

LITCHFIELD SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

LITCHFIELD SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

TABLE OF CONTENTS

| | <u>PAGES</u> |
|---|--------------|
| INDEPENDENT AUDITOR'S REPORT | 1 - 2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3 - 17 |
| BASIC FINANCIAL STATEMENTS | |
| Government-wide Financial Statements: | |
| A Statement of Net Assets | 18 |
| B Statement of Activities | 19 |
| Fund Financial Statements: | |
| Governmental Funds | |
| C-1 Balance Sheet | 20 |
| C-2 Reconciliation of Total Governmental Fund Balances to the Statement of Net Assets | 21 |
| C-3 Statement of Revenues, Expenditures, and Changes in Fund Balances..... | 22 |
| C-4 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 23 |
| Fiduciary Funds | |
| D Statement of Fiduciary Net Assets..... | 24 |
| NOTES TO THE BASIC FINANCIAL STATEMENTS | 25 - 35 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| E-1 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) - General Fund | 36 |
| E-2 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) - Grants Fund..... | 37 |
| F Schedule of Funding Progress for Other Postemployment Benefits Plan | 38 |
| NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION | 39 - 40 |
| COMBINING AND INDIVIDUAL FUND SCHEDULES | |
| GOVERNMENTAL FUNDS | |
| Major General Fund | |
| 1 Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)..... | 41 |
| 2 Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis) | 42 |
| 3 Schedule of Changes in Unreserved - Undesignated Fund Balance (Non-GAAP Budgetary Basis) | 43 |
| Nonmajor Governmental Funds | |
| 4 Combining Balance Sheet | 44 |
| 5 Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances..... | 45 |
| FIDUCIARY FUNDS | |
| Agency Funds | |
| 6 Combining Schedule of Changes in Student Activities Funds – Student Activities Funds..... | 46 |

LITCHFIELD SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

TABLE OF CONTENTS

| | <u>PAGES</u> |
|--|----------------|
| SINGLE AUDIT ACT SCHEDULES AND INDEPENDENT AUDITOR'S REPORTS | |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS..... | 47 |
| REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133..... | 48 - 49 |
| I Schedule of Findings and Questioned Costs..... | 50 |
| II Schedule of Expenditures of Federal Awards..... | 51 - 52 |
| NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS..... | 53 |



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 fiscal year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Litchfield 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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2011 on our consideration of the Litchfield School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-17), the budgetary comparison information (pages 36-37), and the schedule of funding progress for other postemployment benefits plan (page 38) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Litchfield School District
Independent Auditor's Report*

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 as a whole. The combining and individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual fund financial schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Megyn A. Cally, CPA

January 11, 2011

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, 2010

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, 2010. The District has 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 financial statements.

FINANCIAL HIGHLIGHTS

- The District's total net assets for the year ending June 30, 2010, were \$8,653,117. Net assets increased by \$559,198 between July 1, 2009 total and June 30, 2010. The District's total net assets consisted of \$8,487,210 in capital assets net of debt and an unrestricted net asset balance of \$165,907.
- The District's long-term bonds for Campbell High School as of June 30, 2010 total \$3,685,000. 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 2010.
- During the year, the District's General Fund budgetary expenditures and transfers of \$19,438,067 were \$182,415 less than the final adjusted budget and the General Fund budgetary revenues of \$19,236,074 were \$188,149 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 \$370,564, or 1.91% of total General Fund expenditures, a reduction of 33.0% from the prior year. Major contributing factors to this fund balance were: \$188,149 in excess revenues, which must be returned to the year-end fund balance; an under spend in utilities of approximately \$135,603 due mostly to the very mild winter weather; and an under spend of approximately \$37,449 in vocational education transportation due to new contract terms.
- The School District accepted approximately \$2,638,686 in federal grant monies in fiscal 2010. The American Recovery and Reinvestment Act of 2009 (ARRA) was the major source of this total, including \$1,698,409 in the general fund which the State of New Hampshire used to offset a shortage of funds in their adequacy aid payments to the district.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2010

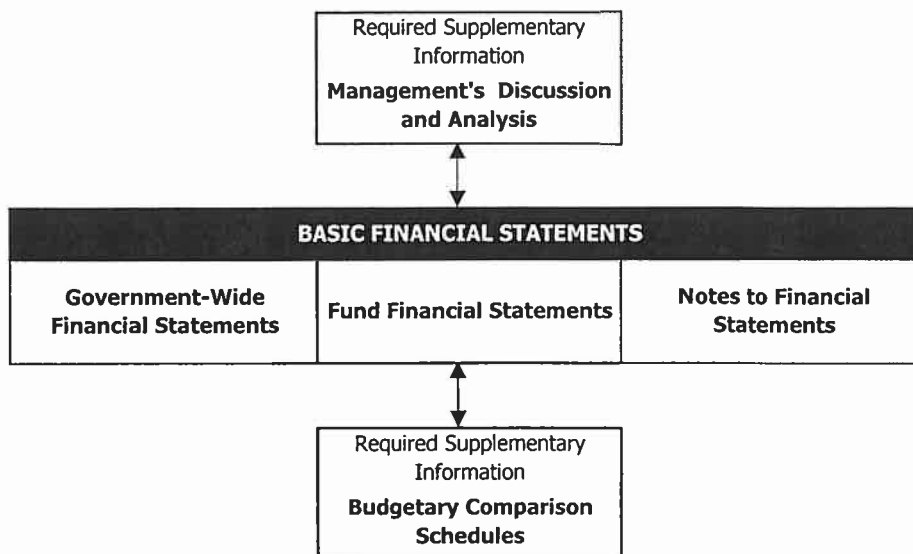
OVERVIEW OF FINANCIAL STATEMENTS

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, 2010**

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 |
| SCOPE | 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 |
| REQUIRED FINANCIAL STATEMENTS | 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) |
| ACCOUNTING BASIS | Accrual | Modified Accrual | Accrual |
| MEASUREMENT FOCUS | Economic Resources | Current Financial Resources | Economic Resources |
| TYPE OF INFORMATION ASSETS AND LIABILITIES | 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 |
| TYPE OF INFORMATION REVENUES, EXPENSES, AND EXPENDITURES | 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, 2010

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, 2010

Net Assets for the period ending June 30, 2010

Total net assets at year end were \$8,653,117, an increase of \$559,198 or 6.91% over the prior year.

| Net Assets | 2010 | 2009 | % Variance |
|--|-------------------|-------------------|-----------------------|
| Current Assets | 1,602,483 | 1,377,299 | 16.35% |
| Non-current Assets | 12,172,210 | 12,540,132 | -2.93% |
| Total Assets | 13,774,693 | 13,917,431 | -1.03% |
| | | | |
| Current Liabilities | 632,309 | 628,740 | 0.57% |
| Non-current Liabilities | 4,489,267 | 5,194,772 | -13.58% |
| Total Liabilities | 5,121,576 | 5,823,512 | -12.05% |
| | | | |
| Investment in capital assets (net of debt) | | | |
| Restricted net assets | 8,487,210 | 8,055,132 | 5.36% |
| Unrestricted net assets | 165,907 | 38,787 | 327.74% |
| Total Net Assets | 8,653,117 | 8,093,919 | 5.36% |

