

**LITCHFIELD SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2007**

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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, 2007, 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 these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Litchfield School District as of June 30, 2007, 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.

December 18, 2007

*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, 2007

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, 2007. 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, 2007, were \$7,812,522. Net assets increased by \$1,062,243, or 15.74%, between the restated July 1, 2006 total and June 30, 2007. The District's total net assets consisted of \$6,838,427 in capital assets net of debt and an unrestricted net asset balance of \$974,095.
- The District's long-term bonds for Campbell High School as of June 30, 2007 total \$6,085,000. 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 2007.
- During the year, the District's General Fund budgetary expenditures of \$16,037,266 were \$901,469 less than the final adjusted budget, and the General Fund budgetary revenues of \$16,737,378 were \$180,599 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 \$1,082,068, or 6.69% of total General Fund expenditures. Major contributing factors to this fund balance were: \$180,599 in excess revenues which must be returned to the year-end fund balance and a \$667,614 under spend in Special Education out-of-district tuition, transportation and staffing costs. These anticipated expenses which were budgeted for specific students were not required.
- The School District accepted impact fees in the amount of \$12,158 from the Town of Litchfield which were used to offset architectural and engineering costs relative to the consideration of a new elementary school building.

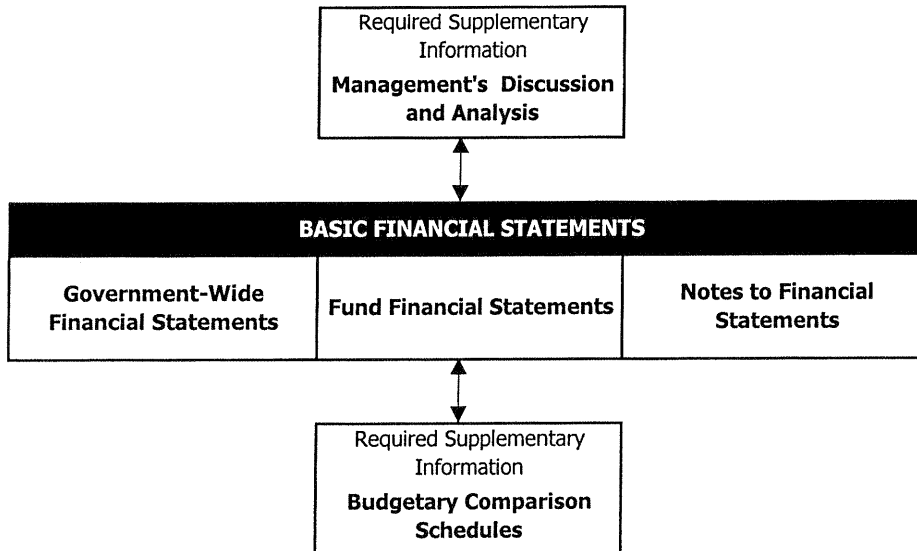
## OVERVIEW OF FINANCIAL STATEMENTS

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.



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2007

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
<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	

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2007

**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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2007

**Net Assets for the period ending June 30, 2007**

Total net assets at year end were \$7,812,522, an increase of \$1,062,243 or 15.74% over the prior year.

<b>Net Assets</b>	<b>2007</b>	<b>2006</b>	<b>% Variance</b>
Current Assets	2,066,713	1,239,062	66.80%
Non-current Assets	12,923,427	13,313,383	-2.93%
<b>Total Assets</b>	<b>14,990,140</b>	<b>14,552,445</b>	<b>3.01%</b>
Current Liabilities	642,870	550,073	16.87%
Non-current Liabilities	6,534,748	6,978,729	-6.36%
<b>Total Liabilities</b>	<b>7,177,618</b>	<b>7,528,802</b>	<b>-4.66%</b>
Investment in capital assets (net of debt)	6,838,427	6,428,383	6.38%
Unrestricted net assets	974,095	321,896	202.61%
<b>Total Net Assets</b>	<b>7,812,522</b>	<b>6,750,279</b>	<b>15.74%</b>

A portion of the net assets are invested in capital assets.

- 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.
- The larger than average year-end general fund balance was a major contributor to the increase in net assets.

**Change in Net Assets**

The District's total revenues were \$17,895,875; total expenses were \$16,833,632; resulting in an increase of \$1,062,243 in net assets. This year, 93.2% of the District's revenues came from the local tax assessment and the State of New Hampshire, an increase of 0.1% 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 (94.6%). Depreciation expense of \$470,308 remained at 2.8% of total expenses.

