

TOWN OF LITCHFIELD, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended December 31, 2010

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Litchfield, New Hampshire

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Litchfield, New Hampshire, as of and for the year ended December 31, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Litchfield's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Litchfield, as of December 31, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis appearing on the following pages, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States

Additional Offices:

Andover, MA • Greenfield, MA • Ellsworth, ME • Manchester, NH

of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
June 23, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Litchfield, we offer readers this narrative overview and analysis of the financial activities of the Town of Litchfield for the fiscal year ended December 31, 2010.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The statement of net assets presents information on all 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 is improving or deteriorating.

The statement of activities presents information showing how the government'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).

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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories: governmental 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.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs.

Notes to 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 which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 9,345,289 (i.e., net assets), a change of \$ 234,701 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 2,862,240, a change of \$ 114,445 in comparison to the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 1,128,050, a change of \$ 267,253 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	Governmental Activities	
	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 7,556	\$ 7,348
Capital assets	<u>6,201</u>	<u>5,945</u>
Total assets	13,757	13,293
Long-term liabilities outstanding	91	70
Other liabilities	<u>4,321</u>	<u>4,112</u>
Total liabilities	4,412	4,182
Net assets:		
Invested in capital assets, net	6,419	6,463
Restricted	1,517	1,717
Unrestricted	<u>1,409</u>	<u>931</u>
Total net assets	<u>\$ 9,345</u>	<u>\$ 9,111</u>

CHANGES IN NET ASSETS

	Governmental Activities	
	<u>2010</u>	<u>2009</u>
Revenues:		
Program revenues		
Charges for services	\$ 219	\$ 139
Operating grants	23	14
General revenues:		
Property taxes	2,415	2,069
Penalties and interest on taxes	184	139
Licenses and permits	1,405	1,381
Investment income	(32)	68
Intergovernmental	895	836
Other	<u>140</u>	<u>63</u>
Total revenues	5,249	4,709
Expenses:		
General government	1,244	1,126
Public safety	2,023	1,743
Highways and streets	970	1,154
Sanitation	387	314
Health and welfare	74	80
Culture and recreation	314	329
Conservation	<u>3</u>	<u>3</u>
Total expenses	<u>5,015</u>	<u>4,749</u>
Change in net assets	234	(40)
Net assets - beginning of year	<u>9,111</u>	<u>9,151</u>
Net assets - end of year	<u>\$ 9,345</u>	<u>\$ 9,111</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 9,345,289, a change of \$ 234,701 from the prior year.

The largest portion of net assets \$ 6,418,952 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 1,517,218 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 1,409,119 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ 234,701. Key elements of this change are as follows:

General fund operating results	\$ 376,240
Conservation major fund - accrual basis	164,205
Highway Block Grant major fund operating results	(302,604)
Nonmajor funds - accrual basis	392,411
Depreciation expense	(242,680)
Other GAAP accruals	<u>(152,871)</u>
Total	<u>\$ 234,701</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing 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, governmental funds reported combined ending fund balances of \$ 2,862,240, a change of \$ 114,445 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ 376,240
Conservation major fund deficit	(20,995)
Highway Block Grant major fund deficit	(302,604)
Nonmajor funds surplus	<u>61,804</u>
Total	<u>\$ 114,445</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 1,128,050, while total fund balance was \$ 1,307,661. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 26 percent of total general fund expenditures, while total fund balance represents 30 percent of that same amount.

The fund balance of the general fund changed by \$ 376,240 during the current fiscal year. Key factors in this change are as follows:

State and local revenues surplus	\$ 59,146
Budgetary appropriation turnbacks by departments	109,434
Excess tax collections over budget	119,643
Excess of prior year encumbrances spent in the current year over current year encumbered appropriations to be spent in the subsequent year	108,987
Use of fund balance	(19,000)
Other timing issues	<u>(1,970)</u>
Total	<u>\$ 376,240</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There were no differences between the original budget and the final amended budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year end amounted to \$ 6,200,970 (net of accumulated depreciation), a change of \$ 255,559 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- Land purchase \$ 185,200
- Vehicle purchase \$ 137,717

