

**TOWN OF LITCHFIELD, NEW HAMPSHIRE**

**Financial Statements**

**December 31, 2007**

**and**

**Independent Auditor's Report**

**TOWN OF LITCHFIELD, NEW HAMPSHIRE  
FINANCIAL STATEMENTS  
December 31, 2007**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Selectmen  
Town of Litchfield, New Hampshire

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Litchfield, New Hampshire (the Town) as of and for the year ended December 31, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management.

The Town has adopted a system of internal financial controls. However, these internal controls were circumvented during the year ended December 31, 2007 by the Town Treasurer which resulted in inaccurate financial records to conceal his fraudulent transactions. Accordingly, we are unable to determine whether the financial statements of the Town accurately reflect the financial activities in accordance with generally accepted accounting principles of the United States of America.

During the audit process, the detection of fraudulent activity was identified. An investigation determined that this fraudulent activity was perpetrated in varying manners. The internal controls of the Town were inadequately followed which circumvented the detection of fraudulent activity by Town personnel. Accordingly, we are unable to determine whether the financial statements of the Town reflect an accurate reflection of the financial transactions during the year ended December 31, 2007.

Because of the significance of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

The management's discussion and analysis and the budgetary comparison information on pages i-vii and 18-20, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Vachon Clukay & Company PC*

April 12, 2010

**TOWN OF LITCHFIELD, NEW HAMPSHIRE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDING DECEMBER 31, 2007**

The following is a discussion and analysis of the financial activities of the Town of Litchfield, New Hampshire for the year ending December 31, 2007. Readers are encouraged to consider the information presented here in conjunction with the Town's financial statements.

Responsibility for both the accuracy of the data, and the completeness and fairness of this presentation (including all disclosures) rests with management. To the best of our knowledge and belief, the data contained herein is accurate in all material respects. This data is reported in a manner designed to fairly present the Town's financial position, and the result of operations of the various funds of the Town. All disclosures necessary to enable the reader to gain an accurate understanding of the Town's financial activities have been included.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements include three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to most private-sector companies.

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

The **Statement of Activities** presents information showing how the Town's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future periods (such as uncollected taxes and earned but unused vacation leave).

## **Fund Financial Statements**

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

**Governmental Funds:** Most of the basic services provided by the Town are financed through governmental funds. Unlike the government-wide financial statements, the governmental fund financial statements report using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

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

Fiduciary funds are used to account for resources held for the benefit of parties outside of the Town government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The Town's fiduciary funds include capital reserve funds of the Litchfield School District in addition to funds held for escrows and impact fees.

## **Notes to the Basic Financial Statements**

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

## **Required Supplementary Information**

The basic financial statements and accompanying notes are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for the Town's major governmental funds and includes a reconciliation between the reported activity of the revenues, expenditures and transfers for budgetary purposes (Schedule 1) and the activity as presented in the governmental fund financial statements (Exhibit D). The Town's only major governmental fund for 2007 with an adopted budget is the General Fund.

## Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental funds and fiduciary funds.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

#### Statement of Net Assets

The Town's net assets totaled \$9,020,107 at the end of 2007, an increase of \$642,363 when compared to the end of the previous year. This increase is due largely to the net increase in capital assets of \$151,735, additional taxes recognized on the accrual basis of \$107,225 (as compared to recognition under the "60 day rule" in the General Fund), and an increase in the General Fund's fund balance by \$310,884.

	<u>2007</u>	<u>2006</u>
Current Assets	\$ 6,851,069	\$ 6,572,746
Capital Assets	<u>5,660,922</u>	<u>5,509,187</u>
Total assets	<u>\$12,511,991</u>	<u>\$12,081,933</u>
Current Liabilities	\$ 3,383,134	\$ 3,582,024
Long-term Liabilities	<u>108,750</u>	<u>122,165</u>
Total Liabilities	<u>\$ 3,491,884</u>	<u>\$ 3,704,189</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 5,480,398	\$ 5,329,933
Restricted	1,367,062	1,348,774
Unrestricted	<u>2,172,647</u>	<u>1,699,037</u>
Total net assets	<u>\$ 9,020,107</u>	<u>\$ 8,377,744</u>

The largest portion of the Town's net assets reflects its investment in capital assets such as land, buildings, and equipment less any related outstanding debt used to acquire those assets.

## Statement of Activities

The Town's net assets increased by \$642,363 during the current year. Total revenue of \$4,751,978 exceeded expenses of \$4,109,615.

Property and other taxes brought in \$2,237,786 in revenues. Licenses and permits generated \$1,463,065 in revenues. Other revenues consisted of charges for services, grants, contributions, interest and investment earnings, and miscellaneous revenues.