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



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2007

Statement of Activities	2007	% of Total	2006	% of Total	% Variance
<b>Revenues:</b>					
Program revenues:					
Charges for services	505,275	2.8%	475,014	2.8%	6.37%
Operating grants	904,845	5.1%	766,502	4.6%	18.05%
Capital grants	260,954	1.5%	238,392	1.4%	9.46%
General revenues:					
School district assessment	9,626,708	53.8%	8,459,390	50.7%	13.80%
Unrestricted grants	6,478,184	36.2%	6,542,737	39.2%	-0.99%
Miscellaneous	119,909	0.7%	212,245	1.3%	-43.50%
<b>Total revenues</b>	<b>\$17,895,875</b>	<b>100%</b>	<b>\$16,694,280</b>	<b>100%</b>	<b>7.20%</b>
<b>Program Expenses:</b>					
Instruction	9,966,180	59.2%	9,369,960	59.5%	6.36%
Support services:					
Student	1,078,789	6.4%	1,007,497	6.4%	7.08%
Instructional staff	458,021	2.7%	498,513	3.2%	-8.12%
General administration	62,413	0.4%	86,344	0.5%	-27.72%
Executive administration	422,583	2.5%	379,375	2.4%	11.39%
School administration	970,289	5.8%	890,346	5.7%	8.98%
Business	296,554	1.8%	264,255	1.7%	12.22%
Operation and maintenance of plant	1,707,593	10.1%	1,508,122	9.6%	13.23%
Student transportation	585,222	3.5%	513,654	3.3%	13.93%
Other	373,187	2.2%	292,348	1.9%	27.65%
Non-instructional services	528,560	3.1%	522,573	3.3%	1.15%
Facilities acquisition and construction	38,809	0.2%	38,552	0.2%	0.67%
Interest on long-term debt	345,432	2.1%	377,691	2.4%	-8.54%
<b>Total governmental activities</b>	<b>\$16,833,632</b>	<b>100%</b>	<b>\$15,749,250</b>	<b>100%</b>	<b>6.89%</b>
<b>Change in net assets</b>	<b>\$1,062,243</b>		<b>\$945,030</b>		<b>12.40%</b>
<b>Beginning net assets (as restated)</b>	<b>\$6,750,279</b>		<b>\$6,078,613</b>		<b>11.05%</b>
<b>Ending net assets</b>	<b>\$7,812,522</b>		<b>\$7,023,643</b>		<b>11.23%</b>

### Revenues

School district assessment was 53.8% of total revenues for the fiscal year ended June 30, 2007, an increase of 3.1% over the prior year.

State of New Hampshire source intergovernmental revenues were 36.2% of total revenues for the fiscal year ended June 30, 2007, a decrease of 3.0% from the prior year.

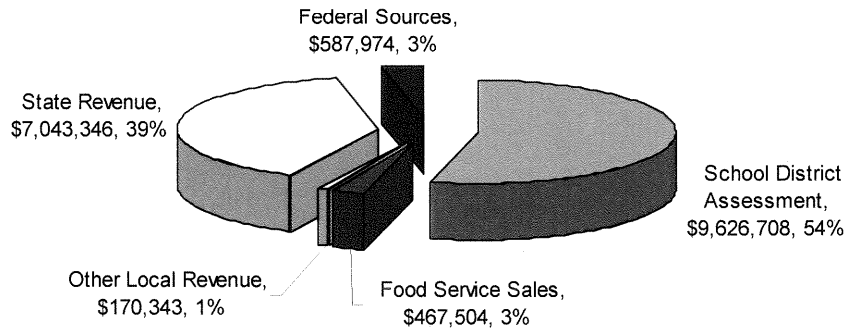
Operating grants and contributions were 5.1% of total revenues for the fiscal year ended June 30, 2007, an increase of 0.5% from the prior year. The District's re-acceptance of Title I grants was the primary reason for this increase.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2007

**Summary of Revenues**

The biggest share, \$16,670,054 (93.2%), 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 2006 - 2007**



**Expenses**

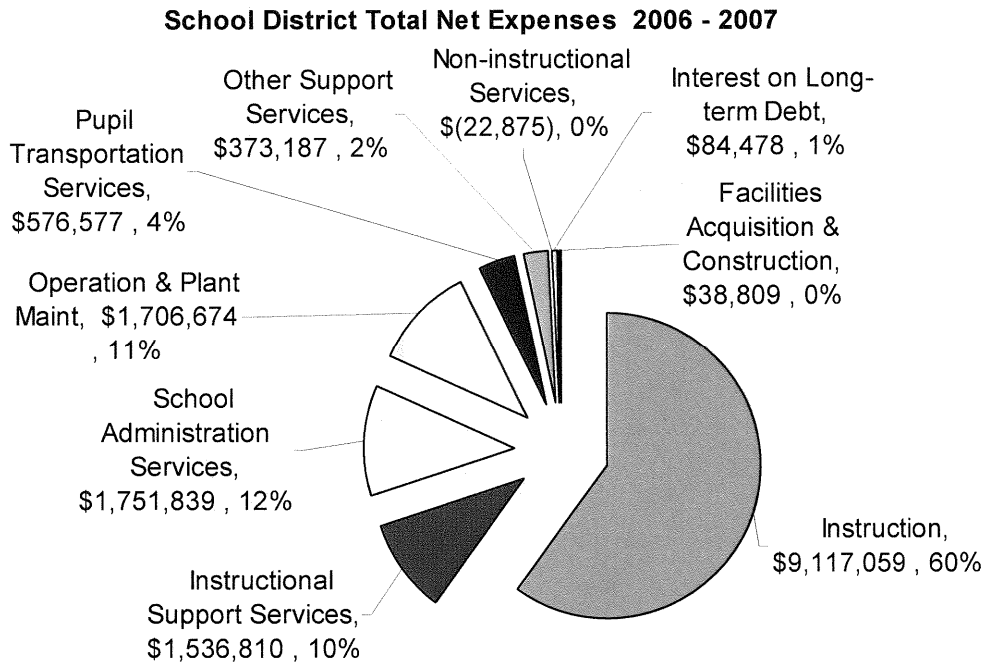
Expenses are reported on an accrual accounting basis. Amounts over or under the prior year expense amounts for the District in area's easily compared are as follows:

- Instruction expenses were 59.2% of total expenses for the fiscal year ended June 30, 2007, a decrease of 0.3% from the prior year.
- Total Support service expenses were 35.4% of total expenses for the fiscal year ended June 30, 2007, an increase of 0.9% from the prior year.

