,515
Investment income.....					519,268
Miscellaneous.....					250,385
TOTAL GENERAL REVENUES.....					23,402,669
CHANGE IN NET ASSETS.....					425,371
NET ASSETS - JULY 1, 2005 (AS RESTATED).....					44,053,372
NET ASSETS - JUNE 30, 2006.....					\$ 44,478,743

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

TOWN OF KILLINGLY, CONNECTICUT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	GENERAL	CAPITAL IMPROVEMENTS FUND	SEWER OPERATING	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash.....	\$ 1,904,028	\$	\$	\$ 350,805	\$ 2,254,833
Investments.....	8,602,697		1,299,506	1,110,881	11,012,484
Receivables, net:					
Property taxes.....	706,829		1,140,399		1,847,228
Assessments and user fees.....					
Intergovernmental.....	136,340			149,135	285,475
Other.....	49,403			19,939	69,342
Due from other funds.....	609,315	33,744	1,949	3,199,504	3,844,512
Inventory.....				46,313	46,313
Other.....	27,703				27,703
TOTAL ASSETS.....	\$ 12,035,715	\$ 33,744	\$ 2,441,854	\$ 4,876,577	\$ 19,387,890
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable.....	\$ 962,504	\$	\$	\$ 75,802	\$ 1,038,306
Accrued payroll.....	60,845				60,845
Other liabilities.....	377,443				377,443
Due to other funds.....	4,034,432		295,663	313,652	4,643,747
Unearned revenue.....	547,114		844,923	177,894	1,569,931
Total Liabilities.....	\$ 5,982,338	\$ -	\$ 1,140,586	\$ 567,348	\$ 7,690,272
Fund Balances:					
Reserved for:					
Encumbrances.....	322,539		6,528		329,067
Inventory.....				46,313	46,313
Commitments.....		30,033			30,033
Endowments.....				119,634	119,634
Unreserved, reported in:					
Designated for subsequent year's budget.....	400,000				400,000
Designated for debt service.....			233,759		233,759
Designated for cell towers.....	33,766				33,766
Designated for sewer extension.....	33,137				33,137
General fund.....					
Special revenue funds.....	5,263,935		1,060,981	3,742,935	5,263,935
Capital projects funds.....		3,711		400,346	404,057
Permanent funds.....				1	1
Total Fund Balances.....	\$ 6,053,377	\$ 33,744	\$ 1,301,268	\$ 4,309,229	\$ 11,697,618
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 12,035,715	\$ 33,744	\$ 2,441,854	\$ 4,876,577	\$ 19,387,890

(Continued)

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

TOWN OF KILLINGLY, CONNECTICUT

RECONCILIATION OF FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (EXHIBIT A) ARE DIFFERENT FROM THE GOVERNMENTAL FUND BALANCE SHEET. THE DETAILS OF THIS DIFFERENCE ARE AS FOLLOWS:

TOTAL FUND BALANCE (EXHIBIT C, PAGE 1)..... \$ 11,697,618

CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES
AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS:

Beginning net capital assets and current additions..... 46,164,951
Depreciation expense..... (3,465,519)

OTHER LONG-TERM ASSETS ARE NOT AVAILABLE TO PAY FOR CURRENT PERIOD
EXPENDITURES AND, THEREFORE, ARE DEFERRED IN THE FUNDS:

Property tax, sewer use and sewer and water assessment interest and lien accrual..... 192,074
Property tax, sewer use and sewer and water assessment receivable - accrual basis change..... 1,392,037
School building grant receivable..... 3,434,386
Allowance for doubtful accounts..... (187,765)

INTERNAL SERVICE FUNDS ARE USED BY MANAGEMENT TO CHARGE THE COST OF
MEDICAL INSURANCE TO INDIVIDUAL DEPARTMENTS:

The assets and liabilities of the internal service funds are included in governmental activities in the
statement of net assets..... 830,850

SOME LIABILITIES, INCLUDING BONDS PAYABLE, ARE NOT DUE AND PAYABLE IN THE
CURRENT PERIOD AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS:

Beginning long-term liabilities and current year additions..... (17,866,892)
Long-term liability payments..... 2,439,202
Accrued interest payable..... (152,199)

NET ASSETS OF GOVERNMENTAL ACTIVITIES..... \$ 44,478,743

TOWN OF KILLINGLY, CONNECTICUT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL	CAPITAL IMPROVEMENTS FUND	SEWER OPERATING	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Property taxes.....	\$ 21,388,285		\$		\$ 21,388,285
Intergovernmental.....	18,004,567	151,690		3,062,024	21,218,281
Licenses, permits and fees.....	342,200				342,200
Charges for services.....	2,331,257		2,599,672	1,326,271	6,257,200
Investment income.....	402,022		48,346	59,484	509,852
Other.....	156,032		384,146	125,775	665,953
TOTAL REVENUES.....	42,624,363	151,690	3,032,164	4,573,554	50,381,771
EXPENDITURES:					
Current:					
General government.....	1,574,780			404,778	1,979,558
Public works.....	1,590,127		2,110,193		3,700,320
Recreation and leisure.....	1,360,600				1,360,600
Public safety.....	592,563			470,367	1,062,930
Community development and human services.....	402,583			3,627,049	4,029,632
Education.....	30,790,394				30,790,394
Miscellaneous.....	1,482,704			642,912	2,125,616
Capital outlay.....		2,005,878			2,005,878
Debt service:					
Principal.....	1,958,770				1,958,770
Interest.....	578,321				578,321
Lease payments.....	70,000				70,000
TOTAL EXPENDITURES.....	40,400,842	2,005,878	2,110,193	5,145,106	49,662,019
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	2,223,521	(1,854,188)	921,971	(571,552)	719,752
OTHER FINANCING SOURCES (USES):					
Transfers in.....	703,270	306,000		1,210,190	2,219,460
Transfers out.....	(1,087,878)	(109,026)	(891,504)	(131,052)	(2,219,460)
NET OTHER FINANCING SOURCES (USES).....	(384,608)	196,974	(891,504)	1,079,138	-
NET CHANGE IN FUND BALANCES.....	1,838,913	(1,657,214)	30,467	507,586	719,752
FUND BALANCES - JULY 1, 2005 (AS RESTATED).....	4,214,464	1,690,938	1,270,801	3,801,643	10,977,866
FUND BALANCES - JUNE 30, 2006.....	\$ 6,053,377	\$ 33,744	\$ 1,301,268	\$ 4,309,229	\$ 11,697,618

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

EXHIBIT E**TOWN OF KILLINGLY, CONNECTICUT**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES
(EXHIBIT B) ARE DUE TO:

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (EXHIBIT D)..... \$ 719,752

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlay.....	1,308,707
Depreciation expense.....	(3,465,519)

Total.....	(2,156,812)
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School building grant receipts.....	(1,059,888)
Decrease in property tax, sewer use and sewer and water assessment receivable - accrual basis change.....	(144,510)
Decrease in property tax, sewer use and sewer and water assessment interest and lien revenue.....	(249)
Decrease in property tax, sewer use and sewer and water assessment allowance for doubtful accounts.....	(47,624)

Total	(1,252,271)
-------------	-------------

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Principal repayments:	
General obligation bonds and notes payable.....	1,958,770
Capital leases.....	43,692

Total	2,002,462
-------------	-----------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated absences.....	(12,388)
Early retirement.....	177,433
Landfill closure.....	30,000
Accrued interest payable.....	13,881

Total	208,926
-------------	---------

Internal Service Funds are used by management to charge costs of medical insurance deductibles to individual departments.....	893,898
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The net revenue of the activities of the Internal Service Fund is reported with governmental activities.....	9,416
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (EXHIBIT B)	\$ 425,371
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The notes to the financial statements are an integral part of this statement.

TOWN OF KILLINGLY, CONNECTICUT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Property taxes.....	\$ 20,815,906	\$ 20,815,906	\$ 21,347,204	\$ 531,298
Intergovernmental.....	16,645,974	16,645,974	16,771,152	125,178
Licenses, permits and fees.....	199,600	199,600	342,200	142,600
Charges for services.....	2,077,825	2,077,825	2,331,257	253,432
Use of money and property.....	126,370	126,370	402,022	275,652
Other revenues.....	23,755	23,755	156,032	132,277
TOTAL REVENUES.....	39,889,430	39,889,430	41,349,867	1,460,437
EXPENDITURES:				
Current:				
General government.....	1,636,563	1,688,688	1,590,828	97,860
Public works.....	1,637,934	1,656,597	1,591,430	65,167
Recreation and leisure.....	1,404,867	1,442,822	1,370,550	72,272
Public safety.....	646,400	730,967	592,563	138,404
Community development and human services.....	404,920	413,849	402,583	11,266
Education.....	29,757,804	29,757,804	29,731,497	26,307
Miscellaneous.....	1,813,559	1,584,324	1,482,704	101,620
Debt service:				
Principal.....	1,931,770	1,958,766	1,958,770	(4)
Interest.....	578,325	578,325	578,321	4
Lease payments.....	70,000	70,000	70,000	-
TOTAL EXPENDITURES.....	39,882,142	39,882,142	39,369,246	512,896
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	7,288	7,288	1,980,621	1,973,333
OTHER FINANCING SOURCES (USES):				
Appropriation of fund balance.....	400,000	417,000		(417,000)
Cancellation of prior year encumbrances.....				
Transfers in - Sewer operating Fund.....	663,090	663,090	583,244	(79,846)
Transfers in - Capital Improvement Fund.....	100	100	109,026	108,926
Transfers in - Small Cities Fund.....	400	400	11,000	10,600
Transfers out - Capital Reserve Fund.....	(55,000)	(55,000)	(55,000)	-
Transfers out - Capital Improvements Fund.....	(174,000)	(191,000)	(191,000)	-
Transfers out - Capital Nonrecurring Fund.....	(642,268)	(642,268)	(642,268)	-
Transfers out - Insurance Reserve.....	(25,000)	(25,000)	(25,000)	-
Transfers out - Solid Waste Fund.....	(98,710)	(98,710)	(98,710)	-
Transfers out - Conservation and Development Fund.....	(10,000)	(10,000)	(10,000)	-
Transfers out - Revaluation Fund.....	(65,900)	(65,900)	(65,900)	-
NET OTHER FINANCING SOURCES (USES).....	(7,288)	(7,288)	(384,608)	(377,320)
NET CHANGE IN FUND BALANCE	\$ -	\$ -	1,596,013	\$ 1,596,013
FUND BALANCE, JULY 1, 2005.....			4,134,825	
FUND BALANCE, JUNE 30, 2006.....			\$ 5,730,838	

EXHIBIT G

TOWN OF KILLINGLY, CONNECTICUT

SEWER OPERATING FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Sewer use - current	\$ 2,466,741	\$ 2,466,741	\$ 2,523,633	\$ 56,892
Use charge interest	28,900	28,900	76,039	47,139
Investment income	20,500	20,500	48,346	27,846
Other special services	442,000	442,000	384,146	(57,854)
TOTAL REVENUES	2,958,141	2,958,141	3,032,164	74,023
EXPENDITURES:				
Contractual services	2,658,141	2,658,141	2,116,721	(541,420)
EXCESS OF REVENUES OVER EXPENDITURES	300,000	300,000	915,443	615,443
OTHER FINANCING SOURCES (USES):				
Transfers out - General Fund			(583,244)	(583,244)
Transfer outs - Capital Nonrecurring Fund	(300,000)	(300,000)	(305,760)	(5,760)
Transfers out - Insurance Reserve Fund			(2,500)	(2,500)
NET OTHER FINANCING SOURCES (USES)	(300,000)	(300,000)	(891,504)	(591,504)
NET CHANGE IN FUND BALANCE	\$ -	\$ -	23,939	\$ 23,939
FUND BALANCE - JULY 1, 2005			1,270,801	
FUND BALANCE - JUNE 30, 2006			\$ 1,294,740	

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

EXHIBIT H

TOWN OF KILLINGLY, CONNECTICUT

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	GOVERNMENTAL ACTIVITIES
	INTERNAL SERVICE FUNDS
<u>ASSETS</u>	
Investments.....	\$ 341,856
Accounts receivable.....	54,759
Due from other funds.....	<u>799,235</u>
TOTAL ASSETS.....	<u>1,195,850</u>
<u>LIABILITIES</u>	
Current:	
Claims payable.....	<u>365,000</u>
NET ASSETS:	
Unrestricted.....	<u>\$ 830,850</u>

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

EXHIBIT I

TOWN OF KILLINGLY, CONNECTICUT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	GOVERNMENTAL ACTIVITIES	INTERNAL SERVICE FUND
OPERATING REVENUES:		
Charges for services.....	\$	6,241,418
OPERATING EXPENSES:		
Claims incurred.....		4,663,845
Administration.....		683,675
TOTAL OPERATING EXPENSES.....		5,347,520
OPERATING INCOME.....		893,898
NONOPERATING REVENUES:		
Investment income.....		9,416
CHANGE IN NET ASSETS.....		903,314
NET ASSETS - JULY 1, 2005.....		(72,464)
NET ASSETS - JUNE 30, 2006.....	\$	830,850

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

EXHIBIT J**TOWN OF KILLINGLY, CONNECTICUT**

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 FOR THE YEAR ENDED JUNE 30, 2006

	GOVERNMENTAL ACTIVITIES
	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from charges for services.....	\$ 5,280,000
Cash paid for benefits, claims.....	(4,681,986)
Cash paid for administration.....	(539,055)
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	58,959
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income.....	9,416
NET INCREASE IN CASH.....	68,375
CASH AND CASH EQUIVALENTS - JULY 1, 2005.....	273,481
CASH AND CASH EQUIVALENTS - JUNE 30, 2006.....	\$ 341,856
RECONCILIATION TO EXHIBIT H - CASH:	
CASH AND CASH EQUIVALENTS PER ABOVE.....	\$ 341,856
CASH AND CASH EQUIVALENTS REPORTED AS INVESTMENTS.....	341,856
CASH - EXHIBIT H.....	\$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income.....	\$ 893,898
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in:	
Accounts payable.....	(26,205)
Claims payable.....	(18,141)
Increase in:	
Accounts receivable.....	(54,759)
Due from other funds.....	(735,834)
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	\$ 58,959

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

EXHIBIT KTOWN OF KILLINGLY, CONNECTICUTSTATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	PENSION TRUST FUND	PRIVATE PURPOSE TRUST FUND	AGENCY FUNDS
<u>ASSETS</u>			
Cash.....	\$	\$ 551,426	\$ 621,349
Investments - at fair value:			
Pooled fixed income.....	490,339		
Mutual funds:			
Equity mutual funds.....	4,127,698		
Total investments.....	4,618,037	-	-
TOTAL ASSETS.....	4,618,037	551,426	621,349
<u>LIABILITY</u>			
Accounts payable.....		27	621,349
<u>NET ASSETS</u>			
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES.....	\$ 4,618,037	\$ 551,399	\$ -

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

EXHIBIT LTOWN OF KILLINGLY, CONNECTICUTSTATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	PENSION TRUST FUND	PRIVATE PURPOSE TRUST FUND
ADDITIONS:		
Contributions:		
Plan members.....	\$ 66,256	\$ 4,565
Total contributions.....	66,256	4,565
Investment income:		
Net appreciation in fair value of investments.....	264,730	
Interest and dividends.....	141,418	12,133
Total investment income.....	406,148	12,133
Less investment expenses.....	16,550	
Net investment income.....	389,598	12,133
TOTAL ADDITIONS.....	455,854	16,698
DEDUCTIONS:		
Benefits.....	165,145	
Administration.....	32,240	
Awards.....		3,595
TOTAL DEDUCTIONS.....	197,385	3,595
CHANGE IN NET ASSETS.....	258,469	13,103
NET ASSETS - JULY 1, 2005 (AS RESTATED).....	4,359,568	538,296
NET ASSETS - JUNE 30, 2006.....	\$ 4,618,037	\$ 551,399

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

TOWN OF KILLINGLY, CONNECTICUTNOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006HISTORY AND ORGANIZATION

The Town of Killingly was incorporated in 1708 and covers an area of 50 square miles. The Town operates under a Council-Manager form of government as prescribed by its charter, which was adopted November 4, 1969, and most recently revised November 31, 1995. The Town provides the following services as authorized by its charter: general government, public works, recreation, public safety, community development, health and human services, and education.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

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

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

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Agency funds have no measurement focus but are accounted for using the accrual basis of accounting. 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 revenues 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.

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, expenditure reimbursement type grants, certain intergovernmental revenues, transfers, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental funds:

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

The *Capital Improvements Fund* accounts for the financial revenues to be used for major capital asset construction and/or purchases.

The *Sewer Operating Fund* accounts for the financing of sanitary sewer and water improvements deemed to benefit owner properties.

The Town reports the following fund types:

The *Internal Service Fund* accounts for risk financing activities for medical insurance benefits as allowed by GASB Statement No. 10.

The *Pension Trust Fund* accounts for the activities of the Public Employees Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *Private Purpose Trust Funds* accounts are used to account for Scholarship endowments.

The *Agency Funds* account for monies held on behalf of students and amounts held for performance bonds.

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. The Town also has the *option* of following subsequent private-sector guidance, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the Town's sewer operating fund. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's internal service funds are charges to employees for medical insurance premiums. Operating expenses for internal service funds include the cost of claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Deposits - The Town considers cash equivalents as cash on hand, demand deposits, money market accounts and short-term investments with original maturities of three months or less from the date of acquisition.

Investments - Eligible investments are governed by State of Connecticut Statutes which, in general, allow the Town to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any State or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service. For the Capital and Nonrecurring fund, not more than 31% can be invested in equity securities. Investment income is recorded in the fund in which it was earned.

Investments for the Town are recorded at fair value.

2. Receivables and Payables

a. Interfunds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "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).

b. Property Taxes and Other Receivables

In the government-wide financial statements, all trade, property tax, sewer use, and sewer assessment receivables are shown net of an allowance for uncollectibles. Allowance percentages range from 2% to 25% of outstanding receivable balances at June 30, 2006, and are calculated based upon prior collections.

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Receivables and Payables (Continued)

b. Property Taxes and Other Receivables (Continued)

In the fund financial statements, property tax revenues are recognized when they become available. Available means due or past due and receivable within the current period or expected to be collected soon enough thereafter (within sixty days) to be used to pay liabilities of the current period. Property taxes receivable not expected to be collected during the available period are reported as deferred revenue. Outstanding real estate tax accounts are lienied each year before June 30 and legal demand and alias tax warrants are used in the collection of personal property and motor vehicle tax bills.