Changes in net assets for the year ending December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
<b>Revenues:</b>		
<b>Program revenues:</b>		
Charges for services	\$ 142,444	\$ 179,280
Operating grants and contributions	260,684	249,382
Capital grants and contributions	-	-
<b>General revenues:</b>		
Property and other taxes	2,237,736	2,272,632
Licenses and permits	1,463,065	1,512,391
Grants and contributions	410,601	372,922
Interest and investment earnings	234,832	198,210
Miscellaneous	<u>2,566</u>	<u>32,295</u>
<b>Total revenues</b>	<u>4,751,978</u>	<u>4,817,112</u>
<b>Expenses</b>		
General Government	1,010,165	964,917
Public safety	1,839,388	1,652,186
Highways and streets	580,905	721,499
Health and welfare	39,899	60,779
Sanitation	386,967	374,019
Culture and recreation	<u>252,291</u>	<u>291,216</u>
<b>Total expenses</b>	<u>4,109,615</u>	<u>4,064,616</u>
Increase in net assets	642,363	752,496
Net assets, beginning of year	<u>8,377,744</u>	<u>7,625,248</u>
Net assets, end of year	<u>\$ 9,020,107</u>	<u>\$ 8,377,744</u>

The Town's expenses cover a range of services. The largest expenses were for general government (24.6%), public safety (44.8%), highways and streets (14.1%), and sanitation (9.4%) which accounted for 92.9% of total expenditures.

## FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

### Governmental Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable 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 year.

### General Fund

The general fund is the main operating fund of the Town. At the end of the current fiscal year, the general fund had an unreserved, undesignated fund balance of \$1,022,628 while total fund equity was \$1,715,836. The total fund equity includes reserves for encumbrances and carryforward appropriations at year end. The General Fund balance increased \$310,884 from December 31, 2006.

The fund balance increased due to underspending the budget, which was offset by amounts raised through taxation, and additional revenues that were recognized in excess of the budgeted amount.

### Conservation Commission Fund

The Conservation Commission Fund had a net balance increase of \$45,484 from December 31, 2006. This increase is primarily the result of continued housing growth and land use change taxes being assessed on the various land parcels developed. During 2007, the town collected \$149,158 in taxes and expended \$150,016 to purchase land.

### Other Governmental Funds

The total fund balance in the other governmental funds increased \$28,537 from December 31, 2006. The fund balance in the various non-major special revenue funds remained relatively consistent with the previous year's balance. However, the permanent funds increased by \$28,497 which can be attributed to its interest and investment income.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The final budget for estimated revenues is \$54,378 greater than the original budget. This is due to unanticipated grants.

Actual revenues on the budgetary basis exceeded the budgeted amount by \$53,228. This is primarily the net of \$31,029 higher revenues in interest on deposits, \$16,385 higher revenues for services and a decrease of \$46,745 in licenses and permits fees. Budgetary tax revenues exceeded the budgeted figure by \$41,565 which is primarily the result of additional payment in lieu of taxes received of \$26,287 and additional interest and costs on delinquent taxes of \$18,007.

During the year, the original budgeted appropriations increased by \$573,476. This increase is a combination of unanticipated grants received for \$54,378, emergency appropriations approved by the Department of Revenue Administration for \$536,000 less \$16,902 carried forward to 2008.

The Town underexpended its budget by \$299,921. This is primarily a result of savings in the following functions: Capital outlay, highways and streets, health and welfare, and sanitation.

## **CAPITAL ASSET AND LONG-TERM OBLIGATIONS**

### **Capital Assets**

The Town considers a capital asset to be an asset whose costs exceeds \$10,000 and has a useful life of greater than (1) year. Assets are depreciated using the straight-line method over the course of their useful life.

The Town's investment in capital assets for its governmental activities as of December 31, 2007 amounts to \$7,039,704. Accumulated depreciation amounts to \$1,378,782 leaving a net book value of \$5,660,922. This investment in capital assets includes equipment, and real property. See Note 5 in the Notes to the Basic Financial Statements for a summary of all capital assets.

### **Long-Term Obligations**

During 2007 the Town entered into new capital lease agreements for the purchase of three vehicles for use by the code enforcement department, fire department and the highway department. See Note 8 in the Notes to the Basic Financial Statements for a summary of all outstanding long-term obligations.

## **ECONOMIC CONDITIONS**

The Town's financial condition continues to be sound. However, the Town has seen a slight down turn in construction resulting in a decrease in permit fees. Additionally, with a sluggish economy nation-wide, the town has experienced a slight reduction of motor vehicle registrations and associated fees in 2007.