**Summary of Net Expenses**

The Litchfield School District used its budgetary resources as depicted in the chart below. 70% of all expenses were on instruction and instructional support. Most federal revenue was expended on special needs instruction and support, teacher professional development, 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 \$260,954 were applied as an offset to the interest on long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2007



Highlighted changes in total net expenses include:

- An increase in Instruction spending of \$482,252 or 5.6% over the prior year
- An increase in Operation & Plant Maintenance spending of \$198,552 or 13.2% over the prior year
- An increase in School Administration of \$79,943 or 9.0% over the prior year
- An increase in Student Transportation of \$72,299 or 14.3% over the prior year
- An increase in Student Support Services of \$71,292 or 7.1% over the 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).

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2007

**TOTAL AND NET COST OF SERVICES**

<b>Functions / Programs</b>	<b>Total Cost of Services</b>		<b>2006</b>		<b>Variance</b>
	<b>2007</b>				
Instruction	9,966,180	59%	9,369,960	59%	596,220
Support services	5,954,651	35%	5,440,474	35%	514,177
Food service program	528,560	3%	522,573	3%	5,987
Facilities acquisition	38,809	0%	38,552	0%	257
<b>Unallocated</b>					
Interest	345,432	2%	377,691	2%	(32,259)
	<u>\$ 16,833,632</u>	<u>100%</u>	<u>\$ 15,749,250</u>	<u>100%</u>	<u>1,084,382</u>

<b>Functions / Programs</b>	<b>Net Cost of Services</b>		<b>2006</b>		<b>Variance</b>
	<b>2007</b>				
Instruction	\$ 9,117,059	60%	\$ 8,634,807	61%	482,252
Support services	5,945,087	39%	5,431,098	38%	513,989
Food service program	(22,875)	0%	25,586	0%	(48,461)
Facilities acquisition	38,809	0%	38,552	0%	257
<b>Unallocated</b>					
Interest	84,478	1%	139,299	1%	(54,821)
	<u>\$ 15,162,558</u>	<u>100%</u>	<u>\$ 14,269,342</u>	<u>100%</u>	<u>\$ 893,216</u>

The total cost of all governmental activities this year was \$16,833,632; the total net cost was \$15,162,558. 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 \$11,413,478; which consisted of \$9,626,708 paid in the form of local property taxes and \$1,786,770 paid in the form of property taxes under the State of New Hampshire state-wide education tax system raised locally 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, 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 \$29,126.
- Total food service revenues of \$551,435 consisted of food service sales and local miscellaneous revenues in the amount of \$467,504 and federal and state food nutrition program operating contributions (free and reduced lunch reimbursements and commodities) of \$83,931.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2007

Operating Grants and Contributions

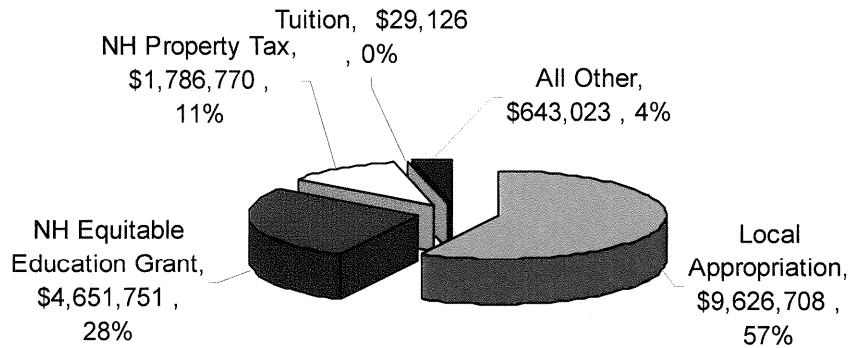
- Federal grants for instruction were received in the amount of \$417,464.

**INDIVIDUAL FUND ANALYSIS**

**General Fund**

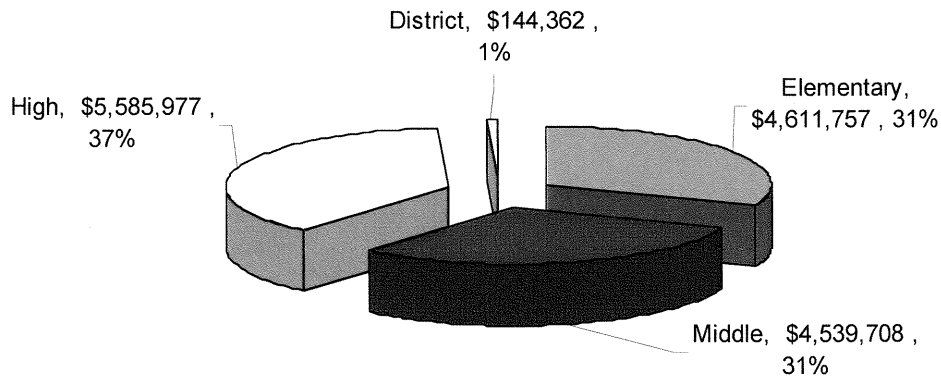
The General Fund is what most people think of as “the budget” since it is the focal point of the Annual Deliberative Session and largely supported by locally raised taxes. The local appropriation and the state property tax are raised locally and make up 68.2% of general fund revenues. Together, the revenues raised locally and the state adequacy grant comprises over 96.0% 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 2006 - 2007**