Property taxes are assessed as of October 1 and billed the following July. Real estate and personal property taxes are generally due and payable in four installments on July 1, October 1, January 1, and April 1. Real estate and personal property taxes not in excess of \$50 and motor vehicle taxes are due and payable in one installment on July 1. Motor vehicle supplemental bills are due on January 1. Payments not received within one month after the due date become delinquent, with interest charged at the rate of 1-1/2% per month. The Town files liens against property for real estate taxes remaining unpaid by the following June 30. Assessments for real and personal property, excluding motor vehicles, are computed at 70% of the market value.

3. Restricted Assets

The restricted assets for the Town are restricted for endowment purposes. The Town has several bequests that restrict expenditures to investment income and only for the donor designated purpose.

4. Inventories

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.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 for equipment and improvements and \$100,000 for infrastructure, and an estimated useful life in excess of one year. 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 the donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Net Assets or Equity (Continued)

5. Capital Assets (Continued)

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	20-100
Land improvements	10-50
Infrastructure:	
Roads	50-100
Sidewalks	25-50
Sewer lines	50-100
Water lines	50-100
Machinery and equipment	3-25
Vehicles	5-25

6. Compensated Absences

Town

All employees are granted vacation and/or sick time based upon contractual provisions. At year end, unused vacation and sick time may be carried forward to subsequent years. In the event of termination, employees are reimbursed for all accumulated vacation days and a percentage of accumulated sick days up to the maximum limits allowed by their applicable contract.

Board of Education

All full time employees, except teachers, are granted vacation time based upon contractual provisions. Employees are generally not entitled to carry over or to be reimbursed for accrued vacation and sick pay upon termination.

7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the 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.

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Net Assets or Equity (Continued)

8. Fund Equity and Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

In the government-wide financial statements, net assets are classified into the following categories:

Invested in Capital Assets, Net of Related Debt

This category presents the net assets that reflect capital assets net of only the debt applicable to the acquisition or construction of these assets. Debt issued for non-capital purposes is excluded.

Restricted Net Assets

This category presents the net assets restricted by external parties (creditors, grantors, contributors or laws and regulations).

Unrestricted Net Assets

This category presents the net assets of the Town which are not restricted.

9. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosures of contingent assets and liabilities and reported revenues, expenses and expenditures during the fiscal year.

10. Comparative Data/Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year presentation.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

The Town adheres to the following procedures in establishing the budgetary data included in the General Fund and Sewer Operating Fund (a Special Revenue Fund) financial statements:

- Each department, office, board, or commission of the Town, including the Board of Education, shall submit to the Town Manager a detailed estimate of expenditures and anticipated revenues for the ensuing fiscal year by March 15.
- On or before April 1, the Town Manager submits a balanced budget and budget message to the Town Council based upon requests submitted by the various Town departments.

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgets and Budgetary Accounting (Continued)

- By April 15, the Town Council submits the proposed operating budget to one or more public hearings, at which taxpayer comments are obtained. The budget includes proposed expenditures and the means of financing them. The Town Council recommends the budget, as revised, for adoption at the annual Town Meeting on the second Monday in May.
- The legal level of control, the level at which expenditures may not exceed appropriations, is at the functional level within a department as prescribed by Town charter.
- Management is not authorized to make budgetary transfers. The Town Council, in accordance with the provisions of the Charter and the Connecticut General Statutes, is authorized to transfer unexpended balances from one appropriation to another. Additional appropriations up to one percent of the immediately prior year's operating budget, excluding public school education, or \$108,000 may be approved by Town Council. Those in excess of this amount must be approved at Town Meeting. Additional appropriations of \$17,000 were authorized from fund balance for the General Fund during the year. There were no additional appropriations for the Sewer Operating Fund.
- The Department of Education is not a separate legal entity, but a separate function of the Town. Its Board is authorized under State law to make any transfers required within their budget at their discretion. Any additional appropriations must have Town Council approval and, if necessary, approval at a public hearing or referendum.
- Formal budgetary integration is employed as a management control device in the General and Sewer Operating Funds. Formal budgetary integration is not employed in Capital Projects or Special Revenue Funds because budgetary control is alternately achieved by constraints imposed by the project authorization or grant awards related to these funds.
- Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order, contract or other commitment is issued and, accordingly, encumbrances outstanding at year end are reported in budgetary reports (Exhibit F) as expenditures in the current year. Generally, all unencumbered appropriations lapse at year end, except those for the Capital Projects and certain Special Revenue Funds. Appropriations for capital projects are continued until completion of applicable projects, even when projects extend more than one fiscal year.

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

B. Budget - GAAP Reconciliation

A reconciliation of revenues, expenditures, and fund balance between the accounting treatment required by GAAP (Exhibit D), and budgetary requirements (Exhibits F and G), is as follows:

	GENERAL FUND			SEWER OPERATING FUND	
	REVENUES	EXPENDITURES	FUND BALANCE	EXPENDITURES	FUND BALANCE
BALANCE, BUDGETARY BASIS, EXHIBITS F AND G - JUNE 30, 2006.....	\$41,349,867	\$39,369,246	\$ 5,730,838	\$ 2,116,721	\$ 1,294,740
Teachers' Retirement System on-behalf payments...	1,233,415	1,233,415			
Encumbrances outstanding at June 30, 2005, liquidated during the year		120,720			
Encumbrances outstanding at June 30, 2005, and 2006		(9,000)	9,000		
Change in 60 day tax collections budgeted on cash basis	41,081				
Encumbrances outstanding at June 30, 2006, charged to budgetary expenditures		(313,539)	313,539	(6,528)	6,528
BALANCE, GAAP BASIS, EXHIBIT D - JUNE 30, 2006	<u>\$42,624,363</u>	<u>\$40,400,842</u>	<u>\$ 5,914,049</u>	<u>\$ 2,110,193</u>	<u>\$ 1,301,268</u>

C. Donor Restricted Endowments

The Town has received endowments for the improvement and betterment of Killingly Public Schools, park and recreation activities, and library books. The amounts are reflected in net assets as restricted for endowments and perpetual care. Investment income from the endowments is transferred annually to special revenue funds where disbursements are approved by the Town Council. Investment income available for appropriation is as follows:

Endowments	\$ 1
------------	------

D. Deficit Fund Equity

The following funds reported deficit balances as of June 30, 2006:

Special Revenue Funds:	
School Cafeteria Fund	\$ 70,375
Solid Waste Fund	23,277
Private Purpose Trust Funds:	
Frances Upham Spaulding	27

The cumulative deficits in these funds were created by expenditures in excess of revenues. The deficits are expected to be eliminated by future appropriations.

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

E. Project Authorizations

The following is a summary of Capital Improvement Fund projects at June 30, 2006:

<u>CAPITAL PROJECT</u>	<u>AUTHORIZATION</u>	<u>CURRENT YEAR EXPENDITURES</u>	<u>CUMULATIVE EXPENDITURES</u>	<u>BALANCE JUNE 30, 2006</u>
Various Capital Improvements.....	\$ 124,728,721	\$ 2,005,878	\$ 37,351,480	\$ 87,377,241

A summary of capital projects at June 30, 2006 is as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Balance</u>
Road Renewal and Construction	\$ 5,143,511	\$ 627,497
Schools	13,007,579	79,566,711
Sewer Projects	7,245,648	939,315
Bridges	3,071,425	230,622
Town Buildings	4,168,962	401,343
Other	4,714,355	5,611,753
Total	\$ 37,351,480	\$ 87,377,241

III. DETAILED NOTES

A. Cash and Investments

1. Deposits - 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 does not have a deposit policy for custodial credit risk. As of June 30, 2006, \$1,486,348 of the Town's bank balance of \$2,008,948 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 1,299,983
Uninsured and collateral held by the pledging bank's trust department, not in the Town's name	186,365
Total amount subject to custodial credit risk.....	\$ 1,486,348

2. Investments - The investments classified under Risk Category 3 are covered by the Securities Investor Protection Corporation (SIPC) up to \$500,000, including \$100,000 of cash from the sale or purchase of investments, but not cash held solely for the purpose of earning interest. SIPC protects securities such as notes, stocks, bonds, debentures, certificates of deposit and money funds.

At June 30, 2006, the Town's investments (including restricted investments) consisted of the following:

<u>TYPE OF INVESTMENT</u>	<u>FAIR VALUE</u>	<u>INVESTMENT MATURITIES (IN YEARS)</u>	
		<u>N/A</u>	<u>LESS THAN 1</u>
Mutual Funds:			
Equity Mutual Funds	\$ 4,127,698	\$ 4,127,698	\$
Pooled Fixed Income	11,844,679		11,844,679
TOTAL	\$ 15,972,377	\$ 4,127,698	\$ 11,844,679

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

A. Cash and Investments (Continued)

2. Investments (Continued)

Interest rate risk - 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 increasing interest rates.

Credit risk - The Town has no investment policy that would limit its investment choices due to credit risk other than State Statutes governing investments in obligations of any State or political subdivision or in obligations of the State of Connecticut or political subdivision.

The Town's investments in pooled fixed income had average ratings as follows by Standard & Poor's:

AVERAGE RATING	POOLED FIXED INCOME
AAA.....	<u>\$11,844,679</u>

Custodial credit risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Town does not have any investments at June 30, 2006 subject to custodial credit risk.

B. Receivables

As of year end, receivables by type for the Town's government-wide financial statements, including the applicable allowances for uncollectibles, are as follows:

	PROPERTY TAXES		
	TAXES	INTEREST & LIEN FEES	TOTAL
Current Portion.....	<u>\$ 328,181</u>	<u>\$ 77,453</u>	<u>\$ 405,634</u>
Long-term Portion.....	<u>\$ 378,648</u>	<u>\$ 101,086</u>	<u>\$ 479,734</u>
Less Allowance for Uncollectibles	<u>(141,000)</u>	<u>(45,000)</u>	<u>(186,000)</u>
Net Long-term Portion	<u>\$ 237,648</u>	<u>\$ 56,086</u>	<u>\$ 293,734</u>
Total Receivable.....	<u>\$ 565,829</u>	<u>\$ 133,539</u>	<u>\$ 699,368</u>

	SEWER USE			
	ASSESSMENTS	USE CHARGE	INTEREST & LIENS	TOTAL
Current Portion.....	<u>\$ 253,476</u>	<u>\$ 88,642</u>	<u>\$ 3,531</u>	<u>\$ 345,649</u>
Long-term Portion.....	<u>\$ 591,447</u>	<u>\$ 216,834</u>	<u>\$ 10,004</u>	<u>\$ 818,285</u>
Less Allowance for Uncollectibles	<u>(--)</u>	<u>(10,000)</u>	<u>(1,765)</u>	<u>(11,765)</u>
Net Long-term Portion	<u>\$ 591,447</u>	<u>\$ 206,834</u>	<u>\$ 8,239</u>	<u>\$ 806,520</u>
Total Receivable.....	<u>\$ 844,923</u>	<u>\$ 295,476</u>	<u>\$ 11,770</u>	<u>\$ 1,152,169</u>

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

B. Receivables (Continued)

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:

DEFERRED REVENUE:

Delinquent property taxes receivable (general fund)	\$ 547,114
Assessments (sewer operating fund).....	844,923

UNEARNED REVENUE:

Solid waste fees (special revenue fund).....	48,270
Grant draw downs prior to meeting all eligibility requirements	<u>129,624</u>

TOTAL UNEARNED REVENUE FOR GOVERNMENTAL FUNDS **\$1,569,931**

C. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	BALANCE JULY 1, 2005	INCREASES	DECREASES	BALANCE JUNE 30, 2006
<u>Governmental Activities:</u>				
<u>Capital Assets, not being Depreciated:</u>				
Land.....	\$ 2,332,356	\$	\$	\$ 2,332,356
<u>Capital Assets, being Depreciated:</u>				
Land improvements.....	2,304,175			2,304,175
Buildings and improvements	43,998,980			43,998,980
Machinery and equipment.....	9,884,483	468,707		10,353,190
Infrastructure	46,551,165	840,000		47,391,165
Total Capital Assets, being Depreciated	102,738,803	1,308,707	-	104,047,510
Total Capital Assets.....	105,071,159	1,308,707	-	106,379,866
<u>Less Accumulated Depreciation for:</u>				
Land improvements.....	1,129,025	115,209		1,244,234
Buildings and improvements	21,043,422	754,155		21,797,577
Machinery and equipment.....	6,306,923	541,565		6,848,488
Infrastructure	31,735,545	2,054,590		33,790,135
Total Accumulated Depreciation	60,214,915	3,465,519	-	63,680,434
Total Capital Assets, being Depreciated, net	42,523,888	(2,156,812)	-	40,367,076
Governmental Activities Capital Assets, net.....	<u>\$ 44,856,244</u>	<u>\$ (2,156,519)</u>	<u>\$ -</u>	<u>\$ 42,699,432</u>

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

General government	\$ 555,072
Public works	2,012,048
Recreation and leisure	68,289
Public safety	13,431
Education.....	<u>816,679</u>
Total Depreciation Expense.....	<u>\$ 3,465,519</u>

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

D. Interfund Accounts

I. Interfund Payables and Receivables

A summary of interfund balances as of June 30, 2006, is as follows:

	CORRESPONDING FUND	DUE FROM	DUE TO
<u>MAJOR FUNDS:</u>			
<u>GENERAL FUND</u>			
School Cafeteria Fund	N/A	\$ 302,447	\$
John Gonzales Fund	N/A		489
Marion Allard Fund	N/A		10
Sewer Operating Fund	N/A	295,663	1,949
Capital Reserve Fund	N/A		202,083
Water Utility Fund	N/A		1,167,432
Revaluation Fund	N/A		140,832
Insurance Reserve Fund	N/A		209,124
Substance Abuse Fund	N/A		5,167
Public Investment Community Grant Fund	N/A		5,324
Water Mitigation Fund	N/A		75,040
Town Aid Road Fund	N/A		93,071
Capital Nonrecurring	N/A		1,147,618
Planning and Conservation	N/A		40,000
Economic development	N/A		20,000
Fuel system	N/A	11,205	
Historical Preservation	N/A		5,512
Solid Waste	N/A		24,993
Capital Improvements Fund	N/A		33,744
Industrial Park Fund	N/A		7,954
Revolving Recreation Fund	N/A		9,010
Community Incentive Employment Program	N/A		7,687
Community Development Block Grant	N/A		23,000
Open Space Acquisition Fund	N/A		15,158
Internal Service Fund	N/A		799,235
TOTAL GENERAL FUND		609,315	4,034,432
CAPITAL IMPROVEMENTS FUND	General Fund	33,744	
SEWER OPERATING FUND	General Fund	1,949	295,663
<u>NONMAJOR FUNDS:</u>			
School Cafeteria Fund	General Fund		302,447
John Gonzales Fund	General Fund	489	
Marion Allard Fund	General Fund	10	
Capital Reserve Fund	General Fund	202,083	
Water Utility Fund	General Fund	1,167,432	
Revaluation Fund	General Fund	140,832	
Insurance Reserve Fund	General Fund	209,124	
Substance Abuse Fund	General Fund	5,167	
Public Investment Community Grant Fund	General Fund	5,324	
Water Mitigation Fund	General Fund	75,040	
Community Employment Incentive Fund	General Fund	7,687	
Town Aid Road Fund	General Fund	93,071	
Capital Nonrecurring	General Fund	1,147,618	
Planning and Conservation	General Fund	40,000	
Economic Development	General Fund	20,000	
Historical Preservation	General Fund	5,512	
Solid Waste Fund	General Fund	24,993	
Community Development Block Grant	General Fund	23,000	
Revolving Recreation Fund	General Fund	9,010	
Industrial Park Fund	General Fund	7,954	
Fuel System Fund	General Fund		11,205
Open Space Acquisition Fund	General Fund	15,158	
TOTAL NONMAJOR FUNDS		3,199,504	313,652

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

D. Interfund Accounts (Continued)

1. Interfund Payables and Receivables (Continued)

INTERNAL SERVICE FUNDS:

Health/Dental Fund.....	General Fund	\$ 799,235	\$
GRAND TOTAL		\$ 4,643,747	\$ 4,643,747

All interfund balances resulted from the time lag between the dates payments occurred between funds for short-term internal financing.

2. Interfund Transfers

A summary of interfund transfers as of June 30, 2006, is as follows:

	CORRESPONDING FUND	TRANSFERS IN	TRANSFERS OUT
<u>MAJOR FUNDS:</u>			
<u>GENERAL FUND:</u>			
Sewer operating	N/A	\$ 583,244	\$
Small Cities.....	N/A	11,000	
Capital nonrecurring	N/A		642,268
Solid waste.....	N/A		98,710
Planning and conservation.....	N/A		10,000
Revaluation	N/A		65,900
Insurance reserve	N/A		25,000
Information technology	N/A		55,000
Capital improvements.....	N/A	109,026	191,000
TOTAL GENERAL FUND		703,270	1,087,878
<u>CAPITAL IMPROVEMENTS FUND:</u>			
Capital improvements.....	General Fund	191,000	109,026
Capital improvements.....	Town Aid Road Fund	115,000	
TOTAL CAPITAL IMPROVEMENTS FUND .		306,000	109,026
<u>SEWER OPERATING FUND:</u>			
Sewer operating	General Fund		583,244
Sewer operating	Capital Nonrecurring Fund		305,760
Sewer operating	Insurance Reserve Fund		2,500
TOTAL SEWER OPERATING FUND		--	891,504
<u>NONMAJOR FUNDS:</u>			
<u>SPECIAL REVENUE FUNDS:</u>			
Capital nonrecurring	General Fund	642,268	
Capital nonrecurring	Sewer Operation Fund	305,760	
Capital nonrecurring	Solid Waste Fund	400	
Information technology	General Fund	55,000	
Revaluation	General Fund	65,900	
Insurance reserve	General Fund	25,000	
Insurance reserve	Sewer Operating Fund	2,500	

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

D. Interfund Accounts (Continued)

2. Interfund Transfers (Continued)

	CORRESPONDING FUND	TRANSFERS IN	TRANSFERS OUT
Planning and conservation.....	General Fund	\$ 10,000	\$
Solid waste.....	General Fund	98,710	
Solid waste.....	Capital Nonrecurring Fund		400
Small cities.....	General Fund		11,000
Town aid road.....	Capital Improvements Fund		115,000
Shubael Hutchins	Shubael Hutchins Trust	200	
Mildred Stearns	Mildred Stearns Trust	1,996	
Civil war monument	Civil War Monument Trust	8	
Emily Danielson	Emily Danielson Trust	40	
Mary Dexter	Mary Dexter Trust	20	
Frederick Jacobs	Frederick Jacobs Trust	20	
Bassett-Hammond.....	Bassett-Hammond Trust	174	
Ella Dorrance	Ella Dorrance Trust	60	
Adolf Goldwater	Adolf Goldwater Trust	120	
Earl Chandler	Earl Chandler Trust	16	
Almond Paine Cemetery.....	Paine Cemetery Trust	1,998	
TOTAL SPECIAL REVENUE FUNDS.....		1,210,190	126,400
PERMANENT TRUST FUNDS:			
Shubael Hutchins Trust	Shubael Hutchins		200
Mildred Stearns Trust.....	Mildred Stearns		1,996
Civil war monument Trust.....	Civil War Monument		8
Paine Cemetery Trust.....	Almond Paine Cemetery		1,998
Emily Danielson Trust.....	Emily Danielson		40
Mary Dexter Trust.....	Mary Dexter		20
Frederick Jacobs Trust.....	Frederick Jacobs		20
Bassett-Hammond Trust	Bassett-Hammond		174
Ella Dorrance Trust.....	Ella Dorrance		60
Adolph Goldwater Trust.....	Adolph Goldwater		120
Earl Chandler Trust.....	Earl Chandler		16
TOTAL PERMANENT TRUST FUNDS.....		--	4,652
TOTAL NONMAJOR FUNDS.....		1,210,190	131,052
GRAND TOTAL		\$ 2,219,460	\$ 2,219,460

Transfers are used to account for the financing by the general fund of various programs and activities in other funds.