Change in Net Assets

The District's total revenues were \$20,742,896; total net expenses were \$17,701,279; resulting in an increase of \$559,198 in net assets. This year, 84.2% of the District's revenues came from the local tax assessment and the State of New Hampshire, a decrease of 9.3% from last year. This large decrease is the result of the state using \$1,698,409 in American Recovery and Reinvestment Act monies to offset some of its funding shortfall for its adequacy aid payments. 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 net expenditures continue to be largely for instruction and support services (99.8%). Depreciation expense of \$498,370 was 2.8% of total net 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, 2010

| Statement of Activities | 2010 | % of Total | 2009 | % of Total | % Variance |
|---|---------------------|---------------|---------------------|---------------|----------------|
| Revenues: | | | | | |
| Program revenues: | | | | | |
| Charges for services | 542,734 | 2.6% | 577,916 | 2.9% | -6.09% |
| Operating grants | 1,457,526 | 7.0% | 1,053,373 | 5.3% | 38.37% |
| Capital grants | 482,159 | 2.3% | 289,882 | 1.5% | 66.33% |
| General revenues: | | | | | |
| School district assessment | 10,217,075 | 49.3% | 9,870,148 | 49.9% | 3.51% |
| Unrestricted grants | 7,955,508 | 38.4% | 7,955,508 | 40.2% | 0.00% |
| Miscellaneous | 87,894 | 0.4% | 19,165 | 0.1% | 358.62% |
| Total revenues | \$20,742,896 | 100% | \$19,765,992 | 100% | 4.94% |
| Program Expenses: | | | | | |
| Instruction | 11,844,889 | 58.7% | 11,458,942 | 58.7% | 3.37% |
| Support services: | | | | | |
| Student | 1,592,430 | 7.9% | 1,505,456 | 7.7% | 5.78% |
| Instructional staff | 572,605 | 2.8% | 555,270 | 2.8% | 3.12% |
| General administration | 43,496 | 0.2% | 104,764 | 0.5% | -58.48% |
| Executive administration | 543,861 | 2.7% | 471,481 | 2.4% | 15.35% |
| School administration | 1,160,829 | 5.8% | 1,116,256 | 5.7% | 3.99% |
| Business | 309,330 | 1.5% | 347,284 | 1.8% | -10.93% |
| Operation and maintenance of plant | 1,880,331 | 9.3% | 1,934,745 | 9.9% | -2.81% |
| Student transportation | 727,095 | 3.6% | 667,012 | 3.4% | 9.01% |
| Other | 495,541 | 2.5% | 402,990 | 2.1% | 22.97% |
| Non-instructional services | 558,732 | 2.8% | 578,510 | 3.0% | -3.42% |
| Interest on long-term debt | 215,757 | 1.1% | 261,600 | 1.3% | -17.52% |
| Facilities acquisition and construction | 238,802 | 1.2% | 104,372 | 0.5% | 128.80% |
| Total governmental activities | \$20,183,698 | 100% | \$19,508,682 | 100% | 3.46% |
| Change in net assets | \$559,198 | | \$257,310 | | 117.32% |
| Beginning net assets | \$8,093,919 | | \$7,836,609 | | 3.28% |
| Ending net assets | \$8,653,117 | | \$8,093,919 | | 6.91% |

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2010**

Revenues

School district assessment was 49.3% of total revenues for the fiscal year ended June 30, 2010, a decrease of 0.6% from the prior year.

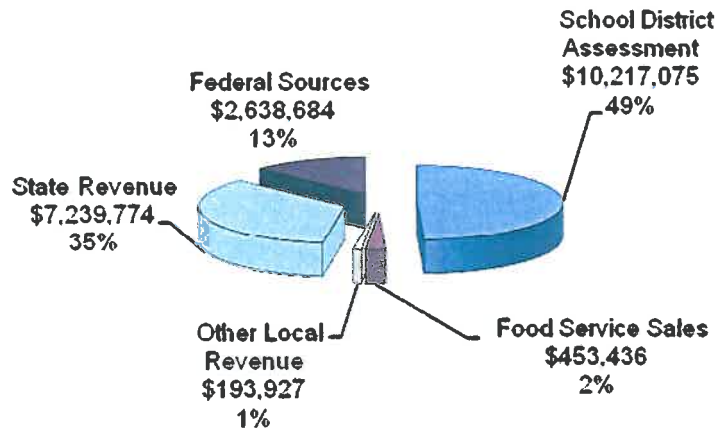
State of New Hampshire source intergovernmental revenues were 34.9% of total revenues for the fiscal year ended June 30, 2010, a decrease of 8.7% from the prior year. This decrease was due to the state using federal ARRA monies to fund part of the state's adequacy aid grant.

Federal revenues were 12.7% of total revenues for the fiscal year ended June 30, 2010, an increase of 9.4% from the prior year.

Summary of Revenues

The biggest share, \$17,456,849 (84.2%), 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 2009 - 2010



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 59.4% of total net expenses for the fiscal year ended June 30, 2010, a decrease of 0.5% from the prior year.
- Total Support service expenses were 40.5% of total net expenses for the fiscal year ended June 30, 2010, an increase of 0.8% from the prior year.

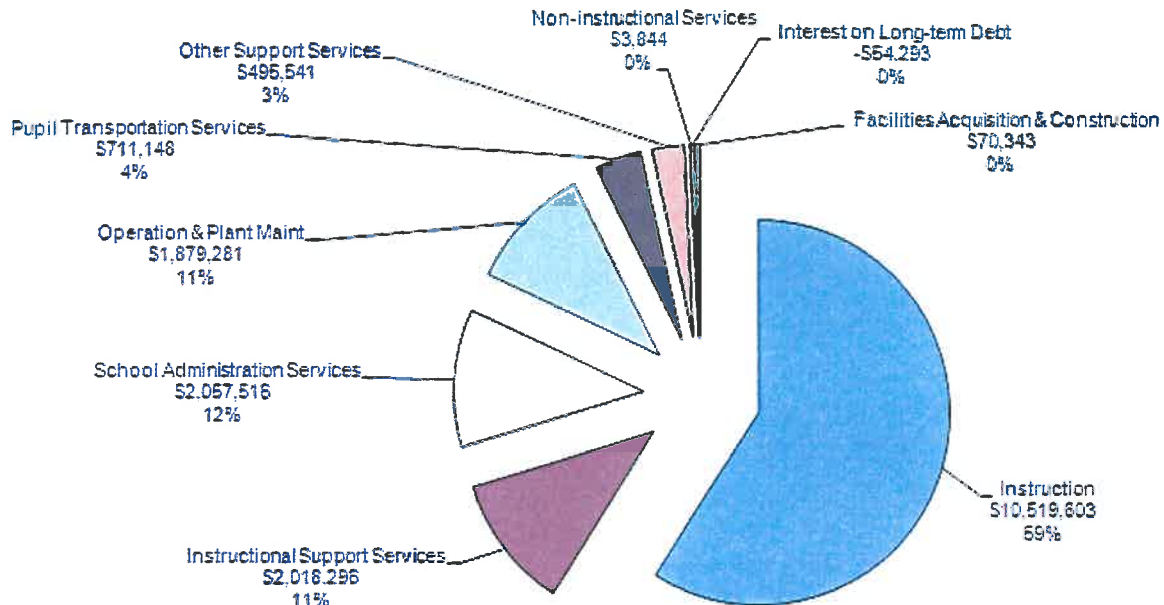
Summary of Net Expenses

The Litchfield School District used its budgetary resources as depicted in the chart below. 70.8% of all expenses were on instruction and instructional support. Most federal revenues

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2010**

were expended on staff salaries and benefits through the state's use of ARRA monies to fund part of the district's adequacy aid grant. Excluding the replacement of adequacy aid grant, the remainder of federal revenue was again expended mostly 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 \$270,050 were applied as an offset to the interest on long-term debt and the State Kindergarten Building Aid revenues of \$212,109 were applied as an offset of \$157,439 on facilities construction and \$54,670 on regular education.