The Town's collection of the land use tax for the Town's Conservation and Land Acquisition Fund decreased from \$415,893 in 2006 to \$149,158 in 2007 with fewer parcels being developed. The Conservation Commission expended \$150,016 of its funds to purchase approximately fifteen acres of wetlands near Chase Brook.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town's finances for all of Litchfield citizens, taxpayers, and creditors. This financial report seeks to demonstrate the Town's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Town of Litchfield, Selectmen's Office, Two Liberty Way, Litchfield, NH 03052.

EXHIBIT A  
**TOWN OF LITCHFIELD, NEW HAMPSHIRE**  
**Statement of Net Assets**  
December 31, 2007

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 293,551
Investments	5,868,199
Taxes receivable, net	648,729
Accounts receivable, net	40,590
Total Current Assets	<u>6,851,069</u>
Noncurrent Assets:	
Capital assets:	
Non-depreciable capital assets	3,080,534
Depreciable capital assets, net	<u>2,580,388</u>
Total Noncurrent Assets	<u>5,660,922</u>
Total Assets	<u>\$ 12,511,991</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	\$ 170,398
Accrued expenses	83,337
Deferred revenue	125,201
Due to other governments	2,932,424
Current portion of capital leases payable	71,774
Total Current Liabilities	<u>3,383,134</u>
Noncurrent Liabilities:	
Capital leases payable	<u>108,750</u>
Total Noncurrent Liabilities	<u>108,750</u>
Total Liabilities	<u>3,491,884</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	5,480,398
Restricted	1,367,062
Unrestricted	<u>2,172,647</u>
Total Net Assets	<u>9,020,107</u>
Total Liabilities and Net Assets	<u>\$ 12,511,991</u>

*See accompanying notes to the basic financial statements*

EXHIBIT B  
**TOWN OF LITCHFIELD, NEW HAMPSHIRE**  
**Statement of Activities**  
For the Year Ended December 31, 2007

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Governmental Activities:</b>					
General government	\$ 1,010,165	\$ 38,127			\$ (972,038)
Public safety	1,839,388	54,841	\$ 44,498		(1,740,049)
Highways and streets	580,905	4,574	215,311		(361,020)
Health and welfare	39,899				(39,899)
Sanitation	386,967	33,396			(353,571)
Culture and recreation	252,291	11,506	875		(239,910)
<b>Total governmental activities</b>	<b>\$ 4,109,615</b>	<b>\$ 142,444</b>	<b>\$ 260,684</b>	<b>\$ -</b>	<b>(3,706,487)</b>
<b>General revenues:</b>					
					2,237,786
					1,463,065
<b>Grants and contributions:</b>					
					58,099
					352,141
					361
					234,832
					2,566
					<u>4,348,850</u>
					642,363
					<u>8,377,744</u>
					<u>\$ 9,020,107</u>

See accompanying notes to the basic financial statements

EXHIBIT C  
**TOWN OF LITCHFIELD, NEW HAMPSHIRE**  
**Balance Sheet**  
**Governmental Funds**  
December 31, 2007

	<u>General Fund</u>	<u>Conservation Commission Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 29,090		\$ 264,461	\$ 293,551
Investments	4,670,294	\$ 1,043,313	154,592	5,868,199
Taxes receivable, net	648,729			648,729
Accounts receivable, net	20,056		4,815	24,871
Due from other funds	16,314		15,586	31,900
<b>Total Assets</b>	<u>\$ 5,384,483</u>	<u>\$ 1,043,313</u>	<u>\$ 439,454</u>	<u>\$ 6,867,250</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 170,398			\$ 170,398
Accrued expenses	79,426			79,426
Deferred revenue	470,813		\$ 20,540	491,353
Due to other governments	2,932,424			2,932,424
Due to other funds	15,586		595	16,181
<b>Total Liabilities</b>	<u>3,668,647</u>	<u>\$ -</u>	<u>21,135</u>	<u>3,689,782</u>
<b>FUND BALANCES</b>				
Reserved for endowments			169,211	169,211
Reserved for encumbrances	693,208			693,208
Unreserved, reported in:				
General fund	1,022,628			1,022,628
Special revenue funds		1,043,313	207,003	1,250,316
Permanent funds			42,105	42,105
<b>Total Fund Balances</b>	<u>1,715,836</u>	<u>1,043,313</u>	<u>418,319</u>	<u>3,177,468</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 5,384,483</u>	<u>\$ 1,043,313</u>	<u>\$ 439,454</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 5,660,922

Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis 366,152

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:

Capital leases payable (180,524)  
Accrued interest on long-term obligations (3,911)

