

**TOWN OF LITCHFIELD, CONNECTICUT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2010**

# TOWN OF LITCHFIELD, CONNECTICUT

## TABLE OF CONTENTS

	<u>Page</u>	
Independent Auditors' Report	1-2	
Management's Discussion and Analysis	3-12	
 <b><u>Exhibit</u></b>		
Basic Financial Statements:		
Government-Wide Financial Statements:		
I	Statement of Net Assets	13
II	Statement of Activities	14
Fund Financial Statements:		
Governmental Funds:		
III	Balance Sheet	15-16
IV	Statement of Revenues, Expenditures and Changes in Fund Balances	17-18
Proprietary Fund:		
V	Statement of Net Assets	19
VI	Statement of Revenues, Expenses and Changes in Fund Net Assets	20
VII	Statement of Cash Flows	21
Fiduciary Funds:		
VIII	Statement of Fiduciary Net Assets	22
IX	Statement of Changes in Plan Net Assets - Pension Trust Funds	23
	Notes to Financial Statements	24-46
 Required Supplementary Information:		
General Fund:		
RSI-1	Schedule of Revenues and Other Financing Sources - Budget and Actual	47-48
RSI-2	Schedule of Expenditures and Other Financing Uses - Budget and Actual	49-51
 Combining and Individual Fund Statements and Schedules:		
General Fund:		
A-1	Comparative Balance Sheet	52
A-2	Report of Tax Collector	53
A-3	Board of Education Schedule of Expenditures	54
Nonmajor Governmental Funds:		
B-1	Combining Balance Sheet	55-56
B-2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances	57-58
B-3	Schedule of Sewer Use Charges Receivable	59
B-4	Schedule of Sewer Assessments Receivable	60
Capital Projects Fund:		
C-1	Project Combining Balance Sheet	61
C-2	Project Combining Statement of Revenues, Expenditures and Changes in Fund Balances	62
Agency Funds:		
D	Combining Statement of Changes in Assets and Liabilities	63
Long-Term Debt:		
E	Schedule of Debt Limitation	64

**TOWN OF LITCHFIELD, CONNECTICUT**

**TABLE OF CONTENTS**

**Page**

**Table**

1	Principal Property Taxpayers	65
2	Taxable Grand List	66
3	Calculation of Direct Debt and Net Direct Debt	67
4	Current Debt Ratios	68



Accounting | Tax | Business Consulting

## Independent Auditors' Report

To the Board of Finance  
Town of Litchfield  
Litchfield, 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 Litchfield, Connecticut, as of and for the year ended June 30, 2010, which collectively comprise the Town of Litchfield, Connecticut's basic financial statements as listed in the table of contents. These 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Litchfield, Connecticut, as of June 30, 2010 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2010 on our consideration of the Town of Litchfield, Connecticut's internal control over financial reporting and 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 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.

Management's discussion and analysis on pages 3 through 12 and the budgetary comparison information on pages 47 through 51 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Litchfield, Connecticut's basic financial statements. The combining and individual nonmajor fund financial statements and schedules and tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules 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 tables 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.

*Blum, Shapiro & Company, P.C.*

December 10, 2010

**TOWN OF LITCHFIELD, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2010**

This discussion and analysis of the Town of Litchfield, Connecticut's (the Town) financial performance is provided by management to provide an overview of the Town's financial activities for the fiscal year ended June 30, 2010. Please read this MD&A in conjunction with the Town's financial statements, Exhibits I to IX.

**FINANCIAL HIGHLIGHTS**

- The Town refunded \$11,065,000 of its bonds to reduce its total debt service requirements by \$771,000 and issued \$1.4 million of bonds to fund a major portion of its 2009-10 Capital Improvement Program.
- Net assets of the Town's governmental activities increased by \$1.3 million, or 2.8%, primarily due to the continuing investment in its roads, schools and firehouses.
- During the year, the Town earned tax and other revenues for governmental programs of \$29.6 million that was \$1.3 million more than program expenses.
- Total cost of all of the Town's programs was \$28.4 million.
- General Fund Property Tax revenues, including interest and lien fees, exceeded budget by \$250 thousand offsetting the loss of state education grants that were paid directly to the Special Education Fund (due to state's funding with economic stimulus funds).
- Unreserved fund balance of the General Fund decreased \$289 thousand from \$4.0 million at June 30, 2009 to \$3.7 million at June 30, 2010, due to \$347 thousand transferred to fund a portion of the Town's capital projects; \$224 thousand for an extra contribution to the Town's Municipal Pension Plan; and, \$100 thousand transfer to the Other Post Employment Fund for Board of Education retirees, offset by net cost savings, approximating \$382,000.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities (Exhibits I and II, respectively) provide information about the activities of the Town as a whole and present a long-term view of the Town's finances. Fund financial statements are presented in Exhibits III to IX. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The required supplementary information provides budgetary information for the General Fund. The combining and individual fund statements and schedules provide additional information about activities of the Town.

***Government-Wide Financial Statements***

The analysis of the Town as a whole begins on Exhibits I and II. The statement of net assets and the statement of activities report information about the Town as a whole and about its activities for the current period. 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 cash is received or paid.

These two statements report the Town's net assets and changes in them. One measure of the Town's financial health is the Town's net assets, the difference between assets and liabilities, or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. The reader needs to consider other nonfinancial factors, however, such as changes in the Town's property tax base and the condition of the Town's capital assets, to assess the overall health of the Town.

In the statement of net assets and the statement of activities, the Town reports its governmental activities. These include the Town's basic services: general government, public safety, public works, health and welfare, libraries, recreation, education and interest on long-term debt. Property taxes, charges for services, and state and federal grants finance most of these activities.

### ***Fund Financial Statements***

The fund financial statements begin with Exhibit III and provide detailed information about the most significant funds - not the Town as a whole. Some funds are required to be established by State Statute (e.g., General Fund). Other funds are established by the Town to help control and manage financial activities for particular purposes (like the Town Hall Annex and Sewer Operating Funds) or to show that it is meeting legal responsibilities for state and federal grants and other money (like the Renovation of Schools Capital Projects Fund). The Town's funds are divided into three categories: governmental, proprietary and fiduciary.

- *Governmental Funds (Exhibits III and IV)* - Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation within the fund financial statements.
- *Proprietary Funds (Exhibits V to VII)* - When the Town charges customers for the services it provides, whether to outside customers or to other units of the Town, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities. At present, the Town has one proprietary fund which is its Internal Service Fund used to report activities of its medical self insurance services provided to the Town and Board of Education.
- *Fiduciary Funds (Exhibits VIII and IX)* - The Town is the fiduciary administrator for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, 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. These activities are excluded 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.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Town's combined net assets increased from \$45.3 million to \$46.6 million. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Town's governmental activities.

**TABLE 1  
NET ASSETS  
(In Thousands)**

	<b>Governmental Activities</b>	
	<b>2010</b>	<b>2009</b>
Current and other assets	\$ 14,252	\$ 15,117
Noncurrent assets	67,871	66,320
Total assets	<u>82,123</u>	<u>81,437</u>
Current liabilities	4,782	4,882
Noncurrent liabilities	30,763	31,235
Total liabilities	<u>35,545</u>	<u>36,117</u>
Net Assets:		
Investment in capital assets, net of related debt	35,787	33,760
Restricted for trust purposes	10	10
Unrestricted	<u>10,781</u>	<u>11,550</u>
Total Net Assets	<u>\$ 46,578</u>	<u>\$ 45,320</u>

Total net assets of the Town's governmental activities increased 2.8% (\$46.6 million compared to \$45.3 million). This is reflected in the Town's investment in capital assets, net of related debt, which increased \$2.3 million from \$33.5 million at June 30, 2009 to \$35.8 million at June 30, 2010. The increase was due to a \$1.6 million increase in net governmental activities capital assets and a \$.7 million decrease in its bonded liabilities.

Unrestricted net assets - the part of net assets that can be used to finance daily operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$.8 million from \$11.6 million at June 30, 2009 to \$10.8 million a year later. The decrease was primarily due to use of unrestricted funds to reduce bonds payable from \$32.8 million at June 30, 2009 to \$31.9 million at June 30, 2010.

**TABLE 2**  
**CHANGE IN NET ASSETS**  
**(In Thousands)**

	<b>Governmental Activities</b>	
	<b>2010</b>	<b>2009</b>
Revenues:		
Program revenues:		
Charges for services	\$ 1,682	\$ 1,750
Operating grants and contributions	3,477	3,246
Capital grants and contributions	764	2,282
General revenues:		
Property taxes	23,273	23,348
Grants not restricted to specific purposes	233	323
Unrestricted investment earnings and other	182	300
Total revenues	29,611	31,249
 Program expenses:		
General government	2,179	3,275
Public safety	1,603	975
Public works	4,465	3,296
Health and welfare	122	103
Libraries	325	315
Recreation	401	321
Education	17,882	17,357
Interest on long-term debt	1,376	1,238
Total program expenses	28,353	26,880
 Increase in Net Assets	\$ 1,258	\$ 4,369

The Town's total revenue was \$29.6 million. The total cost of all programs and services was \$28.4 million. The \$1.5 million reduction from 2009 to 2010 for capital grants and contributions was due to the prior year completion of two grant funded capital projects in 2009 (\$33 million High School and Intermediate School expansion and renovation project and High Bridge Road Bridge). Our analysis below separately considers the operations of governmental activities.

***Governmental Activities***

Approximately 79% of the revenues were derived from property taxes. Restricted operating grants and contributions and restricted capital grants and contributions, accounted for 12% and 3% of revenues, respectively. Charges for services represented 5% of revenues and the 1% remaining revenues were from unrestricted grants, investment earnings and miscellaneous revenue.

Major revenue factors included:

- Fiscal 2010 was a year of revaluation with the Town’s net taxable grand list exceeding \$1 billion for the first time.
- Property tax revenues of \$23.3 million (same as the prior year) were generated from a mil rate of 21.2 mils (21.1 for prior year) on the net taxable grand list of \$1.1 billion.
- Restricted program operating grants and contributions of \$3.5 million increased \$231 thousand from the prior year primarily due to the receipt of economic stimulus funds for education.
- Restricted capital grants and contributions decreased to \$1.5 million from \$2.3 million a year earlier primarily due to the completion in the prior year of the \$33,000,000 High School and Intermediate School expansion and renovation project (29% grant funded) and High Bridge Road Bridge (80% grant funded).
- Unrestricted investment earnings and other decreased 39.3% from the prior year to \$182 thousand because of the continued reduction in investment rates of return.

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

**TABLE 3  
GOVERNMENTAL ACTIVITIES  
(In Thousands)**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
General government	\$ 2,179	\$ 3,275	\$ 1,601	\$ 2,863
Public safety	1,603	975	1,508	828
Public works	4,465	3,296	2,742	197
Health and welfare	122	103	111	64
Libraries	325	315	325	315
Recreation	401	321	294	233
Education	17,882	17,357	14,473	13,864
Interest on long-term debt	1,376	1,238	1,376	1,238
<b>Total</b>	<b>\$ 28,353</b>	<b>\$ 26,880</b>	<b>\$ 22,430</b>	<b>\$ 19,602</b>

For governmental activities, 63% of the Town’s expenditures relate to education, 16% for Public Works, 12% for general government activities and interest on long-term debt; and, 9% for public safety, health and welfare, libraries and recreation services. The general government decrease of \$1.1 million in cost of services is due to a change in the allocation of General Fund fringe benefits. For fiscal 2010, only \$.5 million of fringe benefits was allocated to general government and \$1.1 was allocated to the other functions based on salaries. In prior years, fringe benefits were allocated entirely to the general government function. Public safety cost of services increased to \$1.6 million from \$1.0 million the prior year, mainly due to \$331 thousand for allocated fringe benefits, including the Merit Pension cost and \$192 thousand for allocated capital outlay. Public works cost of services increased by \$1.2 million, primarily due to allocated fringe benefits of \$727 thousand and \$352 thousand of allocated capital outlay costs. The net cost of services for public works increased from \$.2 million for 2009 to \$2.7 million for 2010 due to significant grant funding in fiscal 2009 for completed projects (High Bridge Road Bridge, Shear Shop Road Bridge and Milton Road repaving/drainage improvements). The Education total cost

of services increased \$525 thousand primarily due to the increased special education fund costs, for salaries, that were funded by economic stimulus grant funds.

## **TOWN FUNDS FINANCIAL ANALYSIS**

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.

