

**LITCHFIELD SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**LITCHFIELD SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2006**

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# PLODZIK & SANDERSON

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## *INDEPENDENT AUDITOR'S REPORT*

To the Members of the School Board  
Litchfield School District  
Litchfield, New Hampshire

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Litchfield School District as of and for the year ended June 30, 2006, which collectively comprise the Litchfield School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Litchfield School District as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information are not a required part 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 Litchfield School District's basic financial statements. The combining and individual fund schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. They 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.

July 27, 2006

*Plodzik & Sanderson  
Professional Association*

# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

The Superintendent of Schools and Business Administrator of New Hampshire School Administrative Unit (SAU) #27, as management of the Litchfield School District (the District), offer readers of the District's annual financial statements this narrative discussion and analysis of the financial activities of the District for the fiscal year which ended June 30, 2006. The District has implemented the provisions of the Governmental Accounting Standards Board Statement 34 (GASBS-34) and prepared this discussion and analysis to encourage readers to consider the information presented here in conjunction with additional information found within the body of the annual audit.

### FINANCIAL HIGHLIGHTS

- The District's total net assets for the year ending June 30, 2006, were \$7,023,643. Net assets increased by \$945,030, or 15.5%, between July 1, 2005 and June 30, 2006. The District's total net assets consisted of \$6,428,383 in capital assets net of debt and an unrestricted net asset balance of \$595,260.
- The District's long-term bonds as of June 30, 2006 total \$6,885,000. Under GASBS-34, these liabilities are reflected as a reduction in net assets.
- The District did not initiate any new construction projects nor issue any bonds in fiscal year 2006.
- During the year, the District's General Fund expenditures of \$15,482,623 were \$205,751 less than the final adjusted budget, and the General Fund revenues of \$15,764,122 were \$175,932 higher than the final adjusted budget. Revenues consist of: charges for services; operating grants and contributions; and general revenues (which consist of local and state property tax assessments, state and federal grants, and contributions not restricted to purpose).
- At the end of the current fiscal year, the unreserved, undesignated fund balance for the General Fund was \$381,683, or 2.47% of total General Fund expenditures. Major contributing factors to this fund balance were: \$175,932 in excess revenues, \$109,111 under spend in Special Education out-of-district tuition and transportation costs, and an under spend in the LMS roof replacement special warrant article of \$17,590.
- The School District accepted impact fees in the amount \$134,671 from the Town of Litchfield which were used to offset architectural and engineering costs relative to the consideration of a new elementary school building, and the purchase of high school library books, and middle and high school musical instruments and technology equipment.

# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

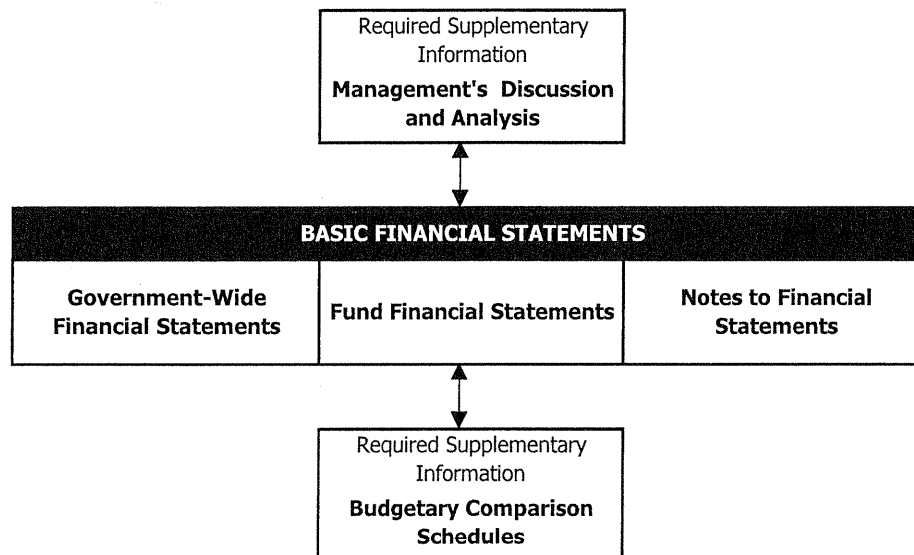
### OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's annual financial report, which consists of basic financial statements, notes to the financial statements, and related financial information. Our annual financial report consists of five elements: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, 4) required supplementary information, and 5) this discussion and analysis. This report also contains other supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two kinds of statements that present different views of the District based upon measurement focus and basis of accounting.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements. The governmental funds statements tell how the District's services were financed in the short term as well as what remains for future spending. Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The following exhibit shows how the required parts of this annual report are arranged and related to one another.



# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

The following exhibit summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain.

	Government-Wide	Fund Statements	
		Governmental	Fiduciary
<b>SCOPE</b>	Entire District government (except fiduciary funds)	All activities of the District that are not proprietary or fiduciary	Instances in which the District is the trustee or agent for someone else's resources
<b>REQUIRED FINANCIAL STATEMENTS</b>	Statement of Net Assets	Balance Sheet	Statement of Fiduciary Assets
	Statement of Activities	Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Changes in Fiduciary Net Assets (not required for agency funds)
<b>ACCOUNTING BASIS</b>	Accrual	Modified Accrual	Accrual
<b>MEASUREMENT FOCUS</b>	Economic Resources	Current Financial Resources	Economic Resources
<b>TYPE OF INFORMATION ASSETS AND LIABILITIES</b>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both short-term and long-term; the Agency funds do not currently have capital assets
<b>TYPE OF INFORMATION REVENUES, EXPENSES, AND EXPENDITURES</b>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

### **Government-wide Financial Statements**

The Government-wide Financial Statements show functions of the District that are principally supported by property taxes and intergovernmental revenues as "Governmental Activities." These functions are accounted for in the General Fund, Food Service Fund, Grants Fund, and the Expendable Trust Fund. Intergovernmental revenues include local, state and federal monies. The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Taxes and intergovernmental revenues also support fixed assets and related debt.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund definitions are part of a state mandated uniform accounting system and chart of accounts for all New Hampshire School Districts. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds. General Fund, Food Service Fund, Grants Fund and the Expendable Trust Fund are consolidated as Governmental Funds. Both the General Fund and Grants Fund expenditures are compared to budget in the Budgetary Comparison Schedules. Non-major funds include Food Service and the Expendable Trust Funds. All Food Service revenues are expended on program operations and the Grants Fund revenues are spent mainly on instruction. Fiduciary Funds are agency funds established to account for monies belonging to student groups, and are shown on a separate schedule.

### **Notes To The Financial Statements**

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

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve, over time, as a useful indicator of a government's financial position. The largest portion of the District's net assets reflects its investment in capital assets (e.g., land, buildings and improvements, and machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. Summaries of the capital assets, depreciation and long-term debt obligations can be found in the Notes to Financial Statements. Depreciation is included by accounting convention thus the depreciated value of a District asset, as reflected in these reports, does not reflect an asset's useful, market or replacement value.

# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

### Net Assets for the period ending June 30, 2006

This year's financial statements complete the change in reporting format as a result of implementing GASBS-34. This year we have added the two-year comparative data between the 2005 and 2006 year-end results, as this is the first year we are able to compare two years that were both prepared in a GASBS-34 format.

<b>Net Assets</b>	<b>2006</b>	<b>2005</b>	<b>% Variance</b>
Current Assets	1,239,062	892,243	38.87%
Non-current Assets	13,313,383	13,476,712	-1.21%
<b>Total Assets</b>	<b>14,552,445</b>	<b>14,368,955</b>	<b>1.28%</b>
Current Liabilities	550,073	530,947	3.60%
Non-current Liabilities	6,978,729	7,759,395	-10.06%
<b>Total Liabilities</b>	<b>7,528,802</b>	<b>8,290,342</b>	<b>-9.19%</b>
Investment in capital assets (net of debt)			
Restricted net assets	6,428,383	5,791,712	10.99%
Unrestricted net assets	595,260	286,901	107.48%
<b>Total Net Assets</b>	<b>7,023,643</b>	<b>6,078,613</b>	<b>15.55%</b>

A portion of the net assets are either invested in capital assets or restricted as to the purposes they can be used for.