School District Total Net Expenses 2009 -2010



Highlighted changes in total net expenses include:

- A decrease in Instruction spending of \$11,099 or a decrease of 0.11% under the prior year
- An increase in Instructional Support Services of \$83,812 or 4.33% over the prior year
- A decrease in Operation & Plant Maintenance spending of \$53,514 or 2.77% under the prior year
- An increase in Student Transportation Services of \$59,877 or 9.19% over the prior year
- An increase in Other Support Services of \$92,551 or 22.7% over the prior year due to the purchase of computer networking equipment

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2010

the school district assessment which is derived by local and statewide property taxes and general state aid).

| TOTAL AND NET COST OF SERVICES | | | | | |
|---------------------------------------|-------------------------------|-------------|----------------------|-------------|-----------------|
| | Total Cost of Services | | | | Variance |
| | 2010 | | 2009 | | |
| Functions / Programs | | | | | |
| Instruction | \$11,844,889 | 58.7% | \$11,458,942 | 58.7% | \$385,947 |
| Support services | 7,325,518 | 36.3% | 7,105,258 | 36.4% | 220,260 |
| Food service program | 558,732 | 2.8% | 578,510 | 3.0% | (19,778) |
| Facilities acquisition | 238,802 | 1.2% | 104,372 | 0.5% | 134,430 |
| Unallocated | | | | | |
| Interest | 215,757 | 1.1% | 261,600 | 1.3% | (45,843) |
| | <u>\$ 20,183,698</u> | <u>100%</u> | <u>\$ 19,508,682</u> | <u>100%</u> | <u>675,016</u> |
| | | | | | |
| | Net Cost of Services | | | | Variance |
| | 2010 | | 2009 | | |
| Functions / Programs | | | | | |
| | | | \$ | | |
| Instruction | \$ 10,519,603 | 59.4% | 10,530,702 | 59.9% | (\$11,099) |
| Support services | 7,161,782 | 40.5% | 6,961,325 | 39.6% | 200,457 |
| Food service program | 3,844 | 0.0% | 19,394 | 0.1% | (15,550) |
| Facilities acquisition | 70,343 | 0.4% | 72,495 | 0.4% | (2,152) |
| Unallocated | | | | | |
| Interest | (54,293) | -0.3% | 3,595 | 0.0% | (57,888) |
| | <u>\$ 17,701,279</u> | <u>100%</u> | <u>\$ 17,587,511</u> | <u>100%</u> | <u>113,768</u> |

The total cost of all governmental activities this year was \$20,183,698; the total net cost was \$17,701,279. 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 \$12,047,420; which consisted of \$10,217,075 paid in the form of local property taxes and \$1,830,345 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 \$6,060,310 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. As previously stated, the State used \$1,698,409 of federal ARRA grant monies to meet part of this funding obligation. Thus the actual adequacy aid received directly from State sources was \$4,426,754.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2010**

Charges for Services

- Tuition and self-funded program revenues were received in the amount of \$79,079.
- Total food service revenues of \$555,123 consisted of food service sales and local miscellaneous revenues in the amount of \$453,671 and federal and state food nutrition program operating contributions (free and reduced lunch reimbursements and commodities) of \$101,452.

Operating Grants and Contributions

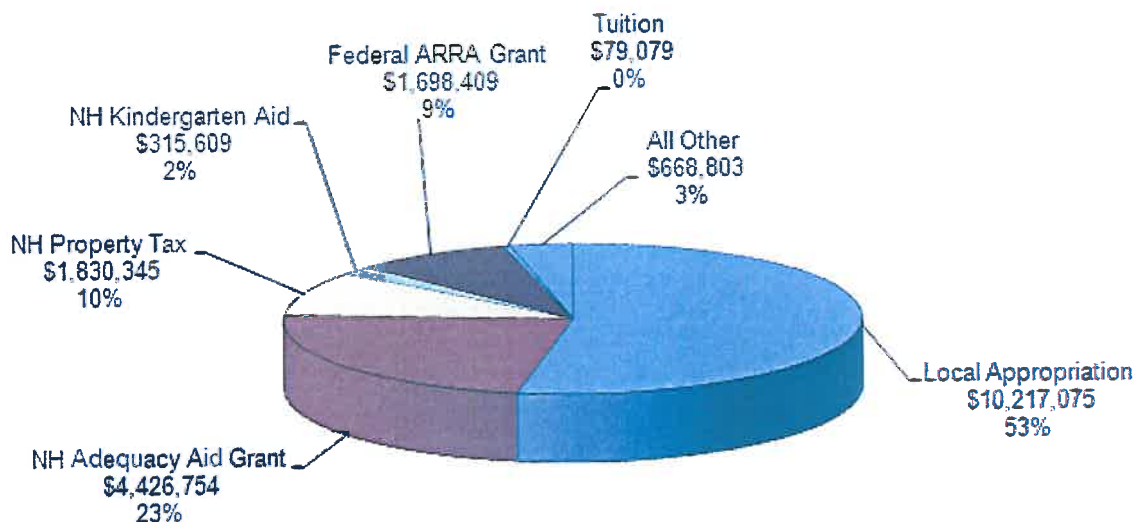
- Federal grants for instruction were received in the amount of \$682,988 with local and state grants of \$16,734.

INDIVIDUAL FUND ANALYSIS

General Fund

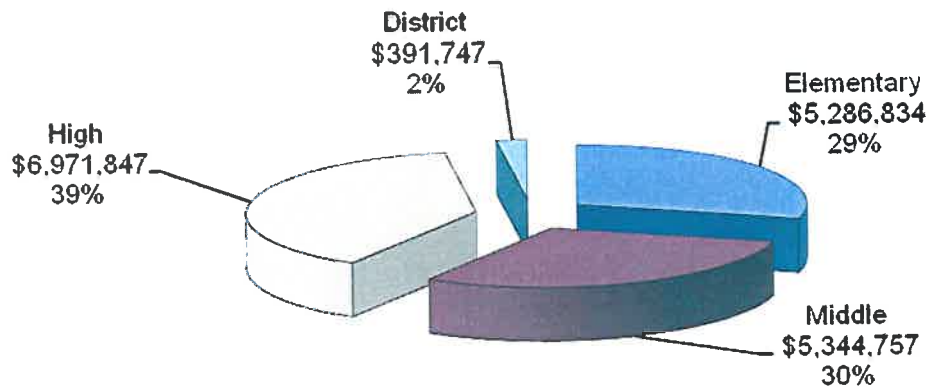
The General Fund is what most people think of as “the budget”, since it is the focal point of the Annual Deliberative Session and largely supported by locally raised taxes. The local appropriation and the state property tax are raised locally and make up 62.6% of general fund revenues. Together, the revenues raised locally and the state adequacy grant comprises 85.6% of the District’s General Fund Budgetary Revenues. Also depicted below are expenditures and percentages by grade level and district wide including all facilities acquisition and construction expenditures but excluding debt service and interfund transfers.