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

E. Changes in Long-Term Obligations

1. Summary of Changes

DESCRIPTION	ORIGINAL AMOUNT	DATE OF ISSUE	DATE OF MATURITY	INTEREST RATE	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006	CURRENT PORTION
BONDS/NOTES									
Schools:									
School FHA loan.	\$ 671,000	1992	2012	5.75%	\$ 234,500	\$	\$ 33,500	\$ 201,000	\$ 33,500
School bonds	2,420,000	1995	2015	3.95-5.4%	1,030,080		180,080	850,000	170,000
Refunding bonds	7,255,000	11-15-01	9-15-09	3.00-5.00%	4,765,000		1,120,000	3,645,000	1,090,000
Total schools					6,029,580	--	1,333,580	4,696,000	1,293,500
Sewer:									
Sewer FHA loan	823,200	1992	2012	5.75%	441,000		29,400	411,600	29,400
Sewer FHA loan	155,000	1994	2014	5.00%	97,635		5,215	92,420	5,215
Sewer FHA loan	350,000	1994	2014	5.00%	220,365		11,785	208,580	11,785
Sewer FHA loan	1,383,000	2001	2041	4.50%	1,244,700		34,575	1,210,125	34,575
Sewer FHA loan	4,090,000	2003	2023	4.50%	3,681,000		204,500	3,476,500	204,500
Total sewer					5,684,700	--	285,475	5,399,225	285,475
General purpose:									
Road improvements	457,900	1992	2012	5.75%	160,265		22,895	137,370	22,895
Library renovation..	1,765,000	1994	2014	5.00%	797,000		88,000	709,000	88,000
Road improvements	700,200	1995	2015	5.25%	311,200		38,900	272,300	38,900
Landfill closure bonds	2,800,000	1995	2015	3.95-5.40%	1,189,920		189,920	1,000,000	200,000
Total general purpose					2,458,385	--	339,715	2,118,670	349,795
TOTAL BONDS AND NOTES					14,172,665		1,958,770	12,213,895	1,928,770
CAPITAL LEASES					382,492		43,692	338,800	46,916
LANDFILL CLOSURE/POSTCLOSURE CARE COSTS					780,000		30,000	750,000	30,000
BOE EARLY RETIREMENT INCENTIVE					1,419,464		177,433	1,242,031	177,433
COMPENSATED ABSENCES					870,576	241,695	229,307	882,964	327,304
TOTAL GENERAL LONG-TERM OBLIGATIONS					\$17,625,197	\$ 241,695	\$2,439,202	\$15,427,690	\$2,510,423

All long-term liabilities are generally liquidated by the General Fund.

The statement of Net Assets includes \$740,000 of leased capital assets.

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

E. Changes in Long-Term Obligations (Continued)

1. Summary of Changes (Continued)

The following is a summary of amounts to be provided by the State of Connecticut for the retirement of school bonds and of debt maturities:

YEAR ENDING JUNE 30	AMOUNT TO BE PROVIDED BY STATE SCHOOL BUILDING GRANTS			DEBT MATURITIES				BOE EARLY RETIREMENT INCENTIVE
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL			INTEREST	
				BONDS	NOTES	TOTAL		
2007	\$ 931,646	\$ 82,231	\$ 1,013,877	\$ 1,460,000	\$ 468,770	\$ 1,928,770	\$ 504,147	\$ 177,433
2008	905,188	59,346	964,534	1,425,000	468,770	1,893,770	431,597	177,433
2009	867,391	36,389	903,780	1,375,000	468,770	1,843,770	358,697	177,433
2010	532,592	19,603	552,195	865,000	468,770	1,333,770	288,878	177,433
2011				370,000	468,770	838,770	235,111	177,433
2012-2016					1,830,570	1,830,570	817,092	354,866
2017-2022					1,397,975	1,397,975	450,143	
2023-2027					627,875	627,875	171,986	
2028-2032					172,875	172,875	101,132	
2033-2037					172,875	172,875	62,235	
2038-2042					172,875	172,875	23,338	
TOTALS	\$ 3,236,817	\$ 197,569	\$ 3,434,386	\$ 5,495,000	\$ 6,718,895	\$ 12,213,895	\$ 3,444,356	\$ 1,242,031

Lease Commitments

The Town is obligated under a capital lease to make the following aggregate annual lease payments for the Library facility:

2007	\$ 70,000
2008	70,000
2009	70,000
2010	70,000
2011	70,000
2012	70,000
Total minimum lease payments	420,000
Less interest	(81,200)
Present value of minimum payments	\$ 338,800

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES (CONTINUED)

E. Changes in Long-Term Obligations (Continued)

2. Statutory Debt Limitations

The Town's indebtedness does not exceed the legal debt limitations as required by Connecticut General Statutes as reflected in the following schedule:

CATEGORY	NET		
	DEBT LIMIT	INDEBTEDNESS	BALANCE
General purpose.....	\$ 48,939,190	\$ 2,610,670	\$ 46,328,520
Schools.....	97,878,380	1,459,183	96,419,197
Sewers.....	81,565,316	5,399,225	76,166,091
Urban renewal	70,689,941		70,689,941
Pension deficit	65,252,253		65,252,253

The total overall statutory debt limit for the Town is equal to seven times annual receipts from taxation, \$152,255,257.

The indebtedness reflected above includes only bonds outstanding since there were no bond anticipation notes issued and outstanding. School building grants receivables of \$3,236,817 for bond principal are reflected as deductions in the computation of net indebtedness.

3. Landfill Closure and Post-Closure Care Costs

State and Federal laws and regulations require landfill closures to meet certain standards. The Town landfill is closed. Monitoring costs for 30 years at \$30,000 per year are estimated at \$900,000, with a remaining amount of \$750,000. This amount is based on estimates, which are subject to change due to inflation, technology or applicable laws and regulations.

4. Authorized/Unissued Bonds

The amount of authorized, unissued bonds at June 30, 2006 is \$332,516, \$290,000, and \$21,933,666, for general purposes, sewers, and school, respectively.

5. Termination Benefits

The Board of Education provides severance payments for nineteen (19) retired employees under an early retirement incentive plan effective July 1, 2004. To qualify for benefits the employee must have achieved age 54 with 15 years of service as of June 30, 2004. An eligible participant shall be entitled to participate in the program until he/she reaches age 65. Benefit amounts were frozen as of June 30, 2005. The Board of Education funds these payments on a pay-as-you-go basis, from the Board of Education appropriation line item. The cost of these benefits was \$177,433 for the year ended June 30, 2006.

IV. OTHER INFORMATION

A. Risk Management

The Town is exposed to various risks of loss relating to public official liability, Board of Education legal liability, theft or impairment of assets, errors and omissions, injury to employees and natural disasters. The Town purchases commercial insurance for all risks of loss, including blanket and umbrella policies, except for self-insured medical benefits provided under its health insurance plan, and worker's compensation covered under a public entity risk pool. Settled claims have not exceeded commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from coverage in the prior year.

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. OTHER INFORMATION (CONTINUED)

A. Risk Management (Continued)

The Town established an internal service fund, the health insurance fund, to account for and finance employee medical benefits claims for eligible employees of both the Town and Board of Education. The Town retains the risk of loss under the plan.

A third party processes the claims filed under the self-insured health plan, for which the general fund is charged an administrative fee. The general fund also pays for a stop-loss policy for individual claims exceeding \$75,000 for the plan.

Payments to the health insurance internal service fund are based upon estimates for the number of employees and type of coverage (single or family) and trends in the insurance claims and estimates for administration. The claims liability for the health insurance fund reported in the fund is based upon the provisions of GASB Statements No. 10 and 30, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is possible that a liability has been incurred at the date of the financial statements and the amount of the possible loss can be reasonably estimated. The amount of claim accrual is based on the ultimate costs of settling the claim, which includes past experience data, inflation and other future economic and societal factors and incremental claim adjustment expenses, net of estimated subrogation recoveries. The claim accrual does not include other allocated or unallocated claims adjustment expenses.

HEALTH INSURANCE FUND

	CLAIMS PAYABLE JULY 1	CURRENT YEAR CLAIMS AND CHANGES IN ESTIMATES	CLAIMS PAID	CLAIMS PAYABLE JUNE 30
2004-2005	\$ 279,104	\$4,536,338	\$4,432,302	\$ 383,141
2005-2006	383,141	4,663,845	4,681,986	365,000

The Town currently is a member in Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool established for the purpose of administering an interlocal risk management program pursuant to the provisions of Section 7-479a et. seq. of Connecticut General Statutes, for workers' compensation coverage.

B. Commitments and Litigation

Construction commitments of \$30,033 have been reported as a reserve for commitments in the fund equity section of the balance sheet.

Amounts received or receivable from grantor 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 of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

The Town is currently a defendant in a number of lawsuits. It is the opinion of Town officials and legal counsel that such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the Town which would materially affect its financial position, except as noted below.

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. OTHER INFORMATION (CONTINUED)

B. Commitments and Litigation (Continued)

The Town has a \$219,000 judgment against it in a taxpayer suit. The Town is currently appealing the judgment, but believes it is probable that the judgment will be upheld. Provision has been made for a \$219,000 liability in the financial statements.

C. Pension Plans

1. Plan Description

Summary

All Town employees (except certified members of the Board of Education) participate in the Public Retirement System (PERS), a single-employer, defined benefit pension plan, established and administered by the Town Council to provide pension, disability, and death benefits to plan members and their beneficiaries. The Town Charter provides the authority to establish and amend benefit provisions, subject to collective bargaining agreements. The PERS is considered to be part of the Town's reporting entity and is included in the Town's financial reports as a pension trust fund.

2. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

The pension trust funds' financial statements are prepared on the accrual basis of accounting. Revenues (contributions and investment income) are recognized when they are earned and expenses (benefits, administration and refunds) are recognized when due and payable in accordance with the terms of the plan. Liabilities are recorded when due and payable in accordance with the terms of the plan.

Valuation of Investments

Investments are valued at fair value. Securities traded on national exchanges are valued at the last reported sales price. There are no investments in any organization that represent 5% or more of net assets available for benefits.

3. Classes of Employees Covered

Based on actuarial valuation reports dated July 1, 2005, membership consisted of:

	<u>Town</u>
Retirees and beneficiaries currently receiving benefits	51
Terminated employees entitled to benefits but not yet receiving them.....	16
Employees who revoked payroll deduction and are entitled to future benefits	9
Active plan members:	
Vested	57
Nonvested	<u>17</u>
Total	<u>150</u>

TOWN OF KILLINGLY, CONNECTICUT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. OTHER INFORMATION (CONTINUED)

C. Pension Plans (Continued)

4. Benefit Provisions

Under the plan, all employees hired before age sixty-five (65) and having twelve (12) months of service are eligible. Employees are 100 percent vested only after ten (10) years of service. The retirement benefit is calculated at 1% of average basic earnings during the highest consecutive five years of the last ten years of service multiplied by up to thirty (30) years of service. For Public Works employees, the retirement benefits are 1% of final earnings multiplied by service prior to April 1, 1987, plus 1.5% of final earnings multiplied by service years after April 1, 1987, up to a maximum of thirty (30) years.

5. Contributions

Employer

The Town's contributions are actuarially determined on an annual basis using the Frozen Initial Liability Entry Age. Contributions are recognized when due pursuant to the terms of the plan. Administrative costs are financed from investment earnings.

Employee

Contributions are based upon a percentage of earnings as follows:

Public Works employees	4.5%
All others	3.0%

6. Schedule of Employer Contributions

There were no annual actuarially required contributions or actual contributions for the fiscal years ended June 30, 2003 through June 30, 2006.

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. OTHER INFORMATION (CONTINUED)

C. Pension Plans (Continued)

7. Actuarial Assumptions

The data presented in the schedules of funding progress (required supplementary information) and schedules of employer contributions (Note IV.C.6) were determined as part of the actuarial valuation at the date indicated. Additional information for the plans as of the latest valuation is as follows:

VALUATION DATE	JULY 1, 2005
ACTUARIAL COST METHOD	FROZEN INTIAL LIABILITY ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL DOLLAR
REMAINING AMORTIZATION PERIOD	20 YEARS, OPEN
ASSET VALUATION METHOD	4-YEAR SMOOTHED MARKET VALUE
ACTUARIAL ASSUMPTIONS:	
Investment rate of return	8.0%
Projected salary increases*	5.0%
* Inflation rate included	3.5%

8. Annual Pension Cost and Net Pension Obligation (Asset) (NPO/NPA)

There is no beginning or ending net pension obligation, nor any annual pension cost or required contributions for the years June 30, 2003, through June 30, 2006.

TOWN OF KILLINGLY, CONNECTICUT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. OTHER INFORMATION (CONTINUED)

D. On-Behalf Payments

The amount of the State Teachers' Retirement Plan contribution recognized in the general fund intergovernmental revenues and education expenditures for contributions made by the State of Connecticut to the State Teachers' Retirement Plan was \$1,233,415.

E. Restatements

Government-Wide Financial Statements

	GOVERNMENTAL ACTIVITIES
Net Assets June 30, 2005 (as previously reported)	\$ 44,591,668
To record reclassification of special revenue and permanent funds to private purpose trust funds	(538,296)
Net Assets July 1, 2005 (as restated)	<u>\$ 44,053,372</u>

Fund Financial Statements

	OTHER GOVERNMENTAL FUNDS
Fund Balance June 30, 2005 (as previously reported)	\$ 4,339,939
To record reclassification of special revenue and permanent funds to private purpose trust funds	(538,296)
Fund Balance July 1, 2005 (as restated)	<u>\$ 3,801,643</u>

Required Supplementary Information

TOWN OF KILLINGLY, CONNECTICUT

REQUIRED SUPPLEMENTARY INFORMATION

**KILLINGLY RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS**

TOWN PLAN						
ACTUARIAL VALUATION DATE	A ACTUARIAL VALUE OF ASSETS	B ACTUARIALLY ACCRUED LIABILITY (AAL) PROJECTED UNIT CREDIT		(A-B) OVER (UNDER) FUNDED AAL		(B-A)/C OVER/UNDER FUNDED AAL AS A PERCENTAGE OF COVERED PAYROL
					C COVERED PAYROLL	
JULY 1, 2000	\$ 3,762,169	\$ 2,928,145	\$ 834,024		\$ 2,002,787	41.6%
2001	3,996,708	3,273,235	723,473		2,055,362	35.2%
2002	4,037,901	3,115,588	922,313		2,078,986	44.4%
2003	4,005,633	3,368,511	637,122		2,066,958	30.8%
2004	3,977,803	3,534,089	443,714		1,844,887	24.1%
2005	4,006,583	3,851,927	154,656		1,772,903	8.7%

Supplemental Schedules

General Fund

SCHEDULE 1
(1 of 2)

TOWN OF KILLINGLY, CONNECTICUT

GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
PROPERTY TAXES:				
Current taxes	\$ 19,618,404	\$ 19,618,404	\$ 20,236,840	\$ 618,436
Prior years' taxes	570,000	570,000	419,471	(150,529)
Supplemental motor vehicle	219,004	219,004	299,699	80,695
Tax interest	210,000	210,000	238,165	28,165
Lien fees	13,500	13,500	11,294	(2,206)
Airplane tax	3,830	3,830	3,850	20
Phone Access-SNETCO	181,168	181,168	137,885	(43,283)
TOTAL PROPERTY TAXES.....	20,815,906	20,815,906	21,347,204	531,298
INTERGOVERNMENTAL REVENUES:				
State-owned property	247,950	247,950	247,967	17
Elderly tax relief-frozen	8,009	8,009	5,605	(2,404)
Elderly tax relief	135,857	135,857	119,831	(16,026)
Disability exemption	2,430	2,430	2,475	45
Property tax abatement	44,096	44,096	44,013	(83)
Boat tax (P.A. 81-423)	1,721	1,721	1,721	-
Veterans' exemption	10,369	10,369	10,290	(79)
Manufacturing equipment	590,617	590,617	596,209	5,592
School building grants	1,061,810	1,061,810	1,058,577	(3,233)
General assistance	200	200	2,952	2,752
Connecticard	8,000	8,000	6,981	(1,019)
Library grant	2,000	2,000	2,228	228
Adult education	76,143	76,143	80,468	4,325
Mashantucket Pequot Fund	282,945	282,945	268,195	(14,750)
Education equalization grant	13,633,427	13,633,427	13,563,712	(69,715)
School transportation	368,359	368,359	419,165	50,806
Vocational agriculture	75,631	75,631	74,961	(670)
Nonpublic school - health services	26,674	26,674	34,262	7,588
Transportation - nonpublic	19,736	19,736	13,672	(6,064)
Special education placement			151,364	151,364
Medicare reimbursement	50,000	50,000	66,504	16,504
TOTAL INTERGOVERNMENTAL REVENUES.....	16,645,974	16,645,974	16,771,152	125,178
LICENSES, PERMITS AND FEES:				
Building permit fees	146,000	146,000	272,660	126,660
Planning and zoning permits	35,000	35,000	48,434	13,434
Other permits	600	600	1,605	1,005
Library fines and fees	18,000	18,000	18,031	31
Animal control fines and fees			1,470	1,470
TOTAL LICENSES, PERMITS AND FEES.....	199,600	199,600	342,200	142,600
CHARGES FOR SERVICES:				
Town Clerk receipts	200,000	465,000	528,061	63,061
Conveyance Tax	265,000			-
Elderly housing services	13,600	13,600	10,400	(3,200)
Recreation department	166,920	166,920	129,324	(37,596)
Tuition	1,428,825	1,428,825	1,661,606	232,781
Data processing services	3,480	3,480	1,866	(1,614)
TOTAL CHARGES FOR SERVICES.....	2,077,825	2,077,825	2,331,257	253,432