- The District's investment in capital assets (land, buildings, furniture and equipment and technology equipment, net of accumulated depreciation), net of related debt, is the largest component of the total combined net assets.

### Change in Net Assets

The District's total revenues were \$16,694,280; total net expenses were \$15,749,250; resulting in an increase of \$945,030 in net assets. This year, 93.1% of the District's revenues came from the local tax assessment and the State of New Hampshire, an increase of 0.3% from last year. The State of New Hampshire's sources include the locally raised state property tax, federal aid received through the state, and the various state aid programs.

The District's expenditures continue to be largely for instruction and support services (87.5%). Depreciation expense of \$462,730 was 2.8% of total expenses.

The following Statement of Activities provides a more detailed breakdown of revenues and expenses.



# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

Statement of Activities	2006	% of Total	2005	% of Total	% Variance
<b>Revenues:</b>					
Program revenues:					
Charges for services	475,014	2.8%	443,602	3.0%	7.08%
Operating grants	766,502	4.6%	692,505	4.6%	10.69%
Capital grants	238,392	1.4%	234,684	1.6%	1.58%
General revenues:					
School district assessment	8,459,390	50.7%	6,956,164	46.6%	21.61%
Unrestricted grants	6,542,737	39.2%	6,471,661	43.4%	1.10%
Miscellaneous	212,245	1.3%	114,778	0.8%	84.92%
<b>Total revenues</b>	<b>\$16,694,280</b>	<b>100%</b>	<b>\$14,913,394</b>	<b>100%</b>	<b>11.94%</b>
<b>Program Expenses:</b>					
Instruction	9,369,960	59.5%	8,539,897	58.1%	9.72%
Support services:					
Student	1,007,497	6.4%	911,966	6.2%	10.48%
Instructional staff	498,513	3.2%	649,604	4.4%	-23.26%
General administration	86,344	0.5%	65,187	0.4%	32.46%
Executive administration	379,375	2.4%	486,069	3.3%	-21.95%
School administration	890,346	5.7%	801,274	5.5%	11.12%
Business	264,255	1.7%	242,508	1.6%	8.97%
Operation and maintenance of plant	1,508,122	9.6%	1,394,361	9.5%	8.16%
Student transportation	513,654	3.3%	573,714	3.9%	-10.47%
Other	292,348	1.9%	2,355	0.0%	12313.93%
Non-instructional services	522,573	3.3%	454,049	3.1%	15.09%
Facilities acquisition and construction	38,552	0.2%	159,828	1.1%	-75.88%
Interest on long-term debt	377,691	2.4%	419,024	2.9%	-9.86%
<b>Total governmental activities</b>	<b>\$15,749,250</b>	<b>100%</b>	<b>\$14,699,836</b>	<b>100%</b>	<b>7.14%</b>
<b>Change in net assets</b>	<b>\$945,030</b>		<b>\$213,558</b>		<b>342.52%</b>
<b>Beginning net assets</b>	<b>\$6,078,613</b>		<b>\$5,865,055</b>		<b>3.64%</b>
<b>Ending net assets</b>	<b>\$7,023,643</b>		<b>\$6,078,613</b>		<b>15.55%</b>

### Revenues

- School district assessment, 50.7% and 46.6% of total revenue for the fiscal years ended June 30, 2006, and 2005, respectively, an increase in the percentage of total revenues of 4.1%
- State of New Hampshire source intergovernmental revenues, 39.2% and 43.4% of total revenue for the fiscal years ended June 30, 2006, and 2005, respectively, a decrease in the percentage of total revenues of 4.2%
- Operating grants and contributions remained at 4.6% for the fiscal years ended June 30, 2006, and 2005

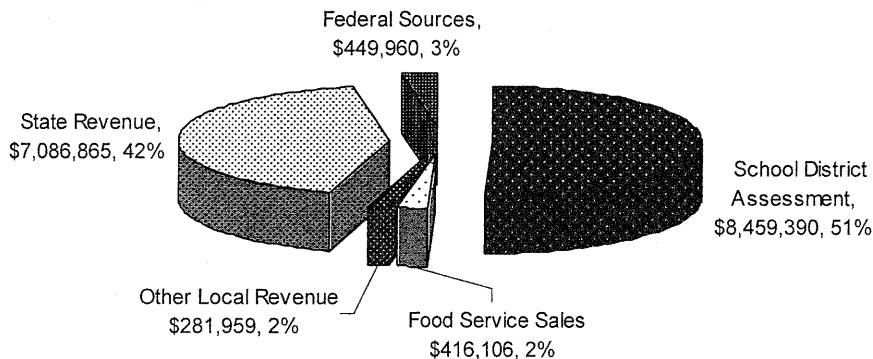
# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

### Summary of Revenues

The biggest share, \$15,546,255 (93.12%), of revenue was derived from local appropriations and intergovernmental sources (State of NH). The state property tax is included as part of intergovernmental revenue even though it is raised locally. This revenue statement includes all revenues from local, state and federal sources.

### School District Total Revenues 2005 - 2006



### Expenses

Expenses are reported on an accrual accounting basis. Amounts over or under the prior year expense amounts for the District in area's easily compared are as follows:

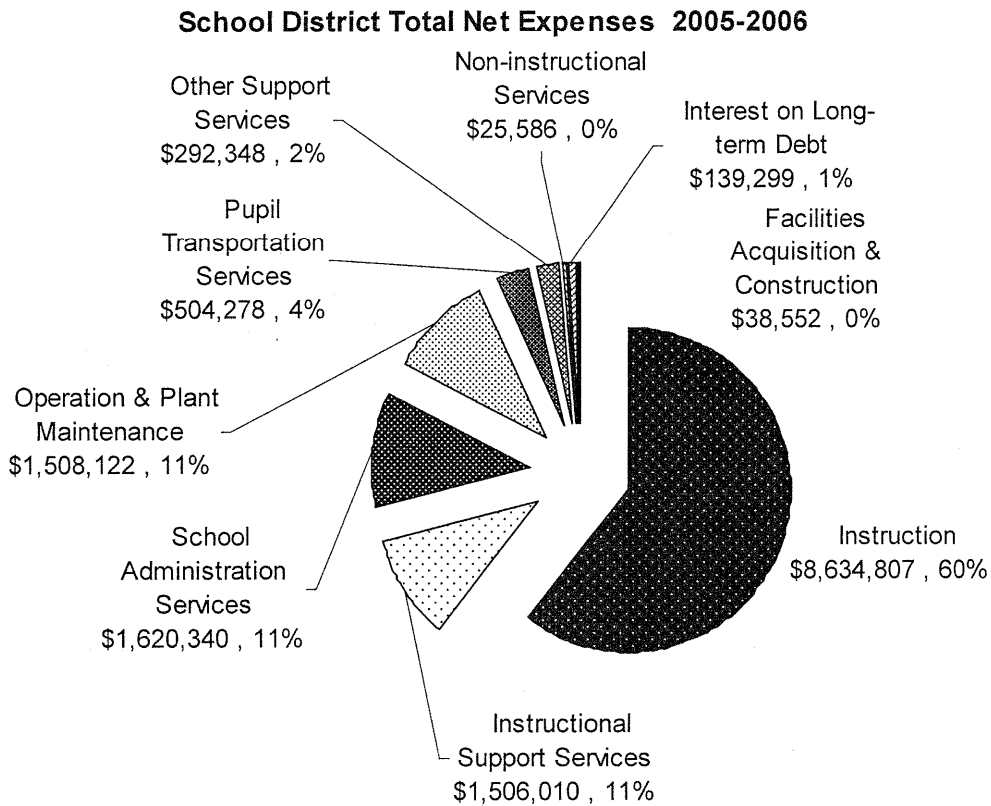
- Instruction expenses, 59.5% and 58.1% of total expenses for the fiscal years ended June 30, 2006, and 2005, respectively, an increase in the percentage of total expenses of 1.4%, with an increase of 9.7% (\$830,063 more) over the prior year amount.
- Total Support service expenses, 34.5% and 38.0% of total expenses for the fiscal years ended June 30, 2006, and 2005, respectively, a decrease in the percentage of total expenses of 3.5%, with a decrease of 2.5% (\$140,613 less) under the prior year amount.