General Fund Budgetary Revenues 2009 - 2010



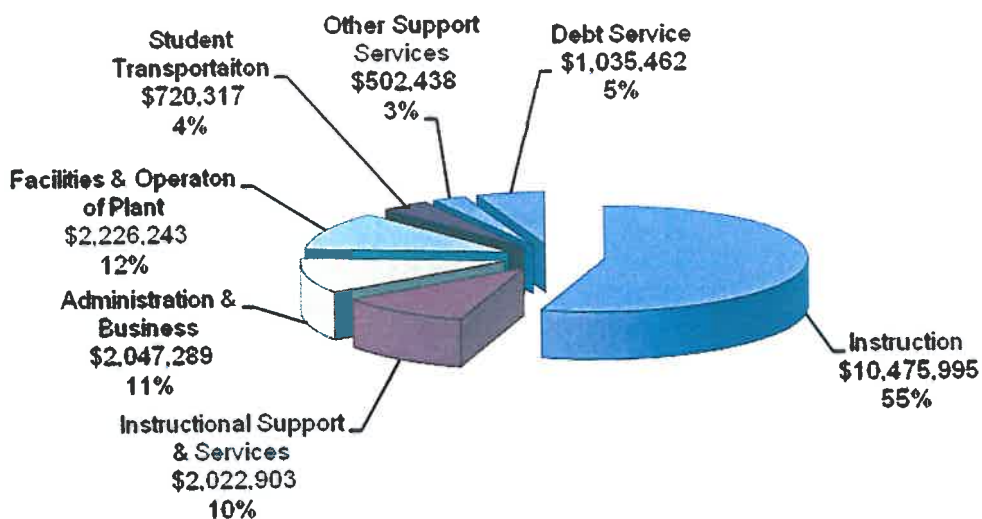
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2010**

**General Fund Budgetary Expenditures by Grade Level
2009 - 2010**



Instruction makes up 55.1% of all general fund expenditures, an increase of 0.5% over the prior year, while Instructional Support and Services, including transportation, operation of plant, and administration make up 39.5% of all General Fund expenditures, a decrease of 0.2% over the prior year. The remaining 5.4% includes debt service – principal and interest, a decrease of 0.3% from the prior year. The following charts provide a more detailed depiction of the makeup and proportions of the expenditures in these broad categories.

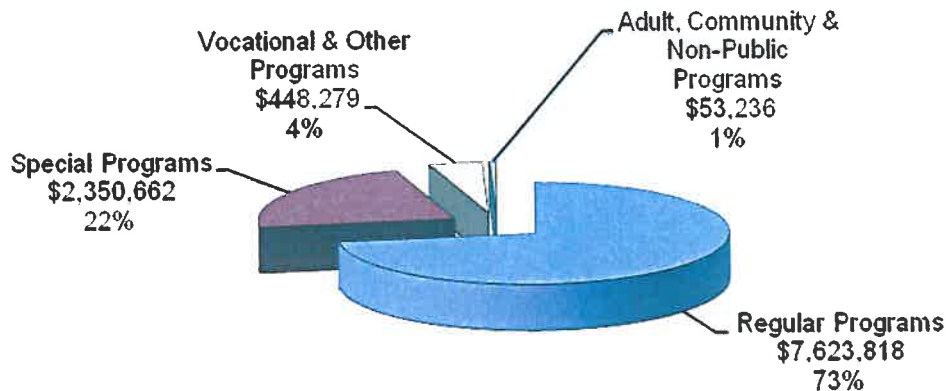
**General Fund Budgetary Expenditures by Functions
2009- 2010**



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2010

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

General Fund Budgetary Expenditures for Instruction
2009 - 2010



SUMMARY OF FEDERAL SUPPORT OF THE DISTRICT

During fiscal year 2010, Litchfield School District applied for and received the following significant federal grants:

- State of New Hampshire State Fiscal Stabilization Fund (SFSF) under the American Recovery and Reinvestment Act of 2009 (ARRA) revenues for the current period were \$1,698,409. This grant funded employee salaries and benefits and were paid in lieu of a portion of the state's required adequacy aid payments.
- American Recovery and Reinvestment Act of 2009 (ARRA) revenues for the current period through the Individuals with Disabilities Education Improvement Act (IDEA) and Title I, Student Achievement and School Accountability Programs revenues for the current period were \$164,289. These grants funded special needs services and supplies for students throughout the District, tutoring and an after school program for high school at-risk students.
- Special Education Individuals with Disabilities Education Improvement Act (IDEA) revenues for the current period were \$296,802. These grants 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 \$124,496. These grants funded the services of a part-time reading specialist and a math tutor, a summer intervention program for high-risk students, and professional development in the areas of reading and math.
- Title IIA, Improving Teacher Quality State Grants was awarded for the current period in the amount of \$54,642. This grant funded teacher professional development and a teacher mentoring program.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2010**

- Title IID, Education Technology State Grants was awarded for the current period in the amount of \$11,566. These grants funded technology equipment and professional development.
- Title IV, Safe and Drug Free Schools was awarded for the current period in the amount of \$22,184. These grants funded staff training and supplies and safe school student activities.
- A Preschool Grant was awarded for the current period in the amount of \$9,009. The grant was used to provide supplies to support special needs students.
- U. S. Department of Agriculture National School Lunch Program revenues for the current period were \$96,380. These revenues were used to offset the expenses of the school lunch program.

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 \$50,090.40 during the year from \$104,328.88 at June 30, 2009, to \$154,419.28 at June 30, 2010. 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 General Fund equity was \$635,456. General Fund revenues, consisting largely of local taxes and state aid, were \$19,487,960. General Fund expenditures, including fund transfers, were \$19,332,532. The ending fund equity for the District was \$790,884, of which \$370,564 is an unreserved fund balance, a decrease of \$151,993 from the prior year's unreserved fund balance. The unreserved fund balance is used to lower the amount of money raised by property taxes.
- General Fund actual revenues were greater than the final adjusted budgeted revenues by \$188,149.
- General Fund expenditures were less than the final adjusted budgeted spending by \$182,415. These variances are absorbed in the General Fund ending balance. Significant contributors to the under spend in the general fund budget were:
 - Utilities were under spent by approximately \$135,603 due primarily to a very mild winter weather season.
 - Vocational Education transportation expenses were under spent by approximately \$37,499 due to terms in a new contract amendment signed with the district's transportation vendor.
 - Self-funded programs, which do not impact the local property tax rate, were under spent by \$26,350.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2010

-
- Under spending in salaries and benefits offset over spending in several major accounts including Special Education out-of-district tuition, repairs and maintenance, replacement equipment, and kindergarten set-up costs (offset by State Kindergarten Aid revenues).