(Continued)

SCHEDULE 1
(2 of 2)

TOWN OF KILLINGLY, CONNECTICUT
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING USES - BUDGET AND ACTUAL (CONTINUED)

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
USE OF MONEY AND PROPERTY:				
Investment income	\$ 79,000	\$ 79,000	\$ 355,672	\$ 276,672
Sewer plant lease	24,570	24,570	24,850	280
Communications tower lease	22,800	22,800	21,500	(1,300)
TOTAL USE OF MONEY AND PROPERTY	126,370	126,370	402,022	275,652
OTHER REVENUES:				
School capital contributions	5,755	5,755	1,234	(4,521)
Miscellaneous	18,000	18,000	154,798	136,798
TOTAL OTHER REVENUES	23,755	23,755	156,032	132,277
TOTAL REVENUES	39,889,430	39,889,430	41,349,867	1,460,437
OTHER FINANCING SOURCES:				
Transfers from other funds:				
Other Major Funds:				
Sewer Operating Fund	663,090	663,090	583,244	(79,846)
Capital Improvements Fund			109,026	
Non-major Funds:				
Small Cities Fund			11,000	11,000
Permanent Funds:				
Louisa E. Day	100	100		(100)
Thomas J. Evans	400	400		(400)
Appropriation of fund balance	400,000	417,000		(417,000)
TOTAL OTHER FINANCING SOURCES	1,063,590	1,080,590	703,270	(486,346)
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 40,953,020	\$ 40,970,020	\$ 42,053,137	\$ 974,091

(Concluded)

TOWN OF KILLINGLY, CONNECTICUT

GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
GENERAL GOVERNMENT:				
Town Council:				
Personal Services	\$ 6,750	\$ 6,750	\$ 6,750	\$ -
Contractual services.....	39,290	39,290	34,483	4,807
Materials and supplies.....	1,850	1,850	1,830	20
Capital Outlay.....	5,000	5,000	4,449	551
Total Town Council.....	52,890	52,890	47,512	5,378
Town Manager:				
Personal services.....	226,455	235,580	233,847	1,733
Contractual services.....	45,941	45,941	44,156	1,785
Materials and supplies.....	2,000	2,000	1,989	11
Capital Outlay.....	300	300	300	-
Total Town Manager.....	274,696	283,821	280,292	3,529
Legal Services:				
Contractual services.....	80,225	80,225	79,508	717
Total Legal Services.....	80,225	80,225	79,508	717
Town Clerk:				
Personal services.....	83,990	86,255	71,199	15,056
Contractual services.....	57,300	57,300	46,384	10,916
Materials and supplies.....	2,000	2,000	1,760	240
Total Town Clerk.....	143,290	145,555	119,343	26,212
Finance:				
Personal services.....	121,290	139,024	139,023	1
Contractual services.....	43,355	43,355	39,909	3,446
Materials and supplies.....	1,150	1,150	1,065	85
Total Finance.....	165,795	183,529	179,997	3,532
Assessor:				
Personal services.....	133,375	137,775	136,892	883
Contractual services.....	9,810	9,810	7,114	2,696
Materials and supplies.....	1,970	1,970	1,858	112
Total Assessor.....	145,155	149,555	145,864	3,691
Revenue Collection:				
Personal Services.....	134,815	137,115	136,236	879
Contractual services.....	37,800	37,800	24,039	13,761
Materials and supplies.....	1,600	1,600	1,330	270
Total Revenue Collection.....	174,215	176,515	161,605	14,910
Registration and Elections:				
Personal services.....	12,340	12,340	12,340	-
Contractual services.....	43,805	43,805	38,915	4,890
Materials and supplies.....	700	700	238	462
Capital Outlay.....	500	500	500	-
Total Registration and Elections.....	57,345	57,345	51,993	5,352
Town Boards and Commissions:				
Contractual services.....	62,672	62,672	61,829	843

(Continued)

SCHEDULE 2
(2 of 4)

TOWN OF KILLINGLY, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL (CONTINUED)

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Planning and Development:				
Personal services.....	\$ 172,075	\$ 177,510	\$ 175,257	\$ 2,253
Contractual services.....	25,900	25,165	20,535	4,630
Materials and supplies.....	2,600	3,335	3,335	-
Capital outlay.....	900	900	569	331
Total Planning and Development.....	201,475	206,910	199,696	7,214
Data Processing:				
Contractual services.....	92,295	92,295	72,628	19,667
Materials and supplies.....	3,000	3,000	180	2,820
Total Data Processing.....	95,295	95,295	72,808	22,487
Town Hall:				
Personal services.....	19,985	20,136	20,136	-
Contractual services.....	49,000	57,325	57,324	1
Materials and supplies.....	10,050	10,050	9,953	97
Total Town Hall.....	79,035	87,511	87,413	98
Economic Development:				
Personal services.....	86,100	88,490	88,483	7
Contractual services.....	17,375	17,375	13,536	3,839
Materials and supplies.....	1,000	1,000	949	51
Total Economic Development.....	104,475	106,865	102,968	3,897
TOTAL GENERAL GOVERNMENT.....	1,636,563	1,688,688	1,590,828	97,860
PUBLIC WORKS:				
Supervision:				
Personal services.....	149,270	149,270	146,245	3,025
Contractual services.....	23,850	23,850	21,273	2,577
Materials and supplies.....	1,100	1,100	969	131
Total Supervision.....	174,220	174,220	168,487	5,733
Engineering:				
Personal services.....	170,240	175,973	175,973	-
Contractual services.....	17,650	16,137	10,716	5,421
Materials and supplies.....	2,400	3,265	3,265	-
Capital outlay.....	9,000	9,000	6,426	2,574
Total Engineering.....	199,290	204,375	196,380	7,995
Central Garage:				
Personal services.....	115,505	115,505	111,426	4,079
Contractual services.....	66,585	66,585	66,016	569
Materials and supplies.....	153,750	180,190	180,186	4
Total Central Garage.....	335,840	362,280	357,628	4,652
Highways:				
Personal services.....	617,434	617,434	591,592	25,842
Contractual services.....	39,250	35,385	25,017	10,368
Materials and supplies.....	61,900	65,765	65,760	5
Capital outlay.....	10,000	10,000	9,972	28
Total Highways.....	728,584	728,584	692,341	36,243

(Continued)

SCHEDULE 2
(3 of 4)

TOWN OF KILLINGLY, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL (CONTINUED)

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Winter Maintenance:				
Personal services.....	\$ 70,000	\$ 70,000	\$ 62,509	\$ 7,491
Contractual services.....	6,000	5,453	2,401	3,052
Materials and supplies.....	124,000	111,685	111,684	1
Total Winter Maintenance.....	200,000	187,138	176,594	10,544
TOTAL PUBLIC WORKS.....	1,637,934	1,656,597	1,591,430	65,167
RECREATION AND LEISURE:				
Recreation:				
Personal services.....	266,402	273,107	249,297	23,810
Contractual services.....	122,893	122,893	122,760	133
Materials and supplies.....	44,550	44,550	37,538	7,012
Total Recreation.....	433,845	440,550	409,595	30,955
Park Development and Maintenance:				
Personal services.....	136,628	136,628	134,463	2,165
Contractual services.....	68,750	68,750	51,143	17,607
Materials and supplies.....	43,450	43,450	41,487	1,963
Total Park Development and Maintenance.....	248,828	248,828	227,093	21,735
Public Library:				
Personal services.....	338,570	356,335	348,919	7,416
Contractual Services.....	224,800	229,460	229,349	111
Materials and supplies.....	13,350	10,315	8,650	1,665
Total Public Library.....	576,720	596,110	586,918	9,192
Special Communities Activities - Contractual Services	20,200	20,200	19,779	421
Community Center:				
Personal services.....	33,454	33,454	27,788	5,666
Contractual services.....	69,360	81,220	81,160	60
Materials and supplies.....	8,800	8,800	7,718	1,082
Total Community Center.....	111,614	123,474	116,666	6,808
Bugbee Building:				
Contractual services.....	10,360	10,499	10,499	-
Materials and supplies.....	300	161		161
Total Bugbee Building.....	10,660	10,660	10,499	161
Armory:				
Contractual services.....	3,000	3,000		3,000
TOTAL RECREATION AND LEISURE.....	1,404,867	1,442,822	1,370,550	72,272
PUBLIC SAFETY:				
Building Inspector:				
Personal services.....	123,730	129,182	129,182	-
Contractual services.....	20,900	18,522	14,854	3,668
Materials and supplies.....	6,750	8,090	8,086	4
Capital outlay.....	4,000	4,200	4,200	-
Total Building Inspector.....	155,380	159,994	156,322	3,672
Animal Control:				
Contractual services.....	48,000	50,203	50,201	2

(Continued)

SCHEDULE 2
(4 of 4)

TOWN OF KILLINGLY, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL (CONTINUED)

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Law Enforcement:				
Personal services.....	\$ 6,220	\$ 6,220	\$ 6,212	\$ 8
Contractual services.....	434,400	512,150	378,719	133,431
Materials and supplies.....	2,400	2,400	1,109	1,291
Total Law Enforcement.....	443,020	520,770	386,040	134,730
TOTAL PUBLIC SAFETY.....	646,400	730,967	592,563	138,404
COMMUNITY DEVELOPMENT AND HUMAN SERVICES:				
Community Development:				
Personal services.....	48,910	50,900	50,896	4
Contractual services.....	12,000	12,000	1,124	10,876
Materials and supplies.....	300	300	62	238
Human service subsidies - contractual services.....	343,710	350,649	350,501	148
TOTAL COMMUNITY DEVELOPMENT AND HUMAN SERVICES.....	404,920	413,849	402,583	11,266
BOARD OF EDUCATION.....	29,757,804	29,757,804	29,731,497	26,307
MISCELLANEOUS:				
Employee benefits - contractual services.....	936,224	936,224	834,606	101,618
Insurance - contractual services.....	632,830	648,100	648,098	2
Contingencies.....	244,505			-
TOTAL MISCELLANEOUS.....	1,813,559	1,584,324	1,482,704	101,620
DEBT SERVICE:				
Principal.....	1,931,770	1,958,766	1,958,770	(4)
Interest.....	578,325	578,325	578,321	4
Lease payments.....	70,000	70,000	70,000	-
TOTAL DEBT SERVICE.....	2,580,095	2,607,091	2,607,091	-
TOTAL EXPENDITURES.....	39,882,142	39,882,142	39,369,246	512,896
OTHER FINANCING USES:				
Transfer to other funds:				
Capital Reserve Fund.....	55,000	55,000	55,000	-
Capital Improvements Fund.....	174,000	191,000	191,000	-
Capital Nonrecurring Fund.....	642,268	642,268	642,268	-
Insurance Reserve Fund.....	25,000	25,000	25,000	-
Solid Waste Fund.....	98,710	98,710	98,710	-
Conservation and Development Fund.....	10,000	10,000	10,000	-
Revaluation Fund.....	65,900	65,900	65,900	-
TOTAL OTHER FINANCING USES.....	1,070,878	1,087,878	1,087,878	-
TOTAL EXPENDITURES AND OTHER FINANCING USES.....	\$ 40,953,020	\$ 40,970,020	\$ 40,457,124	\$ 512,896

(Concluded)

TOWN OF KILLINGLY, CONNECTICUT

REPORT OF TAX COLLECTOR
FOR THE YEAR ENDED JUNE 30, 2006

GRAND LIST YEAR	UNCOLLECTED TAXES JULY 1, 2005	CURRENT YEAR LEVY	LAWFUL CORRECTIONS				COLLECTIONS				UNCOLLECTED TAXES JUNE 30, 2006	
			ADDITIONS	DEDUCTIONS	TRANSFERS TO SUSPENSE	ADJUSTED TAXES COLLECTIBLE	TAXES	INTEREST AND LIEN FEES	TOTAL			
1989	\$ 2,320	\$	\$	\$ 2,320	\$	\$	\$	\$	\$	\$	\$	\$
1990	1,497		626	277		1,846	359	401		760		1,487
1991	1,710		450	10		2,150	450	416		866		1,700
1992	1,603		96	10		1,689	96	213		309		1,593
1993	1,362		291	40		1,613	261	501		762		1,352
1994	1,592		619	400		1,811	513	813		1,326		1,298
1995	1,613		535	294		1,854	537	1,041		1,578		1,317
1996	1,675		582	414		1,843	463	919		1,382		1,380
1997	3,433		1,316	405	(212)	4,132	1,212	1,530		2,742		2,920
1998	7,750		1,895	2,342	(723)	6,580	2,824	2,156		4,980		3,756
1999	11,272		1,127	418	(1,993)	9,988	3,299	3,062		6,361		6,689
2000	21,253		2,496	670	(5,959)	17,120	7,100	5,410		12,510		10,020
2001	58,554		2,361	532	(12,011)	48,372	31,662	14,542		46,204		16,710
2002	131,302		7,331	1,806	(12,176)	124,651	66,140	30,489		96,629		58,511
2003	440,507		5,297	7,920	(5,988)	431,896	304,554	67,751		372,305		127,342
TOTAL PRIOR YEARS	687,443		25,022	17,858	(39,062)	655,545	419,470	129,244		548,714		236,075
2004		19,867,864	1,228,323	87,293	(1,600)	21,007,294	20,536,540	120,215		20,656,755		470,754
TOTAL	\$ 687,443	\$ 19,867,864	\$ 1,253,345	\$ 105,151	\$ (40,662)	\$ 21,662,839	\$ 20,956,010	\$ 249,459		\$ 21,205,469	\$	706,829

Capital Projects Fund

TOWN OF KILLINGLY, CONNECTICUT
CAPITAL IMPROVEMENT FUND
SCHEDULE OF EXPENDITURES AND PROJECT APPROPRIATIONS
JUNE 30, 2006

	BALANCE JULY 1, 2005	CURRENT YEAR	TRANSFERS	BALANCE JUNE 30, 2006	BALANCE JULY 1, 2005	EXPENDITURES	COMMITMENTS	BALANCE JUNE 30, 2006	REMAINING BALANCE JUNE 30, 2006
Owen Bell Phase II	\$ 728,677	\$	\$	\$ 728,677	\$ 556,455	\$ 7,717	\$	\$ 564,172	\$ 164,505
East Franklin Street	15,000			15,000					15,000
Mashentuck Road	701,466			662,538	662,538			662,538	
Road Renewal	1,631,385	100,000	(38,928)	1,731,385	1,535,182	118,902		1,654,084	77,301
Roof Replacement	692,500			692,500	648,278			648,278	44,222
High School Code Update	1,680,000			1,680,000	1,672,008			1,672,008	7,992
School Roof	25,000		(5,335)	19,665	19,665			19,665	
Dayville Water Main	552,059			552,059	490,982			490,982	61,077
David Avenue	75,126			75,126	5,126			5,126	70,000
Fuel Storage	318,504			318,504	243,504			243,504	75,000
Maple Street Route 101	545,000			545,000	498,006			498,006	46,994
High Street Property Acquisition	85,000			85,000	84,620			84,620	380
Rehab of Bridges	45,478			45,478	45,478			45,478	
Guide Rail Replacement	327,500	10,000	10,000	347,500	305,358	10,753		316,111	31,389
KHS South Wall	19,000		(9,672)	9,328	9,328			9,328	
Sidewalks	340,034	5,000	5,000	350,034	265,247			265,247	84,787
North Road Bridge	135,917			135,917	135,917			135,917	
Alexanders Lake Sewer	2,205,000			2,205,000	2,171,000			2,171,000	34,000
High School Roof Replacement	932,170			932,170	696,670			696,670	235,500
Spot Drainage	140,500	15,000		155,500	113,287	1,500		114,787	40,713
Library Construction	2,215,000			2,215,000	2,202,301	12,699		2,215,000	
Cooley Drive	12,000			12,000	8,254			8,254	3,746
Ross Road	65,726			65,726	64,727			64,727	999
Quinebaug River Bike	154,675		(1,074)	153,601	153,601			153,601	
KMS/KCS Boiler Replacement	970,000			970,000	645,478			645,478	324,522
Goodyear Renovation	1,100,000			1,100,000	1,099,695			1,099,695	305
Pumam Road/Five Mile	1,125,000			1,125,000	1,034,488			1,034,488	90,512
Peeproad Road/Whetstone	2,656,500		(848)	2,655,652	2,655,343	309		2,655,652	
KCS Air Quality/Renovations	1,120,000			1,120,000	1,073,149			1,073,149	46,851
Tracy Road Crossing	233,026		(21,064)	211,962	211,962			211,962	
R2/Lake Road Crossing	60,000			60,000					60,000
Landfill Closure	2,800,000			2,800,000	2,473,082	1,968		2,475,050	324,950
Bailey Hill Road	49,000			49,000	15,802			15,802	33,198
Valley Road	218,000		(82)	217,918	217,918			217,918	
Vocational Agricultural Grant - II	100,000		(28)	99,972	99,972			99,972	
Yosemite Valley Road	18,000		14,873	32,873	32,873			32,873	
Green Hollow/Fall Brook Road	115,387			117,820	117,820			117,820	
Cranberry Bog Road	86,159		2,433	86,159	73,213			73,213	12,946

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
CAPITAL IMPROVEMENT FUND
SCHEDULE OF EXPENDITURES AND PROJECT APPROPRIATIONS
JUNE 30, 2006