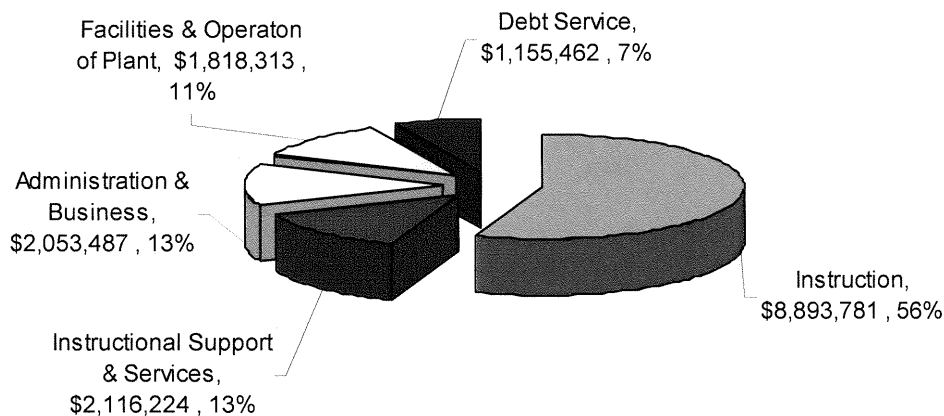
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
 OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2007

**General Fund Expenditures by Grade Level 2006 - 2007**



Instruction makes up 56% 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 7% 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.

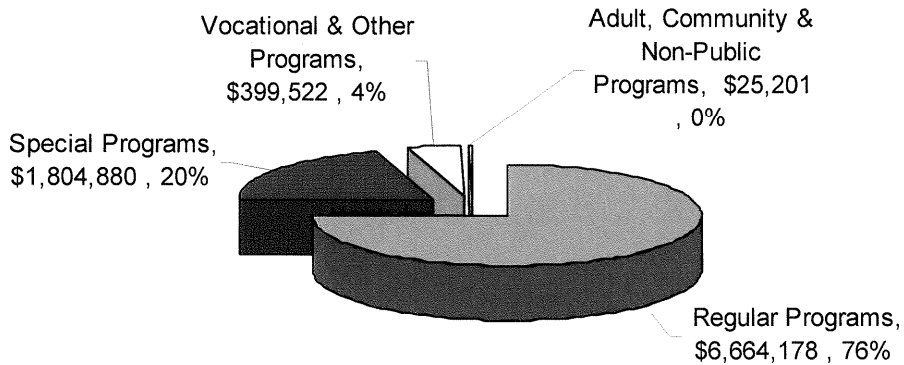
**General Fund Expenditures by Functions 2006 - 2007**



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2007

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

**General Fund Expenditures for Instruction 2006 - 2007**



**SUMMARY OF FEDERAL SUPPORT OF THE DISTRICT**

During fiscal year 2007, 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 \$333,277. This grant funded special needs services and supplies for students throughout the District.
- Title I, Student Achievement and School Accountability Programs was awarded for the current period in the amount of \$43,109. This grant funded the services of an after school program for high school at-risk students.
- Title IIA, Professional Development and Highly Qualified Teachers Program was awarded for the current period in the amount of \$50,515. This grant funded teacher professional development.
- Title IV, Safe and Drug Free Schools was awarded for the current period in the amount of \$6,086. This grant funded staff training and supplies.
- Title V, Innovative Programs, was awarded for the current period in the amount of \$2,700. This grant was used to fund two English teachers for a second semester after school program for at-risk students.
- A Preschool Grant was awarded for the current period in the amount of \$12,659. The grant was used to provide supplies to support special needs students.

During the year, the School Board increased its Grant Fund authorized spending \$82,214 above the appropriated budget as a result of RSA 198:20(b) hearings to accept unanticipated funds made available during the year as a result of its decision to accept Title I funds not included in the original budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2007

### **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 \$1,838.52 during the year from \$101,549.80 at June 30, 2006, to \$103,388.32 at June 30, 2007. 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 \$381,683. General Fund budgetary revenues, consisting largely of local taxes and state aid, were \$16,737,378. General Fund budgetary expenditures, including fund transfers, were \$16,037,266. The ending fund equity for the District was \$1,313,917, of which \$1,082,068 is an unreserved fund balance.
- General Fund actual revenues were greater than the final adjusted budgeted revenues by \$180,599. During the year, the School Board increased its General Fund authorized spending \$12,158 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 \$901,469. These variances are absorbed in the General Fund ending balance.
- Significant General Fund expenditures-to-net-budget variances occurred in several functions that contributed to this higher than average year-end unreserved fund balance:
  - Special Programs out-of-district tuition, transportation and staffing were under spent by \$667,614 due primarily to the District's ability to support more special needs students in district and student issues that changed staffing requirements.
  - Salaries and benefits savings of \$156,025 resulted from cost savings from full-year temporary teachers hired to cover unpaid leaves of absences of permanent staff, medical insurance rates, and an open school administrator position for part of the year.
  - An unusually mild winter helped contribute to a utilities under spend of \$59,842.
  - Self-funded programs, which do not impact the local property tax rate, were under spent by \$33,714.

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.