Additional information on capital assets can be found in the notes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Litchfield'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 should be addressed to:

Board of Selectmen
Town of Litchfield
2 Liberty Way, Suite 2
Litchfield, New Hampshire 03052

TOWN OF LITCHFIELD, NEW HAMPSHIRE

STATEMENT OF NET ASSETS

DECEMBER 31, 2010

	<u>Governmental Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 6,847,295
Investments	18,956
Receivables, net of allowance for uncollectibles:	
Taxes	435,767
Departmental and other	34,356
Intergovernmental	2,210
Other assets	68,564
Due from fiduciary funds	263
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Taxes	148,868
Capital assets:	
Land and construction in progress	3,685,734
Other capital assets, net of accumulated depreciation	<u>2,515,236</u>
TOTAL ASSETS	13,757,249
LIABILITIES	
Current:	
Accounts payable	92,518
Accrued liabilities	28,384
Other liabilities	32,243
Due to school district	4,120,603
Current portion of long-term liabilities:	
Capital lease payable	44,413
Compensated absence	3,075
Noncurrent:	
Capital lease payable, net of current portion	32,298
Compensated absence, net of current portion	<u>58,426</u>
TOTAL LIABILITIES	4,411,960
NET ASSETS	
Invested in capital assets, net of related debt	6,418,952
Restricted for:	
Grants and other statutory restrictions	1,407,666
Permanent funds:	
Nonexpendable	70,115
Expendable	39,437
Unrestricted	<u>1,409,119</u>
TOTAL NET ASSETS	\$ <u><u>9,345,289</u></u>

See notes to financial statements.

TOWN OF LITCHFIELD, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2010

		<u>Program Revenues</u>			Net (Expenses) Revenues and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
General government	\$ 1,244,083	\$ 20,649	\$ -	\$ -	\$ (1,223,434)
Public safety	2,023,618	142,508	-	-	(1,881,110)
Highways and streets	970,258	-	-	-	(970,258)
Sanitation	386,683	55,845	-	-	(330,838)
Health and welfare	73,695	-	-	-	(73,695)
Culture and recreation	313,703	-	22,941	-	(290,762)
Conservation	<u>2,564</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,564)</u>
Total Governmental Activities	<u>\$ 5,014,604</u>	<u>\$ 219,002</u>	<u>\$ 22,941</u>	<u>\$ -</u>	(4,772,661)
		General Revenues and Contributions:			
					2,414,650
					184,335
					1,405,242
					(31,578)
					894,972
					<u>139,741</u>
					5,007,362
					234,701
		Net Assets:			
					<u>9,110,588</u>
					<u>\$ 9,345,289</u>

See notes to financial statements.

TOWN OF LITCHFIELD, NEW HAMPSHIRE
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2010

	<u>General</u>	<u>Conservation Fund</u>	<u>Highway Block Grant</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 5,553,030	\$ 863,581	\$ 32,072	\$ 398,612	\$ 6,847,295
Investments	-	-	-	18,956	18,956
Receivables:					
Property taxes	609,635	-	-	-	609,635
Departmental and other	-	-	-	34,356	34,356
Intergovernmental	2,210	-	-	-	2,210
Other assets	66,245	-	-	2,319	68,564
Due from other funds	17,511	-	224,219	79	241,809
TOTAL ASSETS	<u>\$ 6,248,631</u>	<u>\$ 863,581</u>	<u>\$ 256,291</u>	<u>\$ 454,322</u>	<u>\$ 7,822,825</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 90,150	\$ -	\$ -	\$ 2,368	\$ 92,518
Accrued liabilities	28,384	-	-	-	28,384
Deferred revenues	445,291	-	-	-	445,291
Other liabilities	32,243	-	-	-	32,243
Due to other funds	224,299	2,259	-	14,988	241,546
Due to school district	4,120,603	-	-	-	4,120,603
TOTAL LIABILITIES	4,940,970	2,259	-	17,356	4,960,585
Fund Balances:					
Reserved for:					
Encumbrances	179,611	-	-	-	179,611
Perpetual (non-expendable) permanent funds	-	-	-	70,115	70,115
Unreserved:					
Undesignated, reported in:					
General fund	1,128,050	-	-	-	1,128,050
Special revenue funds	-	861,322	-	289,012	1,150,334
Capital project funds	-	-	256,291	38,402	294,693
Permanent funds	-	-	-	39,437	39,437
TOTAL FUND BALANCES	<u>1,307,661</u>	<u>861,322</u>	<u>256,291</u>	<u>436,966</u>	<u>2,862,240</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,248,631</u>	<u>\$ 863,581</u>	<u>\$ 256,291</u>	<u>\$ 454,322</u>	<u>\$ 7,822,825</u>