We are constantly monitoring 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, 2010, the District reported capital assets of \$12,172,210 (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. Capital asset additions in 2010 included site preparation for the kindergarten portables, replacement lighting and a fire alarm upgrade at Griffin Memorial School. The District also annually invests in new furnishings, computers and peripherals, printed media and other equipment, as needed.

| Governmental Activities | 2010 | 2009 | % Variance |
|----------------------------------|-------------------|-------------------|---------------|
| Land & Improvements | 460,792 | 460,792 | 0.00% |
| Buildings & Improvements | 18,460,642 | 18,333,311 | 0.69% |
| Furniture & Equipment | 119,942 | 119,942 | 0.00% |
| Totals at Historical Cost | 19,041,376 | 18,928,045 | 0.67% |
| Total Accumulated Depreciation | 6,869,166 | 6,373,913 | 7.77% |
| NET CAPITAL ASSETS | 12,172,210 | 12,554,132 | -2.93% |

Long-Term Liabilities

On June 30, 2010, the District had \$3,685,000 of outstanding long-term debt, \$608,701 in compensated absences payable, and \$16,152 in capital leases payable long term liabilities.

The District has implemented the provisions of the Governmental Accounting Standards Board Statement 45 (GASB-45) *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, which requires that the long-term cost of retiree health care and obligations for other OPEB benefits be determined on an actuarial basis and reported in the District's annual financial report. The District does not explicitly subsidize health care benefits of its retirees. All retirees pay 100% of their benefit costs. However, the State of New Hampshire requires that the District include its retirees in the same insurance pool as active employees which may result in an implicit cost to the District as the rates the District pays for its active employees may be higher due to this pooling. This higher rate cost to the District creates a GASB-45 liability to the District. The District has historically funded these higher OPEB costs on a pay-as-you-go basis.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2010**

For the fiscal year ending June 30, 2010, the annual required contribution to cover OPEB obligations was \$136,340 which was offset by District pay-as-you-go contributions of \$48,641. The net OPEB obligation as of June 30, 2010 is \$179,414. As of June 30, 2009, the date of the most recent actuarial valuation, the actuarial accrued liability for these OPEB benefits was \$1,003,009 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability of \$1,003,009.

| Governmental Activities | 2010 | 2009 | % Variance |
|--|------------------|------------------|-------------------|
| General Obligation Bonds | 3,685,000 | 4,485,000 | -17.84% |
| Compensated Absences | 608,701 | 597,872 | 1.81% |
| Capital Leases Payable | 16,152 | 20,185 | -19.98% |
| Other Post Employment Benefits Payable | 179,414 | 91,715 | 95.62% |
| TOTAL LONG-TERM LIABILITIES | 4,489,267 | 5,194,772 | -13.58% |

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 2010-2011 fiscal year is \$370,564.

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

1. The State of New Hampshire voted to change its adequate education aid funding formula for calculating its required contribution to school districts to be effective in the 2011-2012 year. To date this change is scheduled to be implemented. Litchfield is expected to lose more than \$2.1 million in state funding which will have a significant reduction on the district's current level of services.
2. The District has temporarily suspended its study of our school building needs. It is expected that this issue will be readdressed in the near future as plans for permanent kindergarten classrooms are discussed.

Questions regarding this report should be directed to Elaine Cutler, Ed. D., 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, 2010

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 1,222,695 |
| Intergovernmental receivable | 363,281 |
| Other receivables | 16,507 |
| Capital assets, not being depreciated: | |
| Land | 460,792 |
| Capital assets, net of accumulated depreciation: | |
| Buildings and building improvements | 11,662,841 |
| Equipment | 48,577 |
| Total assets | 13,774,693 |
| LIABILITIES | |
| Accounts payable | 21,909 |
| Accrued interest payable | 81,208 |
| Accrued salaries and benefits | 520,059 |
| Unearned revenue | 9,133 |
| Noncurrent obligations: | |
| Due within one year: | |
| Bond | 800,000 |
| Capital leases | 4,645 |
| Due in more than one year: | |
| Bond | 2,885,000 |
| Capital leases | 11,507 |
| Compensated absences | 608,701 |
| Other postemployment benefits | 179,414 |
| Total liabilities | 5,121,576 |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 8,487,210 |
| Unrestricted | 165,907 |
| Total net assets | \$ 8,653,117 |

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, 2010

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Change In Net Assets |
|--|----------------------|----------------------------|--|--|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities: | | | | | |
| Instruction | \$ 11,844,889 | \$ 79,079 | \$ 1,191,537 | \$ 54,670 | \$ (10,519,603) |
| Support services: | | | | | |
| Student | 1,592,430 | - | 146,239 | - | (1,446,191) |
| Instructional staff | 572,605 | - | 500 | - | (572,105) |
| General administration | 43,496 | - | - | - | (43,496) |
| Executive administration | 543,861 | - | - | - | (543,861) |
| School administration | 1,160,829 | - | - | - | (1,160,829) |
| Business | 309,330 | - | - | - | (309,330) |
| Operation and maintenance of plant | 1,880,331 | 1,050 | - | - | (1,879,281) |
| Student transportation | 727,095 | 9,169 | 6,778 | - | (711,148) |
| Other | 495,541 | - | - | - | (495,541) |
| Non-instructional services | 558,732 | 453,436 | 101,452 | - | (3,844) |
| Interest on long-term debt | 215,757 | - | - | 270,050 | 54,293 |
| Facilities acquisition and construction | 238,802 | - | 11,020 | 157,439 | (70,343) |
| Total governmental activities | <u>\$ 20,183,698</u> | <u>\$ 542,734</u> | <u>\$ 1,457,526</u> | <u>\$ 482,159</u> | <u>(17,701,279)</u> |
| General revenues: | | | | | |
| School district assessment | | | | | 10,217,075 |
| Grants and contributions not restricted to specific programs | | | | | 7,955,508 |
| Miscellaneous | | | | | 87,894 |
| Total general revenues | | | | | <u>18,260,477</u> |
| Change in net assets | | | | | 559,198 |
| Net assets, beginning | | | | | 8,093,919 |
| Net assets, ending | | | | | <u>\$ 8,653,117</u> |

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

EXHIBIT C-1
LITCHFIELD SCHOOL DISTRICT
Governmental Funds
Balance Sheet
June 30, 2010

| | General | Grants | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,115,292 | \$ - | \$ 107,403 | \$ 1,222,695 |
| Receivables: | | | | |
| Accounts | 14,769 | 1,221 | 517 | 16,507 |
| Intergovernmental | - | 203,902 | 159,379 | 363,281 |
| Interfund receivable | 204,246 | - | - | 204,246 |
| Total assets | \$ 1,334,307 | \$ 205,123 | \$ 267,299 | \$ 1,806,729 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 21,909 | \$ - | \$ - | \$ 21,909 |
| Accrued salaries and benefits | 519,789 | - | 270 | 520,059 |
| Interfund payable | - | 204,246 | - | 204,246 |
| Deferred revenue | 1,725 | 877 | 6,531 | 9,133 |
| Total liabilities | 543,423 | 205,123 | 6,801 | 755,347 |
| Fund balances: | | | | |
| Reserved for encumbrances | 420,320 | - | - | 420,320 |
| Unreserved, undesignated, reported in: | | | | |
| General fund | 370,564 | - | - | 370,564 |
| Special revenue funds | - | - | 260,498 | 260,498 |
| Total fund balances | 790,884 | - | 260,498 | 1,051,382 |
| Total liabilities and fund balances | \$ 1,334,307 | \$ 205,123 | \$ 267,299 | \$ 1,806,729 |