### Summary of Net Expenses

The Litchfield School District used its budgetary resources as depicted in the chart below. 71% of all expenses were on instruction and instructional support. Most federal revenue was expended on special needs instruction and support, and instructional equipment. This expense statement includes expenses paid from local, state and federal appropriations. For purposes of this accrual reporting, the State Building Aid revenues of \$238,392 were applied as an offset to the interest on long-term debt.

# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006



Highlighted changes in total net expenses include:

- An increase in Instruction spending of \$762,747 or 9.7% over prior year
- An increase in Operation & Plant Maintenance spending of \$113,761 or 8.2% over prior year
- An increase in School Administration Services of \$25,303 or 1.6% over prior year
- A decrease in Instructional Support Services of \$55,560 or 3.6% less than prior year

### Governmental Activities

The following exhibit presents the net cost of the District's largest functions based upon the total expense, less charges for services and operating grants and contributions, of each function. The net cost reflects the amount that was funded by general revenues (principally the school district assessment which is derived by local and statewide property taxes and general state aid).

# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

### TOTAL AND NET COST OF SERVICES

Functions / Programs	Total Cost of Services				Variance
	2006		2005		
Instruction	9,369,960	59%	8,539,897	58%	830,063
Support services	5,479,026	35%	5,127,038	35%	351,988
Food service program	522,573	3%	454,049	3%	68,524
Facilities acquisition			159,828	1%	(159,828)
<b>Unallocated</b>					0
Interest	377,691	2%	419,024	3%	(41,333)
	<u>\$ 15,749,250</u>	<u>100%</u>	<u>\$ 14,699,836</u>	<u>100%</u>	<u>\$1,049,414</u>

Functions / Programs	Net Cost of Services				Variance
	2006		2005		
Instruction	\$ 8,634,807	61%	7,872,060	59%	762,747
Support services	5,469,650	38%	5,118,396	38%	351,254
Food service program	25,586	0%	(5,579)	0%	31,165
Facilities acquisition			159,828	1%	(159,828)
<b>Unallocated</b>					
Interest	139,299	1%	184,340	1%	(45,041)
	<u>\$ 14,269,342</u>	<u>100%</u>	<u>\$ 13,329,045</u>	<u>100%</u>	<u>\$ 940,297</u>

The total cost of all governmental activities this year was \$15,749,250; the total net cost was \$14,269,342. The primary financing for these activities of the District was as follows:

#### Property taxes

- The amount that was paid by taxpayers through property taxes was \$10,304,745; which consisted of \$8,459,390 paid in the form of local property taxes and \$1,845,355 paid in the form of property taxes under the State of New Hampshire state-wide education tax system for the annual school district assessment.
- An additional amount of \$4,651,751 was received from the State of New Hampshire under the "adequacy grant" provisions of the State's educational funding system, plus an additional \$45,631 Targeted Aid from Fiscal Year 2004, which in addition to other State funding sources includes statewide property taxes collected from other local governments.

#### Charges for Services

- Tuition was received in the amount of \$49,532.
- Total food service revenues of \$496,987 consisted of food service sales and local miscellaneous revenues in the amount of \$416,106 and federal and state food nutrition program operating contributions (free and reduced lunch reimbursements and commodities) of \$80,881.

#### Operating Grants and Contributions

- Federal grants for instruction were received in the amount of \$303,848.

# LITCHFIELD SCHOOL DISTRICT

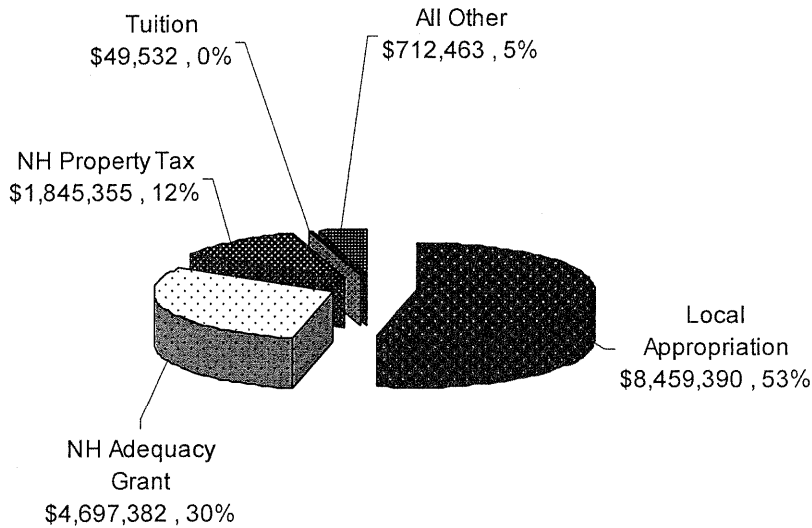
## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

### INDIVIDUAL FUND ANALYSIS

#### General Fund

The General Fund is what most people think of as "the budget" since it is the focal point of the Annual Deliberative Session and largely supported by locally raised taxes. The local appropriation and the state property tax are raised locally and make up 65.4% of general fund revenues. Together, the revenues raised locally and the state adequacy grant comprise over 95.2% of the District's General Fund Budgetary Revenues. Also depicted below are expenditures and percentages by grade level and district wide excluding debt service and interfund transfers.

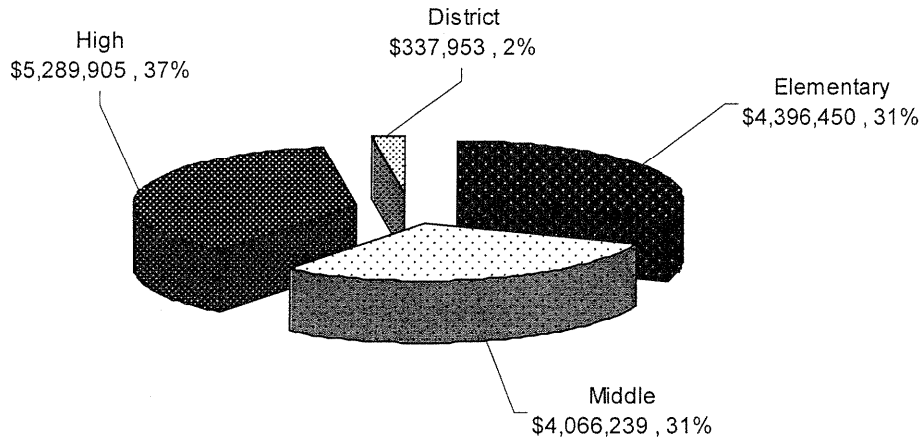
**General Fund Budgetary Revenues 2005-2006**



# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

### General Fund Expenditures by Grade Level 2005-2006

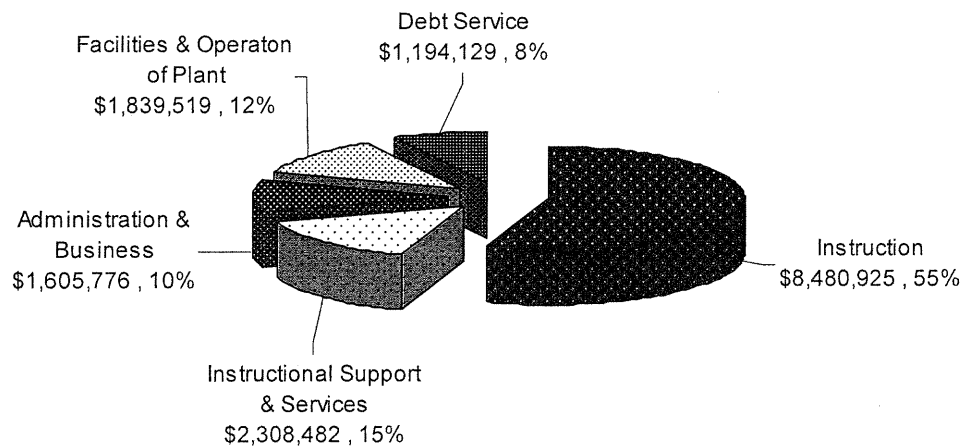


# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

Instruction makes up 55% of all general fund expenditures, an increase of 1% over the prior year, while Instructional Support and Services, including transportation, operation of plant, and administration make up 37% of all General Fund expenditures, the same as the prior year. The remaining 8% includes debt service – principal and interest, a decrease of 1% from the prior year. The following charts provide a more detailed depiction of the makeup and proportions of the expenditures in these broad categories.

**General Fund Expenditures by Functions 2005 - 2006**

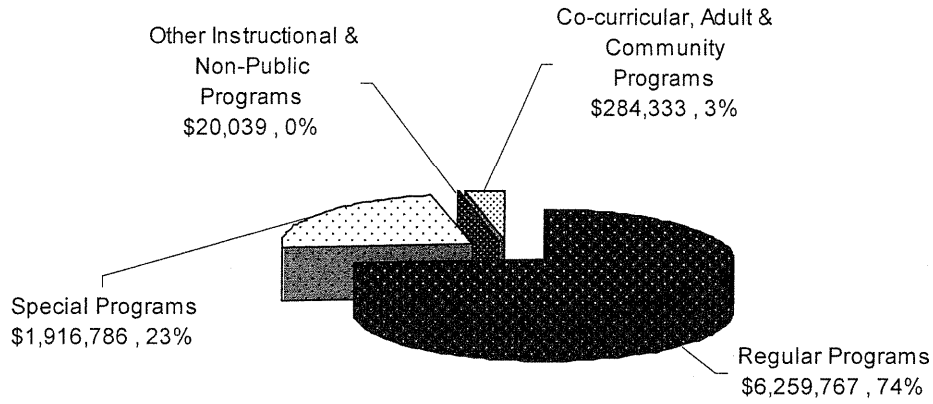


This chart examines how the direct instructional expenditures are allocated to the various programs.

# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

### General Fund Expenditures for Instruction 2005-2006





# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

### SUMMARY OF FEDERAL SUPPORT OF THE DISTRICT

During fiscal year 2006, Litchfield School District applied for and received the following significant federal grants:

- Individuals with Disabilities Education Improvement Act (IDEA) revenues for the current period were \$271,056. This grant funded special needs services and supplies for students throughout the District.
- Title IV, Safe and Drug Free Schools was awarded for the current period in the amount of \$7,301. This grant funded the services of a social worker, staff training and supplies.
- Title V, Innovative Programs, was awarded for the current period in the amount of \$7,455. This grant funded tutor salaries and PBIS training.
- A Preschool Grant was awarded for the current period in the amount of \$7,230. The grant was used to provide supplies in order to support special needs students.

### CAPITAL RESERVE FUND

Expendable capital reserve funds (established by voters at an annual school district meeting as trust funds in accordance with statutory requirements) are classified as special revenue funds for the basic financial statements. The District's Special Education capital reserve fund and the School Capital Improvement capital reserve fund balances increased \$51,549.80 during the year from \$50,000 at June 30, 2005, to \$101,549.80 at June 30, 2006. In accordance with statutory requirements, they are held in custody by the Trustees of Trust Funds of the Town of Litchfield and are only released for the restricted specific purposes of the individual funds.

### COMMENTS ON GENERAL FUND BUDGET COMPARISONS

- The beginning unreserved General Fund equity was \$100,184. General Fund revenues, consisting largely of local taxes and state aid, were \$15,764,122. General Fund expenditures, including fund transfers, were \$15,482,623. The ending fund equity for the District was \$613,806, of which \$381,683 is in unreserved fund balance.
- General Fund actual revenues were greater than the final adjusted budgeted revenues by \$175,932. During the year, the School Board increased its General Fund authorized spending \$134,671 above the appropriated budget as a result of RSA 198:20(b) hearings to accept unanticipated funds made available during the year. General Fund expenditures were less than the revised authorized spending by \$205,751. These variances are absorbed in the General Fund ending balance.
- Significant General Fund expenditures-to-net-budget variances occurred in several functions:
  - Special Programs were under-expended by \$155,085 due primarily to the District's ability to support more special needs students in district.
  - Executive and School Administration was under-expended by \$108,859 due primarily to vacancies and changes in personnel.

# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

- Support Services was under-expended by \$177,040 due primarily to reductions in required Special Education services.
- Operation and Maintenance of Plant was under-expended by \$82,374 due to the under spend in the LMS roof replacement special warrant article, and staff vacancies and changes in personnel.

We are constantly making changes to our budget planning processes to improve the accuracy of our budget assessments and reduce the size and frequency of future budget variances. Since it is not possible to know in advance all of the circumstances that might create budget variances, we will continue to estimate future costs based on our experience, judgment, and actual expenditure data.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

On June 30, 2006, the District reported capital assets of \$13,313,383 (net of accumulated depreciation), which consist of a broad range of capital assets, including land, buildings & improvements, and machinery and equipment.

There were no additions of land assets during the year. The replacement of the LMS roof was the major factor in the increase in Building & Improvements. The District also annually invests in new furnishings, computers and peripherals, printed media and other equipment, as needed.

<b>Governmental Activities</b>	<b>2006</b>	<b>2005</b>	<b>% Variance</b>
Land & Improvements	460,792	460,792	0.00%
Buildings & Improvements	17,737,028	17,437,627	1.72%
Vehicles	-	-	
Furniture & Equipment	53,973	53,973	0.00%
Work In Progress		-	
<b>Totals at Historical Cost</b>	<b>\$18,251,793</b>	<b>\$17,952,392</b>	<b>1.67%</b>
Total Accumulated Depreciation	4,938,410	4,475,680	10.34%
<b>NET CAPITAL ASSETS</b>	<b>\$13,313,383</b>	<b>\$13,476,712</b>	<b>-1.21%</b>

#### Long-Term Debt

On June 30, 2006, the District had \$6,885,000 of outstanding long-term debt.

### FUTURE BUDGETARY IMPLICATIONS

In New Hampshire the public school fiscal year is July 1 to June 30; other programs, i.e., some federal budgets, operate on a different fiscal calendar, but are reflected in the District overall budget as they impact on the District.

The beginning General Fund unreserved equity for the 2006-2007 fiscal year is \$381,683.

# LITCHFIELD SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006

The major significant activities or events, which will have impact on future district finances include:

- The District is currently studying alternatives to solve its space needs and will be proposing a future construction (new and/or renovation) project on the 2008 School District Ballot.