See notes to financial statements.

TOWN OF LITCHFIELD, NEW HAMPSHIRE
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

DECEMBER 31, 2010

Total governmental fund balances	\$ 2,862,240
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,200,970
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	420,291
<ul style="list-style-type: none">• Long-term liabilities, (net of prepaid debt service) including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(138,212)</u>
Net assets of governmental activities	\$ <u>9,345,289</u>

See notes to financial statements.

TOWN OF LITCHFIELD, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>General</u>	<u>Conservation Fund</u>	<u>Highway Block Grant</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 2,511,872	\$ -	\$ -	\$ -	\$ 2,511,872
Penalties, interest and other taxes	122,735	61,600	-	-	184,335
Licenses and permits	1,405,242	-	-	-	1,405,242
Intergovernmental	506,481	-	186,859	201,651	894,991
Charges for services	79,895	-	-	136,106	216,001
Investment income	9,234	19,664	20	(60,517)	(31,599)
Contributions	-	-	-	22,941	22,941
Miscellaneous	68,064	-	-	9,306	77,370
Total Revenues	<u>4,703,523</u>	<u>81,264</u>	<u>186,879</u>	<u>309,487</u>	<u>5,281,153</u>
Expenditures:					
Current:					
General government	1,207,441	-	-	4,441	1,211,882
Public safety	1,903,399	-	-	87,929	1,991,328
Highways and streets	403,042	-	489,483	126,567	1,019,092
Sanitation	470,260	-	-	-	470,260
Health and welfare	73,695	-	-	-	73,695
Culture and recreation	266,882	-	-	28,746	295,628
Conservation	2,564	102,259	-	-	104,823
Total Expenditures	<u>4,327,283</u>	<u>102,259</u>	<u>489,483</u>	<u>247,683</u>	<u>5,166,708</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	376,240	(20,995)	(302,604)	61,804	114,445
Fund Equity, at Beginning of Year	<u>931,421</u>	<u>882,317</u>	<u>558,895</u>	<u>375,162</u>	<u>2,747,795</u>
Fund Equity, at End of Year	<u>\$ 1,307,661</u>	<u>\$ 861,322</u>	<u>\$ 256,291</u>	<u>\$ 436,966</u>	<u>\$ 2,862,240</u>

See notes to financial statements.

TOWN OF LITCHFIELD, NEW HAMPSHIRE
 RECONCILIATION OF THE STATEMENT OF REVENUES
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2010

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 114,445
<ul style="list-style-type: none"> • 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: 	
Capital outlay purchases	515,807
Capital dispositions	(17,569)
Depreciation	(242,680)
<ul style="list-style-type: none"> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for accounts receivable (i.e., real estate) differ between the two statements. This amount represents the net change in deferred revenue. 	
	(97,223)
<ul style="list-style-type: none"> • The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: 	
Repayments of debt	61,585
Capital lease additions	(97,025)
<ul style="list-style-type: none"> • Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. 	
	<u>(2,639)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>234,701</u>

See notes to financial statements.