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, 2010

| | | |
|---|----------------|--------------|
| Total fund balances of governmental funds (Exhibit C-1) | | \$ 1,051,382 |
| 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 | \$ 19,041,376 | |
| Less accumulated depreciation | (6,869,166) | 12,172,210 |
| Interfund receivables and payables between governmental funds are eliminated on the statement of net assets. | | |
| Receivables | \$ (204,246) | |
| Payables | 204,246 | - |
| Interest on long-term debt is not accrued in governmental funds. | | |
| Accrued interest payable | | (81,208) |
| Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds. | | |
| Bond | \$ (3,685,000) | |
| Capital leases | (16,152) | |
| Compensated absences | (608,701) | |
| Other postemployment benefits | (179,414) | (4,489,267) |
| Net assets of governmental activities (Exhibit A) | | \$ 8,653,117 |

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

EXHIBIT C-3
LITCHFIELD SCHOOL DISTRICT
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2010

| | General | Grants | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|----------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| School district assessment | \$ 10,217,075 | \$ - | \$ - | \$ 10,217,075 |
| Other local | 176,865 | 16,734 | 453,762 | 647,361 |
| State | 7,234,702 | - | 5,072 | 7,239,774 |
| Federal | 1,859,318 | 682,988 | 96,380 | 2,638,686 |
| Total revenues | <u>19,487,960</u> | <u>699,722</u> | <u>555,214</u> | <u>20,742,896</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction | 10,727,881 | 535,184 | - | 11,263,065 |
| Support services: | | | | |
| Student | 1,445,499 | 146,240 | - | 1,591,739 |
| Instructional staff | 577,404 | 500 | - | 577,904 |
| General administration | 41,669 | - | - | 41,669 |
| Executive administration | 538,114 | - | - | 538,114 |
| School administration | 1,163,051 | - | - | 1,163,051 |
| Business | 304,455 | - | - | 304,455 |
| Operation and maintenance of plant | 1,887,732 | - | - | 1,887,732 |
| Student transportation | 720,317 | 6,778 | - | 727,095 |
| Other | 502,438 | - | - | 502,438 |
| Non-instructional services | - | - | 558,732 | 558,732 |
| Debt service: | | | | |
| Principal | 800,000 | - | - | 800,000 |
| Interest | 235,462 | - | - | 235,462 |
| Facilities acquisition and construction | 338,510 | 11,020 | - | 349,530 |
| Total expenditures | <u>19,282,532</u> | <u>699,722</u> | <u>558,732</u> | <u>20,540,986</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>205,428</u> | <u>-</u> | <u>(3,518)</u> | <u>201,910</u> |
| Other financing sources (uses): | | | | |
| 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 | 155,428 | - | 46,482 | 201,910 |
| Fund balances, beginning | 635,456 | - | 214,016 | 849,472 |
| Fund balances, ending | <u>\$ 790,884</u> | <u>\$ -</u> | <u>\$ 260,498</u> | <u>\$ 1,051,382</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, 2010*

| | | |
|---|------------------|--------------------------|
| Net change in fund balances of total governmental funds (Exhibit C-3) | | \$ 201,910 |
| 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 | \$ 127,331 | |
| Depreciation expense | <u>(495,253)</u> | (367,922) |
| Transfers in and out between governmental funds are eliminated on the operating statement. | | |
| Transfers in | \$ (50,000) | |
| Transfers out | <u>50,000</u> | - |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. | | |
| Principal repayment of bond | \$ 800,000 | |
| Principal repayment of capital leases | <u>4,033</u> | 804,033 |
| 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 | \$ 19,705 | |
| Increase in compensated absences payable | (10,829) | |
| Increase in other postemployment benefits liability | <u>(87,699)</u> | (78,823) |
| Change in net assets of governmental activities (Exhibit B) | | <u><u>\$ 559,198</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, 2010

| | <u>Agency</u> |
|-------------------------------------|----------------|
| ASSETS | |
| Cash and cash equivalents | \$ 117,293 |
| LIABILITIES | |
| Due to student groups | <u>117,293</u> |
| NET ASSETS | |
| Held in trust for specific purposes | <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, 2010

| | |
|---|-----------|
| Summary of Significant Accounting Policies | 1 |
| Reporting Entity | 1-A |
| Financial Statement Presentation..... | 1-B |
| Measurement Focus..... | 1-C |
| Cash and Cash Equivalents..... | 1-D |
| Receivables..... | 1-E |
| Interfund Balances..... | 1-F |
| Capital Assets | 1-G |
| Deferred/Unearned Revenue | 1-H |
| Compensated Absences | 1-I |
| Long-Term Obligations | 1-J |
| Equity Classifications | 1-K |
| Interfund Activities..... | 1-L |
| Use of Estimates | 1-M |
| Receivables..... | 2 |
| Capital Assets..... | 3 |
| Interfund Balances and Transfers | 4 |
| Deferred/Unearned Revenue | 5 |
| Long-Term Liabilities | 6 |
| Capital Leases..... | 7 |
| Governmental Activities Net Assets..... | 8 |
| Employee Retirement Plan | 9 |
| Other Postemployment Benefits (OPEB)..... | 10 |
| Risk Management..... | 11 |
| Contingent Liabilities..... | 12 |
| Implementation of New GASB Pronouncements..... | 13 |
| Subsequent Events..... | 14 |

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Litchfield School District (the School District), are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

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

1-A Reporting Entity

The Litchfield School District is a municipal corporation governed by an elected 5-member School Board. The reporting entity is comprised of the primary government and any other organizations (*component units*) 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 organizations; or (2) the School District is legally entitled to or can otherwise access the organization's resources; (3) 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 (4) 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 Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements display information about the School District as a whole. These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. The effect of interfund activity has been eliminated from these statements.

The statement of net assets presents information on all of the entities assets and liabilities, with the difference between the two presented as net assets. Net assets are reported as one of three categories; invested in capital assets, net of related debt; restricted; or unrestricted.

The statement of activities presents a comparison between direct expenses and program revenues for the different functions of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Vehicle maintenance; pension benefit; property and liability insurance; claims and judgments; and state assessments and charges have been allocated to major functions in order to present a more accurate and complete picture of the cost of School District services. Program revenues include (1) charges to customers or applicants for goods received, services rendered or privileges provided; and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund has a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized as major funds or nonmajor funds within the governmental and fiduciary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

- (a) Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10% of the corresponding total for all funds of that category or type;
- (b) Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund are at least 5% of the corresponding total for all governmental funds combined; and

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

- (c) In addition, any other governmental fund that the School District believes is particularly important to the financial statement users may be reported as a major fund.