	BALANCE JULY 1, 2005	PROJECT APPROPRIATIONS CURRENT YEAR	TRANSFERS	BALANCE JUNE 30, 2006	BALANCE JULY 1, 2005	EXPENDITURES	COMMITMENTS	BALANCE JUNE 30, 2006	REMAINING BALANCE JUNE 30, 2006
DPW Garage Water	\$ 38,680	\$		\$ 38,680	\$ 38,177	\$	\$	\$ 38,177	\$ 503
Killingly Industrial Park	20,848			20,848	8,562			8,562	12,286
Shepard Hill Bridge	135,000			135,000					135,000
Public Works Garage	63,972		(1,449)	62,523				62,523	-
Industrial Park Expansion	182,500			182,500	158,924	6,388		165,312	17,188
Cook Hill Road	680,000			680,000	387,009	147,496		534,505	145,495
KIS Athletic/Recreation Fields	190,000			190,000	181,472			181,472	8,528
Vo-Ag Equipment	500,000			500,000	500,000			500,000	-
Community Center Building	479,368			479,368	475,608			477,608	1,760
KIS Roof Ventilation	2,000,000			2,000,000	1,688,983		2,000	1,688,983	311,017
Yosemite Valley Road	10,000		648	10,648				10,648	-
Dog Pound Improvements	22,000		(1,638)	20,362	20,362			20,362	-
Davis Park	70,000			70,000	22,522	36,507		59,029	10,971
Upper Maple Street	207,068			207,068	207,068			207,068	-
Y2K Remediation	30,000			30,000	30,000			30,000	-
KMS Code Update and Renovation	270,000			270,000	270,000			270,000	-
WPCA Odor Control	4,380,000			4,380,000	4,080,343	1,631	2,447	4,084,421	295,579
Quinbaug River Bike	1,887,851		1,074	1,888,925	260,284	20,257		280,541	1,608,384
Geographic Info System	550,000			550,000	516,985			516,985	33,015
KMS Playscape	9,000			9,000	9,000			9,000	-
Landfill					2,400			2,400	(2,400)
Zadorn Heights	52,000		(27,122)	24,878	24,878			24,878	-
Lake Road Improvements	130,000		3,000	133,000	126,888	6,112		133,000	-
KCC Roof Gutters	11,400			11,400	11,400			11,400	-
DPW Bay Expansion	246,000			246,000	35,836	5,491		41,327	204,673
North Street Sidewalks	200,000			200,000	7,770			7,770	192,230
Downtown Parking	20,000			20,000	80			80	19,920
Town Hall Pedestrian Access	5,000			5,000					5,000
KIS Seal Parking Lots	26,000			26,000	3,263			3,263	22,737
Laurel Drive Sewer	20,000			20,000	20,000			20,000	-
Mechanic Street	120,000		(3,000)	117,000	90,401	1,841		92,242	24,758
Vo-Ag Classroom Remodeling and Equipment	1,000,000			1,000,000	995,591	1,740		997,331	2,669
School Space Needs	250,000			250,000	240,670			240,670	9,330
KMS Modular Units	600,000			600,000	571,982	11,050		583,032	16,968
Main Street Property Option	30,000		(7,068)	22,932	22,932			22,932	-

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
CAPITAL IMPROVEMENT FUND
SCHEDULE OF EXPENDITURES AND PROJECT APPROPRIATIONS
JUNE 30, 2006

	BALANCE JULY 1, 2005	PROJECT APPROPRIATIONS CURRENT YEAR	TRANSFERS	BALANCE JUNE 30, 2006	BALANCE JULY 1, 2005	EXPENDITURES	COMMITMENTS	BALANCE JUNE 30, 2006	REMAINING BALANCE JUNE 30, 2006
Bugbee Building	\$ 71,000	\$	\$ 30,000	\$ 101,000	\$ 45,300	\$ 993	\$	\$ 46,293	\$ 54,707
Rock Avenue Bridge	150,000			150,000	87,055	32,915		119,970	30,030
Crestnut Hill Bridge	150,000			150,000	102,668	11,563		114,231	35,769
Anchor Glass Prop MDP	354,700			354,700	66,782			32,000	287,918
Shippes Schoolhouse Road	32,000			32,000					
Emergency Generator	75,000			75,000	71,599			32,000	
Town Prop/Nonpay Taxes	31,600		(3,401)	31,600	22,761	752		23,513	8,087
KIS Fire Protect System Replace	1,100,000			1,100,000	843,144			843,144	256,856
WPCA - BNR Study A	237,711			237,711	178,018	21,193		199,211	38,500
WPCA - Collections System B	214,693			214,693	159,304	5,943		165,247	49,446
Burgess Street	9,799			9,799	4,102			4,102	5,697
Town Hall ADA Entrance	135,000			135,000	4,898	21,949		26,847	108,153
Quinebaug River Trail Phase IV	30,000			30,000					30,000
Goodyear Early Childhood Center	262,560			301,488	174	243,309		243,483	36,035
Madame Mack Road-Phase II	153,987		38,928	153,987	24,000	43,735		24,000	10,000
Water Street Redevelopment Project	24,000			24,000	10,000			10,000	
DUI Enforcement Vehicle	10,000			10,000	19,879		25,586	35,007	
Re-Roof Public Works Transportation Garage	40,000		15,007	55,007	9,771	9,542		9,771	
Voice Annunciation Fire Alarms	8,000		(25)	7,975	9,968			9,968	
Highway Division Office Renovation	10,000		(32)	9,968	29,492			29,492	35,141
Work Station Upgrades	45,000		(8)	45,000	29,492	2,427		29,492	5,426
Land Use Management System	25,500			25,500	67,147	9,079		68,574	
Network Upgrade	30,000		(13,238)	16,762				16,762	
Community Center Facility Improvements	37,000			100,000					100,000
Maryland Street Reconstruction and Drainage	15,000			37,000					37,000
KIS Insulated Window Replacement	15,000			15,000					15,000
KIS Door Replacements	15,000			15,000					15,000
Air Quality Improvements - Town Hall	30,000			30,000					30,000
Floor Covering - Town Hall	30,000			30,000					30,000
Industrial Park Sign	30,000			30,000					30,000
WPCA - Sewer Refining/Replacement	74,450			74,065					74,065
High School Vocab	81,265,000		(185)	81,265,000	85				85
KIS Absentee Abatement	220,445			220,445					
Amory Road	17,000			17,000					
Private Roads	33,000			33,000					
Lake Road Phase II	176,000			176,000					
Wetland Ord. Permanent Record Storage	10,000			10,000					
Port Oil Tank Removal/Replacement	25,000			25,000					
OB Tennis Court and Track Repairs	46,000			46,000					
Property Operations	5,000			5,000					
KIS Street Lighting	60,000			60,000					
Street Hill Road Bridge									
Bretnect Hill Road									
KCC Theatre Lighting									
TOTALS	\$124,176,721	\$ 552,000	\$	\$124,728,721	\$35,315,569	\$ 2,005,878	\$ 30,033	\$37,351,480	\$ 87,377,241

(Continued)

Nonmajor Governmental Funds

TOWN OF KILLINGLY, CONNECTICUT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	SCHOOL CAFETERIA FUND	CAPITAL NONRECURRING FUND	EDUCATIONAL GRANTS FUND	SPECIAL REVENUE FUNDS				REVALUATION FUND	TOWN AID ROAD FUND
				COMMUNITY DEVELOPMENT BLOCK GRANT	WATER UTILITY FUND				
Cash.....	\$ 106,091	\$	\$ 31,033	\$ 40,385	\$	\$	\$		
Investments.....				48,235					
Receivables:									
Intergovernmental.....	76,041		73,094						
Other.....	16,976			2,963					
Due from other funds.....		1,147,618		23,000	1,167,432		140,832		93,071
Inventory.....	46,313								
TOTAL ASSETS.....	\$ 245,421	\$ 1,147,618	\$ 104,127	\$ 114,583	\$ 1,167,432		\$ 140,832	\$	\$ 93,071
LIABILITIES AND FUND BALANCES									
LIABILITIES:									
Accounts payable.....	\$ 13,349	\$	\$ 62,453	\$	\$		\$	\$	
Due to other funds.....	302,447		41,674	39,276					48,674
Unearned revenue.....									
TOTAL LIABILITIES.....	315,796	-	104,127	39,276	-		-	-	48,674
FUND BALANCES:									
Reserved:									
For inventory.....	46,313								
For endowments -nonexpendable.....									
For endowments -expendable.....									
Unreserved:									
Undesignated.....	(116,688)	1,147,618		75,307	1,167,432		140,832		44,397
TOTAL FUND BALANCES.....	(70,375)	1,147,618	-	75,307	1,167,432		140,832		44,397
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 245,421	\$ 1,147,618	\$ 104,127	\$ 114,583	\$ 1,167,432		\$ 140,832	\$	\$ 93,071

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS

SCHEDULE 5
(2 of 9)

	SPECIAL REVENUE FUNDS						MARION ALLARD FUND
	INSURANCE RESERVE FUND	WORKPLACE SUBSTANCE ABUSE GRANT	COMMUNITY EMPLOYMENT INCENTIVE PROGRAM	WATER MITIGATION FUND	RECREATION FUND	RECREATION REV	
Cash.....	\$	\$	\$	\$	\$ 28,914	\$	\$
Investments.....							
Receivables:							
Intergovernmental.....							
Other.....							
Due from other funds.....	209,124	5,167	7,687	75,040		9,010	10
Inventory.....							
TOTAL ASSETS.....	\$ 209,124	\$ 5,167	\$ 7,687	\$ 75,040	\$ 28,914	\$ 9,010	\$ 10
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Accounts payable.....	\$	\$	\$	\$	\$	\$	\$
Due to other funds.....							
Unearned revenue.....							
TOTAL LIABILITIES.....	-	-	-	-	-	-	-
FUND BALANCES:							
Reserved:							
For inventory.....							
For endowments -nonexpendable.....							
For endowments -expendable.....							
Unreserved:							
Undesignated.....	209,124	5,167	7,687	75,040	28,914	9,010	10
TOTAL FUND BALANCES.....	209,124	5,167	7,687	75,040	28,914	9,010	10
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 209,124	\$ 5,167	\$ 7,687	\$ 75,040	\$ 28,914	\$ 9,010	\$ 10

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS

	SPECIAL REVENUE FUNDS							SOLID WASTE FUND
	PUBLIC INVESTMENT COMMUNITY GRANT-IN-AID	JOHN GONZALES FUND	OPEN SPACE ACQUISITION FUND	MISCELLANEOUS SPECIAL REVENUE	PLANNING AND CONSERVATION FUNDS	CAPITAL RESERVE FUND	HISTORIC PRESERVATION FUNDS	
ASSETS								
Cash.....	\$	\$	\$	\$	\$	\$	\$	\$
Investments.....								
Receivables:								
Intergovernmental.....								
Other.....		489	15,158		40,000	202,083	5,512	24,993
Due from other funds.....	5,324							
Inventory.....								
TOTAL ASSETS.....	\$ 5,324	\$ 489	\$ 15,158	\$ 126,757	\$ 40,000	\$ 202,083	\$ 5,512	\$ 24,993
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Accounts payable.....	\$	\$	\$	\$	\$	\$	\$	\$
Due to other funds.....								
Unearned revenue.....								
TOTAL LIABILITIES.....	-	-	-	-	-	-	-	48,270
FUND BALANCES:								
Reserved:								
For inventory.....		489	15,158	126,757	40,000	202,083	5,512	(23,277)
For endowments -nonexpendable.....								
For endowments -expendable.....								
Unreserved:								
Undesignated.....	5,324							(23,277)
TOTAL FUND BALANCES.....	5,324	489	15,158	126,757	40,000	202,083	5,512	(23,277)
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 5,324	\$ 489	\$ 15,158	\$ 126,757	\$ 40,000	\$ 202,083	\$ 5,512	\$ 24,993

(Continued)

**TOWN OF KILLINGLY, CONNECTICUT
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS**

	SPECIAL REVENUE FUNDS							
	KILLINGLY PUBLIC LIBRARY							
	SHUBAEL HUTCHINS FUND	CIVIL WAR MONUMENT FUND	MILDRED STEARNS	EMILY DANIELSON	MARY DEXTER	FREDERICK A. JACOBS	BASSET HAMMOND	
ASSETS								
Cash.....	\$ 27,674	\$ 3,251	\$ 3,265	\$ 3,717	\$ 1,337	\$ 1,735	\$ 2,404	
Investments.....								
Receivables:								
Intergovernmental.....								
Other.....								
Due from other funds.....								
Inventory.....								
TOTAL ASSETS.....	\$ 27,674	\$ 3,251	\$ 3,265	\$ 3,717	\$ 1,337	\$ 1,735	\$ 2,404	
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Accounts payable.....	\$	\$	\$	\$	\$	\$	\$	
Due to other funds.....								
Unearned revenue.....								
TOTAL LIABILITIES.....	-	-	-	-	-	-	-	
FUND BALANCES:								
Reserved:								
For inventory.....								
For endowments -nonexpendable.....								
For endowments -expendable.....								
Unreserved:								
Undesignated.....	27,674	3,251	3,265	3,717	1,337	1,735	2,404	
TOTAL FUND BALANCES.....	27,674	3,251	3,265	3,717	1,337	1,735	2,404	
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 27,674	\$ 3,251	\$ 3,265	\$ 3,717	\$ 1,337	\$ 1,735	\$ 2,404	

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS

		SPECIAL REVENUE FUNDS						
		KILLINGLY PUBLIC LIBRARY						
		NATHAN PRINCE	ALMOND M. PAINE	ELLA DORRANCE	LENA TRIPP	ADOLPH GOLDWATER	LIBRARY OPERATING	LIBRARY SPECIAL
Cash.....								
Investments.....								
Receivables:								
Intergovernmental.....								
Other.....								
Due from other funds.....								
Inventory.....								
TOTAL ASSETS.....								
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Accounts payable.....								
Due to other funds.....								
Unearned revenue.....								
TOTAL LIABILITIES.....								
FUND BALANCES:								
Reserved:								
For inventory.....								
For endowments -nonexpendable.....								
For endowments -expendable.....								
Unreserved:								
Undesignated.....								
TOTAL FUND BALANCES.....								
TOTAL LIABILITIES AND FUND BALANCES.....								

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS							
	BIDDY BASKETBALL FUND	STATE LINE ROAD IMPROVEMENT	PETTINGILL HILL ROAD IMPROVEMENT	BENEFIT ASSESSMENT	PUBLIC SAFETY	ECONOMIC DEVELOPMENT	FUEL SYSTEM
<u>ASSETS</u>							
Cash.....							
Investments.....							
Receivables:							
Intergovernmental.....							
Other.....							
Due from other funds.....							
Inventory.....							
TOTAL ASSETS.....	\$ 626	\$ 7,676	\$ 294	\$ 15,153	\$ 12,836	\$ 74,710	\$ 49,661
<u>LIABILITIES AND FUND BALANCES</u>							
<u>LIABILITIES:</u>							
Accounts payable.....	\$	\$	\$	\$	\$	\$	\$
Due to other funds.....							
Unearned revenue.....							11,205
TOTAL LIABILITIES.....	-	-	-	-	-	-	11,205
<u>FUND BALANCES:</u>							
Reserved:							
For inventory.....							
For endowments -nonexpendable.....							
For endowments -expendable.....							
Unreserved:							
Undesignated.....	626	7,676	294	15,153	12,836	94,710	38,456
TOTAL FUND BALANCES.....	626	7,676	294	15,153	12,836	94,710	38,456
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 626	\$ 7,676	\$ 294	\$ 15,153	\$ 12,836	\$ 94,710	\$ 49,661

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS

	SPECIAL REVENUE FUNDS				CAPITAL PROJECTS		PERMANENT FUNDS	
	COMMUNITY OUTDOOR BEAUTIFICATION	KELP	EARL CHANDLER	ALMOND PAINE CEMETERY	TOTAL	INDUSTRIAL PARK	THOMAS J. EVANS	EZRA MATHEWSON
<u>ASSETS</u>								
Cash.....	\$ 18,256	\$ 2,111	\$ -	\$ 12,265	\$ 349,214	\$ 749	\$ 3,000	\$ 400
Investments.....					600,445	391,643		
Receivables:								
Intergovernmental.....					149,135			
Other.....					19,939			
Due from other funds.....					3,191,550	7,954		
Inventory.....					46,313			
TOTAL ASSETS.....	\$ 18,256	\$ 2,111	\$ -	\$ 12,265	\$ 4,356,596	\$ 400,346	\$ 3,000	\$ 400
<u>LIABILITIES AND FUND BALANCES</u>								
LIABILITIES:								
Accounts payable.....	\$ -	\$ -	\$ -	\$ -	\$ 75,802	\$ -	\$ -	\$ -
Due to other funds.....					313,652			
Unearned revenue.....					177,894			
TOTAL LIABILITIES.....	\$ -	\$ -	\$ -	\$ -	\$ 567,348	\$ -	\$ -	\$ -
FUND BALANCES:								
Reserved:								
For inventory.....					46,313			
For endowments -nonexpendable.....					-		3,000	400
For endowments -expendable.....					-			
Unreserved:								
Undesignated.....	18,256	2,111	-	12,265	3,742,935	400,346		
TOTAL FUND BALANCES.....	18,256	2,111	-	12,265	3,789,248	400,346	3,000	400
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 18,256	\$ 2,111	\$ -	\$ 12,265	\$ 4,356,596	\$ 400,346	\$ 3,000	\$ 400

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS

	PERMANENT FUNDS									
	SHUBAEL HUTCHINS	LOUISA E. DAY	CIVIL WAR MONUMENT	ARTHUR WILKES	HUTCHINS BURIAL LOT	MILDRED STREANS	PAINE, MITCHELL MATTHEWS	PAINE CEMETERY-TOWN	EMILY DANIELSON	
ASSETS										
Cash.....										
Investments.....										
Receivables:										
Intergovernmental.....										
Other.....										
Due from other funds.....										
Inventory.....										
TOTAL ASSETS.....	\$ 5,000	\$ 8,545	\$ 202	\$ 500	\$ 200	\$ 37,500	\$ 1,600	\$ 50,000	\$ 1,000	
LIABILITIES AND FUND BALANCES										
LIABILITIES:										
Accounts payable.....										
Due to other funds.....										
Unearned revenue.....										
TOTAL LIABILITIES.....	-	-	-	-	-	-	-	-	-	-
FUND BALANCES:										
Reserved:										
For inventory.....										
For endowments -nonexpendable.....										
For endowments -expendable.....										
Unreserved:										
Undesignated.....										
TOTAL FUND BALANCES.....	\$ 5,000	\$ 8,545	\$ 202	\$ 500	\$ 200	\$ 37,500	\$ 1,600	\$ 50,000	\$ 1,000	
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 5,000	\$ 8,545	\$ 202	\$ 500	\$ 200	\$ 37,500	\$ 1,600	\$ 50,000	\$ 1,000	