At June 30, 2010, the Town's governmental funds reported a combined fund balance of \$7.5 million, a 9% decrease of \$707 thousand from June 30, 2009, of which \$690 thousand was in the Capital Projects Fund. The Capital Projects Fund decrease was due to: completion of capital projects funded in prior years (\$267 thousand); completion of the \$33 million High School and Intermediate School expansion and renovation project (\$134 thousand); and, approved transfers to use funds from the Capital and Non-Recurring Fund to replace a 1995 dump truck (\$160 thousand), improve Woodruff Street Bridge (\$61 thousand), and complete the three schools fifty-three security camera system (\$58 thousand) and the Intermediate/High School parking lot (\$10 thousand).

The Town's combined governmental fund balance of \$7.5 million is comprised of reserved fund balance of \$.4 million and an unreserved fund balance of \$7.1 million.

The General Fund is the chief operating fund of the Town. At June 30, 2010, fund balance increased \$10 thousand to \$4.1 million. General Fund unreserved fund balance decreased \$289 thousand from \$4.0 million at June 30, 2009 to \$3.7 million at June 30, 2010, due to \$347 thousand transferred to fund a portion of the Town's capital projects; \$224 thousand for an extra contribution to the Town's Municipal Pension Plan; and, \$100 thousand transfer to the Other Post Employment Fund for Board of Education retirees, offset by net cost savings, approximating \$382,000. Of the \$480 thousand of expenditure cost savings, \$433 thousand was due to the Board of Education to offset the redirection of state education grants to the Special Education Fund. Property tax revenues, including interest and liens, exceeded budget by \$250,000 thousand offsetting the \$250 thousand shortfall for the education grants. The total revenue shortfall of \$97 thousand was due to less building fees collected (\$39 thousand) and \$55 thousand less investment income than budget due to reduced interest rates.

The total fund balance of the Sewer Assessment Fund remained the same as the prior year at \$796 thousand.

The Nonmajor Governmental Funds fund balance also was unchanged from the prior year at \$1.3 million. During fiscal 2010, a new fund was established in this group called Other Post Employment Benefits Fund (OPEB). \$150,000 was transferred to it from the General Fund to begin funding for the medical and lump-sum benefits for certain Board of Education retirees. The fund will be converted into a Trust Fund of the Town (similar to the Pension Trust Funds) when the taxpayers authorize a Trust for these funds (in process). In fiscal 2010, the Town was awarded a \$700 thousand Small Cities Community Development Program grant to renovate the 30-unit Wells Run senior housing community (completion is expected during the early part of fiscal 2012).

### ***Proprietary Fund***

The Town's proprietary fund is an Internal Service Fund which accounts for the health insurance costs of Town and Board of Education (BOE) employees, including some retired BOE employees. The total net assets of the fund at June 30, 2010 increased \$72 thousand to \$1.5 million primarily due to claims of \$2.6 million less than contributions from the Town and BOE. Under negotiated wage contracts, employees are paying a higher share of their health care costs.

### ***Pension Trust Funds***

For fiscal 2010, the net assets of the Pension Trust Funds increased 22% from the year earlier to \$8.2 million. This was due to Town/BOE contributions of \$1.1 million (that included an extra \$224 thousand contribution for the Municipal Pension Fund), \$644 thousand in appreciation of the fair value of its investments and \$234 thousand of investment earnings to provide for \$535 thousand of benefits and expenses.

### ***General Fund Budgetary Highlights***

The original budget was approved at the Annual Budget Meeting on May 13, 2009 with appropriations of \$26.0 million. The budget was amended by several actions of the Board of Finance, and as necessary, by the Town at various town meetings. Use of fund balance in the amount of \$347 thousand was authorized to increase the expenditures budget for a transfer of \$347 thousand to the Capital Projects Fund. The amount was used for the portion of the fiscal 2010 Capital Improvement Program projects that were not funded with bonds. Use of fund balance in the amount of \$224 thousand and \$100 thousand was authorized for an extra contribution to the Municipal Pension Fund and the OPEB Fund, respectively. Thus, the final budget of \$26.6 million had \$671 thousand more in appropriations than resources.

For the year, actual revenues and transfers in of \$25.9 million on a budgetary basis were \$97 thousand less than the final budget. This reduced the \$480 thousand cost savings from expenditures and transfers out less than budget. Actual revenues were less than the final budget primarily due to: building department fees \$39 thousand under budget due to the continued economic slow down and \$55 thousand shortfall in investment income due to lower interest rates than budgeted. Actual property taxes, including interest and lien fees, were \$250 thousand over budget that offset the shortfall in education grants that were paid to the Special Education Fund as required by the state. Transfers in of \$458 thousand were from the Sewer Assessment and Sewer Operations Funds to reimburse General Fund for their share of debt service.

Actual expenditures and transfers out on a budgetary basis totaled \$26.2 million, which is \$480 thousand less than the final budget of \$26.7 million. The Board of Education generated \$433 thousand of the cost savings of which \$250 thousand was to offset the shortfall in state education grant funding. The additional BOE savings was in special education tuition and transportation costs due to state placements, parents providing transportation and additional grant funds.

The shortfall of revenues and other financing sources under expenditures and other financing uses on a budgetary basis was \$288 thousand.

Of the General Fund's fund balance, 90.1% constitutes unreserved fund balance.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### *Capital Assets*

At June 30, 2010, the Town had \$67.9 million invested in a broad range of capital assets, including land, buildings and improvements, machinery and equipment and infrastructure - Table 4. This amount represents a net increase (including additions and deductions) of \$1.6 million, or 2.3%, over last year.

Machinery and equipment purchases of \$1.1 million were used to acquire two new fire pumper trucks to replace the 1986 one at the Litchfield Firehouse and the 1979 one at the Bantam Firehouse and replace a 1995 Public works dump truck.

Infrastructure additions of \$1.2 million were to add a 108 space parking lot for the Intermediate/High School and to improve the Towns 121 miles of roads.

In connection with a \$250 thousand STEAP grant, a 12 acre parcel of Town land on Torrington Road was sold to the Litchfield Housing Trust for one dollar to build affordable homes.

**TABLE 4**  
**CAPITAL ASSETS (Net of Depreciation)**  
**(In Thousands)**

	<b>Governmental</b>	
	<b>Activities</b>	
	<b>2010</b>	<b>2009</b>
Land	\$ 1,296	\$ 1,331
Buildings and improvements	43,911	44,007
Machinery and equipment	2,716	1,841
Infrastructure	19,948	19,141
Total	<u>\$ 67,871</u>	<u>\$ 66,320</u>

The Town's fiscal year 2010-11 Capital Improvement Program (CIP) budget authorizes spending \$3.9 million for capital projects, of which \$1.8 million is to be funded from grants and other local funding. This includes \$2.5 million toward the replacement/restoration of five bridges; \$427 thousand for major road projects; and, \$501 thousand for work on the Town's 121 miles of roads.

The Town Hall Building Committee developed a plan to consolidate Town Hall and Town Hall Annex operations into one location. The project was postponed; however, with record low interest rates, the Town is considering engaging in a dialogue with the community as to whether or not to proceed with the project.

Additional detailed information about the Town's capital assets is presented in Note 1 and Note 5 to the financial statements.

## **Long-Term Debt**

At June 30, 2010, the Town had \$31.9 million in bonds outstanding versus \$32.8 million last year, a decrease of 2.6% or \$853 thousand - as shown in Table 5.

**TABLE 5  
OUTSTANDING DEBT  
(In Thousands)**

	<b>Governmental Activities</b>	
	<b>2010</b>	<b>2009</b>
General obligation bonds (backed by the Town)	\$ 31,934	\$ 32,787

In December 2009, the Town issued general obligation bonds of \$11,060 with an average interest rate of 3.41% to refund general obligation bonds with an average interest rate of 4.05% and a par value of \$11,065. As a result of the refunding, the Town reduced its total debt service requirements by \$771 thousand, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$403 thousand.

In February 2010, as authorized at the Town's Annual Meeting, January 12, 2010, the Town issued \$1.4 million of 10-year general obligation bonds to fund part of the Town's 2009-10 Capital Improvement Program (CIP). At the same time, the Town paid down \$25,000 of its \$500 thousand short-term Bond Anticipation Notes (BANS) that matured and issued \$475,000 short-term BANS for the School Building Project. Short-term borrowing for the \$33,000,000 School Building Project is expected to continue until a final accounting is made to the State and an audit is completed. Additional financing is expected to be obtained during fiscal 2011 to fund \$1.8 million of the \$2.1 million 2010-11 CIP.

In May 2010, Moody's Investors Services, Inc., recalibrated their Connecticut municipal ratings to its Global Rating Scale. Accordingly, the Town's rating went to Aa2 from Aa3. Moody's does not believe the recalibration reflects credit quality improvement. The State limits the amount of general obligation debt that municipalities can issue using a formula determined under State Statutes that is based on the type of debt and tax base. The Town's outstanding general obligation debt is significantly below this \$164 million state imposed limit at June 30, 2010.

Detailed information about other long-term obligations of the Town's is presented in Note 7 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND MIL RATE**

At June 30, 2010, employment in Litchfield was 4,105, 1.4% less than a year earlier. The Town's unemployment rate at June 30, 2010 was 7.4%, 10% more than the prior year date. This rate compares favorably to both the State and national unemployment rates of 8.9% and 9.5%, respectively. Inflation increased for the Northeast area for the year ended June 30, 2010 by 1.7%, reversing the prior year deflation of 5%. Likewise, the national Consumer Price Index – All Urban Consumers (CPI 1982-84=100) increased 1.1% reversing its 1.4% annual decrease at June 30, 2009.

The fiscal 2011 budget was adopted at the Town's Annual Budget Meeting on May 12, 2010. The Town's net taxable grand list rose 1% from the prior year to \$1.1 billion. The Town's elected Board of Finance set the fiscal year 2010-2011 tax mil rate at 21.9, 3.3% increase from the prior year mil rate of 21.2. Amounts available for appropriation in the original fiscal 2011 General Fund budget are \$26.8 million, an increase of 3.1% from the original 2010 budget of \$26.0 million. The increase was necessary to fund the \$471 thousand increase for the Board of Education (mainly salaries and medical benefits) and the \$381 thousand increase in the Selectmen's budget (mainly road maintenance costs formerly in the capital budget and employee benefits).

The Town has maintained its services without freezing wages or union concessions. Certain non union BOE employees are taking some furlough days. Due to the continuing high unemployment, the Town faces various challenges to minimize tax rate increases. In addition to funding inflationary increases to maintain the present level of services, other funding considerations consist of the actuarial liability for the Board of Education's OPEB for retirees and additional pension funding.

### **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, Town of Litchfield, 74 West Street, P.O. Box 488, Litchfield, Connecticut 06759.