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2007

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

On June 30, 2007, the District reported capital assets of \$12,923,427 (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. A new security lock and surveillance system at CHS and the repair of the CHS gym floor were the major factors 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>2007</b>	<b>2006</b>	<b>% Variance</b>
Land & Improvements	460,792	460,792	0.00%
Buildings & Improvements	17,776,578	17,737,028	1.72%
Vehicles	-	-	
Furniture & Equipment	94,775	53,973	0.00%
Work In Progress			
<b>Totals at Historical Cost</b>	<b>18,332,145</b>	<b>18,251,793</b>	<b>1.67%</b>
Total Accumulated Depreciation	5,408,718	4,938,410	10.34%
<b>NET CAPITAL ASSETS</b>	<b>12,923,427</b>	<b>13,313,383</b>	<b>-1.21%</b>

**Long-Term Liabilities**

On June 30, 2007, the District had \$6,085,000 of outstanding long-term debt, and \$449,748 in compensated absences payable long term liabilities.

**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 2007-2008 fiscal year is \$1,082,068.

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

1. The District will be proposing the construction of a replacement elementary school for grades 1 through 5, plus Pre/K grades for Special Education purposes, on the 2008 School District Ballot, and
2. The current contract with the Litchfield Educational Association (teachers) expires on June 30, 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2007

3. The State of New Hampshire recently enacted legislation to define what is now required by an adequate education which includes more programs than currently provided by the District. The implementation requirements on the District and the amount of available State revenues to fund this adequate education are yet to be determined.

Questions regarding this report should be directed to Elaine Cutler, Ed. D., Interim 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, 2007*

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,745,499
Intergovernmental receivable	317,961
Other receivables	3,253
Capital assets, not being depreciated:	
Land	460,792
Capital assets, net of accumulated depreciation:	
Buildings and building improvements	12,397,586
Machinery and equipment	65,049
Total assets	14,990,140
<b>LIABILITIES</b>	
Accounts payable	502,532
Accrued interest payable	131,443
Unearned revenue	8,895
Noncurrent obligations:	
Due within one year:	
Bonds	800,000
Due in more than one year:	
Bonds	5,285,000
Compensated absences	449,748
Total liabilities	7,177,618
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,838,427
Unrestricted	974,095
Total net assets	\$ 7,812,522

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, 2007

	Expenses	Program Revenues			Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
Instruction	\$ 9,966,180	\$ 29,126	\$ 819,995	\$ -	\$ (9,117,059)
Support services:					
Student	1,078,789	-	-	-	(1,078,789)
Instructional staff	458,021	-	-	-	(458,021)
General administration	62,413	-	-	-	(62,413)
Executive administration	422,583	-	-	-	(422,583)
School administration	970,289	-	-	-	(970,289)
Business	296,554	-	-	-	(296,554)
Operation and maintenance of plant	1,707,593	-	919	-	(1,706,674)
Student transportation	585,222	8,645	-	-	(576,577)
Other	373,187	-	-	-	(373,187)
Non-instructional services	528,560	467,504	83,931	-	22,875
Interest on long-term debt	345,432	-	-	260,954	(84,478)
Facilities acquisition and construction	38,809	-	-	-	(38,809)
Total governmental activities	<u>\$ 16,833,632</u>	<u>\$ 505,275</u>	<u>\$ 904,845</u>	<u>\$ 260,954</u>	<u>(15,162,558)</u>

General revenues:	
School district assessment	9,626,708
Grants and contributions not restricted to specific programs	6,478,184
Interest	70,653
Miscellaneous	49,256
Total general revenues	<u>16,224,801</u>
Change in net assets	1,062,243
Net assets, beginning, as restated (See Note 2)	6,750,279
Net assets, ending	<u>\$ 7,812,522</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, 2007*

	General	Grants	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,604,089	\$ -	\$ 141,410	\$ 1,745,499
Receivables:				
Accounts	2,133	-	1,120	3,253
Intergovernmental	-	211,078	106,883	317,961
Interfund receivable	187,559	-	-	187,559
Total assets	<u>\$ 1,793,781</u>	<u>\$ 211,078</u>	<u>\$ 249,413</u>	<u>\$ 2,254,272</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 479,864	\$ 22,668	\$ -	\$ 502,532
Interfund payable	-	187,559	-	187,559
Deferred revenue	-	851	8,044	8,895
Total liabilities	<u>479,864</u>	<u>211,078</u>	<u>8,044</u>	<u>698,986</u>
Fund balances:				
Reserved for encumbrances	231,849	-	-	231,849
Unreserved, undesignated, reported in:				
General fund	1,082,068	-	-	1,082,068
Special revenue funds	-	-	241,369	241,369
Total fund balances	<u>1,313,917</u>	<u>-</u>	<u>241,369</u>	<u>1,555,286</u>
Total liabilities and fund balances	<u>\$ 1,793,781</u>	<u>\$ 211,078</u>	<u>\$ 249,413</u>	<u>\$ 2,254,272</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, 2007*

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Total fund balances of governmental funds (Exhibit C-1)		\$ 1,555,286
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	\$ 18,332,145	
Less accumulated depreciation	<u>(5,408,718)</u>	12,923,427
Interfund receivables and payables between governmental funds are eliminated on the statement of net assets.		
Receivables	\$ (187,559)	
Payables	<u>187,559</u>	-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(131,443)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Bonds	\$ 6,085,000	
Compensated absences	<u>449,748</u>	(6,534,748)
Net assets of governmental activities (Exhibit A)		<u><u>\$ 7,812,522</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, 2007*