Governmental Activities – Governmental funds are identified as general and special revenue based upon the following guidelines:

General Fund – is the primary operating fund of the School District and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Fiduciary Fund Types – These funds account for resources held by the School District for the benefit of other parties and include the private purpose trust fund and agency fund. Fiduciary fund types are not part of the reporting entity in the government-wide financial statements, but are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. This fund is as follows:

Agency Funds – are used to account for resources held by the School District in a purely custodial capacity and include the assets held for and due to the student groups for their student activity funds.

Major Funds - The School District reports the following major governmental funds:

General Fund – all general revenues and other receipts that are not allocated by law or contracted 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 – accounts for the resources received from various federal, state, and local agencies. The resources are restricted to accomplishing the various objectives of the grantor agencies.

The School District also reports two nonmajor governmental funds.

1-C Measurement Focus

Government-wide, and Fiduciary Fund Financial Statements – The government-wide, and fiduciary fund financial statements, except for agency funds which have no measurement focus, are reported using the economic resources measurement focus. Under this concept, revenues and expenses are matched using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The district assessment is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are susceptible to accrual, that is, when they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within sixty days of the end of the current period. District assessment, grants and contracts, and interest associated with the current period are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the School District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

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 in the fiscal year in which the resources are measurable and become available.

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 (i.e., collected within sixty days) before it can be recognized.

1-D Cash and Cash Equivalents

The School District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash pool is maintained that is available for use by all funds. Each fund’s portion of this pool is reflected on the combined financial statements under the caption “cash and cash equivalents.”

New Hampshire statutes require that the School District treasurer have custody of all money 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 Receivables

Receivables in the government-wide financial statements represent amounts due to the School District at June 30, recorded as revenue, which will be collected in the future and consist primarily of accounts and intergovernmental receivables.

1-F Interfund Balances

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as “interfund receivables and payables.” Interfund receivables and payables between funds are eliminated in the statement of net assets.

1-G Capital Assets

General capital assets are those assets of a capital nature which the School District owns. All capital assets are capitalized at cost (or estimated at 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 one year 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.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. All reported capital assets are depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the following useful lives:

| | |
|-------------------------------------|-------|
| | Years |
| Buildings and building improvements | 20-30 |
| Machinery and equipment | 5-15 |

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets are not capitalized and related depreciation is not reported in the fund financial statements.

1-H Deferred/Unearned Revenue

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the “available” criterion for revenue recognition under the modified accrual basis of accounting. On the government-wide statements of net assets, deferred revenue is classified as unearned revenue.

1-I Compensated Absences

The School District’s policy allows certain employees to earn varying amounts of vacation and sick pay based on the employee’s length of employment. Upon retirement or termination of employment, employees are paid in full for any accrued leave earned as set forth by personnel policy.

Vested amounts of both vacation and sick pay are reported as long-term liabilities in the statement of net assets.

1-J Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide statements. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premiums and discounts. Issuance costs are reported as deferred charges.

In the governmental fund financial statements, bond premiums, discounts, and issuance costs are recognized during the current period. The face amount of debt issued and any premiums received are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

1-K Equity Classifications

Government-Wide Statements – Equity is classified as net assets and displayed in three components:

- a) *Invested in capital assets, net of related debt* – Consists of capital assets including restricted capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested capital assets, net of related debt.
- b) *Unrestricted net assets* – All other net assets that do not meet the definition of “invested in capital assets, net of related debt.”

Fund Statements – Governmental fund equity is classified as fund balance. Fund balance is classified as reserved and unreserved, with unreserved further split between designated and undesignated. Reserved fund balances represent amounts not available for appropriation, or are legally restricted by outside parties for use for a specific purpose. Designated fund balances represent tentative management plans that are subject to change. Undesignated fund balance amounts represent amounts available for use in future periods.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

1-L Interfund Activities

Interfund activities are reported as follows:

Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances.” Interfund receivables and payables between funds are eliminated in the statement of net assets.

Interfund Transfers – Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making the transfers and other financing sources in the funds receiving the transfers. In the government-wide financial statements, all interfund transfers between individual governmental funds have been eliminated.

1-M Use of Estimates

The preparation of the 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 reported amounts and disclosures in the financial statements. Actual results could differ from those estimates and the differences could be material.

NOTE 2 - RECEIVABLES

Receivables at June 30, 2010, consisted of accounts (tuition and reimbursements) and intergovernmental amounts arising from grants, trust funds 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 collectability.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 consisted of the following:

| | <u>Balance, beginning</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance, ending</u> |
|---|-------------------------------|---------------------|--------------------|----------------------------|
| Governmental activities: | | | | |
| Non-depreciable assets: | | | | |
| Land | \$ 460,792 | \$ - | \$ - | \$ 460,792 |
| Depreciable assets: | | | | |
| Buildings and building improvements | 18,333,311 | 127,331 | - | 18,460,642 |
| Equipment | 119,942 | - | - | 119,942 |
| Total depreciable assets | <u>18,453,253</u> | <u>127,331</u> | <u>-</u> | <u>18,580,584</u> |
| Total assets | <u>18,914,045</u> | <u>127,331</u> | <u>-</u> | <u>19,041,376</u> |
| Accumulated depreciation: | | | | |
| Buildings and building improvements | (6,313,504) | (484,297) | - | (6,797,801) |
| Equipment | (60,409) | (14,073) | 3,117 | (71,365) |
| Total accumulated depreciation | <u>(6,373,913)</u> | <u>(498,370)</u> | <u>3,117</u> | <u>(6,869,166)</u> |
| Depreciable assets, net | <u>12,079,340</u> | <u>(371,039)</u> | <u>3,117</u> | <u>11,711,418</u> |
| Governmental activities capital assets, net | <u>\$ 12,540,132</u> | <u>\$ (371,039)</u> | <u>\$ 3,117</u> | <u>\$ 12,172,210</u> |

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

Depreciation expense was charged to functions of the School District based on their usage of the related assets. The amounts allocated to each function are as follows:

| | |
|------------------------------------|------------|
| Instruction | \$ 490,849 |
| Support services: | |
| Executive administration | 774 |
| Operation and maintenance of plant | 6,747 |
| Total depreciation expense | \$ 498,370 |

NOTE 4 - INTERFUND BALANCES AND TRANSFERS

Interfund receivable and payable balances consisting of overdrafts in pooled cash and budgetary transfers at June 30, 2010, are as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------|--------------|------------|
| General | Grants | \$ 204,246 |

The balance of \$204,246 due to the general fund from the grants fund results from loans made in anticipation of Federal grants.