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING BALANCE SHEET (CONCLUDED)
NON-MAJOR GOVERNMENTAL FUNDS

	PERMANENT FUNDS							TOTAL NON-MAJOR GOVERNMENTAL FUNDS
	EUNICE RANDELL	EARL CHANDLER	MARY DEXTER	FREDERICK A. JACOBS	BASSET- HAMMOND	ELLA DORRANCE	ADOLPH GOLDWATER	
ASSETS								
Cash.....		\$ 842	\$ 500	\$ 500	\$ 4,346	\$ 1,500	\$ 3,000	\$ 842
Investments.....	1,000							\$ 118,793
Receivables:								
Intergovernmental.....								-
Other.....								-
Due from other funds.....								-
Inventory.....								-
TOTAL ASSETS.....	\$ 1,000	\$ 842	\$ 500	\$ 500	\$ 4,346	\$ 1,500	\$ 3,000	\$ 119,635
								\$ 4,876,577
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Accounts payable.....								\$ 75,802
Due to other funds.....								313,652
Unearned revenue.....								177,894
TOTAL LIABILITIES.....	-	-	-	-	-	-	-	567,348
FUND BALANCES:								
Reserved:								
For inventory.....		842	500	500	4,346	1,500	3,000	-
For endowments -nonexpendable.....	1,000							46,313
For endowments -expendable.....								119,634
Unreserved:								
Undesignated.....								1
TOTAL FUND BALANCES.....	1,000	842	500	500	4,346	1,500	3,000	4,143,281
								\$ 4,309,229
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,000	\$ 842	\$ 500	\$ 500	\$ 4,346	\$ 1,500	\$ 3,000	\$ 119,635
								\$ 4,876,577

(Concluded)

TOWN OF KILLINGLY, CONNECTICUT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	SCHOOL CAFETERIA FUND	SPECIAL REVENUE FUNDS					TOWN AID ROAD FUND
		CAPITAL NONRECURRING FUND	EDUCATIONAL GRANTS FUND	COMMUNITY DEVELOPMENT BLOCK GRANT	WATER UTILITY FUND	REVALUATION FUND	
REVENUES:							
Intergovernmental.....	\$ 451,203		\$ 2,061,213	\$ 422,017	\$	\$	\$ 115,000
Charges for services.....	561,211						
Investment income.....	1,151			2,074			
Other.....			1,439	-			
TOTAL REVENUES.....	1,013,565	-	2,062,652	424,091	-	-	115,000
EXPENDITURES:							
Current:							
General government.....				424,584			
Community development and human services.....							
Education.....	1,048,820		2,062,652				
Capital outlay.....		607,103					
TOTAL EXPENDITURES.....	1,048,820	607,103	2,062,652	424,584	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(35,255)	(607,103)	-	(493)	-	-	115,000
OTHER FINANCING SOURCES (USES):							
Transfers in.....		948,428		(11,000)		65,900	(115,000)
Transfers out.....							
NET OTHER FINANCING SOURCES (USES).....	-	948,428	-	(11,000)	-	65,900	(115,000)
NET CHANGE IN FUND BALANCES.....	(35,255)	341,325	-	(11,493)	-	65,900	-
FUND BALANCES, JULY 1, 2005.....	(35,120)	806,293	-	86,800	1,167,432	74,932	44,397
FUND BALANCES, JUNE 30, 2006.....	\$ (70,375)	\$ 1,147,618	\$ -	\$ 75,307	\$ 1,167,432	\$ 140,832	\$ 44,397

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
NON-MAJOR GOVERNMENTAL FUNDS

	SPECIAL REVENUE FUNDS						
	INSURANCE RESERVE FUND	WORKPLACE SUBSTANCE ABUSE GRANT	COMMUNITY EMPLOYMENT INCENTIVE PROGRAM	WATER MITIGATION FUND	RECREATION FUND	RECREATION REV	MARION ALLARD FUND
REVENUES:							
Intergovernmental.....	\$	\$	\$	\$	\$	\$	\$
Charges for services.....							
Investment income.....							
Other.....	37,806				28,102	9,010	
TOTAL REVENUES.....	37,806	-	-	-	28,102	9,010	-
EXPENDITURES:							
Current:							
General government.....	50,050						
Community development and human services.....							
Education.....							
Capital outlay.....							
TOTAL EXPENDITURES.....	50,050	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(12,244)	-	-	-	28,102	9,010	-
OTHER FINANCING SOURCES (USES):							
Transfers in.....	27,500						
Transfers out.....							
NET OTHER FINANCING SOURCES (USES).....	27,500	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES.....	15,256	-	-	-	28,102	9,010	-
FUND BALANCES, JULY 1, 2005.....	193,868	5,167	7,687	75,040	812	-	10
FUND BALANCES, JUNE 30, 2006.....	\$ 209,124	\$ 5,167	\$ 7,687	\$ 75,040	\$ 28,914	\$ 9,010	\$ 10

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS

	SPECIAL REVENUE FUNDS							
	PUBLIC INVESTMENT COMMUNITY GRANT-IN-AID	JOHN GONZALES FUND	OPEN SPACE ACQUISITION FUND	MISCELLANEOUS SPECIAL REVENUE	PLANNING AND CONSERVATION FUNDS	CAPITAL RESERVE FUND	HISTORIC PRESERVATION FUNDS	SOLID WASTE FUND
REVENUES:								
Intergovernmental.....	\$	\$	\$	\$	\$	\$	\$	\$
Charges for services.....				492,537			12,591	214,670
Investment income.....								
Other.....			12,833			22,085		
TOTAL REVENUES.....	-	-	12,833	492,537	-	22,085	12,591	214,670
EXPENDITURES:								
Current:								
General government.....							10,540	344,188
Community development and human services.....				515,577		35,809		
Education.....								
Capital outlay.....								
TOTAL EXPENDITURES.....	-	-	-	515,577	-	35,809	10,540	344,188
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	-	-	12,833	(23,040)	-	(13,724)	2,051	(129,518)
OTHER FINANCING SOURCES (USES):								
Transfers in.....					10,000	55,000		98,710
Transfers out.....								(400)
NET OTHER FINANCING SOURCES (USES).....	-	-	-	-	10,000	55,000	-	98,310
NET CHANGE IN FUND BALANCES.....	-	-	12,833	(23,040)	10,000	41,276	2,051	(31,208)
FUND BALANCES, JULY 1, 2005.....	5,324	489	2,325	149,797	30,000	160,807	3,461	7,931
FUND BALANCES, JUNE 30, 2006.....	\$ 5,324	\$ 489	\$ 15,158	\$ 126,757	\$ 40,000	\$ 202,083	\$ 5,512	\$ (23,277)

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS

	SPECIAL REVENUE FUNDS						
	SHUBAEL HUTCHINS FUND	CIVIL WAR MONUMENT FUND	MILDRED STEARNS	EMILY DANIELSON	MARY DEXTER	FREDERICK A. JACOBS	BASSET HAMMOND
REVENUES:							
Intergovernmental.....	\$	\$	\$	\$	\$	\$	\$
Charges for services.....							
Investment income.....	1,152	125	87	178	51	66	85
Other.....							
TOTAL REVENUES.....	1,152	125	87	178	51	66	85
EXPENDITURES:							
Current:							
General government.....							
Community development and human services.....	2,500		1,000	949			
Education.....							
Capital outlay.....							
TOTAL EXPENDITURES.....	2,500	-	1,000	949	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,348)	125	(913)	(771)	51	66	85
OTHER FINANCING SOURCES (USES):							
Transfers in.....	200	8	1,996	40	20	20	174
Transfers out.....							
NET OTHER FINANCING SOURCES (USES).....	200	8	1,996	40	20	20	174
NET CHANGE IN FUND BALANCES.....	(1,148)	133	1,083	(731)	71	86	259
FUND BALANCES, JULY 1, 2005.....	28,822	3,118	2,182	4,448	1,266	1,649	2,145
FUND BALANCES, JUNE 30, 2006.....	\$ 27,674	\$ 3,251	\$ 3,265	\$ 3,717	\$ 1,337	\$ 1,735	\$ 2,404

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS

	SPECIAL REVENUE FUNDS							
	KILLINGLY PUBLIC LIBRARY							
	PAINE & PRINCE	NATHAN PRINCE	ALMOND M. PAINE	ELLA DORRANCE	LENA TRIPP	ADOLPH GOLDWATER	LIBRARY OPERATING	LIBRARY SPECIAL
REVENUES:								
Intergovernmental.....		\$	\$	\$	\$	\$	\$	\$
Charges for services.....	248	27,897	950	419	868	130	462	512
Investment income.....								
Other.....								
TOTAL REVENUES.....	248	27,897	950	419	868	130	462	512
EXPENDITURES:								
Current:								
General government.....	248							
Community development and human services.....								
Education.....								
Capital outlay.....								
TOTAL EXPENDITURES.....	248	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	-	27,897	950	419	868	130	462	512
OTHER FINANCING SOURCES (USES):								
Transfers in.....				60		120		
Transfers out.....								
NET OTHER FINANCING SOURCES (USES).....	-	-	-	60	-	120	-	-
NET CHANGE IN FUND BALANCES.....	-	27,897	950	479	868	250	462	512
FUND BALANCES, JULY 1, 2005.....	-	236,513	11,758	10,487	21,706	3,273	3,307	12,811
FUND BALANCES, JUNE 30, 2006.....	\$ -	\$ 264,410	\$ 12,708	\$ 10,966	\$ 22,574	\$ 3,523	\$ 3,769	\$ 13,323

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS

	SPECIAL REVENUE FUNDS						
	BIDDY BASKETBALL FUND	STATE LINE ROAD IMPROVEMENT	PETTINGILL HILL ROAD IMPROVEMENT	BENEFIT ASSESSMENT	PUBLIC SAFETY	ECONOMIC DEVELOPMENT	FUEL SYSTEM
REVENUES:							
Intergovernmental.....		\$	\$	\$	\$	\$	\$
Charges for services.....						56,889	
Investment income.....	24	295	11	582	514	869	449
Other.....							10,500
TOTAL REVENUES.....	24	295	11	582	514	57,758	10,949
EXPENDITURES:							
Current:							
General government.....							
Community development and human services.....					549	1,198	13,092
Education.....							
Capital outlay.....							
TOTAL EXPENDITURES.....	-	-	-	-	549	1,198	13,092
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	24	295	11	582	(35)	56,560	(2,143)
OTHER FINANCING SOURCES (USES):							
Transfers in.....							
Transfers out.....							
NET OTHER FINANCING SOURCES (USES).....	-	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES.....	24	295	11	582	(35)	56,560	(2,143)
FUND BALANCES, JULY 1, 2005.....	602	7,381	283	14,571	12,871	38,150	40,599
FUND BALANCES, JUNE 30, 2006.....	626	\$ 7,676	\$ 294	\$ 15,153	\$ 12,836	\$ 94,710	\$ 38,456

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS

	SPECIAL REVENUE FUNDS				CAPITAL PROJECTS		PERMANENT FUNDS	
	COMMUNITY OUTDOOR BEAUTIFICATION	KELP	EARL CHANDLER	ALMOND PAINE CEMETERY	TOTAL	INDUSTRIAL PARK	THOMAS J. EVANS	EZRA MATHEWSON
REVENUES:								
Intergovernmental.....	\$	\$	\$	\$	\$	\$	\$	\$
Charges for services.....				502	1,326,271			
Investment income.....	152				38,889	15,870		
Other.....	4,000				125,775			
TOTAL REVENUES.....	4,152	-	-	502	4,552,959	15,870	-	-
EXPENDITURES:								
Current:								
General government.....					404,778			
Community development and human services.....	24,867		16	1,292	470,295			
Education.....					3,627,049			
Capital outlay.....					642,912			
TOTAL EXPENDITURES.....	24,867	-	16	1,292	5,145,034	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(20,715)	-	(16)	(790)	(592,075)	15,870	-	-
OTHER FINANCING SOURCES (USES):								
Transfers in.....			16	1,998	1,210,190			
Transfers out.....					(126,400)			
NET OTHER FINANCING SOURCES (USES).....	-	-	16	1,998	1,083,790	-	-	-
NET CHANGE IN FUND BALANCES.....	(20,715)	-	-	1,208	491,715	15,870	-	-
FUND BALANCES, JULY 1, 2005.....	38,971	2,111	-	11,057	3,297,533	384,476	3,000	400
FUND BALANCES, JUNE 30, 2006.....	\$ 18,256	\$ 2,111	\$ -	\$ 12,265	\$ 3,789,248	\$ 400,346	\$ 3,000	\$ 400

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS

	PERMANENT FUNDS									
	SHUBAEL HUTCHINS	LOUISA E. DAY	CIVIL WAR MONUMENT	ARTHUR WILKES	HUTCHINS BURIAL LOT	MILDRED STREANS	PAINE MITCHELL MATTHEWS	PAINE CEMETERY-TOWN	EMILY DANIELSON	
REVENUES:										
Intergovernmental.....				\$	\$	\$	\$	\$	\$	
Charges for services.....										
Investment income.....	200	1	8		8	1,996	64	1,998		40
Other.....										
TOTAL REVENUES.....	200	1	8	-	8	1,996	64	1,998		40
EXPENDITURES:										
Current:										
General government.....										
Community development and human services.....					8		64			
Education.....										
Capital outlay.....										
TOTAL EXPENDITURES.....	-	-	-	-	8	-	64	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	200	1	8	-	-	1,996	-	1,998		40
OTHER FINANCING SOURCES (USES):										
Transfers in.....	(200)		(8)			(1,996)		(1,998)		(40)
Transfers out.....	(200)	-	(8)	-	-	(1,996)	-	(1,998)		(40)
NET OTHER FINANCING SOURCES (USES).....	-	1	-	-	-	-	-	-		-
NET CHANGE IN FUND BALANCES.....	5,000	8,544	202	500	200	37,500	1,600	50,000		1,000
FUND BALANCES, JULY 1, 2005.....										
FUND BALANCES, JUNE 30, 2006.....	\$ 5,000	\$ 8,545	\$ 202	\$ 500	\$ 200	\$ 37,500	\$ 1,600	\$ 50,000	\$	1,000

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONCLUDED)
NONMAJOR GOVERNMENTAL FUNDS

	PERMANENT FUNDS							TOTAL NONMAJOR GOVERNMENTAL FUNDS
	EUNICE RANDELL	EARL CHANDLER	MARY DEXTER	FREDERICK A. JACOBS	FRANCES BASSET- HAMMOND	ELLA DORRANCE	ADOLPH GOLDWATER	TOTAL
REVENUES:								
Intergovernmental.....								
Charges for services.....								
Investment income.....		16	20	20	174	60	120	4,725
Other.....								125,775
TOTAL REVENUES.....	-	16	20	20	174	60	120	4,725
EXPENDITURES:								
Current:								
General government.....								404,778
Community development and human services.....								470,367
Education.....								72
Capital outlay.....								3,627,049
TOTAL EXPENDITURES.....	-	-	-	-	-	-	-	72
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	-	16	20	20	174	60	120	4,653
OTHER FINANCING SOURCES (USES):								
Transfers in.....		(16)	(20)	(20)	(174)	(60)	(120)	(4,652)
Transfers out.....								
NET OTHER FINANCING SOURCES (USES).....	-	(16)	(20)	(20)	(174)	(60)	(120)	(4,652)
NET CHANGE IN FUND BALANCES.....	-	-	-	-	-	-	-	1
FUND BALANCES, JULY 1, 2003.....	1,000	842	500	500	4,346	1,500	3,000	119,634
FUND BALANCES, JUNE 30, 2006.....	\$ 1,000	\$ 842	\$ 500	\$ 500	\$ 4,346	\$ 1,500	\$ 3,000	\$ 119,635
								\$ 4,309,229

(Continued)

Fiduciary Funds

TOWN OF KILLINGLY, CONNECTICUT

COMBINING STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

PRIVATE PURPOSE TRUST FUNDS									
	OLIVE BOULAIS	ROBERT D. PAYNE	BLANCHE PHOENIX	GEORGE HARRISON	FRANCES UPHAM SPAULDING	RUTH E. OSGOOD	SUSAN BECKISH MEMORIAL		
ASSETS									
CASH.....	\$ 2,173	\$ 619	\$ 329	\$	\$	\$ 53	\$	\$	20
LIABILITIES									
Accounts payable.....					27				
NET ASSETS HELD IN TRUST FOR ENDOWMENT PURPOSES.....	\$ 2,173	\$ 619	\$ 329	\$ -	\$ (27)	\$ 53	\$	\$	20

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
FIDUCIARY FUNDS

PRIVATE PURPOSE TRUST FUNDS								
	MICHAEL PAPPAS SCHOLARSHIP	MARGARET NOVACK SCHOLARSHIP	FLORANCE NORTON	GOLDWATER WEISBERG	LAURA PIKE ROWE	NORMAN BARRETTE	CLASS OF 2001	
<u>ASSETS</u>								
CASH.....	\$ 1,544	\$ 832	\$ 12	\$ 868	\$ 523,959	\$ 308	\$	4,750
<u>LIABILITIES</u>								
Accounts payable.....								
NET ASSETS HELD IN TRUST FOR ENDOWMENT PURPOSES.....	\$ 1,544	\$ 832	\$ 12	\$ 868	\$ 523,959	\$ 308	\$	4,750

(Continued)

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
FIDUCIARY FUNDS

	PRIVATE PURPOSE TRUST FUNDS					PRIVATE PURPOSE TRUST FUNDS TOTALS	AGENCY FUNDS
	CLASS OF 2005	OLIVE BOULAIS	ROBERT D. PAYNE	FRANCES UPHAM SPAULDING	RUTH E. OSGOOD	BLANCHE PHOENIX	
<u>ASSETS</u>							
CASH.....	\$ 1,551	\$ 2,908	\$ 2,000	\$ 1,000	\$ 7,500	\$ 1,000	\$ 621,349
<u>LIABILITIES</u>							
Accounts payable.....							27 621,349
NET ASSETS HELD IN TRUST FOR ENDOWMENT PURPOSES.....	\$ 1,551	\$ 2,908	\$ 2,000	\$ 1,000	\$ 7,500	\$ 1,000	\$ -

TOWN OF KILLINGLY, CONNECTICUT

**COMBINING STATEMENT OF CHANGES IN NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	PRIVATE PURPOSE TRUST FUNDS						
	OLIVE BOULAIS	ROBERT D. PAYNE	BLANCHE PHOENIX	GEORGE HARRISON	FRANCES UPHAM SPAULDING	RUTH E. OSGOOD	SUSAN BECKISH MEMORIAL
	\$	\$	\$	\$	\$	\$	\$
ADDITIONS:							
Investment income.....	-	-	1	4	31	-	-
Contributions.....	100	74	100	1,121	100	100	-
TOTAL ADDITIONS.....	(100)	(74)	(99)	(1,117)	(69)	(100)	-
DEDUCTIONS.....	90	70	42			133	
CHANGE IN NET ASSETS BEFORE TRANSFERS.....	90	70	42	-	-	133	-
TRANSFERS:							
Transfers in.....	(10)	(4)	(57)	(1,117)	(69)	33	-
Transfers out.....	2,183	623	386	1,117	42	20	20
NET TRANSFERS.....	\$ 2,173	\$ 619	\$ 329	\$ -	\$ (27)	\$ 53	\$ 20
CHANGE IN NET ASSETS.....							
NET ASSETS - JULY 1, 2005 (AS RESTATED).....							
NET ASSETS - JUNE 30, 2006.....							