	General	Grants	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
School district assessment	\$ 9,626,708	\$ -	\$ -	\$ 9,626,708
Other local	157,680	10,825	469,342	637,847
State	6,998,034	39,663	5,649	7,043,346
Federal	92,228	417,464	78,282	587,974
Total revenues	<u>16,874,650</u>	<u>467,952</u>	<u>553,273</u>	<u>17,895,875</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Instruction	9,005,853	467,952	-	9,473,805
<b>Support services:</b>				
Student	1,076,217	-	-	1,076,217
Instructional staff	454,785	-	-	454,785
General administration	61,861	-	-	61,861
Executive administration	408,687	-	-	408,687
School administration	956,208	-	-	956,208
Business	281,591	-	-	281,591
Operation and maintenance of plant	1,699,152	-	-	1,699,152
Student transportation	585,222	-	-	585,222
Other	370,340	-	-	370,340
Non-instructional services	-	-	528,560	528,560
<b>Debt service:</b>				
Principal	800,000	-	-	800,000
Interest	355,462	-	-	355,462
Facilities acquisition and construction	119,161	-	-	119,161
Total expenditures	<u>16,174,539</u>	<u>467,952</u>	<u>528,560</u>	<u>17,171,051</u>
Excess of revenues over expenditures	700,111	-	24,713	724,824
Fund balances, beginning	613,806	-	216,656	830,462
Fund balances, ending	<u>\$ 1,313,917</u>	<u>\$ -</u>	<u>\$ 241,369</u>	<u>\$ 1,555,286</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, 2007*

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Net change in fund balances of total governmental funds (Exhibit C-3)		\$ 724,824
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	\$ 80,352	
Depreciation expense	<u>(470,308)</u>	(389,956)
The repayment of the principal of long-term debt consumes current financial resources of 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	\$ 10,030	
Increase in compensated absences payable	<u>(82,655)</u>	(72,625)
Change in net assets of governmental activities (Exhibit B)		<u><u>\$ 1,062,243</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, 2007*

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	<u>Agency</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 111,345
<b>LIABILITIES</b>	
Due to student groups	<u>111,345</u>
<b>NET ASSETS</b>	<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, 2007**

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**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2007**

**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 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 12.

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. Individual funds are not displayed at this reporting level as all individual governmental funds are consolidated.

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.

**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2007**

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.

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 state and federal grant programs.

The School District also reports two nonmajor governmental 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.

**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2007**

***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.

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

**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2007**

**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.

**1-E-3 Capital Assets**

General 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-4 Compensated Absences**

Compensated 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."

**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2007**

**1-E-5 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-6 Equity**

Fund equity at the governmental fund financial reporting level is classified as "fund balance." 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.

**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-7 Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, 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 - RESTATEMENT OF BEGINNING NET ASSETS**

The net assets of the governmental activities at June 30, 2007 were restated to record an additional compensated absences liability.

Adjustment	\$ (273,364)
Net assets, as previously reported	<u>7,023,643</u>
Net assets, as restated	<u><u>\$ 6,750,279</u></u>

**NOTE 3 - DETAILED NOTES ON ALL FUNDS AND GOVERNMENT-WIDE STATEMENTS**

**3-A Receivables**

Receivables at June 30, 2007, consisted of accounts (tuition, reimbursements and sales) and intergovernmental amounts arising from grants and the trust funds being in the custody of the Town of Litchfield trustees of trust funds.

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.



**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2007**

**3-B Capital Assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance, beginning	Changes	Balance, ending
Governmental activities:			
At cost:			
Not being depreciated:			
Land	\$ 460,792	\$ -	\$ 460,792
Being depreciated:			
Buildings and building improvements	17,737,028	39,550	17,776,578
Machinery and equipment	53,973	40,802	94,775
Total capital assets being depreciated	17,791,001	80,352	17,871,353
Total all capital assets	18,251,793	80,352	18,332,145
Less accumulated depreciation:			
Buildings and building improvements	(4,919,800)	(459,192)	(5,378,992)
Machinery and equipment	(18,610)	(11,116)	(29,726)
Total accumulated depreciation	(4,938,410)	(470,308)	(5,408,718)
Net book value, capital assets being depreciated	12,852,591	(389,956)	12,462,635
Net book value, all capital assets	\$ 13,313,383	\$ (389,956)	\$ 12,923,427

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

Governmental activities:	
Instruction	\$ 461,096
Support services:	
School administration	3,118
Operation and maintenance of plant	6,094
Total depreciation expense	\$ 470,308

**3-C Interfund Balances**

Interfund balances at June 30, 2007 consist of overdrafts in the pooled cash.

Interfund receivable and payable balances at June 30, 2007 are as follows:

Receivable Fund	Payable Fund	Amount
General	Grants	\$ 187,559

**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2007**

**3-D Long-Term Liabilities**

Changes in the School District's long-term obligations consisted of the following for the year ended June 30, 2007:

	General Obligation Bonds Payable	Compensated Absences Payable	Total
Balance, beginning	\$ 6,885,000	\$ 367,093	\$ 7,252,093
Additions	-	82,655	82,655
Reductions	(800,000)	-	(800,000)
Balance, ending	<u>\$ 6,085,000</u>	<u>\$ 449,748</u>	<u>\$ 6,534,748</u>

Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at June 30, 2007	Current Portion
General obligation bonds payable:						
High school construction	\$ 11,685,000	2000	2015	4.5-5.25	\$ 6,085,000	\$ 800,000
Compensated absences payable:						
Vested sick leave					166,975	-
Accrued vacation leave					122,468	-
Vested retirement stipend					160,305	-
					<u>449,748</u>	<u>-</u>
					<u>\$ 6,534,748</u>	<u>\$ 800,000</u>

The annual requirements to amortize the general obligation bonds outstanding as of June 30, 2007, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 800,000	\$ 315,463	\$ 1,115,463
2009	800,000	275,463	1,075,463
2010	800,000	235,463	1,035,463
2011	800,000	193,463	993,463
2012	800,000	151,463	951,463
2013-2015	2,085,000	202,388	2,287,388
Totals	<u>\$ 6,085,000</u>	<u>\$ 1,373,703</u>	<u>\$ 7,458,703</u>

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, 2007**

**NOTE 4 - OTHER MATTERS**

**4-A Pensions**

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 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 2007, 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 2005, 2006 and 2007 were \$227,399, \$320,545 and \$344,758 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, \$137,273, 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.