Questions regarding this report should be directed to Ms. Catherine M. Hamblett, Superintendent of Schools, or to Mr. Stephen F. Martin, Business Administrator, at (603-578-3570), or by mail at:

Litchfield School District  
SAU #27  
1 Highlander Court  
Litchfield, NH 03052

*BASIC FINANCIAL STATEMENTS*

*EXHIBIT A*  
**LITCHFIELD SCHOOL DISTRICT**  
*Statement of Net Assets*  
*June 30, 2006*

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,009,885
Intergovernmental receivable	228,194
Other receivables	883
Prepaid items	100
Capital assets, not being depreciated:	
Land	460,792
Capital assets, net of accumulated depreciation:	
Buildings and building improvements	12,817,228
Machinery and equipment	35,363
Total assets	14,552,445
<b>LIABILITIES</b>	
Accounts payable	29,964
Accrued salaries and benefits	372,221
Accrued interest payable	141,473
Unearned revenue	6,415
Noncurrent obligations:	
Due within one year:	
Bonds	800,000
Due in more than one year:	
Bonds	6,085,000
Compensated absences	93,729
Total liabilities	7,528,802
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,428,383
Unrestricted	595,260
Total net assets	\$ 7,023,643

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

**EXHIBIT B**  
**LITCHFIELD SCHOOL DISTRICT**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities:</b>				
Instruction	\$ 9,369,960	\$ 49,532	\$ 685,621	\$ -
Support services:				
Student	1,007,497	-	-	-
Instructional staff	498,513	-	-	-
General administration	86,344	-	-	-
Executive administration	379,395	-	-	-
School administration	890,346	-	-	-
Business	264,255	-	-	-
Operation and maintenance of plant	1,508,122	-	-	-
Student transportation	513,654	9,376	-	-
Other	292,348	-	-	-
Non-instructional services	522,573	416,106	80,881	-
Interest on long-term debt	377,691	-	-	238,392
Facilities acquisition and construction	38,552	-	-	-
Total governmental activities	<u>\$ 15,749,250</u>	<u>\$ 475,014</u>	<u>\$ 766,502</u>	<u>\$ 238,392</u>
General revenues:				
School district assessment				8,459,390
Grants and contributions not restricted to specific programs				6,542,737
Interest				63,979
Miscellaneous				148,266
Total general revenues				<u>15,214,372</u>
Change in net assets				945,030
Net assets, beginning				6,078,613
Net assets, ending				<u>\$ 7,023,643</u>

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

*EXHIBIT C-1*  
**LITCHFIELD SCHOOL DISTRICT**  
*Balance Sheet*  
**Governmental Funds**  
*June 30, 2006*

	General	Grants	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 892,111	\$ -	\$ 117,774	\$ 1,009,885
Receivables:				
Accounts	330	-	553	883
Intergovernmental	2,182	120,826	105,186	228,194
Interfund receivable	118,706	-	-	118,706
Prepaid items	100	-	-	100
Total assets	<u>\$ 1,013,429</u>	<u>\$ 120,826</u>	<u>\$ 223,513</u>	<u>\$ 1,357,768</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 27,402	\$ 2,120	\$ 442	\$ 29,964
Accrued salaries and benefits	372,221	-	-	372,221
Interfund payable	-	118,706	-	118,706
Deferred revenue	-	-	6,415	6,415
Total liabilities	<u>399,623</u>	<u>120,826</u>	<u>6,857</u>	<u>527,306</u>
Fund balances:				
Reserved for encumbrances	232,123	-	-	232,123
Unreserved, undesignated, reported in:				
General fund	381,683	-	-	381,683
Special revenue funds	-	-	216,656	216,656
Total fund balances	<u>613,806</u>	<u>-</u>	<u>216,656</u>	<u>830,462</u>
Total liabilities and fund balances	<u>\$ 1,013,429</u>	<u>\$ 120,826</u>	<u>\$ 223,513</u>	<u>\$ 1,357,768</u>

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

*EXHIBIT C-2*  
*LITCHFIELD SCHOOL DISTRICT*  
*Reconciliation of Total Governmental Fund Balances to the Statement of Net Assets*  
*June 30, 2006*

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Total fund balances of governmental funds (Exhibit C-1)	\$	830,462
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.		
Cost	\$	18,251,793
Less accumulated depreciation		<u>(4,938,410)</u>
		13,313,383
Interfund receivables and payables between governmental funds are eliminated on the statement of net assets.		
Receivables	\$	(118,706)
Payables		<u>118,706</u>
		-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(141,473)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Bonds	\$	(6,885,000)
Compensated absences		<u>(93,729)</u>
		<u>(6,978,729)</u>
Net assets of governmental activities (Exhibit A)	\$	<u><u>7,023,643</u></u>

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



*EXHIBIT C-3*  
**LITCHFIELD SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
**Governmental Funds**  
*For the Fiscal Year Ended June 30, 2006*

	General	Grants	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
School district assessment	\$ 8,459,390	\$ -	\$ -	\$ 8,459,390
Other local	269,603	10,806	417,656	698,065
State	7,082,004	-	4,861	7,086,865
Federal	80,898	293,042	76,020	449,960
Total revenues	<u>15,891,895</u>	<u>303,848</u>	<u>498,537</u>	<u>16,694,280</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Instruction	8,608,699	303,848	-	8,912,547
<b>Support services:</b>				
Student	1,007,497	-	-	1,007,497
Instructional staff	501,113	-	-	501,113
General administration	86,344	-	-	86,344
Executive administration	377,942	-	-	377,942
School administration	879,989	-	-	879,989
Business	261,501	-	-	261,501
Operation and maintenance of plant	1,501,988	-	-	1,501,988
Student transportation	513,654	-	-	513,654
Other	285,795	-	-	285,795
Non-instructional services	-	-	522,573	522,573
<b>Debt service:</b>				
Principal	800,000	-	-	800,000
Interest	394,129	-	-	394,129
Facilities acquisition and construction	337,953	-	-	337,953
Total liabilities	<u>15,556,604</u>	<u>303,848</u>	<u>522,573</u>	<u>16,383,025</u>
Excess (deficiency) of revenues over (under) expenditures	<u>335,291</u>	<u>-</u>	<u>(24,036)</u>	<u>311,255</u>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	50,000	50,000
Transfers out	(50,000)	-	-	(50,000)
Total other financing sources and uses	<u>(50,000)</u>	<u>-</u>	<u>50,000</u>	<u>-</u>
Net change in fund balances	285,291	-	25,964	311,255
Fund balances, beginning,	328,515	-	190,692	519,207
Fund balances, ending	<u>\$ 613,806</u>	<u>\$ -</u>	<u>\$ 216,656</u>	<u>\$ 830,462</u>

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

*EXHIBIT C-4*  
*LITCHFIELD SCHOOL DISTRICT*  
*Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund*  
*Balances of Governmental Funds to the Statement of Activities*  
*For the Fiscal Year Ended June 30, 2006*

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Net change in fund balances of total governmental funds (Exhibit C-3)		\$ 311,255
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. 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 depreciation expense exceeded capitalized capital outlay in the current period.		
Capitalized capital outlay	\$ 299,401	
Depreciation expense	<u>(462,730)</u>	
		(163,329)
Transfers in and out between governmental funds are eliminated on the operating statement.		
Transfers in	\$ (50,000)	
Transfers out	<u>50,000</u>	
		-
Repayment of debt principal is an expenditure in the governmental funds, but has no effect on net assets.		
Principal repayment of bonds		800,000
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued interest expense	\$ 16,438	
Increase in compensated absences payable	<u>(19,334)</u>	
		<u>(2,896)</u>
Change in net assets of governmental activities (Exhibit B)		<u><u>\$ 945,030</u></u>

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

*EXHIBIT D*  
*LITCHFIELD SCHOOL DISTRICT*  
*Fiduciary Funds*  
*Statement of Fiduciary Net Assets*  
*June 30, 2006*

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	<u>Agency</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 104,836
<b>LIABILITIES</b>	
Due to student groups	<u>104,836</u>
<b>NET ASSETS</b>	<u><u>\$ -</u></u>

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

**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

The financial statements of the Litchfield School District (School District) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities at the government-wide financial reporting level to the extent that those standards do not conflict with or contradict guidance of the GASB.

The more significant of the School District's accounting policies are described below.