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
COMBINING STATEMENT OF CHANGES IN NET ASSETS (CONTINUED)
PRIVATE PURPOSE TRUST FUNDS

	PRIVATE PURPOSE TRUST FUNDS						
	MICHAEL PAPPAS SCHOLARSHIP	MARGARET NOVACK SCHOLARSHIP	FLORANCE NORTON	GOLDWATER WEISBERG	LAURA PIKE ROWE	NORMAN BARRETTE	CLASS OF 2001
ADDITIONS:							
Investment income.....	\$ 26	\$ 3	\$	\$ 16	\$ 11,717	\$ 713	\$ 2,301
Contributions.....							
TOTAL ADDITIONS.....	26	3	-	16	11,717	713	2,301
DEDUCTIONS.....	250					1,000	750
CHANGE IN NET ASSETS BEFORE TRANSFERS.....	(224)	3	-	16	11,717	(287)	1,551
TRANSFERS:							
Transfers in.....							
Transfers out.....							
NET TRANSFERS.....	-	-	-	-	-	-	-
CHANGE IN NET ASSETS.....	(224)	3	-	16	11,717	(287)	1,551
NET ASSETS - JULY 1, 2005 (AS RESTATED).....	1,768	829	12	852	512,242	595	3,199
NET ASSETS - JUNE 30, 2006.....	\$ 1,544	\$ 832	\$ 12	\$ 868	\$ 523,959	\$ 308	\$ 4,750

(Continued)

(Continued)

SCHEDULE 8
(3 of 3)

**TOWN OF KILLINGLY, CONNECTICUT
COMBINING STATEMENT OF CHANGES IN NET ASSETS (CONTINUED)
PRIVATE PURPOSE TRUST FUNDS**

	PRIVATE PURPOSE TRUST FUNDS						PRIVATE PURPOSE TRUST FUNDS TOTALS
	CLASS OF 2005	OLIVE BOULAIS	ROBERT D. PAYNE	FRANCES UPHAM SPAULDING	RUTH E. OSGOOD	BLANCHE PHOENIX	
ADDITIONS:							
Investment income.....	\$ 1,551	\$ 90	\$ 70	\$ -	\$ 133	\$ 42	\$ 12,133
Contributions.....							4,565
TOTAL ADDITIONS.....	1,551	90	70	-	133	42	16,698
DEDUCTIONS.....							3,595
CHANGE IN NET ASSETS BEFORE TRANSFERS.....	1,551	90	70	-	133	42	13,103
TRANSFERS:							
Transfers in.....		(90)	(70)		(133)	(42)	335
Transfers out.....							(335)
NET OTHER FINANCING SOURCES (USES).....	-	(90)	(70)	-	(133)	(42)	-
CHANGE IN NET ASSETS.....	1,551	-	-	-	-	-	13,103
NET ASSETS - JULY 1, 2005 (AS RESTATED).....		2,908	2,000	1,000	7,500	1,000	538,296
NET ASSETS - JUNE 30, 2006.....	\$ 1,551	\$ 2,908	\$ 2,000	\$ 1,000	\$ 7,500	\$ 1,000	\$ 551,399

(Concluded)

TOWN OF KILLINGLY, CONNECTICUT

AGENCY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2006

	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006
<u>ASSETS</u>				
CASH:				
Student activity funds:				
Killingly high school.....	\$ 114,263	\$ 315,714	\$ 324,658	\$ 105,319
Killingly high school concession.....	3,000	3,700	3,700	3,000
Redmen booster club.....	1,868	5	-	1,873
Killingly junior high school.....	31,230	102,017	106,531	26,716
Killingly central school.....	3,734	19,052	22,076	710
Killingly memorial school.....	2,686	5,109	6,123	1,672
Goodyear early childhood center.....	652	1,897	1,705	844
Total student activity funds.....	157,433	447,494	464,793	140,134
Performance bond fund.....	529,760	302,768	351,313	481,215
TOTAL CASH.....	687,193	750,262	816,106	621,349
<u>LIABILITIES</u>				
ACCOUNTS PAYABLE:				
Student activity funds.....	\$ 157,433	\$ 447,494	\$ 464,793	\$ 140,134
Performance bond fund.....	529,760	302,768	351,313	481,215
TOTAL ACCOUNTS PAYABLE.....	\$ 687,193	\$ 750,262	\$ 816,106	\$ 621,349

Capital Assets Used in the Operation of Governmental Funds

SCHEDULE 10**TOWN OF KILLINGLY, CONNECTICUT**

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE BY TYPE
JUNE 30, 2006 AND 2005

	2006	2005
<u>CAPITAL ASSETS</u>		
Land.....	\$ 2,332,356	\$ 2,332,356
Land improvements.....	2,304,175	2,304,175
Buildings.....	43,998,980	43,998,980
Furniture and equipment.....	10,353,190	9,884,483
Infrastructure.....	47,391,165	46,551,165
TOTAL.....	<u>\$ 106,379,866</u>	<u>\$ 105,071,159</u>

SCHEDULE 11TOWN OF KILLINGLY, CONNECTICUTCAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2006 AND 2005

	LAND	LAND IMPROVEMENTS	BUILDINGS	FURNITURE AND EQUIPMENT	INFRASTRUCTURE	TOTAL
General government.....	\$ 2,080,263	\$ 9,400	\$ 791,500	\$ 327,086	\$ 47,362,265	\$ 50,570,514
Public works.....	16,000	343,475	10,142,748	5,808,621	28,900	16,339,744
Recreation and leisure.....	180,773	377,200	2,656,000	145,279		3,359,252
Public safety.....		36,700	32,000	168,861		237,561
Education.....	55,320	1,537,400	30,376,732	3,903,343		35,872,795
TOTAL.....	\$ 2,332,356	\$ 2,304,175	\$ 43,998,980	\$ 10,353,190	\$ 47,391,165	\$ 106,379,866

SCHEDULE 12TOWN OF KILLINGLY, CONNECTICUTCAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2006

	BALANCE JULY 1, 2005	ADDITIONS	BALANCE JUNE 30, 2006
General government.....	\$ 49,724,088	\$ 846,426	\$ 50,570,514
Public works.....	16,599,542	208,909	16,808,451
Recreation and leisure.....	3,339,548	19,704	3,359,252
Public safety.....	237,561		237,561
Education.....	35,170,420	233,668	35,404,088
TOTAL.....	<u>\$ 105,071,159</u>	<u>\$ 1,308,707</u>	<u>\$ 106,379,866</u>

Trend Information

TABLE 1**TOWN OF KILLINGLY, CONNECTICUT****NET ASSETS BY COMPONENT
LAST THREE YEARS
(UNAUDITED)**

	FISCAL YEAR ENDED		
	2006	2005	2004
GOVERNMENTAL ACTIVITIES:			
Invested in capital assets, net of related debt.....	\$ 30,146,737	\$ 30,301,087	\$ 31,238,496
Restricted for:			
Endowments - expendable.....	1	1,030,662	997,987
Endowments - nonexpendable.....	119,634	134,042	126,200
Other purposes.....	405,413	301,531	466,073
Unrestricted.....	13,806,958	12,824,346	12,265,857
TOTAL NET ASSETS.....	\$ 44,478,743	\$ 44,591,668	\$ 45,094,613

TOWN OF KILLINGLY, CONNECTICUT

TABLE 2

CHANGES IN NET ASSETS
LAST THREE YEARS
(UNAUDITED)

	FISCAL YEAR ENDED		
	2006	2005	2004
EXPENSES:			
Governmental activities:			
General government.....	\$ 3,031,014	\$ 3,120,704	\$ 3,539,352
Public works.....	7,605,508	7,181,018	4,147,649
Recreation and leisure.....	1,544,109	1,629,451	1,295,207
Public safety.....	622,082	667,207	481,652
Community development and human services.....	1,057,302	802,807	1,624,885
Education.....	34,262,782	32,222,678	31,859,962
Interest expense.....	590,748	490,174	732,035
TOTAL EXPENSES.....	48,713,545	46,114,039	43,680,742
PROGRAM REVENUES:			
Governmental activities:			
Charges for services:			
General government.....	870,657	824,719	616,574
Public works.....	3,240,286	2,939,236	2,710,408
Recreation and leisure.....	129,786	139,834	144,709
Public safety.....	1,470	3,542	5,141
Community development and human services.....	67,791	34,309	68,169
Education.....	2,715,354	2,638,517	2,605,185
Operating grants and contributions.....	18,086,069	17,052,170	19,024,105
Capital grants and contributions.....	624,834	1,027,973	539,309
TOTAL PROGRAM REVENUES.....	25,736,247	24,660,300	25,713,600
NET EXPENSES:			
Governmental activities.....	(22,977,298)	(21,453,739)	(17,967,142)
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS:			
Governmental activities:			
Property taxes.....	21,327,501	19,102,487	17,107,299
Grants and contributions not restricted to specific programs.....	1,305,515	1,314,737	1,400,691
Investment income.....	519,268	249,635	146,893
Miscellaneous.....	250,385	283,935	258,165
Total Governmental Activities.....	23,402,669	20,950,794	18,913,048
CHANGE IN NET ASSETS.....	\$ 425,371	\$ (502,945)	\$ 945,906

TABLE 3

TOWN OF KILLINGLY, CONNECTICUT
COMPARATIVE ASSESSED VALUATIONS
LAST TEN YEARS
(UNAUDITED)

YEAR ENDED JUNE 30	RESIDENTIAL REAL PROPERTY (%)	COMMERCIAL INDUSTRIAL PROPERTY (%)	ALL LAND (%)	PERSONAL PROPERTY (%)	MOTOR VEHICLE (%)	GROSS TAXABLE GRAND LIST	DISABILITY, FARM, VETERANS, AND ELDERLY RELIEF	MANUFACTURING EXEMPTION SEC. 12-81 (59) AND (60)	NET TAXABLE GRAND LIST AT 70%
2006	38.80	19.42	2.53	31.82	7.43	\$ 1,185,767,888	\$ 6,436,596	\$ 392,394,480	\$ 786,936,812
2005	38.12	20.07	2.45	32.59	6.77	1,178,214,233	6,611,724	404,484,172	767,118,337
2004	37.94	20.43	2.41	32.34	6.88	1,154,768,214	6,781,530	399,347,884	748,638,800
2003	32.72	22.17	2.40	34.90	7.81	974,626,727	5,937,417	368,185,938	600,503,372
2002	41.53	22.54	3.28	23.06	9.59	754,660,839	5,728,722	145,270,312	603,661,805
2001	50.86	19.47	3.79	14.83	11.04	617,837,121	4,127,460	48,669,632	565,040,029
2000	51.65	19.82	4.15	13.97	10.41	590,399,068	4,104,140	35,087,916	551,207,012
1999	51.89	22.63	2.63	12.34	10.50	576,178,701	4,088,380	31,048,546	541,041,775
1998	51.31	21.44	2.79	14.12	10.33	577,173,678	4,157,764	28,584,768	544,431,146
1997	52.45	21.42	2.92	12.95	10.26	566,995,980	5,116,068	21,179,339	540,700,573

TABLE 4

TOWN OF KILLINGLY, CONNECTICUT

PROPERTY TAX LEVIES AND COLLECTIONS (1)
LAST TEN YEARS
(UNAUDITED)

YEAR ENDED JUNE 30,	TAX RATE IN MILLS	GRAND LIST OF OCTOBER 1,	NET TAXABLE GRAND LIST	(2) TOTAL ADJUSTED TAX LEVY	NET CURRENT TAX COLLECTIONS	PERCENTAGE OF ADJUSTED TAX LEVY COLLECTED
2006	25.0	2004	\$ 786,936,812	\$ 21,007,294	\$ 20,536,540	97.76%
2005	23.5	2003	767,118,337	19,005,158	18,564,651	97.68%
2004	21.4	2002	748,638,800	16,726,791	16,302,787	97.47%
2003	22.9	2001	600,503,372	14,455,540	13,826,724	95.65%
2002	21.0	2000	603,661,805	12,890,054	12,419,567	96.35%
2001	20.5	1999	565,040,029	11,681,825	11,171,329	95.63%
2000	20.5	1998	551,207,012	11,384,398	10,891,454	95.67%
1999	20.5	1997	541,041,775	11,137,326	10,531,455	94.56%
1998	20.0	1996	544,431,146	10,926,032	10,267,192	93.97%
1997	20.0	1995	540,700,573	10,800,500	10,327,438	95.62%

- (1) Taxes are levied on all taxable, assessed property on the October 1 grand list, prior to the beginning of the fiscal year. Real property taxes are payable in two installments on July 1 and January 1. Motor vehicle supplemental bills are payable on January 1. Payments not received within one month after the due date become delinquent, with interest charged at the rate of one and one-half percent per month from the due date on the tax. In accordance with State law, the oldest outstanding tax is collected first. Outstanding real tax estate accounts are liened each year prior to June 30 with legal demands and alias tax warrants used in the collection of personal property and motor vehicle tax bills. Delinquent motor vehicle and personal property accounts are transferred to a suspense account after five year, at which time they cease to be carried as receivables. Delinquent real estate accounts are collectible for up to 15 years after the due date in accordance with State Statutes.
- (2) Tax levy is per \$1,000 of the assessed value of taxable property.

TABLE 5

TOWN OF KILLINGLY, CONNECTICUT

PRINCIPAL TAXPAYERS
JUNE 30, 2006
(UNAUDITED)

TAXPAYER	NATURE OF BUSINESS	ASSESSMENT (1)	PERCENT OF NET TAXABLE GRAND LIST
FRITO LAY	MANUFACTURER SNACK FOODS	\$ 19,608,723	2.49%
STAPLES	WAREHOUSING-DISTRIBUTION	15,542,370	1.98%
CCF-BROOKS MAXI DRUG	WAREHOUSING-DISTRIBUTION	10,153,383	1.29%
UNITED NATURAL FOODS	FOOD PRODUCTS	10,195,630	1.30%
ROGERS CORPORATION	PRINTED CIRCUITS/PLASTICS	8,136,015	1.03%
PLASTIC COLOR AND COMPOUND	PLASTIC MANUFACTURER	6,399,189	0.81%
KILLINGLY PLAZA REALTY	SHOPPING CENTER	5,718,790	0.73%
HEALTH AND REHAB-WESTCOTT CARE	HEALTH SERVICES	5,281,400	0.67%
SPIROL INTERNATIONAL	INDUSTRIAL FASTENERS	5,139,878	0.65%
ANCHOR GLASS CONTAINER CORPORATION	CLOSED	4,585,000	0.58%
TOTAL		\$ 90,760,378	11.53%

(1) The net taxable grand list as of October 1, 2004 totaled \$786,936,812

Source: Assessor's Office, Town of Killingly

TOWN OF KILLINGLY, CONNECTICUT

TABLE 6

SCHEDULE OF DEBT LIMITATION
JUNE 30, 2006
(UNAUDITED)

Total tax collections (including interest and lien fees) for year ended June 30, 2006.....	\$ 21,205,469
Total tax collections (including interest and lien fees) received by taxing districts for the current year.....	539,677
Reimbursement for revenue loss on: Tax relief for the elderly freeze.....	5,605
BASE FOR DEBT LIMITATION COMPUTATION.....	<u>\$ 21,750,751</u>

	GENERAL PURPOSES	SCHOOLS	SEWERS	URBAN RENEWAL	PENSION DEFICIT
DEBT LIMITATION: (1)					
2-1/4 times base.....	\$ 48,939,190	\$	\$	\$	\$
4-1/2 times base.....		97,878,380			
3-3/4 times base.....			81,565,316		
3-1/4 times base.....				70,689,941	
3 times base.....					65,252,253
TOTAL DEBT LIMITATION.....	48,939,190	97,878,380	81,565,316	70,689,941	65,252,253
INDEBTEDNESS: (2)					
Bonds and notes	2,118,670	4,696,000	5,399,225		
Tax districts	492,000				
LESS:					
School building grants.....		(3,236,817)			
TOTAL NET INDEBTEDNESS	2,610,670	1,459,183	5,399,225	-	-
DEBT LIMITATION IN EXCESS OF OUTSTANDING AND AUTHORIZED DEBT.....	\$ 46,328,520	\$ 96,419,197	\$ 76,166,091	\$ 70,689,941	\$ 65,252,253

The total net indebtedness above amounts to: \$ 9,469,078

In no event shall total indebtedness exceed seven times the base for debt limitation computation: \$ 152,255,257

(1) Per Connecticut General Statutes, Section 7-347(b).

(2) There is no overlapping debt.