**4-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 2007, 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, 2007 was \$62,749 for property/liability, and \$35,743 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.

**4-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 arose 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 INFORMATION***

**EXHIBIT E-1**  
**LITCHFIELD SCHOOL DISTRICT**  
*Schedule of Revenues, Expenditures and Changes in Fund Balance*  
*Budget and Actual (Non-GAAP Budgetary Basis)*  
*For the Fiscal Year Ended June 30, 2007*

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>				
School district assessment	\$ 9,626,708	\$ 9,626,708	\$ 9,626,708	\$ -
Other local	58,000	70,158	157,680	87,522
State	6,799,912	6,799,912	6,860,761	60,849
Federal	60,000	60,000	92,228	32,228
Total revenues	<u>16,544,620</u>	<u>16,556,778</u>	<u>16,737,377</u>	<u>180,599</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Instruction	9,520,254	9,520,254	8,827,946	692,308
<b>Support services:</b>				
Student	1,153,819	1,153,819	1,077,711	76,108
Instructional staff	457,629	457,629	452,776	4,853
General administration	67,736	67,736	61,861	5,875
Executive administration	423,640	423,640	471,576	(47,936)
School administration	975,714	975,714	952,668	23,046
Business	269,725	269,725	348,748	(79,023)
Operation and maintenance of plant	1,669,975	1,669,975	1,602,128	67,847
Student transportation	815,164	815,164	575,320	239,844
Other	380,328	380,328	364,653	15,675
<b>Debt service:</b>				
Principal	800,000	800,000	800,000	-
Interest	355,463	355,463	355,462	1
Facilities acquisition and construction	36,856	49,014	146,143	(97,129)
Total expenditures	<u>16,926,303</u>	<u>16,938,461</u>	<u>16,036,992</u>	<u>901,469</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (381,683)</u>	<u>\$ (381,683)</u>	700,385	<u>\$ 1,082,068</u>
Unreserved fund balance, beginning			381,683	
Unreserved fund balance, ending			<u>\$ 1,082,068</u>	

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

**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, 2007**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Local	\$ -	\$ -	\$ 10,825	\$ 10,825
State			39,663	39,663
Federal	350,000	432,214	417,464	(14,750)
Total revenues	<u>350,000</u>	<u>432,214</u>	<u>467,952</u>	<u>35,738</u>
Expenditures:				
Instruction	<u>350,000</u>	<u>432,214</u>	<u>467,952</u>	<u>(35,738)</u>
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 statement.

**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2007**

General Budget Policies.....	1
Budgetary Reconciliation.....	2
Excess of Expenditures over Appropriations.....	3

**LITCHFIELD SCHOOL DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2007**

**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 2007, \$381,683 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:

Per Exhibit E-1 (budgetary basis)	\$ 16,737,377
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	<u>137,273</u>
Per Exhibit C-3 (GAAP basis)	<u><u>\$ 16,874,650</u></u>

Expenditures:

Per Exhibit E-1 (budgetary basis)	\$ 16,036,992
Adjustments:	
Basis difference:	
Encumbrances, beginning	232,123
Encumbrances, ending	(231,849)
On-behalf retirement contributions made by the State of New Hampshire recognized as an expenditure on the GAAP basis, but not on the budgetary basis	<u>137,273</u>
Per Exhibit C-3 (GAAP basis)	<u><u>\$ 16,174,539</u></u>

**3. Excess of Expenditures Over Appropriations**

The grants fund had an excess of expenditures over appropriations of \$117,952 for the year ended June 30, 2007. Overexpenditures were due to the receipt and expenditure of unanticipated grant funds.



***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, 2007*

	Estimated	Actual	Variance Positive (Negative)
School district assessment:			
Current appropriation	\$ 9,626,708	\$ 9,626,708	\$ -
Other local sources:			
Tuition	20,000	29,126	9,126
Transportation	8,000	8,645	645
Investment earnings	20,000	72,491	52,491
Impact fees	12,158	12,158	-
Rentals	-	3,375	3,375
Miscellaneous	10,000	31,885	21,885
Total from other local sources	<u>70,158</u>	<u>157,680</u>	<u>87,522</u>
State sources:			
Adequacy aid (grant)	4,651,751	4,651,751	-
Adequacy aid (tax)	1,786,770	1,786,770	-
School building aid	261,391	260,954	(437)
Catastrophic aid	100,000	157,565	57,565
Vocational aid	-	3,721	3,721
Total from state sources	<u>6,799,912</u>	<u>6,860,761</u>	<u>60,849</u>
Federal sources:			
Medicaid	<u>60,000</u>	<u>92,228</u>	<u>32,228</u>
Total revenues	16,556,778	<u>\$ 16,737,377</u>	<u>\$ 180,599</u>
Use of fund balance to reduce school district assessment	<u>381,683</u>		
Total revenues and use of fund balance	<u>\$ 16,938,461</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, 2007**