## TOWN OF LITCHFIELD, CONNECTICUT

## STATEMENT OF NET ASSETS

JUNE 30, 2010  
(In Thousands)

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 9,019
Investments	1,516
Receivables, net	3,016
Prepaid items	29
Net pension asset	526
Other assets	146
Capital assets not being depreciated	1,296
Capital assets being depreciated, net	66,575
Total assets	<u>82,123</u>
Liabilities:	
Accounts payable	1,320
Bond anticipation notes	475
Unearned revenue	628
Noncurrent liabilities:	
Due within one year	2,359
Due in more than one year	30,763
Total liabilities	<u>35,545</u>
Net Assets:	
Invested in capital assets, net of related debt	35,787
Restricted for trust purposes	10
Unrestricted	10,781
Total Net Assets	<u>\$ 46,578</u>

The accompanying notes are an integral part of the financial statements

## TOWN OF LITCHFIELD, CONNECTICUT

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

(In Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 2,179	\$ 511	\$ 67	\$	\$ (1,601)
Public safety	1,603	51		44	(1,508)
Public works	4,465	1,003		720	(2,742)
Health and welfare	122	11			(111)
Libraries	325				(325)
Recreation	401	105	2		(294)
Education	17,882	1	3,408		(14,473)
Interest on long-term debt	1,376				(1,376)
<b>Total</b>	<b>\$ 28,353</b>	<b>\$ 1,682</b>	<b>\$ 3,477</b>	<b>\$ 764</b>	<b>(22,430)</b>
General revenues:					
Property taxes					23,273
Grants and contributions not restricted to specific programs					233
Unrestricted investment earnings					65
Miscellaneous					117
Total general revenues					<u>23,688</u>
Change in net assets					1,258
Net Assets at Beginning of Year					<u>45,320</u>
Net Assets at End of Year					<u>\$ 46,578</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF LITCHFIELD, CONNECTICUT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2010**  
(In Thousands)

	<u>General</u>	<u>Sewer Assessment</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 8,440	\$	\$	\$ 505	\$ 8,945
Investments	1,516				1,516
Receivables, net	548	1,273	411	661	2,893
Due from other funds	323	796	1,994	1,319	4,432
Other assets	29				29
Total Assets	<u>\$ 10,856</u>	<u>\$ 2,069</u>	<u>\$ 2,405</u>	<u>\$ 2,485</u>	<u>\$ 17,815</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 563	\$	\$ 183	\$ 38	\$ 784
Due to other funds	5,715		323		6,038
Bond anticipation notes payable			475		475
Deferred revenue	512	1,273	100	1,159	3,044
Total liabilities	<u>6,790</u>	<u>1,273</u>	<u>1,081</u>	<u>1,197</u>	<u>10,341</u>
Fund balances:					
Reserved	403		19	10	432
Unreserved, reported in:					
General Fund	3,663				3,663
Special Revenue Funds		796		1,278	2,074
Capital Projects Fund			1,305		1,305
Total fund balances	<u>4,066</u>	<u>796</u>	<u>1,324</u>	<u>1,288</u>	<u>7,474</u>
Total Liabilities and Fund Balances	<u>\$ 10,856</u>	<u>\$ 2,069</u>	<u>\$ 2,405</u>	<u>\$ 2,485</u>	<u>\$ 17,815</u>

(Continued on next page)

## TOWN OF LITCHFIELD, CONNECTICUT

## BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)

**JUNE 30, 2010**  
**(In Thousands)**

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets:

Amounts reported for governmental activities in the statement of net assets (Exhibit I) are different because of the following:

Fund balances - total governmental funds	\$	7,474
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Governmental capital assets	\$	90,717
Less accumulated depreciation		<u>(22,846)</u>
Net capital assets		67,871
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not recorded in the funds:		
Net pension asset		526
Property tax receivables greater than 60 days		484
Interest receivable on property taxes		122
Assessments receivable		1,273
Housing loans		137
Sewer use receivables		522
Internal service funds are used by management to charge the costs of risk management to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the statement of net assets.		
		1,481
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds payable		(31,934)
Premium on refunding bonds		(399)
Deferred amount in refunding		249
Refunding bond issuance costs		146
Interest payable on bonds and notes		(336)
Compensated absences		(331)
Landfill closure		(56)
OPEB obligation		(613)
Claims and adjustments		<u>(38)</u>
Net Assets of Governmental Activities (Exhibit I)	\$	<u><u>46,578</u></u>

The accompanying notes are an integral part of the financial statements

TOWN OF LITCHFIELD, CONNECTICUT

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

FOR THE YEAR ENDED JUNE 30, 2010  
(In Thousands)

	<u>General</u>	<u>Sewer Assessment</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 23,398	\$	\$	\$	\$ 23,398
Intergovernmental	2,703		485	1,281	4,469
Charges for services	409	204		1,149	1,762
Investment income	50	4		3	57
Other	5		100	17	122
Total revenues	<u>26,565</u>	<u>208</u>	<u>585</u>	<u>2,450</u>	<u>29,808</u>
Expenditures:					
Current:					
General government	1,298			218	1,516
Public safety	812			92	904
Public works	2,031			778	2,809
Health and welfare	104			7	111
Libraries	317				317
Recreation	252			85	337
Education	16,656			932	17,588
Employee benefits	1,618				1,618
Capital outlay			3,277		3,277
Debt service	3,393				3,393
Total expenditures	<u>26,481</u>	<u>-</u>	<u>3,277</u>	<u>2,112</u>	<u>31,870</u>
Excess (Deficiency) of Revenues over Expenditures	<u>84</u>	<u>208</u>	<u>(2,692)</u>	<u>338</u>	<u>(2,062)</u>
Other Financing Sources (Uses):					
Payment to refunded bond escrow agent	(11,540)				(11,540)
Refunding bonds	11,540				11,540
Issuance of bonds			1,355		1,355
Transfers in	458		647	160	1,265
Transfers out	(532)	(208)		(525)	(1,265)
Total other financing sources (uses)	<u>(74)</u>	<u>(208)</u>	<u>2,002</u>	<u>(365)</u>	<u>1,355</u>
Net Change in Fund Balances	10	-	(690)	(27)	(707)
Fund Balances at Beginning of Year	<u>4,056</u>	<u>796</u>	<u>2,014</u>	<u>1,315</u>	<u>8,181</u>
Fund Balances at End of Year	<u>\$ 4,066</u>	<u>\$ 796</u>	<u>\$ 1,324</u>	<u>\$ 1,288</u>	<u>\$ 7,474</u>

(Continued on next page)

## TOWN OF LITCHFIELD, CONNECTICUT

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

FOR THE YEAR ENDED JUNE 30, 2010

(In Thousands)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities:

Amounts reported for governmental activities in the statement of activities (Exhibit II) are different because:

Net change in fund balances - total governmental funds (Exhibit IV)	\$ (707)
---------------------------------------------------------------------	----------

Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	2,454
Depreciation expense	(868)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to increase net assets. In the statement of activities, only the loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.

(35)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, and revenues recognized in the funds are not reported in the statement of activities:

Property tax receivable - accrual basis change	(78)
Property tax interest and lien revenue - accrual basis change	(48)
Sewer assessment receivable - accrual basis change	(148)
Sewer use receivable - accrual basis change	71
Net pension asset	110

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 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 amortized and deferred in the statement of activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Bond principal payments	13,268
Issuance of bonds and notes	(1,355)
Refunding of bonds	(11,060)
Premium on refunding bonds	(399)
Deferred amount on refunding	249
Refunding bond issuance costs	146

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 the governmental funds:

Compensated absences	45
Claims and judgments	3
Accrued interest	(187)
OPEB obligation	(284)
Landfill postclosure care	9

Internal service funds are used by management to charge costs to individual funds. The net revenue of certain activities of internal services funds is reported with governmental activities.

72

Change in Net Assets of Governmental Activities (Exhibit II)

\$ 1,258

The accompanying notes are an integral part of the financial statements

**TOWN OF LITCHFIELD, CONNECTICUT**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND**

**JUNE 30, 2010**  
**(In Thousands)**

		<u><b>Governmental Activities</b></u>
		<u><b>Internal Service Fund</b></u>
Assets:		
Cash and cash equivalents	\$	74
Due from other funds		1,606
Total assets		<u>1,680</u>
Liabilities:		
Claims payable		<u>199</u>
Net Assets:		
Unrestricted	\$	<u><u>1,481</u></u>

The accompanying notes are an integral part of the financial statements

**TOWN OF LITCHFIELD, CONNECTICUT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN FUND NET ASSETS - PROPRIETARY FUND**

**FOR THE YEAR ENDED JUNE 30, 2010**  
(In Thousands)

		<u>Governmental Activities</u>
		<u>Internal Service Fund</u>
Operating Revenues:		
Charges for services	\$	2,639
Operating Expenses:		
Claims incurred		<u>2,574</u>
Operating Income		65
Nonoperating Revenue:		
Interest income		<u>7</u>
Change in Net Assets		72
Net Assets at Beginning of Year		<u>1,409</u>
Net Assets at End of Year	\$	<u><u>1,481</u></u>

The accompanying notes are an integral part of the financial statements

**TOWN OF LITCHFIELD, CONNECTICUT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**  
**(In Thousands)**

		<u><b>Governmental Activities</b></u>
		<u><b>Internal Service Fund</b></u>
Cash Flows from Operating Activities:		
Cash received from customers and users	\$	2,458
Payment to benefit providers		(2,569)
Net cash used in operating activities		<u>(111)</u>
Cash Flow from Investing Activities:		
Interest received on investments		<u>7</u>
Net Decrease in Cash and Cash Equivalents		(104)
Cash and Cash Equivalents at Beginning of Year		<u>178</u>
Cash and Cash Equivalents at End of Year	\$	<u><u>74</u></u>
Reconciliation of Operating Income to Net Cash Used in Operating Activities:		
Operating income	\$	65
Adjustments to reconcile operating income to net cash used in operating activities:		
Increase in due from other funds		(181)
Increase in incurred but not reported claims (IBNR)		<u>5</u>
Net Cash Used in Operating Activities	\$	<u><u>(111)</u></u>

The accompanying notes are an integral part of the financial statements

## TOWN OF LITCHFIELD, CONNECTICUT

## STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

**JUNE 30, 2010**  
**(In Thousands)**

	<b>Pension Trust Funds</b>	<b>Agency Funds</b>
	<u>          </u>	<u>          </u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 359	\$ 193
<b>Investments:</b>		
Common stock	2,749	
Mutual funds	5,031	
<b>Receivables:</b>		
Interest and dividends	15	
Due from other funds		124
	<u>          </u>	<u>          </u>
Total assets	8,154	\$ <u><u>317</u></u>
<b>Liabilities:</b>		
Due to student groups and others	<u>          </u>	\$ <u><u>317</u></u>
<b>Net Assets:</b>		
Held in Trust for Pension Benefits	\$ <u><u>8,154</u></u>	

The accompanying notes are an integral part of the financial statements

## TOWN OF LITCHFIELD, CONNECTICUT

STATEMENT OF CHANGES IN PLAN NET ASSETS - FIDUCIARY FUNDS  
PENSION TRUST FUNDS

FOR THE YEAR ENDED JUNE 30, 2010

(In Thousands)

Additions:	
Contributions:	
Employer	\$ <u>1,119</u>
Investment income:	
Net appreciation in fair value of investments	644
Interest and dividends	<u>234</u>
Total investment income	878
Less investment expense:	
Investment management fees	<u>33</u>
Net investment income	<u>845</u>
Total additions	1,964
Deductions:	
Benefits	<u>502</u>
Net Increase	1,462
Net Assets Held in Trust for Pension Benefits at Beginning of Year	<u>6,692</u>
Net Assets Held in Trust for Pension Benefits at End of Year	\$ <u><u>8,154</u></u>

The accompanying notes are an integral part of the financial statements

# TOWN OF LITCHFIELD, CONNECTICUT

## NOTES TO FINANCIAL STATEMENTS (In Thousands)

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Litchfield, Connecticut (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant policies of the Town are described below.

#### A. Reporting Entity

The Town was incorporated in 1719. The Town operates under a Selectmen/Town Meeting and Board of Finance form of government and provides the following services: general government, public safety, public works, recreation, health and welfare, libraries and education.

GAAP require that the reporting entity include 1) the primary government, 2) organizations for which the primary government is financially accountable, and 3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in GASB Codification Section 2100 has been considered, and there are no agencies or entities that should be, but are not, combined in the financial statements of the Town.

#### B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Town. 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.

Separate financial statements are provided for governmental funds, the proprietary fund 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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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.

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

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 Town, except those required to be accounted for in another fund.

The Sewer Assessment Fund accounts for the activities related to the incurrence and payment of debt associated with betterments to sewer users.

The Capital Projects Fund is used to account for the acquisition or construction of major capital facilities.

Additionally, the Town reports the following fund types:

The Internal Service Fund accounts for its self-insured medical benefits.

The Pension Trust Funds account for the activities of the Town's defined benefit pension plans, which accumulate resources for pension benefit payments to qualified participants.

The Agency Funds account for monies held as a custodian for outside groups and agencies and do not involve measurement of results of operations.

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 GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

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 property taxes.

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.

#### **D. Deposits and Investments**

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Town to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and certain other investments as described in Note 3.

Investments for the Town are reported at fair value.

#### **E. Receivables and Payables**

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 noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown net of an allowance for uncollectibles.

Property taxes are assessed on property as of October 1, levied on the following July 1, billed and due in two installments, July 1 and the following January 1. Liens are filed by the last day of the fiscal year. All property taxes receivable at June 30, 2010, which have not been collected within 60 days of June 30, have been recorded as deferred revenue since they are not considered to be available to finance expenditures of the current year. Taxes collected during the 60-day period have been recorded as revenue. Property taxes receivable are reported net of a \$35 allowance for estimated uncollectible balances.

#### **F. Prepaid Items**

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

#### **G. 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 (amount not rounded) 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 value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend assets' lives is not capitalized.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20
Distribution and collection systems	50-65
Public domain infrastructure	50
System infrastructure	30
Machinery and equipment	5-20

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

#### **H. Compensated Absences**

Town employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement, as follows:

Vacation and sick leave expenses to be paid in future periods are accrued when earned in the government-wide financial statements.

A liability for these amounts is reported in the governmental funds only for the amounts expected to be paid (matured), for example, as a result of employee resignations and retirements.

#### **I. Long-Term Obligations**

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

#### **J. Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the budgeted governmental fund types. Encumbrances outstanding at year-end are reported as a reservation of fund balance as they do not constitute either expenditures or liabilities.

#### **K. 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.

## **2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary Information**

The Town adheres to the following procedures in establishing the budgetary data included in the general fund financial statements. In May, the Board of Finance submits to the annual Town Meeting, at which taxpayer comments are obtained, a proposed operating budget for the year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.

- Prior to July 1, the budget is legally enacted through passage of a resolution.
- The Board of Finance is authorized to transfer budgeted amounts between appropriations and can approve additional appropriations up to an aggregate of \$20 thousand per department per year. Transfers and additional appropriations aggregating more than \$20 thousand for any one department per year must be approved by the Town Meeting. During the year, the Board of Finance and, where required, the Town Meeting approved additional appropriations of \$671.
- Formal budgetary integration is employed as a management control device during the year.
- Except for encumbrance accounting and on-behalf payments made for State Teachers' Retirement, the budget is prepared on the modified accrual basis of accounting.
- The legal level of control (the level at which expenditures may not legally exceed appropriations) is at the department level.
- The Board of Education, which is not a separate legal entity but a function of the Town, is authorized under state law to make any transfers required within their budget at their discretion. Any additional appropriations must have Board of Education, Board of Finance and, if necessary, Town Meeting approval.

Generally, all unencumbered appropriations lapse at year-end except those for the capital projects fund. Encumbered appropriations are carried forward. Appropriations for capital projects are continued until completion of applicable projects, even when projects extend more than one year.

## **3. CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: 1) obligations of the United States and its agencies, 2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof, and 3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the State Short-Term Investment Fund (STIF) and the State Tax Exempt Proceeds Fund (TEPF). These investment pools are under the control of the State Treasurer, with oversight provided by the Treasurer's Cash Management Advisory Board, and are regulated under the State Statutes and subject to annual audit by the Auditors of Public Accounts. Investment yields are accounted for on an amortized-cost basis with an investment portfolio that is designed to attain a market-average rate of return throughout budgetary and economic cycles. Investors accrue interest daily based on actual earnings, less expenses and transfers to the designated surplus reserve, and the fair value of the position in the pool is the same as the value of the pool shares.

## Deposits

*Deposit Custodial Credit Risk* - Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposit will not be returned. The Town does not have a deposit policy for custodial credit risk. The deposit of public funds is controlled by the Connecticut General Statutes. Deposits may be placed with any qualified public depository that has its main place of business in the State of Connecticut. Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository's risk based capital ratio.

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$7,460 of the Town's bank balance of \$9,326 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 6,600
Uninsured and collateral held by the pledging bank's trust department, not in the Town's name	<u>860</u>
Total Amount Subject to Custodial Credit Risk	<u><u>\$ 7,460</u></u>

## Cash Equivalents

At June 30, 2010 the Town's cash equivalents amounted to \$5,356. The following table provides a summary of the Town's cash equivalents (excluding U.S. government guaranteed obligations) as rated by a nationally recognized statistical rating organization. The pools all have maturities of less than one year.

	<u>Standard and Poor's</u>
Reich and Tang Tax Exempt Proceeds Fund*	
State Short-Term Investment Fund (STIF)	AAAm
Cutwater Asset Management - Connecticut CLASS Plus	AAAm
Litchfield Bancorp Money Market Funds**	

\*Not rated.

\*\*Subject to coverage by Federal Depository Insurance and collateralization.

## Investments

As of June 30, 2010, the Town had the following investments:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Investment Maturities (Years)</u>		
			<u>Less Than 1</u>	<u>1 – 10</u>	<u>More Than 10</u>
Interest-bearing investments:					
Certificates of deposit	*	\$ 1,516	\$	\$ 1,516	\$
Other investments:					
Common stock		2,749			
Mutual funds		<u>5,031</u>			
Total Investments		\$ <u>9,296</u>			

\*Subject to coverage by Federal Depository Insurance and collateralization.

*Interest Rate Risk* - The Town has, for the Pension Trust Funds, an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Pension Commission's Investment Policy requires its fixed income portion to be high quality bonds managed consistent with Bank of America's forecast of interest rates, inflation and valuation levels, and the benchmark is the Lehman Brothers Aggregate Index for high quality and the J.P. Morgan Developed B/B Index for high yield. This is a means to manage the Town's exposure to fair value losses arising from increasing interest rates.

*Credit Risk - Investments* - As indicated above, State Statutes limit the investment options of cities and towns. The Investment Policy (described in the preceding paragraph) further limits its investment choices. The Town's interest-bearing investments are not subject to rating.

The Pension Commission's investment benchmark for large capitalization companies is the S&P 500 Index, and for small capitalization companies the benchmark is the Russell 2000. The benchmark for international equities is the Morgan Stanley EAFE Index.

*Concentration of Credit Risk* - The Investment Policy sets forth the following asset allocation targets: Equities 50% - 70%; Fixed Income 30% - 50%; and Cash 0% - 20%.

*Custodial Credit Risk* - Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the Town or that sells investments to or buys them for the Town), the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2010, the Town's noninterest-bearing investments were uninsured and unregistered securities held by the counterparty, or by its trust department or agent that were not in the Town's name, or are not subject to categorization of custodial credit risk.

#### 4. RECEIVABLES

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

	<u>General</u>	<u>Sewer Assessment</u>	<u>Capital Projects</u>	<u>Nonmajor and Other</u>	<u>Total</u>
Receivables:					
Taxes*	\$ 583	\$	\$	\$	\$ 583
Accounts				567	567
Intergovernmental			411	2	413
Special assessments		1,273			1,273
Housing loans				137	137
Gross receivables	<u>583</u>	<u>1,273</u>	<u>411</u>	<u>706</u>	<u>2,973</u>
Less allowance for uncollectibles	<u>35</u>			<u>30</u>	<u>65</u>
Net Total Receivables	<u>\$ 548</u>	<u>\$ 1,273</u>	<u>\$ 411</u>	<u>\$ 676</u>	<u>\$ 2,908</u>

\*Does not include accrued interest on property taxes of \$122.

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

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable	\$ 484	\$
Sewer use receivable	522	
Special assessments not yet due	1,273	
Advance tax collections		28
Grant drawdowns prior to meeting all eligibility requirements		590
Advance program fees		10
Housing loans	<u>137</u>	
Total Deferred Revenue for Governmental Funds	<u>\$ 2,416</u>	<u>\$ 628</u>

## 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,331	\$	\$ (35)	\$ 1,296
Capital assets being depreciated:				
Buildings and improvements	51,813	215		52,028
Machinery and equipment	6,384	1,069		7,453
Infrastructure	<u>28,770</u>	<u>1,170</u>		<u>29,940</u>
Total capital assets being depreciated	<u>86,967</u>	<u>2,454</u>	-	<u>89,421</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,806)	(311)		(8,117)
Machinery and equipment	(4,543)	(194)		(4,737)
Infrastructure	<u>(9,629)</u>	<u>(363)</u>		<u>(9,992)</u>
Total accumulated depreciation	<u>(21,978)</u>	<u>(868)</u>	-	<u>(22,846)</u>
Total capital assets being depreciated, net	<u>64,989</u>	<u>1,586</u>	-	<u>66,575</u>
Governmental Activities Capital Assets, Net	<u>\$ 66,320</u>	<u>\$ 1,586</u>	<u>\$ (35)</u>	<u>\$ 67,871</u>

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

Governmental activities:	
General government	\$ 3
Public safety	142
Public works	589
Recreation	17
Education	<u>117</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 868</u>

**6. INTERFUND RECEIVABLE AND PAYABLE BALANCES**

During the course of operations, transactions are processed through a fund on behalf of another fund. Additionally, funds make transfers to other funds to provide funding. A summary of interfund balances as of June 30, 2010 is presented below:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Projects Funds	\$ 323
Sewer Assessment Fund	General Fund	796
Capital Projects Funds	General Fund	1,994
Internal Service Fund	General Fund	1,606
Nonmajor Governmental Funds	General Fund	<u>1,319</u>
Total		\$ <u><u>6,038</u></u>

Interfund receivables and payables generally represent temporary balances arising from reimbursement type transactions.

Interfund transfers:

	<u>Transfers In</u>			<u>Total Transfers Out</u>
	<u>General Fund</u>	<u>Capital Projects</u>	<u>Nonmajor Govern- mental Funds</u>	
Transfers out:				
General Fund	\$	\$ 372	\$ 160	\$ 532
Sewer Assessment	208			208
Nonmajor Governmental	<u>250</u>	<u>275</u>		<u>525</u>
Total Transfers In	\$ <u><u>458</u></u>	\$ <u><u>647</u></u>	\$ <u><u>160</u></u>	\$ <u><u>1,265</u></u>

Transfers are used to move unrestricted General Fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations.

## 7. LONG-TERM DEBT

### Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 32,787	\$ 12,415	\$ 13,268	\$ 31,934	\$ 2,214
Premium on refunding bonds		414	15	399	
Deferred amount on refunding bonds		(258)	(9)	(249)	
Compensated absences	376	1	46	331	133
OPEB obligation	329	284		613	
Landfill monitoring closure and postclosure costs	65		9	56	9
Claims and adjustments	41		3	38	3
	<u>41</u>	<u>          </u>	<u>3</u>	<u>38</u>	<u>3</u>
Governmental Activity Long-Term Liabilities	<u>\$ 33,598</u>	<u>\$ 12,856</u>	<u>\$ 13,332</u>	<u>\$ 33,122</u>	<u>\$ 2,359</u>

### Current and Advance Refunding

On December 1, 2009, the Town issued general obligation bonds of \$11,060 (par value) with an average interest rate of 3.41% to refund general obligation bonds with an average interest rate of 4.05% and a par value of \$11,065 (refunded bonds). Of the refunded bonds, \$2,305 was paid currently when callable on February 1, 2010. Of the refunded bonds that mature December 15, 2017, \$525 have been advance refunded and are callable on December 15, 2010. Of the refunded bonds that mature June 25, 2025, \$8,235 have been advance refunded and are callable June 15, 2011. The net proceeds from the issuance of the new bonds were used to purchase government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are called. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Town's government-wide financial statements. As a result of the refunding, the Town reduced its total debt service requirements by \$771, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$403. The balance in escrow was \$9,032 at June 30, 2010. The outstanding balance of the defeased bonds as of June 30, 2010 was \$8,760.

### New Issue

On February 1, 2010, the Town issued \$1,355 of general obligation bonds with interest rates ranging from 2% to 3.125% payable in annual installments of \$125 on February 1, 2012, \$150 on February 1 in each of the years 2013-2019, and \$180 on February 1, 2020. The bonds mature on February 1, 2020.

## General Obligation Bonds

A schedule of bonds outstanding at June 30, 2010 is presented below:

	<u>Outstanding Amount</u>
Sewer bonds due 6/25/13, annual principal payments of \$12, plus interest due semi-annually at 7.125%	\$ 35
Clean Water Fund bond due 7/31/23, monthly payments of \$23 including principal and interest at 2%	3,179
Clean Water Fund bond due 1/31/17, monthly payments of \$4 including principal and interest at 2%	334
Clean Water Fund bond due 7/31/18, monthly payments of \$3 including principal and interest at 2%	256
General Obligation Bonds due 12/15/10, annual principal payments of \$75 plus accrued interest at 3.75%	75
General Obligation Bonds due 6/15/11, an annual principal payment of \$600 plus interest due semi-annually at 5.0%	600
General Obligation Bonds due 6/15/26, annual principal payments ranging from \$600 to \$625 plus interest due semi-annually at 3.75% to 5.0%	9,625
General Obligation Bonds due 2/01/25, annual principal payments ranging from \$100 to \$125 plus interest due semi-annually at 3.0% to 4.0%	1,775
General Obligation Bonds due 2/01/24, annual principal payments ranging from \$255 to \$265 plus interest due semi-annually at 2.0% to 4.0%	3,640
General Obligation Refunding Bonds due 8/15/24, annual principal payments ranging from \$245 to \$1,020 plus interest due semi-annually at 2.0% to 4.0%	11,060
General Obligation Bonds due 2/01/20, annual principal payments ranging from \$125 to \$180 plus interest due semi-annually at 2.0% to 3.125%	<u>1,355</u>
Total	<u>\$ 31,934</u>

The Town has pledged its full faith and credit as collateral for its bonded indebtedness. General obligation bonds will be paid from taxes levied on taxable property in the Town.

The following is a summary of general obligation bond debt and Clean Water Fund debt maturities:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,214	\$ 1,118	\$ 3,332
2012	2,435	965	3,400
2013	2,421	887	3,308
2014	2,425	812	3,237
2015	2,286	740	3,026
2016	2,293	678	2,971
2017	2,266	615	2,881
2018	2,206	546	2,752
2019	2,085	477	2,562
2020	2,097	411	2,508
2021	1,922	339	2,261
2022	1,903	269	2,172
2023	1,908	198	2,106
2024	1,568	131	1,699
2025	1,280	68	1,348
2026	625	26	651
Total	\$ <u>31,934</u>	\$ <u>8,280</u>	\$ <u>40,214</u>

Bonds authorized and unissued at June 30, 2010 are presented below:

	<u>Total Authorization</u>
General purpose	\$ 1,055
Schools	<u>9,500</u>
Total	\$ <u>10,555</u>

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

<u>Category</u>	<u>Debt Limit</u>	<u>Net Indebtedness</u>	<u>Balance</u>
General purpose	\$ 52,646	\$ 8,405	\$ 44,241
Schools	105,291	20,469	84,822
Sewers	87,743	4,983	82,760
Urban renewal	76,044	-	76,044
Pension deficit	70,194	-	70,194

The total overall statutory debt limit for the Town is equal to seven times annual receipts from taxation, or \$164 million (amount not rounded). All long-term debt obligations are retired through General Fund appropriations. Net indebtedness includes bonds authorized and unissued and bond anticipation notes outstanding, net of estimated State building grant commitments.

## Compensated Absences

In accordance with GASB No. 16, *Accounting for Compensated Absences*, the Town accrues compensated absences as they are earned by employees if the leave is attributable to past service and it is probable that the employer will compensate the employee by cash payments at termination or retirement. The amount of this estimated obligation, approximately \$331 at June 30, 2010, is recorded in the government-wide financial statements.

## Other Postemployment Benefit Obligations

Based on provisions of bargaining unit agreements, other postemployment benefits for certain retired Board of Education employees of approximately \$613 is accrued in the government-wide financial statements.

## Landfill Closure and Postclosure Care Costs

The Town's estimated costs to monitor the landfill for the next six years are \$56 at June 30, 2010. This amount is based on estimates which are subject to change due to inflation, technology or applicable laws and regulations.

## Accrued Claims Payable

In connection with the settlement of claims brought against the Town by a neighborhood alleging that the Town's landfill contaminated their drinking water, the Town agreed to pay to connect the residents to the Town water supply and pay their water bills for 20 years. The properties were connected during 2001, and, at June 30, 2010, \$38 has been accrued as an estimate of the cost to provide water for the remaining 11 years of the agreement.

## Bond Anticipation Notes

The following is a schedule of changes in bond anticipation notes for the year ended June 30, 2010:

### Capital Projects Fund

<u>Date Issued</u>	<u>Maturity Date</u>	<u>Effective Interest Rate (%)</u>	<u>Balance July 1, 2009</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2010</u>
2/11/2009	2/10/2010	1.15	\$ 500	\$	\$ 500	\$ -
2/10/2010	2/9/2011	0.75		475		475
Total			\$ 500	\$ 475	\$ 500	\$ 475

The proceeds from the bond anticipation notes outstanding at June 30, 2010 are to be used to fund the \$33 million school building project.

## 8. CONTINGENT LIABILITIES

There are various suits and claims pending against the Town, none of which, individually or in the aggregate, is believed by Town management and counsel to result in a judgment or judgments which would have a material adverse effect on the Town's financial position.

**9. FUND BALANCES**

**Reserved Fund Balances**

Encumbrances	\$ 422
Trust purposes	<u>10</u>
Total	<u><u>\$ 432</u></u>

**10. OTHER POSTEMPLOYMENT BENEFITS**

**A. Overview**

The Board of Education (BOE) provides certain retirees with health care and lump-sum benefits, in accordance with Teacher and Administrators union contracts.

At July 1, 2007, plan participation consisted of the following:

Vested members	114
Non-vested members	<u>41</u>
Total Participants	<u><u>155</u></u>

**B. Funding Policy**

These other post-employment benefits (OPEB) for former BOE employees are currently funded on a pay-as-you-go basis. As of June 30, 2010, a trust fund was not established to segregate assets to fund the liability associated with these benefits. However, development of such a trust is underway. The Town has a special revenue fund with \$150 at June 30, 2010 that is expected to be transferred to the OPEB Trust Fund when it is established. The Board of Education has budgeted \$50 of the actuarial liability, in addition to, the pay-as-you-go amount in its 2010-11 budget. Provisions of the benefits are as follows:

**Litchfield Education Association OPEB Contract Provisions**

Upon retirement under the Connecticut State Teachers' Retirement System, teachers will be provided at BOE expense:

Amount of Benefit

1. For those who retired in either fiscal year 2008 or 2009:
  - a. \$5 on date of retirement and the BOE shall pay the cost of single health and dental insurance coverage under one of the plans (excluding the high deductible/health savings account option) offered by the BOE to actively employed teachers, less the contribution from the State of Connecticut Teachers' Retirement Board, for a period of five years immediately following retirement; or,
  - b. Teachers who do not elect the option set forth in (a) above, shall receive ten thousand dollars (\$10) at the time of retirement, and no other compensation or benefits.

2. For those who retire in fiscal year 2010 or thereafter:
  - a. \$5 at the time of retirement; or,
  - b. The BOE shall pay the cost of single health and dental insurance coverage under one of the plans (excluding the high deductible/health savings account option) offered by the BOE to actively employed teachers, less the contribution from the State of Connecticut Teachers' Retirement Board, for a period of four years immediately following retirement.

**Litchfield Administrators Association OPEB Contract Provisions**

Upon retirement under the Connecticut State Teachers' Retirement System, qualified administrators employed on or prior to June 30, 2005 and whose employment with the Litchfield Public School is at least ten years will be provided at BOE expense:

1. The cost of health and dental insurance coverage for the retiree and eligible dependents under one of the plans (excluding the high deductible/health savings account option) offered by the BOE to actively employed administrators, less the contribution from the State of Connecticut Teachers' Retirement Board, until eligible for Medicare; or,
2. \$5 annual payment until eligible for Medicare, age 65, or for five years immediately following retirement, whichever is less.

**C. Annual OPEB Cost and Net OPEB Obligations**

The BOE's annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 15 years. The following table shows the components of the BOE's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan, and changes in the BOE's net OPEB obligation (asset):

Annual required contribution (ARC)	\$ 489
Interest on OPEB obligation	16
Adjustment to annual required contribution	<u>(30)</u>
Annual OPEB cost	475
Contributions made	<u>191</u>
Increase in net OPEB obligation	284
Net OPEB obligation - beginning of year	<u>329</u>
Net OPEB Obligation - End of Year	<u><u>\$ 613</u></u>

The BOE's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended June 30, 2010 and 2009 are presented below. Data is only presented beginning with fiscal year June 30, 2009, the year of implementation.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Actual Contribution</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	\$ 475	\$ 191	40.2 %	\$ 613
6/30/2009	489	160	32.7	329

As of July 1, 2007, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was approximately \$3,199, and the fair market value of the assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,199.

#### D. Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2007	\$ -	\$ 3,199	\$ 3,199	0.00 %	N/A	N/A

In the July 1, 2007 actuarial valuation, the unit credit cost method was used. The actuarial assumptions include a 5% rate of return and a 4% inflation rate.

#### E. Employer Contributions

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage of ARC Contributed</u>
2010	\$ 489	\$ 191	39.1 %
2009	489	160	32.7

## 11. RISK MANAGEMENT

The Town is exposed to various risks of loss including torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town generally obtains commercial insurance for these risks, but has chosen to retain the risks for employee health and medical claims. Settled claims, for all types of commercial coverage, have not exceeded coverage in any of the past three years.

The Internal Service Fund is utilized to report the self-insurance medical activity. Anthem Blue Cross/Blue Shield administers the plan, for which the Town pays a fee. The General Fund (Town and Board of Education) and Sewer Operations Fund (Special Revenue Fund) contribute based on Anthem Blue Cross/Blue Shield estimates made using the Town's historical data. The Town covers all claims up to \$100,000 (amount not rounded) per participant per year with an individual stop-loss policy covering amounts exceeding the limit. In addition, the Town has an aggregate stop-loss policy that would cover claims exceeding 120% of the total estimated claims for the plan year. The claims payable liability of

approximately \$199 included in the Internal Service Fund at June 30, 2010 is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be recorded if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amounts of the loss can be reasonably estimated. Claims payable are estimated based on claims paid for the year. Claim transactions for the last two years are as follows:

<u>Fiscal Year</u>	<u>Accrued Liability Beginning of Fiscal Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Accrued Liability Claim Payments</u>	<u>Accrued Liability End of Fiscal Year</u>
2010	\$ 194	\$ 2,579	\$ 2,574	\$ 199
2009	193	2,285	2,284	194

The Town is a member of a public entity risk management program pursuant to the provisions of Section 7-479a et. seq. of the Connecticut General Statutes, for workers' compensation pool insurance. The Town pays annual premiums for its coverage. During fiscal year 2010, the Town's membership was with Municipal Interlocal Risk Management Agency that reinsured in excess of \$250 for each insured occurrence. Beginning July 1, 2010, the Town changed its membership to Connecticut Interlocal Risk Management Agency that reinsures in excess of \$500 for each insured occurrence. Members may be subject to supplemental assessment in the event of deficiencies.

## 12. PENSION PLANS

### A. Plan Description

#### Town Retirement Plan

The Town has a defined benefit retirement plan (the Town Plan) covering substantially all employees of the Town and Board of Education except certified staff of the Board of Education covered by the State Teachers' Retirement Board Plan. The Town is the administrator of this single-employer public employee retirement system (PERS) established and administered to provide pension benefits for its employees. The Town Plan provides retirement, disability and death benefits to plan members and beneficiaries.

Employees are eligible to participate in the Town Plan when they complete one year of eligible service, have completed 1,000 hours during the first 12 months of employment and have attained the age of 18. For employees who do not complete 1,000 hours of service during the first 12 months of employment, eligibility begins on the first day of the plan year during which 1,000 hours were completed. Employees are 100% vested after five years of credited service.

#### Merit Service Plan

This defined benefit retirement plan (the Merit Service Plan) covers all volunteer firemen who belong to the volunteer fire departments and, as of July 1, 1992, the members of the volunteer ambulance corps. Volunteer firemen and ambulance corps members are eligible to participate in the Merit Service Plan on July 1 following the date on which one year of eligible service has been completed.

The Town's pension plans do not issue stand-alone financial statements.