Federal Single Audit

TOWN OF KILLINGLY, CONNECTICUT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR / PASS-THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
<u>U. S. DEPARTMENT OF AGRICULTURE:</u>		
Passed through State Department of Education:		
Food Distribution Program.....	10.550	\$ 43,285
School Breakfast Program.....	10.553	56,801
National School Lunch Program.....	10.555	314,632
Summer Food Service Program.....	10.559	<u>10,076</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE.....		<u>424,794</u>
<u>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>		
Passed through State Department of Economic and Community Development:		
Community Development Block Grant - Small Cities.....	14.219	<u>422,017</u>
<u>U. S. DEPARTMENT OF JUSTICE:</u>		
Passed through State Office of Policy and Management:		
Juvenile Justice and Delinquency Prevention Act.....	16.540	5,000
Juvenile Justice and Delinquency Prevention Act.....	16.540	<u>30,000</u>
TOTAL U.S. DEPARTMENT OF JUSTICE.....		<u>35,000</u>
<u>U. S. DEPARTMENT OF TRANSPORTATION:</u>		
Passed through State Department of Transportation:		
Highway Planning and Construction		
Quinebaug River		20,257
Rock Avenue Bridge.....		32,915
Cooks Hill Road.....		11,422
Mechanic Street.....		1,841
Chestnut Hill Bridge.....		<u>11,563</u>
Total Highway Safety and Construction.....	20.205	<u>77,998</u>
State and Community Highway Safety.....	20.600	<u>47,685</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION.....		<u>125,683</u>
<u>U. S. DEPARTMENT OF EDUCATION:</u>		
Passed through State Department of Education:		
Title I - Grants to Local Education Agencies.....		56,595
Title I - Grants to Local Education Agencies.....		<u>272,793</u>
Total Title I Programs - Local Education Agencies.....	84.010	<u>329,388</u>
Special Education-Cluster:		
Passed through State Department of Education:		
Special Education - Grants to States (IDEA, Part B).....		258,267
Special Education - Grants to States (IDEA, Part B).....		<u>422,477</u>
Total Special Education - Grants to States (IDEA Part B).....	84.027	<u>680,744</u>

(Continued)

See notes to Schedule of Expenditures of Federal Awards

TOWN OF KILLINGLY, CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

FEDERAL GRANTOR / PASS-THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
U. S. DEPARTMENT OF EDUCATION: (CONTINUED)		
Passed through State Department of Education:		
Special Education - Preschool Grants.....		\$ 15,163
Special Education - Preschool Grants.....		23,759
Total Special Education - Preschool Grants.....	84.173	38,922
Total Special Education-Cluster.....		719,666
Passed through State Department of Education:		
Carl D. Perkins Vocational Education - Basic Grants to States.....	84.048	34,712
Passed through State Department of Education:		
Safe and Drug-free Schools and Communities - State Grants.....		3,506
Safe and Drug-free Schools and Communities - State Grants.....		6,357
Total Safe and Drug-free Schools and Communities - State Grants.....	84.186	9,863
Passed through State Department of Education:		
Innovative Education Program Strategies.....		8,874
Innovative Education Program Strategies.....		7,256
Total Innovative Education Program Strategies.....	84.298	16,130
Passed through State Department of Education:		
Education for Homeless Children and Youth.....	84.196	15,230
Passed through State Department of Education:		
Comprehensive School Reform.....		2,773
Comprehensive School Reform.....		15,417
Comprehensive School Reform.....		114,998
Total Comprehensive School Reform.....	84.332	133,188
Passed through State Department of Education:		
Education Technology - State Grants.....		6,136
Education Technology - State Grants.....		1,697
Total Education Technology - State Grants.....	84.318	7,833
Passed through State Department of Education:		
Improving Teacher Quality State Grants.....		23,993
Improving Teacher Quality State Grants.....		62,676
Total Improving Education Program Strategies.....	84.367	86,669
Passed through State Department of Education:		
Twenty-first Century Community Learning Centers.....		108,914
Twenty-first Century Community Learning Centers.....		6,382
Total Twenty-first Century Community Learning Centers.....	84.287	115,296
Passed through State Department of Education:		
Bilingual Education.....	84.288	14,464
U.S. DEPARTMENT OF HOMELAND SECURITY:		
Passed through State Office of Policy and Management:		
Public Assistance Grants.....	97.036	46,609
TOTAL FEDERAL AWARDS.....		\$ 2,536,542

See notes to Schedule of Expenditures of Federal Awards

(Concluded)

TOWN OF KILLINGLY, CONNECTICUT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Killingly, Connecticut, conform to accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. The following is the significant policy relating to Federal awards:

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting and a current financial resources measurement focus. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

2. NONCASH FEDERAL AWARDS

The Town received and expended \$43,285 of USDA donated commodities under the Federal Food Distribution Program.

TOWN OF KILLINGLY, CONNECTICUT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

There were no prior year audit findings or questioned costs.

TOWN OF KILLINGLY, CONNECTICUT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Reportable condition(s) identified that are
not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Reportable condition(s) identified that are
not considered to be material weakness(es)? yes X 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
Circular A-133, Section .510(a)? yes X no

Identification of major programs:

<u>CFDA NUMBER</u>	<u>NAME OF FEDERAL PROGRAM</u>
10.553/10.555/10.559	School Lunch/Breakfast/Summer Program Cluster
84.010	Title I Grants to Local Education Agencies
84.027/84.173	Special Education- Cluster
14.219	Community Development Block Grants – Small Cities

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

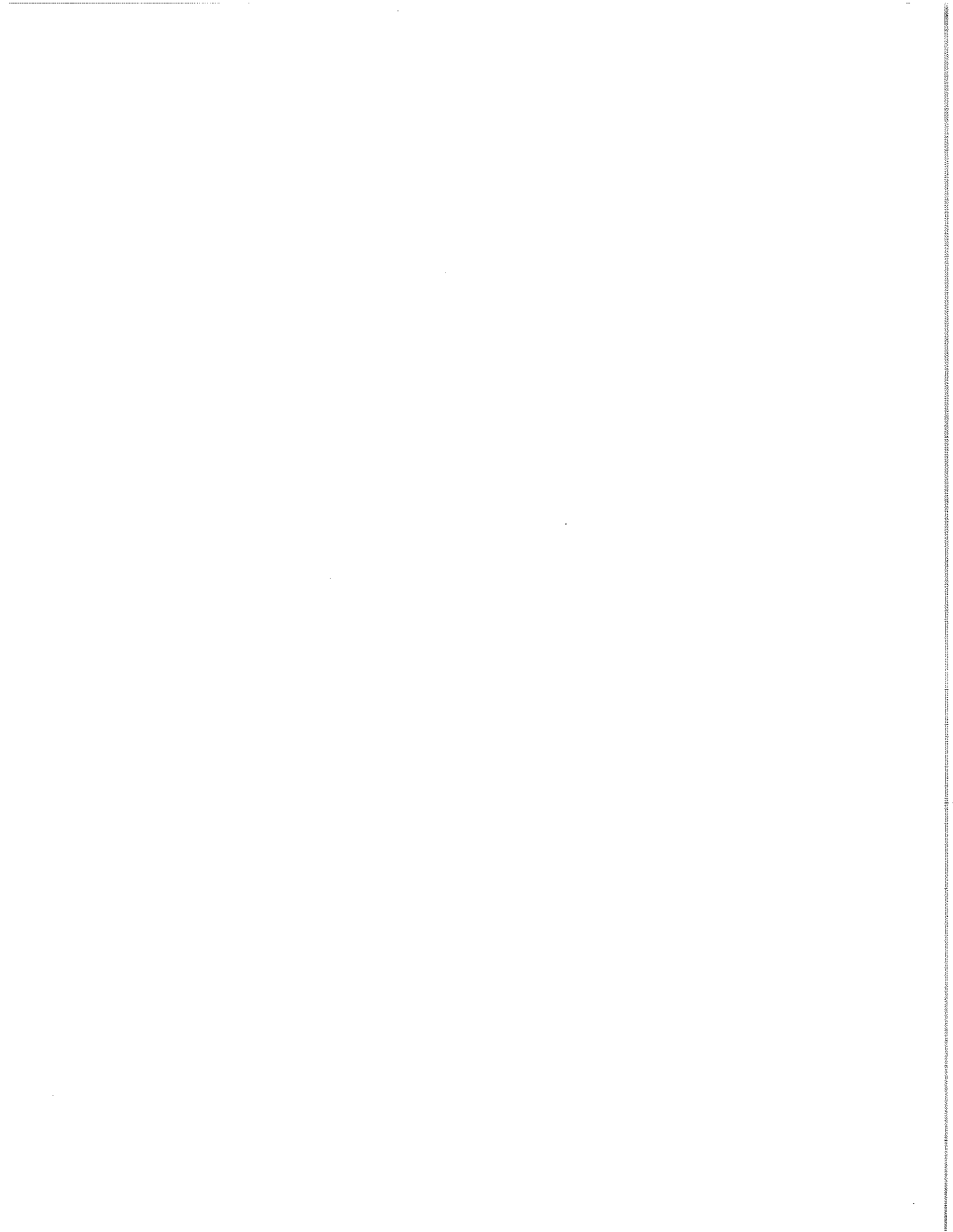
Auditee qualified as low-risk auditee? X yes no

II. FINANCIAL STATEMENT FINDINGS

NONE

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE





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Business Advisors and Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Town of Killingly
Killingly, Connecticut

We have audited the basic financial statements of the Town of Killingly, Connecticut, as of and for the year ended June 30, 2006, and have issued our report thereon dated January 16, 2007. 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's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting which we have reported to management in a separate letter dated January 16, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's basic 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 solely for the information and use of management, the Board of Finance, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kostin, Ruffkess & Company, LLC

New London, Connecticut
January 16, 2007



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RUFFKESS
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Town of Killingly
Killingly, Connecticut

Compliance

We have audited the compliance of the Town of Killingly, Connecticut, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The Town's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town'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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 Federal program occurred. An audit includes examining, on a test basis, evidence about the Town'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's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Town of Killingly
Page Two

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town, as of and for the year ended June 30, 2006, and have issued our report thereon dated January 16, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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.

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

Kostin, Ruffkess & Company, LLC

New London, Connecticut
January 16, 2007

State Single Audit

TOWN OF KILLINGLY, CONNECTICUT

**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2006**

STATE GRANTOR / PASS-THROUGH GRANTOR / PROGRAM TITLE	STATE GRANT PROGRAM CT CORE NUMBER	STATE PROJECT NUMBER	EXPENDITURES
DEPARTMENT OF EDUCATION:			
School Readiness.....	11000-SDE64000-12113	11000-12113-2006-82079-170003	\$ 134,546
Primary Mental Health.....	11000-SDE64000-12198	11000-12198-2006-82079-170036	17,475
Child Nutrition Program (School Lunch State Match).....	11000-SDE64000-16072		13,229
Family Resource Center.....	11000-SDE64000-16110	11000-16110-2006-82079-170003	102,250
Vocational Agriculture.....	11000-SDE64000-17017		74,961
Adult Education.....	11000-SDE64000-17030	11000-17030-2006-84003-170013	80,468
Nonpublic Health Services.....	11000-SDE64000-17034		34,262
Interdistrict Cooperative.....	11000-SDE64000-17045	11000-17045-2006-82066-00005	77,658
School Breakfast.....	11000-SDE64000-17046		11,245
Computer Assisted Writing.....	11000-SDE64000-12332	11000-12332-2006-82010-170003	76,985
Early Reading Success.....	11000-SDE64000-17056	11000-17056-2006-82079-170003	100,000
TOTAL DEPARTMENT OF EDUCATION.....			<u>723,079</u>
DEPARTMENT OF TRANSPORTATION:			
Town Aid Road Grants - Transportation Fund.....	12001-DOT57000-17036		<u>115,000</u>
OFFICE OF POLICY AND MANAGEMENT:			
Property Tax Relief for Totally Disabled Program.....	11000-OPM20600-17011		2,475
Payment in Lieu of Taxes (PILOT) on Exempt Property of Manufacturing Facilities in Distressed Municipalities.....	11000-OPM20600-17016		44,013
Property Tax Relief for Elderly and Totally Disabled Homeowners.....	11000-OPM20600-17018		119,831
Property Tax Relief for Elderly Homeowners - Freeze Program.....	11000-OPM20600-17021		9,956
Property Tax Relief for Veterans.....	11000-OPM20600-17024		10,290
Property Tax Relief for Manufacturing Machinery, Equipment and Commercial Vehicles.....	11000-OPM20600-17031		596,209
Video Technology Olympics.....	12060-OPM20100-35313		<u>76,012</u>
TOTAL OFFICE OF POLICY AND MANAGEMENT.....			<u>858,786</u>
BOARD OF EDUCATION AND SERVICES FOR THE BLIND:			
Education Aid for Blind and Vision Impaired Children.....	11000-ESB65020-12060		<u>9,600</u>
CONNECTICUT STATE LIBRARY:			
State Grants to Public Libraries.....	11000-CSL66051-17003		2,228
Connecticard Payments.....	11000-CSL66051-17010		6,981
Historic Documents Preservation.....	12060-CSL66094-35150		<u>7,000</u>
TOTAL CONNECTICUT STATE LIBRARY.....			<u>16,209</u>
OFFICE OF STATE COMPTROLLER:			
Payment in Lieu of Taxes (PILOT) on State-Owned Property.....	11000-OSC15910-17004		247,967
Mashantucket Pequot/Mohegan Fund.....	12009-OSC15910-17005		268,195
Boat Grant.....	12027-OSC15910-40211		<u>1,721</u>
TOTAL OFFICE OF STATE COMPTROLLER.....			<u>517,883</u>
DEPARTMENT OF ENVIRONMENTAL PROTECTION:			
Clean Water Fund.....	21016-OTT14230-40001		<u>6,117</u>
JUDICIAL BRANCH:			
Distributions to Towns.....	34001-JUD95162-40001		<u>11,320</u>
TOTAL STATE ASSISTANCE BEFORE EXEMPT PROGRAMS.....			<u>2,257,994</u>

(Continued)

TOWN OF KILLINGLY, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE (CONCLUDED)

STATE GRANTOR / PASS-THROUGH GRANTOR / PROGRAM TITLE	STATE GRANT PROGRAM CT CORE NUMBER	STATE PROJECT NUMBER	EXPENDITURES
EXEMPT PROGRAMS:			
DEPARTMENT OF EDUCATION:			
Education Cost-sharing.....	11000-SDE64000-17041		\$ 13,563,712
School Construction Projects - Principal.....	13010-SDE64000-40901	069-0061	951,141
School Construction Projects - Interest.....	13009-SDE64000-40896		105,564
Total School Construction.....			1,056,705
Public School Transportation.....	11000-SDE64000-17027		419,165
Excess Cost - Student Based.....	11000-SDE64000-17047		725,109
Nonpublic School Transportation.....	11000-SDE64000-17049	069-2101	13,672
TOTAL EXEMPT PROGRAMS.....			15,778,363
GRAND TOTAL STATE FINANCIAL ASSISTANCE.....			\$ 18,036,357
			(Concluded)

TOWN OF KILLINGLY, CONNECTICUT

NOTE TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2006

Various departments and agencies of the State of Connecticut have provided financial assistance to the Town of Killingly through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including Department of Education, Department of Environmental Protection, Department of Economic and Community Development, Office of Policy and Management, Connecticut State Library, Department of Transportation, State Comptroller, Board of Education and Services for the Blind, and Judicial Branch.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Killingly, Connecticut, conform to accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. The following is the significant policy relating to State financial assistance:

Basis of Presentation

The accompanying Schedule of Expenditures of State Financial Assistance is presented on the modified accrual basis of accounting and a current financial resources measurement focus.

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 KILLINGLY, CONNECTICUT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

There were no prior year audit findings or questioned costs.

TOWN OF KILLINGLY, CONNECTICUT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Reportable condition(s) identified that are
not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

State Financial Assistance

Internal control over major programs:

Material weakness(es) identified? yes X no

Reportable condition(s) identified that are
not considered to be material weakness(es)? yes X 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 X no

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

<u>State Grantor and Program</u>	<u>State Grant Program Core CT Number</u>	<u>Expenditures</u>
STATE COMPTROLLER		
Payment in Lieu of Taxes on State Owned Property	11000-OSC15910-17004	\$ 247,967
Mashantucket Pequot/Mohegan Fund	12009-OSC15910-17005	268,195
OFFICE OF POLICY AND MANAGEMENT:		
Property Tax Relief For Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	119,831
Property Tax Relief For Manufacturing Machinery Equipment and Commercial Vehicles	11000-OPM20600-17031	596,209
DEPARTMENT OF EDUCATION:		
School Readiness	11000-SDE64000-12113	134,546
Family Resource Center	11000-SDE64000-16110	102,250
Early Reading Success	11000-SDE64000-17056	100,000
DEPARTMENT OF TRANSPORTATION:		
Town Aid Road Grants - Transportation Fund	12001-DOT57000-17036	115,000

TOWN OF KILLINGLY, CONNECTICUT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

II. FINANCIAL STATEMENTS FINDINGS

- We issued our report dated January 16, 2007, 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.
- Our report on compliance indicated no reportable instances of noncompliance.
- Our report on internal control over financial reporting indicated no reportable instances of noncompliance.

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

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



**KOSTIN,
RUFFKESS
& COMPANY, LLC**

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Town of Killingly
Killingly, Connecticut

We have audited the basic financial statements of the Town of Killingly, Connecticut, as of and for the year ended June 30, 2006, and have issued our report thereon dated January 16, 2007. 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's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting which we have reported to management in a separate letter dated January 16, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's basic 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 solely for the information and use of management, the Board of Finance, Office of Policy and Management, and state awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Kostin, Ruffkess & Company, LLC

New London, Connecticut
January 16, 2007



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE STATE SINGLE AUDIT ACT AND ON
THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

Town of Killingly
Killingly, Connecticut

Compliance

We have audited the compliance of the Town of Killingly, Connecticut, with the types of compliance requirements described in the Office of Policy and Management Compliance Supplement that are applicable to each of its major state programs for the year ended June 30, 2006. The major state programs are identified in the summary of audit 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's management. Our responsibility is to express an opinion on 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'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's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Town 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 internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our 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.

Town of Killingly
Page Two

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of State Financial Assistance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town, as of and for the year ended June 30, 2006, and have issued our report thereon dated January 16, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town'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.

This report is intended solely for the information and use of management, the Board of Finance, Office of Policy and Management, and state awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Kostin, Ruffkess & Company, LLC

New London, Connecticut
January 16, 2007