Net assets of governmental activities \$ 9,020,107

*See accompanying notes to the basic financial statements*

EXHIBIT D

**TOWN OF LITCHFIELD, NEW HAMPSHIRE**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2007**

	General Fund	Conservation Commission Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 1,981,403	\$ 149,158		\$ 2,130,561
Licenses and permits	1,463,065			1,463,065
Intergovernmental	668,448		2,837	671,285
Charges for services	73,942		60,950	134,892
Interest and investment income	156,029	46,342	32,461	234,832
Miscellaneous	19,001		6,307	25,308
<b>Total Revenues</b>	<u>4,361,888</u>	<u>195,500</u>	<u>102,555</u>	<u>4,659,943</u>
<b>Expenditures:</b>				
<b>Current operations:</b>				
General government	982,139		345	982,484
Public safety	1,845,378		50,005	1,895,383
Highways and streets	586,030			586,030
Health and welfare	39,899			39,899
Sanitation	389,659			389,659
Culture and recreation	223,094		13,648	236,742
Capital outlay	59,726	150,016	3,998	213,740
<b>Total Expenditures</b>	<u>4,125,925</u>	<u>150,016</u>	<u>67,996</u>	<u>4,343,937</u>
<b>Excess revenues over expenditures</b>	<u>235,963</u>	<u>45,484</u>	<u>34,559</u>	<u>316,006</u>
<b>Other financing sources (uses):</b>				
Proceeds from capital lease	68,899			68,899
Transfers in	6,022			6,022
Transfers out			(6,022)	(6,022)
<b>Total other financing sources (uses)</b>	<u>74,921</u>	<u>-</u>	<u>(6,022)</u>	<u>68,899</u>
<b>Net change in fund balances</b>	<u>310,884</u>	<u>45,484</u>	<u>28,537</u>	<u>384,905</u>
<b>Fund balances at beginning of year</b>	<u>1,404,952</u>	<u>997,829</u>	<u>389,782</u>	<u>2,792,563</u>
<b>Fund balances at end of year</b>	<u>\$ 1,715,836</u>	<u>\$ 1,043,313</u>	<u>\$ 418,319</u>	<u>\$ 3,177,468</u>

**TOWN OF LITCHFIELD, NEW HAMPSHIRE**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended December 31, 2007**

<b>Net Change in Fund Balances—Total Governmental Funds</b>	<b>\$ 384,905</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	182,115
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	107,225
Repayment of principal on capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	57,088
In the statement of activities, interest is accrued on capital leases, whereas in governmental funds, an interest expenditure is reported when due.	(232)
Proceeds from capital lease issues are other financing sources in the funds, but capital lease issues increase long-term liabilities in the statement of net assets.	(68,899)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the net loss on the disposal of capital assets reduced by the actual proceeds received from the sale of capital assets.	(19,839)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 642,363</b>

**EXHIBIT E**  
**TOWN OF LITCHFIELD, NEW HAMPSHIRE**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
December 31, 2007

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 255,920
Investments	<u>1,343,443</u>
Total assets	<u>\$ 1,599,363</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 27,500
Due to other governments	103,998
Due to other funds	15,719
Due to others	<u>1,452,146</u>
Total liabilities	<u>\$ 1,599,363</u>

*See accompanying notes to the basic financial statements*

**TOWN OF LITCHFIELD, NEW HAMPSHIRE  
NOTES TO BASIC FINANCIAL STATEMENTS  
December 31, 2007**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Town of Litchfield, New Hampshire conform to accounting policies generally accepted in the United States of America for local governmental units, except as indicated hereinafter. The following is a summary of significant accounting policies.

***Financial Reporting Entity***

The Town of Litchfield, New Hampshire (the Town) was incorporated in 1734. The Town operates under the Town Meeting/Board of Selectmen form of government and performs local governmental functions authorized by State law.

The financial statements include those of the various departments governed by the Board of Selectmen and other officials with financial responsibility. The Town has no other separate organizational units, which meet criteria for inclusion in the financial statements as defined by the Governmental Accounting Standards Board (GASB).

***Basis of Presentation***

The Town's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**1. Government-Wide Financial Statements:**

The statement of net assets and the statement of activities display information about the Town as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the Town at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Town. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Town.

**2. Fund Financial Statements:**

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a

**TOWN OF LITCHFIELD, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2007**

separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

***Fund Accounting***

The Town uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Town employs the use of two categories of funds: governmental and fiduciary.

**1. Governmental Funds:**

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Town's major governmental funds:

The General Fund is the main operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

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

**2. Fiduciary Funds:**

Fiduciary fund reporting focuses on net assets and changes in net assets. The Town maintains one category of fiduciary funds known as agency funds. The Town's agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The Town's agency fund accounts for the capital reserve funds of the Litchfield School District, which are held by the Town as required by State law. Other agency funds consist of impact fees and developer's performance bonds.

***Measurement Focus***

**1. Government-Wide Financial Statements:**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the Statement of Net Assets.

**2. Fund Financial Statements:**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental