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
Instruction:					
Regular programs	\$ 18,838	\$ 6,818,639	\$ 6,664,178	\$ 307	\$ 172,992
Special programs	15,928	2,299,406	1,804,880	1,475	508,979
Vocational programs	5,365	34,656	25,523	-	14,498
Other	2,285	367,553	373,999	-	(4,161)
Total instruction	<u>42,416</u>	<u>9,520,254</u>	<u>8,868,580</u>	<u>1,782</u>	<u>692,308</u>
Support services:					
Student	2,100	1,153,819	1,076,217	3,594	76,108
Instructional staff	3,752	457,629	454,785	1,743	4,853
General administration	-	67,736	61,861	-	5,875
Executive administration	322	423,640	408,687	63,211	(47,936)
School administration	3,540	975,714	956,208	-	23,046
Business	2,843	269,725	281,591	70,000	(79,023)
Operation and maintenance of plant	125,061	1,669,975	1,699,152	28,037	67,847
Student transportation	9,902	815,164	585,222	-	239,844
Other	9,662	380,328	370,340	3,975	15,675
Total support services	<u>157,182</u>	<u>6,213,730</u>	<u>5,894,063</u>	<u>170,560</u>	<u>306,289</u>
Debt service:					
Principal of long-term debt	-	800,000	800,000	-	-
Interest on long-term debt	-	355,463	355,462	-	1
Total debt service	<u>-</u>	<u>1,155,463</u>	<u>1,155,462</u>	<u>-</u>	<u>1</u>
Facilities acquisition and construction	<u>32,525</u>	<u>49,014</u>	<u>119,161</u>	<u>59,507</u>	<u>(97,129)</u>
Total appropriations, expenditures and encumbrances	<u>\$ 232,123</u>	<u>\$ 16,938,461</u>	<u>\$ 16,037,266</u>	<u>\$ 231,849</u>	<u>\$ 901,469</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, 2007*

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Unreserved, undesignated fund balance, beginning		\$ 381,683
Changes:		
Unreserved fund balance used to reduce school district assessment		(381,683)
2006-2007 Budget summary:		
Revenue surplus (Schedule 1)	\$ 180,599	
Unexpended balance of appropriations (Schedule 2)	<u>901,469</u>	
2006-2007 Budget surplus		<u>1,082,068</u>
Unreserved, undesignated fund balance, ending		<u>\$ 1,082,068</u>

**SCHEDULE 4**  
**LITCHFIELD SCHOOL DISTRICT**  
*Nonmajor Governmental Funds*  
**Combining Balance Sheet**  
**June 30, 2007**

	Special Revenue Funds		
	Food Service	Expendable Trust	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 141,410	\$ -	\$ 141,410
Accounts receivable	1,120	-	1,120
Intergovernmental receivable	3,495	103,388	106,883
Total assets	<u>\$ 146,025</u>	<u>\$ 103,388</u>	<u>\$ 249,413</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Deferred revenue	\$ 8,044	\$ -	\$ 8,044
Fund balances:			
Unreserved, undesignated	137,981	103,388	241,369
Total liabilities and fund balances	<u>\$ 146,025</u>	<u>\$ 103,388</u>	<u>\$ 249,413</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, 2007**

	Special Revenue Funds		
	Food Service	Expendable Trust	Total
Revenues:			
Local	\$ 467,504	\$ 1,838	\$ 469,342
State	5,649	-	5,649
Federal	78,282	-	78,282
Total revenues	<u>551,435</u>	<u>1,838</u>	<u>553,273</u>
Expenditures:			
Current:			
Non-instructional services	<u>528,560</u>	<u>-</u>	<u>528,560</u>
Excess of revenues over expenditures	22,875	1,838	24,713
Fund balances, beginning	<u>115,106</u>	<u>101,550</u>	<u>216,656</u>
Fund balances, ending	<u>\$ 137,981</u>	<u>\$ 103,388</u>	<u>\$ 241,369</u>

**SCHEDULE 6**  
**LITCHFIELD SCHOOL DISTRICT**  
*Student Activities Funds*  
**Combining Statement of Changes in Student Activities Funds**  
**For the Fiscal Year Ended June 30, 2007**

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SCHOOL	Balance, beginning	Additions	Deductions	Balance, ending
Campbell High	\$ 73,894	\$ 362,144	\$ 352,607	\$ 83,431
Litchfield Middle	17,752	207,278	202,142	22,888
Griffin Memorial	13,190	37,610	45,774	5,026
Totals	<u>\$ 104,836</u>	<u>\$ 607,032</u>	<u>\$ 600,523</u>	<u>\$ 111,345</u>



## PLODZIK & SANDERSON

*Professional Association/Accountants & Auditors*

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### ***INDEPENDENT AUDITOR'S COMMUNICATION OF CONTROL DEFICIENCIES AND OTHER MATTERS***

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

In planning and reporting our audit of the financial statements of the Litchfield School District as of and for the fiscal year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Litchfield School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Litchfield School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Litchfield School District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Litchfield School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Litchfield School District's financial statements that is more than inconsequential will not be prevented or detected by the Litchfield School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Litchfield School District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the school board, others within the organization, and state and federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

December 18, 2007

*Plodzik & Sanderson  
Professional Association*