***1-A Reporting Entity***

In New Hampshire, each town constitutes a school district except school districts organized under special acts of Legislature. The Litchfield School District serves the community of Litchfield, New Hampshire and provides public education services for students in kindergarten through grade twelve.

The School District is a municipal corporation governed by a 5-member board elected by the voters of the School District. The reporting entity is comprised of the primary government and any other organizations that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Based on the foregoing criteria, no other organizations are included in the School District's financial reporting entity.

***1-B Basis of Presentation***

The School District'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.

***Government-wide Financial Statements*** - The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the School District as a whole. Fiduciary activities are not included at the government-wide reporting level.

The statement of net assets presents the financial position of the governmental activities of the School District at year-end. This statement includes all of the School District's assets, liabilities and net assets.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with the function and therefore, clearly identifiable to that particular function. The School District does not allocate indirect expenses to functions in the statement of activities.

The statement of activities reports the expenses of a given function offset by program revenues directly related to the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with the distinct functional activity. 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 School District. Program revenues include: (1) charges for services, which include tuition, fees, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which finance the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to the program uses.

**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

For identifying to which function program revenue pertains, the determining factor for *charges for services* is which function *generates* the revenue. For *grants and contributions*, the determining factor is to which functions the revenues are *restricted*. The school district assessment from the town, unrestricted state aid and other revenue sources not properly included among program revenues are reported as general revenues of the School District.

**Fund Financial Statements** - During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund financial statements are designed to present financial information of the School District at this more detailed level. Fund financial statements are provided for governmental and fiduciary funds, although the latter are excluded from the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements with composite columns for nonmajor funds. Fiduciary funds are reported by type.

**Fund Accounting** - The School District uses funds to maintain its financial records during the year. The School District uses two categories of funds: governmental and fiduciary.

**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. Fund liabilities are assigned to the fund from which they will be liquidated. The School District reports the difference between governmental fund assets and liabilities as fund balance. The following are the School District's major governmental funds:

**General Fund** - The general fund is the primary operating fund of the School District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other funds.

**Grants Fund** - This fund accounts for the School District's federal grant programs.

The School District also reports two nonmajor funds.

**Fiduciary Funds** - Fiduciary fund reporting focuses on net assets. The School District's fiduciary funds consist of agency funds. The agency funds are custodial in nature (assets equal liabilities), and do not involve measurement of results of operations.

**1-C Measurement Focus**

**Government-wide Financial Statements** - The government-wide financial statements are reported using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities reports revenues, expenses and changes in net assets.

**Governmental 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 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 activities of the government-wide financial statements are prepared. The governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

**Fiduciary Fund Financial Statements** - The student activities funds are accounted for using the economic resources measurement focus.

**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

***1-D Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, governmental funds use the modified accrual basis of accounting, and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of some deferred revenue, and in the presentation of expenses versus expenditures.

***Revenues - Exchange Transactions*** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year, generally within sixty days of year-end.

***Revenues - Non-exchange Transactions*** - Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all grantor imposed eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions also must be available before it can be recognized, generally within sixty days of year-end.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: the school district assessment from the town, tuition, interest, and federal and state grants.

Although the School District does not levy property taxes, the town levies property taxes on behalf of the School District (school district assessment).

***Deferred/Unearned Revenue*** - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met (e.g., cash advances) are recorded as deferred revenue. On the government-wide statement of net assets, deferred revenue is classified as unearned revenue.

***Expenses/Expenditures*** - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

***1-E Assets, Liabilities and Net Assets or Equity***

***1-E-1 Cash and Cash Equivalents***

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the School District.

New Hampshire statutes require that the School District treasurer have custody of all moneys belonging to the School District and pay out the same only upon orders of the School Board. The treasurer shall deposit all such moneys in participation units in the public deposit investment pool established pursuant to N.H. RSA 383:22 or in solvent banks in the state. Funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

***1-E-2 Interfund Balances***

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**1-E-3 Prepaid Items**

Payments made to vendors for services that will benefit periods beyond year-end are recorded as prepaid items using the consumption method, by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

**1-E-4 Capital Assets**

Capital assets are those assets of a capital nature which the School District owns. These assets generally result from expenditures in governmental funds. The School District reports these assets in the governmental activities column of the government-wide statement of net assets and does not report them in the governmental fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$10,000 and more than five years of estimated useful life. Improvements to capital assets are capitalized; the costs of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset's life are expensed.

All reported capital assets are depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings and building improvements	20 - 30
Machinery and equipment	5 - 15

**1-E-5 Compensated Absences**

Vacation leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered, and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide financial statements. Governmental funds report the compensated absence liability at the fund reporting level only "when due."

**1-E-6 Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year.

**1-E-7 Fund Equity**

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net assets."

**Fund Balance** - Generally, fund balance represents the difference between the current assets and current liabilities. The School District reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance that is available for appropriation in future periods.



**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Net Assets** - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. All other net assets are reported as unrestricted.

**1-E-8 Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 2 - DETAILED NOTES ON ALL FUNDS AND GOVERNMENT-WIDE STATEMENTS**

**2-A Receivables**

Receivables at June 30, 2006, consisted of accounts (reimbursements) and intergovernmental receivables arising from tuition, impact fees and grants.

Receivables are recorded on the School District's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectibility.

**2-B Capital Assets**

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

	<u>Balance, beginning</u>	<u>Changes</u>	<u>Balance, ending</u>
Governmental activities:			
At cost:			
Not being depreciated:			
Land	\$ 460,792	\$ -	\$ 460,792
Being depreciated:			
Buildings and building improvements	17,437,627	299,401	17,737,028
Machinery and equipment	53,973	-	53,973
Total capital assets being depreciated	<u>17,491,600</u>	<u>299,401</u>	<u>17,791,001</u>
Total all capital assets	<u>17,952,392</u>	<u>299,401</u>	<u>18,251,793</u>
Less accumulated depreciation:			
Buildings and building improvements	(4,462,387)	(457,413)	(4,919,800)
Machinery and equipment	(13,293)	(5,317)	(18,610)
Total accumulated depreciation	<u>(4,475,680)</u>	<u>(462,730)</u>	<u>(4,938,410)</u>
Net book value, capital assets being depreciated	<u>13,015,920</u>	<u>(163,329)</u>	<u>12,852,591</u>
Net book value, all capital assets	<u>\$ 13,476,712</u>	<u>\$ (163,329)</u>	<u>\$ 13,313,383</u>

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

Governmental activities:	
Instruction	\$ 457,413
Support services:	
School administration	3,118
Operation and maintenance of plant	2,199
Total depreciation expense	<u>\$ 462,730</u>

**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**2-C Interfund Balances and Transfers**

Interfund balances at June 30, 2006 consist of overdrafts in the pooled cash and budgetary transfers.

Interfund receivable and payable balances at June 30, 2006 are as follows:

Receivable fund	Payable fund	Amount
General	Grants	
		\$ 118,706

Interfund transfers during the year ended June 30, 2006 are as follows:

	Transfers In	Transfers Out
General	\$ -	\$ 50,000
Nonmajor fund:		
Expendable trust	50,000	-
Totals	\$ 50,000	\$ 50,000

**2-D Long-Term Liabilities**

Changes in the School District's long-term obligations consisted of the following for the year ended June 30, 2006:

	General Obligation Bonds Payable	Compensated Absences Payable	Total
Balance, beginning	\$ 7,685,000	\$ 74,395	\$ 7,759,395
Additions	-	19,334	19,334
Reductions	(800,000)	-	(800,000)
Balance, ending	\$ 6,885,000	\$ 93,729	\$ 6,978,729

Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at June 30, 2006	Current Portion
General obligation bonds payable:						
High school construction	\$ 11,685,000	2000	2015	4.5-5.25	\$ 6,885,000	\$ 800,000
Compensated absences payable:						
Accrued vacation leave					93,729	-
					\$ 6,978,729	\$ 800,000

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2006, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 800,000	\$ 355,463	\$ 1,155,463
2008	800,000	315,462	1,115,462
2009	800,000	275,463	1,075,463
2010	800,000	235,462	1,035,462
2011	800,000	193,463	993,463
2012-2015	2,885,000	353,850	3,238,850
Totals	\$ 6,885,000	\$ 1,729,163	\$ 8,614,163

The debt is general obligation debt of the School District, which is backed by its full faith and credit, and will be repaid from general governmental revenues.

*LITCHFIELD SCHOOL DISTRICT*  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2006*

*NOTE 3- OTHER MATTERS*

*3-A Pensions*

*New Hampshire Retirement System* - The School District participates in the New Hampshire Retirement System (the System) which is the administrator of a cost-sharing multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Provision for benefits and contributions are established and can be amended by the New Hampshire State Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

The System is financed by contributions from both the employees and the School District. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees are required to contribute 5% of earnable compensation. For fiscal year 2006, the School District contributed 3.70% for teachers and 6.81% for other employees. The contribution requirements for the Litchfield School District for the fiscal years 2004, 2005 and 2006 were \$215,797, \$227,399 and \$320,545 respectively, which were paid in full in each year.

The State of New Hampshire funds 35% of employer costs for teachers employed by the School District. This amount, \$127,773, is reported as an "on-behalf payment," as an expenditure and revenue on the governmental funds statement of revenues, expenditures and changes in fund balances, and as an expense and revenue on the statement of activities.

*3-B Risk Management*

The School District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2006, the School District was a member of the New Hampshire Public Risk Management Exchange (Primex) Workers' Compensation and Property/Liability Programs which are pooled risk management programs under RSAs 5-B and 281-A. The workers' compensation and employer's liability policy provides statutory coverage for workers' compensation and up to \$2,000,000 of employer's liability coverage. Primex retained \$500,000 of each workers' compensation and liability loss, and \$200,000 of each property loss. The combined liability package includes coverage for property, auto, liability, errors and omissions, crime, and boiler and machinery. The membership and coverage run from July 1 through June 30. The estimated net contribution from the Litchfield School District billed and paid for the year ended June 30, 2006 was \$53,492 for property/liability, and \$23,613 for workers' compensation. The member participation agreements permit Primex to make additional assessments to members, should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. At this time, Primex foresees no likelihood of any additional assessment for this or any prior year.

*3-C Contingent Liabilities*

The School District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement from the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the School District believes such disallowances, if any, will be immaterial.

There are various claims and suits pending against the School District which arise in the normal course of the School District's activities. In the opinion of management, the ultimate disposition of these various claims and suits will not have a material effect on the financial position of the School District.

***REQUIRED SUPPLEMENTARY SCHEDULES***

*EXHIBIT E-1*  
**LITCHFIELD SCHOOL DISTRICT**  
*General Fund*  
*Schedule of Revenues, Expenditures and Changes in*  
**Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)**  
*For the Fiscal Year Ended June 30, 2006*

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>				
School district assessment	\$ 8,459,390	\$ 8,459,390	\$ 8,459,390	\$ -
Other local	53,000	187,671	269,603	81,932
State	6,881,129	6,881,129	6,954,231	73,102
Federal	60,000	60,000	80,898	20,898
Total revenues	<u>15,453,519</u>	<u>15,588,190</u>	<u>15,764,122</u>	<u>175,932</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Instruction	8,473,028	8,520,505	8,493,233	27,272
<b>Support services:</b>				
Student	983,907	983,907	1,003,141	(19,234)
Instructional staff	648,124	702,388	471,084	231,304
General administration	98,811	98,811	86,344	12,467
Executive administration	460,109	460,109	378,155	81,954
School administration	909,919	909,919	883,014	26,905
Business	265,297	265,297	261,054	4,243
Operation and maintenance of plant	1,680,775	1,680,775	1,598,401	82,374
Student transportation	523,433	523,433	521,008	2,425
Other	270,226	280,186	295,457	(15,271)
<b>Debt service:</b>				
Principal	800,000	800,000	800,000	-
Interest	395,463	395,463	394,129	1,334
Facilities acquisition and construction	44,611	67,581	297,603	(230,022)
Total expenditures	<u>15,553,703</u>	<u>15,688,374</u>	<u>15,482,623</u>	<u>205,751</u>
Excess (deficiency) of revenues over (under) expenditures	(100,184)	(100,184)	281,499	381,683
<b>Other financing uses:</b>				
Transfers out	(50,000)	(50,000)	(50,000)	-
Net change in fund balance	<u>\$ (200,184)</u>	<u>\$ (150,184)</u>	231,499	<u>\$ 381,683</u>
Decrease in fund balance reserved for special purposes			50,000	
Unreserved fund balance, beginning			100,184	
Unreserved fund balance, ending			<u>\$ 381,683</u>	

The notes to the required supplementary information are an integral part of this schedule.

*EXHIBIT E-2*  
*LITCHFIELD SCHOOL DISTRICT*  
*Grants Fund*  
*Schedule of Revenues, Expenditures and Changes in Fund Balance*  
*Budget and Actual (GAAP Basis)*  
*For the Fiscal Year Ended June 30, 2006*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Local	\$ 10,000	\$ 10,806	\$ 806
Federal	323,100	293,042	(30,058)
Total revenues	<u>333,100</u>	<u>303,848</u>	<u>(29,252)</u>
Expenditures:			
Current:			
Instruction	333,100	303,848	29,252
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning		-	
Fund balance, ending		<u>\$ -</u>	

The notes to the required supplementary information are an integral part of this schedule.

**LITCHFIELD SCHOOL DISTRICT**  
**Notes to Required Supplementary Information**  
**As Of and For the Fiscal Year Ended June 30, 2006**

General Budget Policies.....	1
Budgetary Reconciliation.....	2

**LITCHFIELD SCHOOL DISTRICT**  
**Notes to Required Supplementary Information**  
**As Of and For the Fiscal Year Ended June 30, 2006**

**1. General Budget Policies**

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the School District's operations. At its annual meeting, the School District adopts a budget for the general and grants funds, as well as the nonmajor food service fund. Except as reconciled below, the budget was adopted on a basis consistent with U.S. generally accepted accounting principles.

Management may transfer appropriations between operating categories as deemed necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at year-end unless encumbered.

Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects and specific items not fully expended at year-end) are recognized, is employed in the governmental funds. Encumbrances are not the equivalent of expenditures, and are therefore, reported as part of the fund balance at year-end, and are carried forward to supplement appropriations of the subsequent year.

State statutes require balanced budgets, but provide for the use of beginning unreserved fund balance to achieve that end. In the fiscal year 2006, \$150,184 of the beginning general fund fund balance was applied for this purpose.

**2. Budgetary Reconciliation**

The following reconciles the general fund budgetary basis to the GAAP basis.

Revenues and other financing sources:	\$ 15,764,122
Per Exhibit E-1 (budgetary basis)	
Adjustment:	
Basis difference:	
On-behalf retirement contributions made by the State of New Hampshire recognized as revenue on the GAAP basis, but not on the budgetary basis	127,773
Per Exhibit C-3 (GAAP basis)	\$ 15,891,895
 Expenditures and other financing uses:	
Per Exhibit E-1 (budgetary basis)	\$ 15,532,623
Adjustments:	
Basis difference:	
Encumbrances, beginning	178,331
Encumbrances, ending	(232,123)
On-behalf retirement contributions made by the State of New Hampshire recognized as expenditure on the GAAP basis, but not on the budgetary basis	127,773
Per Exhibit C-3 (GAAP basis)	\$ 15,606,604



*COMBINING AND INDIVIDUAL FUND SCHEDULES*

**SCHEDULE 1**  
**LITCHFIELD SCHOOL DISTRICT**  
**Major General Fund**  
*Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)*  
**For the Fiscal Year Ended June 30, 2006**

	Estimated	Actual	Variance Positive (Negative)
School district assessment:			
Current appropriation	\$ 8,459,390	\$ 8,459,390	\$ -
Other local sources:			
Tuition	20,000	49,532	29,532
Transportation	8,000	9,376	1,376
Investment earnings	15,000	62,429	47,429
Rentals	-	3,910	3,910
Miscellaneous	144,671	144,356	(315)
Total other local sources	<u>187,671</u>	<u>269,603</u>	<u>81,932</u>
State sources:			
Adequacy aid (grant)	4,697,382	4,697,382	-
Adequacy aid (tax)	1,845,355	1,845,355	-
School building aid	238,392	238,392	-
Catastrophic aid	100,000	169,533	69,533
Vocational aid	-	3,569	3,569
Total state sources	<u>6,881,129</u>	<u>6,954,231</u>	<u>73,102</u>
Federal sources:			
Medicaid	<u>60,000</u>	<u>80,898</u>	<u>20,898</u>
Total revenues	15,588,190	<u>\$ 15,764,122</u>	<u>\$ 175,932</u>
Use of fund balance to reduce school district assessment	<u>150,184</u>		
Total revenues and use of fund balance	<u>\$ 15,738,374</u>		

**SCHEDULE 2**  
**LITCHFIELD SCHOOL DISTRICT**  
**Major General Fund**  
*Schedule of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)*  
**For the Fiscal Year Ended June 30, 2006**

	Encumbered from Prior Year	Appropriations Curent Year	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
Instruction:					
Regular programs	\$ 3,645	\$ 6,125,288	\$ 6,259,768	\$ 18,838	\$ (149,673)
Special programs	19,464	2,068,335	1,916,786	15,928	155,085
Vocational programs	6,317	31,500	20,039	5,365	12,413
Adult and community programs	-	-	-	-	-
Other	683	295,382	284,333	2,285	9,447
Total instruction	<u>30,109</u>	<u>8,520,505</u>	<u>8,480,926</u>	<u>42,416</u>	<u>27,272</u>
Support services:					
Student	6,456	983,907	1,007,497	2,100	(19,234)
Instructional staff	33,781	702,388	501,113	3,752	231,304
General administration	-	98,811	86,344	-	12,467
Executive administration	109	460,109	377,942	322	81,954
School administration	515	909,919	879,989	3,540	26,905
Business	3,290	265,297	261,501	2,843	4,243
Operation and maintenance of plant	28,648	1,680,775	1,501,988	125,061	82,374
Student transportation	2,548	523,433	513,654	9,902	2,425
Other	-	280,186	285,795	9,662	(15,271)
Total support services	<u>75,347</u>	<u>5,904,825</u>	<u>5,415,823</u>	<u>157,182</u>	<u>407,167</u>
Debt service:					
Principal of long-term debt	-	800,000	800,000	-	-
Interest on long-term debt	-	395,463	394,129	-	1,334
Total debt service	<u>-</u>	<u>1,195,463</u>	<u>1,194,129</u>	<u>-</u>	<u>1,334</u>
Facilities acquisition and construction	<u>72,875</u>	<u>67,581</u>	<u>337,953</u>	<u>32,525</u>	<u>(230,022)</u>
Other financing uses:					
Transfers out	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>-</u>
<b>Total appropriations, expenditures, other financing uses and encumbrances</b>	<u><u>\$ 178,331</u></u>	<u><u>\$ 15,738,374</u></u>	<u><u>\$ 15,478,831</u></u>	<u><u>\$ 232,123</u></u>	<u><u>\$ 205,751</u></u>

**SCHEDULE 3**  
**LITCHFIELD SCHOOL DISTRICT**  
*Major General Fund*  
*Schedule of Changes in Unreserved - Undesignated Fund Balance (Non-GAAP Budgetary Basis)*  
*For the Fiscal Year Ended June 30, 2006*

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Unreserved, undesignated fund balance, beginning		\$	100,184
Changes:			
Unreserved fund balance used to reduce school district assessment			(150,184)
2005-2006 Budget summary:			
Revenue surplus (Schedule 1)	\$	175,932	
Unexpended balance of appropriations (Schedule 2)		205,751	
2005-2006 Budget surplus			381,683
Decrease in fund balance reserved for special purposes			50,000
Unreserved, undesignated fund balance, ending		\$	381,683

**SCHEDULE 4**  
**LITCHFIELD SCHOOL DISTRICT**  
*Nonmajor Governmental Funds*  
**Combining Balance Sheet**  
**June 30, 2006**

	Special Revenue Funds		
	Food Service	Expendable Trust	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 117,774	\$ -	\$ 117,774
Accounts receivable	553	-	553
Intergovernmental receivable	3,636	101,550	105,186
Total assets	<u>\$ 121,963</u>	<u>\$ 101,550</u>	<u>\$ 223,513</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 442	\$ -	\$ 442
Deferred revenue	6,415	-	6,415
Total liabilities	<u>6,857</u>	<u>-</u>	<u>6,857</u>
Fund balances:			
Unreserved, undesignated	115,106	101,550	216,656
Total liabilities and fund balances	<u>\$ 121,963</u>	<u>\$ 101,550</u>	<u>\$ 223,513</u>

**SCHEDULE 5**  
**LITCHFIELD SCHOOL DISTRICT**  
*Nonmajor Governmental Funds*  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Fiscal Year Ended June 30, 2006**

	Special Revenue Funds		
	Food Service	Expendable Trust	Total
Revenues:			
Local	\$ 416,106	\$ 1,550	\$ 417,656
State	4,861	-	4,861
Federal	76,020	-	76,020
Total revenues	<u>496,987</u>	<u>1,550</u>	<u>498,537</u>
Expenditures:			
Current:			
Non-instructional services	<u>522,573</u>	<u>-</u>	<u>522,573</u>
Excess (deficiency) of revenues over (under) expenditures	(25,586)	1,550	(24,036)
Other financing sources (uses):			
Transfers in	<u>-</u>	<u>50,000</u>	<u>50,000</u>
Net changes in fund balances	(25,586)	51,550	25,964
Fund balances, beginning	<u>140,692</u>	<u>50,000</u>	<u>190,692</u>
Fund balances, ending	<u>\$ 115,106</u>	<u>\$ 101,550</u>	<u>\$ 216,656</u>

*SCHEDULE 6*  
*LITCHFIELD SCHOOL DISTRICT*  
*Student Activities Funds*  
*Combining Statement of Changes in Student Activities Funds*  
*For the Fiscal Year Ended June 30, 2006*

SCHOOL	Balance, beginning	Additioins	Deductions	Balance, ending
Campbell High	\$ 60,724	\$ 241,552	\$ 228,382	\$ 73,894
Litchfield Middle	21,522	183,795	187,565	17,752
Griffin Memorial	11,430	51,517	49,757	13,190
Totals	<u>\$ 93,676</u>	<u>\$ 476,864</u>	<u>\$ 465,704</u>	<u>\$ 104,836</u>



# PLODZIK & SANDERSON

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## ***INDEPENDENT AUDITOR'S COMMUNICATION OF REPORTABLE CONDITIONS AND OTHER MATTERS***

To the Members of the School Board  
Litchfield School District  
Litchfield, New Hampshire

In planning and performing our audit of the Litchfield School District for the year ended June 30, 2006, we considered the School District's internal control structure in order to determine the scope of our auditing procedures for the purpose of expressing our opinions on the financial statements. Our review of these systems was not intended to provide assurance on the internal control structure and should not be relied on for that purpose.

Under the standards established by the American Institute of Certified Public Accountants, reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might constitute reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. During the course of our review of internal controls, no material weaknesses in the School District's accounting systems and records were identified.

This report is intended solely for the information and use of management, the school board, and others within the administration. This restriction is not intended to limit distribution of this report, which is a matter of public record.

July 27, 2006

*Plodzik & Sanderson  
Professional Association*