Membership in the plans consisted of the following at July 1, 2009, the date of the last actuarial valuation:

	<u>Town Plan</u>	<u>Merit Service Plan</u>
Retirees and beneficiaries currently receiving benefits	48	45
Terminated plan members entitled to, but not yet receiving, benefits	38	42
Active plan members	<u>88</u>	<u>162</u>
Total	<u><u>174</u></u>	<u><u>249</u></u>

#### Annual Pension Cost and Net Pension Asset

The Town's annual pension cost and net pension assets for the current year were as follows:

	<u>Town Plan</u>	<u>Merit Service Plan</u>
Annual required contribution	\$ 774	\$ 224
Interest on net pension obligation	(12)	(17)
Adjustment to annual required contribution	<u>15</u>	<u>25</u>
Annual pension cost	777	232
Contributions made	<u>921</u>	<u>198</u>
(Increase) decrease in net pension asset	(144)	34
Net pension asset - beginning of year	<u>(171)</u>	<u>(245)</u>
Net Pension Asset - End of Year	<u><u>\$ (315)</u></u>	<u><u>\$ (211)</u></u>

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

	<u>Town Plan</u>	<u>Merit Service Plan</u>
Actuarial valuation date	July 1, 2009	July 1, 2009
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar, Open	Level Dollar, Open
Amortization period	20 years	15 years
Asset valuation method	Market	Market
Actuarial assumptions:		
Investment rate of return	7.00%	7.00%
Projected salary increases	4.0% compounded annually	N/A

**B. Trend Information**

<b>Town Plan</b>			
<b>Fiscal Year Ended</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Asset</b>
6/30/2010	\$ 777	118.5 %	\$ (315)
6/30/2009	614	86.3	(171)
6/30/2008	511	132.6	(255)

<b>Merit Service Plan</b>			
<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Asset</b>
6/30/2010	\$ 232	85.3 %	\$ (211)
6/30/2009	170	85.9	(245)
6/30/2008	123	102.2	(269)

**C. Pension Plan Required Supplementary Information**

**Schedule of Funding Progress**

<b>Town Plan</b>						
<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability(AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
7/1/2009	\$ 5,051	\$ 10,517	5,466	48 %	\$ 4,012	136 %
7/1/2008	5,806	9,784	3,978	59	4,018	99
7/1/2007	5,799	8,708	2,909	67	3,611	81
7/1/2006	4,984	6,868	1,884	73	3,338	56
7/1/2005	4,662	6,316	1,654	74	3,501	47
7/1/2004	4,680	5,930	1,250	79	3,474	36

**Merit Service Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability(AAL) (b)</b>	<b>Unfunded AAL (UAAL) (a-b)</b>	<b>Percentage Funded (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((a-b)/c)</b>
7/1/2009	\$ 1,641	\$ 3,155	\$ 1,514	52 %	N/A	N/A
7/1/2008	1,899	2,905	1,006	65	N/A	N/A
7/1/2007	1,983	2,754	771	72	N/A	N/A
7/1/2006	1,715	2,556	841	67	N/A	N/A
7/1/2005	1,433	2,262	829	63	N/A	N/A
7/1/2004	1,428	2,290	862	62	N/A	N/A

**Schedule of Employer Contributions**

**Town Plan**

<b>Fiscal Year Ended</b>	<b>Annual Required Contribution</b>	<b>Actual Contribution</b>	<b>Percentage of ARC Contributed</b>
2010	\$ 774	\$ 921	119.0 %
2009	609	530	87.0
2008	509	677	132.6
2007	360	391	108.6
2006	354	354	100.0
2005	320	320	100.0

**Merit Service Plan**

<b>Fiscal Year Ended</b>	<b>Annual Required Contribution</b>	<b>Actual Contribution</b>	<b>Percentage of ARC Contributed</b>
2010	\$ 224	\$ 198	88.4 %
2009	160	146	91.3
2008	115	126	109.6
2007	106	109	102.8
2006	105	295	280.9
2005	83	100	120.5

**Pension Trust Funds**

The Town maintains two pension trust funds (Town Employees Retirement Plan and Merit Service Plan) to account for its fiduciary responsibility. The following schedules present the net assets held in trust for pension benefits at June 30, 2010 and the changes in net assets for the year then ended.

### Schedule of Plan Net Assets

	<b>Town Retirement Plan</b>	<b>Merit Service Retirement Plan</b>	<b>Total</b>
Assets:			
Cash and cash equivalents	\$ 274	\$ 85	\$ 359
Investments	5,932	1,848	7,780
Accrued interest receivable	11	4	15
	<u>          </u>	<u>          </u>	<u>          </u>
Net Assets Held in Trust for Pension Benefits	\$ <u>6,217</u>	\$ <u>1,937</u>	\$ <u>8,154</u>

### Schedule of Changes in Plan Net Assets

	<b>Town Retirement Plan</b>	<b>Merit Service Retirement Plan</b>	<b>Total</b>
Additions:			
Contributions:			
Employer	\$ 921	\$ 198	\$ 1,119
	<u>          </u>	<u>          </u>	<u>          </u>
Investment income:			
Net appreciation in fair value of investments	481	163	644
Interest and dividends	177	57	234
Total	<u>658</u>	<u>220</u>	<u>878</u>
Less investment expense:			
Investment management fees	24	9	33
Net investment income	<u>634</u>	<u>211</u>	<u>845</u>
Total additions	1,555	409	1,964
Deductions:			
Benefits	<u>389</u>	<u>113</u>	<u>502</u>
Net increase	1,166	296	1,462
Net assets held in trust for pension benefits, beginning of year	<u>5,051</u>	<u>1,641</u>	<u>6,692</u>
Net Assets Held in Trust for Pension Benefits, End of Year	\$ <u>6,217</u>	\$ <u>1,937</u>	\$ <u>8,154</u>

## **Connecticut State Teachers' Retirement System**

The eligible faculty and professional personnel of the Board of Education participate in a multiple employer cost sharing contributory defined benefit plan, established under Chapter 167a of the Connecticut General Statutes, which is administered by the Connecticut State Teachers' Retirement Board. A teacher is eligible to receive normal retirement benefits if he or she has attained age 60 and has accumulated 20 years of credited service in the public schools of Connecticut or has attained any age and has accumulated 35 years of credited service, at least 25 of which are service in the public schools of Connecticut. The financial statements of the plan are available from the Connecticut State Teachers' Retirement Board.

Certain part-time and full-time certified Board of Education personnel are eligible to participate in the plan and are required to contribute 7.25% of their annual earnings to the plan. The Town does not and is not legally responsible to contribute to the plan. The State of Connecticut contributes based on actuarially determined amounts. The funding level was determined based on an actuarial valuation of the plan as a whole, which does not provide actuarial information on an individual town basis.

In addition, the Town has recognized revenues and expenditures for on-behalf payments for pension contributions paid directly to the Connecticut State Teachers' Retirement System by the State of Connecticut. Such on-behalf payments were approximately \$1,188 for the year ended June 30, 2010.

## TOWN OF LITCHFIELD, CONNECTICUT

## GENERAL FUND

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)FOR THE YEAR ENDED JUNE 30, 2010  
(In Thousands)

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Property taxes:				
Property taxes	\$ 22,998	\$ 22,998	\$ 23,171	\$ 173
Interest and lien fees	150	150	227	77
Total property taxes	<u>23,148</u>	<u>23,148</u>	<u>23,398</u>	<u>250</u>
Licenses, permits and fees:				
Selectmen:				
Resource recovery	10	10	13	3
Refuse collection permits	1	1	2	1
Demolition and brush fees	50	50	45	(5)
Tires	2	2		(2)
Public works labor	2	2	1	(1)
Total selectmen	<u>65</u>	<u>65</u>	<u>61</u>	<u>(4)</u>
Town Clerk:				
Town Clerk fees	75	75	73	(2)
Conveyance tax	100	100	100	-
Dog license fees	2	2	2	-
Licenses and permits	2	2	3	1
Total Town Clerk	<u>179</u>	<u>179</u>	<u>178</u>	<u>(1)</u>
Development and planning:				
Planning and zoning fees	28	28	43	15
Wetland fees	8	8	10	2
Zoning Board of Appeals	1	1	2	1
Total development and planning	<u>37</u>	<u>37</u>	<u>55</u>	<u>18</u>
Police Department:				
Private duty	18	18	16	(2)
Parking fines	31	31	29	(2)
Total Police Department	<u>49</u>	<u>49</u>	<u>45</u>	<u>(4)</u>
Building inspection:				
Building fees	79	79	40	(39)
Fire Marshal:				
Licenses and permits	1	1	3	2
Social services:				
Senior van donations	2	2	1	(1)
Elderly housing - Wells Run	15	15	12	(3)
Total social services	<u>17</u>	<u>17</u>	<u>13</u>	<u>(4)</u>
Special programs:				
Tax Assessor sale of maps	2	2	3	1
Parks and recreation	2	2	2	-
Probate court	8	8	8	-
Total special programs	<u>12</u>	<u>12</u>	<u>13</u>	<u>1</u>

(Continued on next page)

## TOWN OF LITCHFIELD, CONNECTICUT

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2010**

**(In Thousands)**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Education:				
Tuition and fees	\$ 3	\$ 3	\$ 1	\$ (2)
Miscellaneous	3	3		(3)
Total education	<u>6</u>	<u>6</u>	<u>1</u>	<u>(5)</u>
Total licenses, permits and fees	<u>445</u>	<u>445</u>	<u>409</u>	<u>(36)</u>
Intergovernmental:				
In lieu of taxes	106	106	112	6
Circuit breaker	57	57	56	(1)
Manufacturers' inventory	6	6	2	(4)
Veterans' exemption	3	3	3	-
Boat reimbursement	4	4	2	(2)
Mashantucket Pequot Fund	29	29	18	(11)
Educational transportation	60	60	35	(25)
Education cost sharing	1,480	1,480	1,248	(232)
Telephone access line grant	57	57	39	(18)
Total intergovernmental	<u>1,802</u>	<u>1,802</u>	<u>1,515</u>	<u>(287)</u>
Investment income	<u>105</u>	<u>105</u>	<u>50</u>	<u>(55)</u>
Other revenues:				
Miscellaneous	<u>11</u>	<u>11</u>	<u>42</u>	<u>31</u>
Total revenues	<u>25,511</u>	<u>25,511</u>	<u>25,414</u>	<u>(97)</u>
Other financing sources:				
Transfers in:				
Sewer Operations	250	250	250	-
Sewer Assessment	208	208	208	-
Total other financing sources	<u>458</u>	<u>458</u>	<u>458</u>	<u>-</u>
Total	<u>\$ 25,969</u>	<u>\$ 25,969</u>	25,872	<u>\$ (97)</u>

Budgetary revenues are different than GAAP revenues because:

State of Connecticut on-behalf contributions to the Connecticut State Teachers'

Retirement System for Town teachers are not budgeted

1,188

Cancellation of prior year encumbrances are recognized as budgetary revenue

(37)

Total Revenues and Other Financing Sources as Reported on the Statement of  
Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
Exhibit IV

\$ 27,023

## TOWN OF LITCHFIELD, CONNECTICUT

## GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)

FOR THE YEAR ENDED JUNE 30, 2010

(In Thousands)

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
General government:				
Board of Finance	\$ 33	\$ 29	\$ 27	\$ 2
Board of Selectmen	19	19	19	-
Municipal Management	160	160	159	1
Finance Department	135	137	137	-
Treasurer	7	7	7	-
Tax Collector	110	114	113	1
Assessor	125	149	149	-
Board of Assessment Appeals	1	1	1	-
Planning and Zoning	13	5	5	-
Wetlands	8	4	2	2
Zoning Board of Appeals	12	24	24	-
Conservation Commission	1	1		1
Land Use Administration	106	90	89	1
Building Inspector	108	108	108	-
Economic Development Commission	2	1		1
Town Clerk	121	106	106	-
Vital Statistics	1	1	1	-
Elections	27	10	9	1
Registrars	26	25	25	-
Legal counsel	89	148	147	1
Probate	9	9	8	1
Technology	57	54	53	1
Central Services and Town buildings	175	142	141	1
Total general government	<u>1,345</u>	<u>1,344</u>	<u>1,330</u>	<u>14</u>
Public safety:				
Police protection	165	144	143	1
Patrol services	119	119	118	1
Parking enforcement	42	44	43	1
Fire Marshal	74	72	71	1
Fire protection service	345	350	349	1
E911 Emergency	92	88	87	1
Litchfield emergency management	12	11	9	2
Total public safety	<u>849</u>	<u>828</u>	<u>820</u>	<u>8</u>

(Continued on next page)

## TOWN OF LITCHFIELD, CONNECTICUT

## GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)FOR THE YEAR ENDED JUNE 30, 2010  
(In Thousands)

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Public works:				
Supervision	\$ 10	\$ 9	\$ 8	\$ 1
Operations	1,040	1,075	1,075	-
Highways	138	289	288	1
Equipment maintenance	196	185	184	1
Building and grounds maintenance	83	68	67	1
Solid waste disposal and recycling	443	475	474	1
Director of Public Works	67	66	66	
Total public works	<u>1,977</u>	<u>2,167</u>	<u>2,162</u>	<u>5</u>
Health and welfare:				
Social services	37	34	33	1
Ambulance services	63	70	70	-
OSHA mandated health	2	2	1	1
Total health and welfare	<u>102</u>	<u>106</u>	<u>104</u>	<u>2</u>
Libraries	<u>317</u>	<u>317</u>	<u>317</u>	<u>-</u>
Recreation:				
Recreation	103	97	97	-
Co-op programs	144	139	137	2
Total recreation	<u>247</u>	<u>236</u>	<u>234</u>	<u>2</u>
Board of Education:				
Board of Education	15,914	15,914	15,481	433
Maintenance by Town	158	180	177	3
Total Board of Education	<u>16,072</u>	<u>16,094</u>	<u>15,658</u>	<u>436</u>
Other:				
Cemetery services	18	18	18	-
Beautification Commission	3	1		1
Contingency	110			-
Fringe benefits	1,319	1,502	1,501	1
Municipal insurance	150	142	141	1
Total other	<u>1,600</u>	<u>1,663</u>	<u>1,660</u>	<u>3</u>

(Continued on next page)

## TOWN OF LITCHFIELD, CONNECTICUT

## GENERAL FUND

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2010  
(In Thousands)**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Debt service:				
Debt retirement principal	\$ 2,203	\$ 2,203	\$ 2,203	\$ -
Interest on long-term debt	1,197	1,197	1,183	14
Interest on bond anticipation notes	37	3	7	(4)
Total debt service	<u>3,437</u>	<u>3,403</u>	<u>3,393</u>	<u>10</u>
 Total expenditures	 <u>25,946</u>	 <u>26,158</u>	 <u>25,678</u>	 <u>480</u>
Other financing uses:				
Transfers out:				
Capital improvements		372	372	-
Other	<u>23</u>	<u>110</u>	<u>110</u>	<u>-</u>
Total other financing uses	<u>23</u>	<u>482</u>	<u>482</u>	<u>-</u>
 Total	 <u>\$ 25,969</u>	 <u>\$ 26,640</u>	 26,160	 <u>\$ 480</u>
Budgetary expenditures are different than GAAP expenditures because:				
State of Connecticut on-behalf payments to the Connecticut State Teachers' Retirement System for Town teachers are not budgeted			1,188	
Encumbrances for purchases and commitments ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year received for financial reporting purposes			<u>(335)</u>	
Total Expenditures and Other Financing Uses as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV			\$ <u>27,013</u>	

## TOWN OF LITCHFIELD, CONNECTICUT

## GENERAL FUND

## COMPARATIVE BALANCE SHEET

JUNE 30, 2010 AND 2009  
(In Thousands)

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,440	\$ 10,345
Investments	1,516	
Receivables, net:		
Property taxes	548	594
Due from other funds	323	215
Other assets	<u>29</u>	<u>28</u>
Total Assets	<u>\$ 10,856</u>	<u>\$ 11,182</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 563	\$ 576
Due to other funds	5,715	5,967
Deferred revenue	<u>512</u>	<u>583</u>
Total liabilities	<u>6,790</u>	<u>7,126</u>
Fund balance:		
Reserved for encumbrances	403	104
Unreserved and undesignated	<u>3,663</u>	<u>3,952</u>
Total fund balance	<u>4,066</u>	<u>4,056</u>
Total Liabilities and Fund Balance	<u>\$ 10,856</u>	<u>\$ 11,182</u>

TOWN OF LITCHFIELD, CONNECTICUT

GENERAL FUND

REPORT OF TAX COLLECTOR

FOR THE YEAR ENDED JUNE 30, 2010

(In Thousands)

Grand List	Uncollected Taxes July 1, 2009	Current Levy	Lawful Corrections		Transfers To Suspense	Refunds	Net Amount Collectible	Collections				Uncollected Taxes June 30, 2010
			Additions	Deductions				Taxes	Interest	Fees	Total	
2008	\$	\$ 23,159	\$ 29	\$ 45	\$	\$ 11	\$ 23,154	\$ 22,767	\$ 103	\$	\$ 22,870	\$ 387
2007	444		2	9		12	449	304	69	2	375	145
2006	113			1		3	115	76	28	1	105	39
2005	42			1	22	1	20	16	7		23	4
2004	9						9	7	6		13	2
2003	8						8	6	2		8	2
2002	-						-		1		1	-
2001	-						-		1		1	-
2000	-						-		1		1	-
1999	-						-		1		1	-
1998	-						-				-	-
1997	1						1				-	1
1996	1						1				-	1
1995	1						1				-	1
1994	1						1				-	1
1993	9					9	-				-	-
	<u>\$ 629</u>	<u>\$ 23,159</u>	<u>\$ 31</u>	<u>\$ 56</u>	<u>\$ 31</u>	<u>\$ 27</u>	<u>\$ 23,759</u>	<u>\$ 23,176</u>	<u>\$ 219</u>	<u>\$ 3</u>	<u>\$ 23,398</u>	<u>\$ 583</u>

53

**TOWN OF LITCHFIELD, CONNECTICUT**  
**BOARD OF EDUCATION**  
**SCHEDULE OF EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2010**  
(In Thousands)

Program	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Art	\$ 25	\$ 25	\$ 25	\$ -
Business Education	3	3	1	2
World Language	4	4	4	-
Family/consumer science	7	7	6	1
Technology education	14	14	14	-
Language arts	17	17	17	-
Mathematics	13	13	16	(3)
Music	23	23	20	3
Physical education	7	7	7	-
Science	25	25	26	(1)
Social studies	16	16	16	-
Kindergarten	1	1	1	-
Title 1 programs	1	1	1	-
Health education	2	2	1	1
Learning centers	4	4	4	-
Speech and language	29	29	27	2
Homebound instruction	-	-	1	(1)
Pre-school services	1	1	1	-
Program evaluation	3	3	1	2
Psychological services	37	37	23	14
Guidance services	4	4	3	1
Health services	22	22	21	1
Career education	3	3	3	-
Occupational/physical therapy	72	72	83	(11)
Library/media services	30	30	25	5
Student activity support	74	74	103	(29)
Technology support	95	95	116	(21)
Salaries and wages	9,644	9,644	9,477	167
Employee benefits	2,784	2,784	2,802	(18)
Board of education	55	55	98	(43)
Central administration	38	38	33	5
School administration	72	72	68	4
Staff development	57	57	49	8
Special ed administration	2	2	1	1
General instructional support	91	91	68	23
Fiscal services	19	19	29	(10)
Care and upkeep of buildings	194	194	241	(47)
Care and upkeep of equipment	19	19	24	(5)
Utilities	671	671	596	75
Vehicle maintenance	2	2	1	1
Building furniture	1	1	2	(1)
Technology maintenance	65	65	66	(1)
Special ed transportation	238	238	90	148
Athletic transportation	58	58	45	13
Special education tuition	528	528	372	156
Regular transportation	645	645	685	(40)
Non-public transportation	1	1	1	-
Vo-Ag tuition	192	192	161	31
Adult education	6	6	6	-
Total	\$ 15,914	\$ 15,914	\$ 15,481	\$ 433

Board of Education may exceed budget at the program level but may not legally exceed its total budget.

## TOWN OF LITCHFIELD, CONNECTICUT

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDSJUNE 30, 2010  
(In Thousands)

	<u>Special Revenue Funds</u>						
	<u>Town Hall Annex</u>	<u>Special Education Grants</u>	<u>Dog</u>	<u>Parks and Recreation</u>	<u>Road Ordinance</u>	<u>Sewer Operations</u>	<u>Infrastructure</u>
<b>ASSETS</b>							
Cash and cash equivalents	\$	\$	\$	\$	\$	\$	\$
Receivables, net						522	
Due from other funds	469	86	9	80	3	162	77
Total Assets	<u>\$ 469</u>	<u>\$ 86</u>	<u>\$ 9</u>	<u>\$ 80</u>	<u>\$ 3</u>	<u>\$ 684</u>	<u>\$ 77</u>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	\$ 8	\$ 4	\$ 4	\$	\$	\$ 22	\$
Deferred revenue		82		10		522	
Total liabilities	<u>8</u>	<u>86</u>	<u>4</u>	<u>10</u>	<u>-</u>	<u>544</u>	<u>-</u>
Fund balances:							
Reserved for trust purposes							
Unreserved and undesignated	461		5	70	3	140	77
Total fund balance	<u>461</u>	<u>-</u>	<u>5</u>	<u>70</u>	<u>3</u>	<u>140</u>	<u>77</u>
Total Liabilities and Fund Balances	<u>\$ 469</u>	<u>\$ 86</u>	<u>\$ 9</u>	<u>\$ 80</u>	<u>\$ 3</u>	<u>\$ 684</u>	<u>\$ 77</u>

(Continued on next page)

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

**JUNE 30, 2010**  
**(In Thousands)**

	<u>Special Revenue Funds</u>					<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>	
	<u>Town Aid Road</u>	<u>Small Cities Grants</u>	<u>Miscellaneous Special Revenue</u>	<u>Scholarships</u>	<u>Other Post Employment Benefits</u>	<u>Total</u>		<u>Cemetery Trust</u>
<b>ASSETS</b>								
Cash and cash equivalents	\$	\$ 439	\$ 16	\$ 40	\$	\$ 495	\$ 10	\$ 505
Receivables, net		137	2			661		661
Due from other funds	114		160	9	150	1,319		1,319
Total Assets	<u>\$ 114</u>	<u>\$ 576</u>	<u>\$ 178</u>	<u>\$ 49</u>	<u>\$ 150</u>	<u>\$ 2,475</u>	<u>\$ 10</u>	<u>\$ 2,485</u>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable	\$	\$	\$	\$	\$	\$ 38	\$	\$ 38
Deferred revenue		500	45			1,159		1,159
Total liabilities	<u>-</u>	<u>500</u>	<u>45</u>	<u>-</u>	<u>-</u>	<u>1,197</u>	<u>-</u>	<u>1,197</u>
Fund balances:								
Reserved for trust purposes							10	10
Unreserved and undesignated	114	76	133	49	150	1,278		1,278
Total fund balance	<u>114</u>	<u>76</u>	<u>133</u>	<u>49</u>	<u>150</u>	<u>1,278</u>	<u>10</u>	<u>1,288</u>
Total Liabilities and Fund Balances	<u>\$ 114</u>	<u>\$ 576</u>	<u>\$ 178</u>	<u>\$ 49</u>	<u>\$ 150</u>	<u>\$ 2,475</u>	<u>\$ 10</u>	<u>\$ 2,485</u>

## TOWN OF LITCHFIELD, CONNECTICUT

COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2010

(In Thousands)

	Special Revenue Funds						
	Town Hall Annex	Special Education Grants	Dog	Parks and Recreation	Road Ordinance	Sewer Operations	Infrastructure
Revenues:							
Intergovernmental	\$	\$ 931	\$	\$	\$	\$	\$ 85
Charges for services	232			89		808	7
Investment income						3	
Other	4					8	
Total revenues	<u>236</u>	<u>931</u>	<u>-</u>	<u>89</u>	<u>-</u>	<u>819</u>	<u>92</u>
Expenditures:							
Current:							
General government	186						
Public safety			17				
Public works						778	
Health and welfare							
Recreation				78			
Education		931					
Total expenditures	<u>186</u>	<u>931</u>	<u>17</u>	<u>78</u>	<u>-</u>	<u>778</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>50</u>	<u>-</u>	<u>(17)</u>	<u>11</u>	<u>-</u>	<u>41</u>	<u>92</u>
Other Financing Sources (Uses):							
Transfers in			10				
Transfers out						(320)	(85)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>(320)</u>	<u>(85)</u>
Net Change in Fund Balances	50	-	(7)	11	-	(279)	7
Fund Balances at Beginning of Year	<u>411</u>	<u>-</u>	<u>12</u>	<u>59</u>	<u>3</u>	<u>419</u>	<u>70</u>
Fund Balances at End of Year	<u>\$ 461</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 70</u>	<u>\$ 3</u>	<u>\$ 140</u>	<u>\$ 77</u>

(Continued on next page)

TOWN OF LITCHFIELD, CONNECTICUT

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

FOR THE YEAR ENDED JUNE 30, 2010  
(In Thousands)

	Special Revenue Funds					Permanent Fund	Total Nonmajor Governmental Funds
	Town Aid Road	Small Cities Grants	Miscellaneous Special Revenue	Scholarships	Other Post Employment Benefits	Total	
Revenues:							
Intergovernmental	\$ 190	\$ 67	\$ 8	\$	\$	\$ 1,281	\$ 1,281
Charges for services			13			1,149	1,149
Investment income						3	3
Other				5		17	17
Total revenues	<u>190</u>	<u>67</u>	<u>21</u>	<u>5</u>	<u>-</u>	<u>2,450</u>	<u>-</u>
Expenditures:							
Current:							
General government		32				218	218
Public safety		67	8			92	92
Public works						778	778
Health and welfare			7			7	7
Recreation			7			85	85
Education				1		932	932
Total expenditures	<u>-</u>	<u>99</u>	<u>22</u>	<u>1</u>	<u>-</u>	<u>2,112</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>190</u>	<u>(32)</u>	<u>(1)</u>	<u>4</u>	<u>-</u>	<u>338</u>	<u>-</u>
Other Financing Sources (Uses):							
Transfers in					150	160	160
Transfers out	(120)					(525)	(525)
Total other financing sources (uses)	<u>(120)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150</u>	<u>(365)</u>	<u>(365)</u>
Net Change in Fund Balances	70	(32)	(1)	4	150	(27)	(27)
Fund Balances at Beginning of Year	<u>44</u>	<u>108</u>	<u>134</u>	<u>45</u>	<u>-</u>	<u>1,305</u>	<u>10</u>
Fund Balances at End of Year	<u>\$ 114</u>	<u>\$ 76</u>	<u>\$ 133</u>	<u>\$ 49</u>	<u>\$ 150</u>	<u>\$ 1,278</u>	<u>\$ 10</u>

**TOWN OF LITCHFIELD, CONNECTICUT**  
**SCHEDULE OF SEWER USE CHARGES RECEIVABLE**  
**FOR THE YEAR ENDED JUNE 30, 2010**  
**(In Thousands)**

<u>Usage Year</u>	<u>Balance Uncollected July 1, 2009</u>	<u>Current Year Charges and Adjustments</u>	<u>Collections</u>	<u>Balance Uncollected June 30, 2010</u>
2010	\$	\$ 800	\$ 672	\$ 128
2009	86		11	75
2008	69			69
2007	74		1	73
2006	71		1	70
2005	70			70
2004	67			67
2003	44		44	-
Total	\$ <u>481</u>	\$ <u>800</u>	729	\$ <u>552</u>
Interest and lien fees			<u>33</u>	
Total Collection			\$ <u>762</u>	

**TOWN OF LITCHFIELD, CONNECTICUT**  
**SCHEDULE OF SEWER ASSESSMENTS RECEIVABLE**  
**FOR THE YEAR ENDED JUNE 30, 2010**  
**(In Thousands)**

<u>Usage Year</u>	<u>Balance Uncollected July 1, 2009</u>	<u>Current Year Levy and Adjustments</u>	<u>Collections</u>	<u>Balance Uncollected June 30, 2010</u>
Contract No. 13	\$ 265	\$	\$ 35	\$ 230
Contract No. 14	180		14	166
Contract No. 15	15			15
Contract No. 17	396		49	347
Contract No. 18	<u>565</u>		<u>50</u>	<u>515</u>
Total	<u>\$ 1,421</u>	<u>\$ -</u>	148	<u>\$ 1,273</u>
Interest and lien fees			<u>56</u>	
Total Collection			<u>\$ 204</u>	

## TOWN OF LITCHFIELD, CONNECTICUT

## CAPITAL PROJECTS FUND

## PROJECT COMBINING BALANCE SHEET

JUNE 30, 2010  
(In Thousands)

	<u>Capital Improvements</u>	<u>Capital and Nonrecurring</u>	<u>Renovation of Schools</u>	<u>WPCA Capital Reserve</u>	<u>Total</u>
<b>ASSETS</b>					
Receivables, net	\$ 411	\$	\$	\$	\$ 411
Due from other funds	<u>1,581</u>	<u>249</u>	<u></u>	<u>164</u>	<u>1,994</u>
Total Assets	<u>\$ 1,992</u>	<u>\$ 249</u>	<u>\$ -</u>	<u>\$ 164</u>	<u>\$ 2,405</u>
<b>19 LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 183	\$	\$	\$	\$ 183
Due to other funds			323		323
Bond anticipation notes payable			475		475
Deferred revenue	<u>100</u>				<u>100</u>
Total liabilities	<u>283</u>	<u>-</u>	<u>798</u>	<u>-</u>	<u>1,081</u>
Fund Balances (Deficit):					
Reserved for encumbrances	19				19
Unreserved and undesignated	<u>1,690</u>	<u>249</u>	<u>(798)</u>	<u>164</u>	<u>1,305</u>
Total fund balances	<u>1,709</u>	<u>249</u>	<u>(798)</u>	<u>164</u>	<u>1,324</u>
Total Liabilities and Fund Balances	<u>\$ 1,992</u>	<u>\$ 249</u>	<u>\$ -</u>	<u>\$ 164</u>	<u>\$ 2,405</u>

TOWN OF LITCHFIELD, CONNECTICUT

CAPITAL PROJECTS FUND

PROJECT COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2010  
(In Thousands)

	<u>Capital Improvements</u>	<u>Capital and Nonrecurring</u>	<u>Renovation of Schools</u>	<u>WPCA Capital Reserve</u>	<u>Interfund Eliminations</u>	<u>Total</u>
Revenues:						
Intergovernmental	\$ 485	\$	\$	\$	\$	\$ 485
Other	100					100
Total revenues	<u>585</u>	-	-	-	-	<u>585</u>
Expenditures:						
Capital outlay	<u>3,112</u>		<u>159</u>	<u>6</u>		<u>3,277</u>
Deficiency of Revenues over Expenditures	<u>(2,527)</u>	-	<u>(159)</u>	<u>(6)</u>	-	<u>(2,692)</u>
Other Financing Sources (Uses):						
Transfers in	841		25	70	(289)	647
Transfers out		(289)			289	-
Issuance of bonds	<u>1,355</u>					<u>1,355</u>
Total other financing sources (uses)	<u>2,196</u>	<u>(289)</u>	<u>25</u>	<u>70</u>	<u>-</u>	<u>2,002</u>
Net Change in Fund Balances	(331)	(289)	(134)	64	-	(690)
Fund Balances at Beginning of Year	<u>2,040</u>	<u>538</u>	<u>(664)</u>	<u>100</u>	<u>-</u>	<u>2,014</u>
Fund Balances at End of Year	<u>\$ 1,709</u>	<u>\$ 249</u>	<u>\$ (798)</u>	<u>\$ 164</u>	<u>\$ -</u>	<u>\$ 1,324</u>

## TOWN OF LITCHFIELD, CONNECTICUT

## AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE YEAR ENDED JUNE 30, 2010

(In Thousands)

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>
<b>Student Activity Funds</b>				
Assets:				
Cash and cash equivalents	\$ 171	\$ 326	\$ 306	\$ 191
Liabilities:				
Due to student groups	\$ 171	\$ 326	\$ 306	\$ 191
<b>Performance Bonds</b>				
Assets:				
Cash and cash equivalents	\$ 2	\$	\$	\$ 2
Accounts receivable	142	35	53	124
Total Assets	\$ 144	\$ 35	\$ 53	\$ 126
Liabilities:				
Performance bonds	\$ 144	\$ 35	\$ 53	\$ 126
<b>Total All Funds</b>				
Assets:				
Cash and cash equivalents	\$ 173	\$ 326	\$ 306	\$ 193
Accounts receivable	142	35	53	124
Total Assets	\$ 315	\$ 361	\$ 359	\$ 317
Liabilities:				
Due to student groups	\$ 173	\$ 326	\$ 306	\$ 193
Performance bonds	142	35	53	124
Total Liabilities	\$ 315	\$ 361	\$ 359	\$ 317

## TOWN OF LITCHFIELD, CONNECTICUT

## SCHEDULE OF DEBT LIMITATION

JUNE 30, 2010

(In Thousands)

Total tax collections, including interest and lien fees, received by Treasurer for the year ended June 30, 2010						\$ <u>23,398</u>
	<b><u>General Purpose</u></b>	<b><u>Schools</u></b>	<b><u>Sewers</u></b>	<b><u>Urban Renewal</u></b>	<b><u>Pension Deficit</u></b>	
Debt limitation:						
2-1/4 times base	\$ 52,646	\$	\$	\$	\$	
4-1/2 times base		105,291				
3-3/4 times base			87,743			
3-1/4 times base				76,044		
3 times base						70,194
Total debt limitation	<u>52,646</u>	<u>105,291</u>	<u>87,743</u>	<u>76,044</u>		<u>70,194</u>
Indebtedness:						
Bonds payable	7,350	19,601	4,983			
Bond anticipation notes payable		475				
Bonds authorized - unissued	1,055	9,500				
Less:						
School building grants - estimated		(9,107)				
Total indebtedness	<u>8,405</u>	<u>20,469</u>	<u>4,983</u>	<u>-</u>		<u>-</u>
Debt Limitation in Excess of Outstanding and Authorized Debt	\$ <u>44,241</u>	\$ <u>84,822</u>	\$ <u>82,760</u>	\$ <u>76,044</u>	\$ <u>70,194</u>	

Note: In no event shall total debt exceed seven times annual receipts from taxation (\$164 million).

TABLE 1

**TOWN OF LITCHFIELD, CONNECTICUT**  
**PRINCIPAL PROPERTY TAXPAYERS**

<u>Taxpayer</u>	<u>Nature of Operations</u>	<u>Taxable Assessed Value as of 10/1/08</u>
Connecticut Light and Power	Power Company	\$ 8,184,530
White Memorial Foundation	Leased Land	6,989,260
City of Waterbury	Watershed	6,185,200
CRP/BWN LLC and CRP/BWN Litchfield Operator LLC*	Health Care Facility	5,361,280
6645 Federal Square Realty	Commercial Real Estate	3,428,970
Aquarion Water Co.	Water Supply	3,320,630
Arethusa Farm	Farming	3,061,750
Union Savings Bank (formerly First National Bank of Litchfield)	Bank	2,704,760
Litchfield Developers	Commercial Real Estate	2,396,100
Laurel Ridge	Rental of Property and Farming	<u>2,275,560</u>
<b>TOTAL</b>		<b>\$ <u><u>43,908,040</u></u></b>

\*Doing business as Brandywine Assisted Living at Litchfield (Sarah Pierce Community)

Source: Town of Litchfield, Office of Tax Assessor

## TOWN OF LITCHFIELD, CONNECTICUT

## TAXABLE GRAND LIST

<u>Grand List</u>	<u>Real Estate</u>	<u>Personal</u>	<u>Motor Vehicle</u>	<u>Gross Taxable Grand List</u>	<u>Less Exemptions</u>	<u>Net Taxable Grand List</u>
10/1/2008	\$1,002,767,850	\$25,039,165	\$65,281,752	\$1,093,088,767	\$3,163,470	\$1,089,925,297

Source: Town of Litchfield, Office of Tax Assessor

**TOWN OF LITCHFIELD, CONNECTICUT**  
**CALCULATION OF DIRECT DEBT AND NET DIRECT DEBT**

**JUNE 30, 2010**

Long-Term Indebtedness (1):	
Bonds:	
General Purpose	\$ 7,350,401
Schools	19,600,599
Sewers	1,214,475
State of Connecticut PLO (Clean Water Fund)	3,768,654
Total Long-Term Indebtedness	<u>31,934,129</u>
Short-Term Indebtedness:	
Bond Anticipation Notes	<u>475,000</u>
Total Direct Debt	32,409,129
Exclusions (2):	
Sewer assessments receivable	(1,273,494)
Sewer use charges receivable	<u>(571,850)</u>
Total Net Direct Debt	<u>\$ 30,563,785</u>

(1) Does not include authorized but unissued debt of \$1,448,111.

(2) Grants and receivables applicable to authorized and unissued debt are not included.

Note: The Town has no overlapping or underlying indebtedness.

## TOWN OF LITCHFIELD, CONNECTICUT

## CURRENT DEBT RATIOS

JUNE 30, 2010

Total Direct Indebtedness	\$	32,409,129
Total Net Direct Indebtedness	\$	30,563,785
Population (7/1/08) (1)		8,625
Net Taxable Grand List (10/1/08)	\$	1,089,925,297
Estimated Full Value	\$	1,557,036,139
Equalized Net Taxable Grand List (2008) (2)	\$	1,557,736,187
Per Capita Income (1999) (3)	\$	30,096
Total Direct Indebtedness:		
Per Capita	\$	3,757.58
To Net Taxable Grand List		2.97%
To Estimated Full Value		2.08%
To Equalized Net Taxable Grand List		2.08%
Per Capita to Per Capita Income		12.49%
Total Net Direct Indebtedness:		
Per Capita	\$	3,543.63
To Net Taxable Grand List		2.80%
To Estimated Full Value		1.96%
To Equalized Net Taxable Grand List		1.96%
Per Capita to Per Capita Income		11.77%

(1) U.S. Bureau of Census.

(2) Office of Policy and Management, State of Connecticut.

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

Source: Town of Litchfield, Office of Director of Finance