TOWN OF LITCHFIELD, NEW HAMPSHIRE

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES,
AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2010

	Original <u>Budget</u>	Final <u>Budget</u>	Actual Amounts (Budgetary <u>Basis</u>)	Variance with Final Budget Positive (Negative)
Revenues and other sources:				
Property taxes	\$ 2,392,229	\$ 2,392,229	\$ 2,392,229	\$ -
Interest, penalties and other taxes	102,958	102,958	122,735	19,777
Licenses and permits	1,265,675	1,265,675	1,405,242	139,567
Intergovernmental	681,796	681,796	506,481	(175,315)
Charges for services	61,556	61,556	79,895	18,339
Investment income	11,000	11,000	9,234	(1,766)
Miscellaneous	10,505	10,505	69,049	58,544
Use of fund balance	<u>19,000</u>	<u>19,000</u>	<u>19,000</u>	<u>-</u>
Total Revenues	4,544,719	4,544,719	4,603,865	59,146
Expenditures and other uses:				
Current:				
General government	1,271,647	1,252,308	1,196,893	55,415
Public safety	1,888,099	1,909,238	1,976,671	(67,433)
Highways and streets	477,372	474,772	414,270	60,502
Sanitation	544,983	544,983	499,921	45,062
Health and welfare	83,618	83,618	73,695	9,923
Conservation	275,839	276,639	271,271	5,368
Culture and recreation	<u>3,161</u>	<u>3,161</u>	<u>2,564</u>	<u>597</u>
Total Expenditures	<u>4,544,719</u>	<u>4,544,719</u>	<u>4,435,285</u>	<u>109,434</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 168,580</u>	<u>\$ 168,580</u>

See notes to financial statements.

TOWN OF LITCHFIELD, NEW HAMPSHIRE
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 DECEMBER 31, 2010

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and short-term investments	\$ <u>1,590,435</u>
Total Assets	\$ <u><u>1,590,435</u></u>
 <u>LIABILITIES</u>	
Due to other funds	\$ 263
Due to other governments	154,458
Due to developers	<u>1,435,714</u>
Total Liabilities	\$ <u><u>1,590,435</u></u>

See notes to financial statements.

TOWN OF LITCHFIELD, NEW HAMPSHIRE

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Litchfield (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2010, it was determined that no entities met the required GASB-39 criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide 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 of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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

Fund Financial Statements

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

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements

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 property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government'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 *conservation commission fund* is used to account for 100% of the Land Use Change Tax (current use) revenue and expenditures incurred in the acquisition of conservation land including the maintenance of designated conservation properties within the Town's boundaries.

- The *highway block grant fund* is used to account for money received from the State of New Hampshire for construction, reconstruction, and maintenance of the Town's roads.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

F. Interfund Receivables and Payables

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

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	15 - 20
Infrastructure	40
Vehicles and equipment	5 - 20

H. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation pay benefits. All vested vacation pay is accrued when incurred in the government-wide financial statements. A liability for this amount is reported in governmental funds only if it has matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and long-term debt, and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

J. Fund Equity

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.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

The Town's budget is originally prepared by the Selectmen's office with the cooperation of the various department heads. It is then submitted to the Budget Committee, in accordance with the Municipal Budget Law. After reviewing the budget, the Committee holds a public hearing for discussion.

The final version of the budget is then submitted for approval at the annual Town meeting. The approved budget is subsequently reported to the State of New Hampshire on the statement of appropriation form in order to establish the current property tax rate.

The Selectmen cannot increase the total of the approved budget; however, they have the power to reclassify its components when necessary.

B. Budgetary Basis

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ <u>4,703,523</u>	\$ <u>4,327,283</u>
Subtotal (GAAP Basis)	4,703,523	4,327,283
Adjust tax revenue to accrual basis	(119,643)	-
To reverse expenditures of prior year appropriation carryforwards	-	(70,624)
To book current year appropria- tion carryforwards	-	179,611
To record use of fund balance	19,000	-
Other timing issues	<u>985</u>	<u>(985)</u>
Budgetary basis	<u>\$ 4,603,865</u>	<u>\$ 4,435,285</u>

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. RSA 48:16 limits "deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus, exception that a Town with a population in excess of 50,000 is authorized to deposit funds in a solvent bank in excess of the paid-up capital surplus of said bank." The Town does not have a deposit policy for custodial credit risk.

As of December 31, 2010, none of the Town's bank balance of \$ 9,317,506 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general avoid speculative investments.

The Town is not exposed to any investment credit risk. The Town's investments, totaling \$ 18,956, are invested in corporate equities which are exempt from disclosure.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. At this time, the custodial credit risk cannot be determined.

5. Taxes Receivable

The Town bills property taxes semi-annually, in May and November. Property tax revenues are recognized in the fiscal year for which taxes have been levied. Property taxes are due on July 1 and December 1. Delinquent accounts are charged 12% interest. In March of the next year, a lien is recorded on delinquent property at the Registry of Deeds. The Town purchases all the delinquent accounts by paying the delinquent balance, recording costs and accrued interest. The accounts that are liened by the Town will be reclassified from property taxes receivable to unredeemed tax liens receivable. After this date, delinquent accounts will be charged interest

at a rate of 18%. The Town annually budgets amounts (overlay for abatements) for property tax abatements and refunds.

Taxes receivable at December 31, 2010 consist of the following (in thousands):

Real Estate			
2010			\$ 461
Unredeemed Taxes			
2009	100		
2008	<u>49</u>		
			<u>149</u>
Total			\$ <u>610</u>

Taxes Collected for Others

The Town collects property taxes for the State of New Hampshire, the Litchfield School District and the County of Hillsborough. Payments to the other taxing units are normally made throughout the year. The ultimate responsibility for the collection of taxes rests with the Town.

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>
Property taxes	\$ 25

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2010.

8. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the December 31, 2010 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 17,511	\$ 224,299
Special revenue funds	79	16,385
Capital projects	224,219	862
Agency funds	-	263
Total	<u>\$ 241,809</u>	<u>\$ 241,809</u>

9. Due to School District

This represents the balance of the district assessment due to the Litchfield School District for the 2010/2011 school year.

10. Capital Assets

Capital asset activity for the year ended December 31, 2010 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,897	\$ 16	\$ -	\$ 1,913
Machinery, equipment, and furnishings	1,816	314	(87)	2,043
Infrastructure	502	-	-	502
Total capital assets, being depreciated	<u>4,215</u>	<u>330</u>	<u>(87)</u>	<u>4,458</u>
Less accumulated depreciation for:				
Buildings and improvements	(776)	(52)	-	(828)
Machinery, equipment, and furnishings	(939)	(179)	70	(1,048)
Infrastructure	(55)	(12)	-	(67)
Total accumulated depreciation	<u>(1,770)</u>	<u>(243)</u>	<u>70</u>	<u>(1,943)</u>
Total capital assets, being depreciated, net	2,445	87	(17)	2,515
Capital assets, not being depreciated:				
Land	<u>3,500</u>	<u>186</u>	<u>-</u>	<u>3,686</u>
Total capital assets, not being depreciated	<u>3,500</u>	<u>186</u>	<u>-</u>	<u>3,686</u>
Governmental activities capital assets, net	<u>\$ 5,945</u>	<u>\$ 273</u>	<u>\$ (17)</u>	<u>\$ 6,201</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 34
Public safety	139
Highway	38
Culture and recreation	15
Sanitation	<u>17</u>
Total depreciation expense - governmental activities	<u>\$ 243</u>

11. Accounts Payable

Accounts payable represent 2010 expenditures paid after December 31, 2010.

12. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund *deferred revenues* account is equal to the total of all December 31, 2010 receivable balances, except property taxes that are accrued for subsequent 60 day collections.

13. Capital Lease Obligations

The Town is the lessee of certain equipment under capital leases expiring in various years through 2012. Future minimum lease payments under the capital and operating leases consisted of the following as of December 31, 2010:

	<u>Fiscal</u>	<u>Capital</u>
	<u>Year</u>	<u>Leases</u>
	2011	\$ 49,423
	2012	<u>34,429</u>
Total minimum lease payments		83,852
Less amounts representing interest		<u>(7,141)</u>
Present Value of Minimum Lease Payments		<u>\$ 76,711</u>

14. Long-Term Liabilities

Changes in General Long-Term Liabilities

During the year ended December 31, 2010, the following changes occurred in long-term liabilities:

	Total Balance <u>1/1/10</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>12/31/10</u>	Less Current <u>Portion</u>	Equals Long-Term Portion <u>12/31/10</u>
<u>Governmental Activities</u>						
Other:						
Capital leases	\$ 41,271	\$ 97,025	\$ (61,585)	\$ 76,711	\$ (44,413)	\$ 32,298
Compensated absences	<u>58,862</u>	<u>2,639</u>	<u>-</u>	<u>61,501</u>	<u>(3,075)</u>	<u>58,426</u>
Totals	\$ <u>100,133</u>	\$ <u>99,664</u>	\$ <u>(61,585)</u>	\$ <u>138,212</u>	\$ <u>(47,488)</u>	\$ <u>90,724</u>

15. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

16. Reserves of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at December 31, 2010:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Perpetual Funds - Represents the principal of the non-expendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

17. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in respect to how undesignated fund balance is reported in accordance with the budgetary basis for reporting for the State of New Hampshire for tax rate setting purposes. The major difference is the State of New Hampshire considers revenues in connection with property tax receivables to be available to liquidate liabilities when billed rather than received.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ 1,128,050
Deferred revenue	<u>445,291</u>
Tax Rate Setting Balance	<u>\$ 1,573,341</u>

18. Litigation

The Town of Litchfield has brought a claim in the Hillsborough County Superior Court South against its former Treasurer and Trustee of Trust Funds, Horace W. Seymour, for the misappropriation of funds from Town banking accounts under the control of Mr. Seymour. Mr. Seymour was the elected Town Treasurer from 2005 until 2008. He was also a member of the Litchfield Trustees of Trust Funds from 2002 until 2005 and was Chairman of the Town's Recreation Commission from 2003 through 2008. Based upon a detailed audit conducted by the Town's Auditors, it has been estimated that Mr. Seymour misappropriated \$ 212,030 from accounts under his control for his use and benefit. On October 22, 2010, Mr. Seymour stipulated for judgment in favor of the Town in the amount of \$ 205,980. The Town is currently undertaking collection of that judgment. The Town has received \$ 156,712 from its insurance carriers to date and has agreed to accept \$ 54,128 as final resolution of its first party insurance claim. Other than the payment of attorneys' fees, the Town will not suffer a financial loss in this matter.

19. Post-Employment Health Care and Life Insurance Benefits

The Town has implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the

extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time. However, the Town participates in a community-rated plan, which insurance premium rates reflect the health claim experience of all participating employers. As a result, it is appropriate to use the unadjusted premium as the basis for projecting retiree benefits. Since the Town does not provide a benefit to retirees, and it is reasonable for the Town to project benefits using unadjusted premiums, the Town does not have an OPEB liability.

20. Retirement System

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, (as amended by GASB 50) with respect to the employees' retirement funds.

A. Plan Description

Full-time employees participate in the State of New Hampshire Retirement System (the System), a multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State of New Hampshire are eligible and required to participate in the system. Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

The New Hampshire Retirement System, a Public Employees Retirement System (PERS), is divided into two membership groups. State or local employees and teachers belong to *Group I*. Police officers and firefighters belong to *Group II*. All assets are held in a single trust and are available to each group, funding policies, vesting requirements, contribution requirements and plan assets available to pay benefits are disclosed in the System's annual report available from the New Hampshire Retirement System located at 4 Chenell Drive, Concord, New Hampshire 03301-8509.

B. Funding Policy

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 5% for employees and teachers and 9.3% for police and fire. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and is 11.84%, 15.92%, and 8.74% for police

officers, fire employees, and general employees, respectively. The Town's contributions to the System for the years ended December 31, 2010, 2009, and 2008 were \$ 160,327, \$ 124,126, and \$ 119,774, respectively, which were equal to its annual required contributions for each of these years.

21. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.