Interfund transfers during the year ended June 30, 2010 are as follows:

| | |
|---------------|--------------|
| | Transfer In: |
| | Nonmajor |
| | Fund |
| Transfer out: | |
| General fund | \$ 50,000 |

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (2) use unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 5 - DEFERRED/UNEARNED REVENUE

Deferred/unearned revenue at June 30, 2010 consists of the following:

| | |
|--|----------|
| General fund: | |
| Fees collected in advance for miscellaneous programs | \$ 1,725 |
| Food service fund: | |
| Fees for lunch and milk collected in advance | 6,531 |
| Grants fund: | |
| Federal grant revenue collected in advance of eligible expenditures being made | 877 |
| Total | \$ 9,133 |

NOTE 6 - LONG-TERM LIABILITIES

Changes in the School District's long-term obligations consisted of the following for the year ended June 30, 2010:

| | General Obligation Bond Payable | Capital Leases Payable | Compensated Absences Payable | Total |
|--------------------|---------------------------------------|------------------------------|------------------------------------|--------------|
| Balance, beginning | \$ 4,485,000 | \$ 20,185 | \$ 597,872 | \$ 5,103,057 |
| Additions | - | - | 10,829 | 10,829 |
| Reductions | (800,000) | (4,033) | - | (804,033) |
| Balance, ending | \$ 3,685,000 | \$ 16,152 | \$ 608,701 | \$ 4,309,853 |

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

Long-term liabilities payable are comprised of the following:

| | <u>Original Amount</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Interest Rate %</u> | <u>Outstanding at June 30, 2010</u> | <u>Current Portion</u> |
|----------------------------------|----------------------------|-----------------------|--------------------------|----------------------------|---|----------------------------|
| General obligation bond payable: | | | | | | |
| High School construction | \$ 11,685,500 | 2000 | 2015 | 4.50-5.25 | \$ 3,685,000 | \$ 800,000 |
| Capital leases payable: | | | | | | |
| Music equipment | \$ 27,277 | 2009 | 2013 | 15.15 | 16,152 | 4,645 |
| Compensated absences payable: | | | | | | |
| Vested sick leave | | | | | 162,058 | - |
| Accrued vacation leave | | | | | 208,994 | - |
| Vested retirement stipend | | | | | 237,649 | - |
| | | | | | <u>608,701</u> | <u>-</u> |
| Total | | | | | <u>\$ 4,309,853</u> | <u>\$ 804,645</u> |

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2010, including interest payments, are as follows:

| Fiscal Year Ending June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|---------------------|-------------------|---------------------|
| 2011 | \$ 800,000 | \$ 196,463 | \$ 996,463 |
| 2012 | 800,000 | 151,463 | 951,463 |
| 2013 | 800,000 | 109,463 | 909,463 |
| 2014 | 800,000 | 67,462 | 867,462 |
| 2015 | 485,000 | 25,462 | 510,462 |
| Totals | <u>\$ 3,685,000</u> | <u>\$ 550,313</u> | <u>\$ 4,235,313</u> |

All 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.

NOTE 7 – CAPITAL LEASES

The School District has entered into certain capital lease agreements under which the related equipment will become the property of the School District when all the terms of the lease agreements are met.

Annual Requirements to Amortize Capital Leases Payable

| Fiscal Year Ending June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|------------------|-----------------|------------------|
| 2011 | \$ 4,645 | \$ 2,448 | \$ 7,093 |
| 2012 | 5,348 | 1,745 | 7,093 |
| 2013 | 6,159 | 933 | 7,092 |
| Totals | <u>\$ 16,152</u> | <u>\$ 5,126</u> | <u>\$ 21,278</u> |

Amortization of lease equipment under capital assets is included with depreciation expense.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

NOTE 8 – GOVERNMENTAL ACTIVITIES NET ASSETS

Governmental activities net assets reported on the government-wide statement of net assets at June 30, 2010 include the following:

| | Governmental Activities |
|---|----------------------------|
| Invested in capital assets, net of related debt: | |
| Net property, buildings and equipment | \$ 12,172,210 |
| Less: | |
| General obligation bonds payable, net | (3,685,000) |
| Total invested in capital assets, net of related debt | 8,487,210 |
| Unrestricted | 258,748 |
| Total net assets | \$ 8,745,958 |

None of the net assets are restricted by enabling legislation.

NOTE 9 - EMPLOYEE RETIREMENT PLAN

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 2009, the School District contributed 5.80% for teachers and 8.74% for other employees. The contribution requirements for the Litchfield School District for the fiscal years 2008, 2009 and 2010 were \$555,117, \$591,649, and \$733,149 respectively, which were paid in full in each year.

The State of New Hampshire funds 35% of the total employer normal contribution rate for teachers employed by the School District. This amount, \$251,886, 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.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement 45, was implemented by the School District during fiscal year 2009, and requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported similar to pension plans. GASB Statement 45 does not mandate the pre-funding of postemployment benefit liabilities. Nevertheless, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

The School District has only partially funded (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30-years. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2010:

| | |
|--|-------------------|
| Annual required contribution/OPEB cost | \$ 136,340 |
| Contributions made (pay-as-you-go) | <u>(48,641)</u> |
| Increase in net OPEB obligation | <u>87,699</u> |
| Net OPEB obligation, beginning | <u>91,715</u> |
| Net OPEB obligation, ending | <u>\$ 179,414</u> |

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 was as follows:

| Fiscal Year Ended | Annual Required Contribution (ARC) | Actual Contributions (pay-as-you-go) | Percentage Contributed | Net OPEB Obligation |
|----------------------|---|--|---------------------------|------------------------|
| June 30, 2010 | \$136,340 | \$48,641 | 35.68% | \$179,414 |

As of June 30, 2009, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$1,003,009, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,003,009. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5 % investment rate of return per annum. The projected annual healthcare cost trend is 10 % initially, reduced by decrements to an ultimate rate of 5 % after four years. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at June 30, 2010 was thirty years.

NOTE 11- 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 2010, the School District was a member of the New Hampshire Public Risk Management Exchange (Primex) Workers' Compensation and Property/Liability Programs. These entities 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 membership and coverage run from July 1 through June 30. The estimated net contribution from the School District of Litchfield billed and paid for the year ended June 30, 2010 was \$73,341 for property/liability, and \$41,593 for workers' compensation. The member

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

participation agreement permits 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.

NOTE 12 - 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.

NOTE 13 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

In March 2009 the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of Statement No. 54 are not mandatory for the School District until fiscal year ended June 30, 2011. The School District also implemented the following Statements this year with no significant impact:

GASB Statement No. 55 *The Hierarchy of Generally Accepted Principles for State and Local Governments*

GASB Statement No. 56 *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*

NOTE 14 - SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through January 11, 2011, the date the June 30, 2010 financial statements were issued, and no events occurred requiring recognition or disclosure.

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)
General Fund
For the Fiscal Year Ended June 30, 2010

| | Original and Final Budget | Actual | Variance Positive (Negative) |
|--|---------------------------------|-------------------|------------------------------------|
| Revenues: | | | |
| School district assessment | \$ 10,217,075 | \$ 10,217,075 | \$ - |
| Other local | 96,715 | 176,865 | 80,150 |
| State | 6,975,726 | 6,982,816 | 7,090 |
| Federal | 1,758,409 | 1,859,318 | 100,909 |
| Total revenues | <u>19,047,925</u> | <u>19,236,074</u> | <u>188,149</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction | 10,836,002 | 10,561,423 | 274,579 |
| Support services: | | | |
| Student | 1,453,582 | 1,445,771 | 7,811 |
| Instructional staff | 602,842 | 583,516 | 19,326 |
| General administration | 93,233 | 41,669 | 51,564 |
| Executive administration | 518,469 | 538,985 | (20,516) |
| School administration | 1,163,388 | 1,163,527 | (139) |
| Business | 298,427 | 299,517 | (1,090) |
| Operation and maintenance of plant | 2,080,565 | 1,998,030 | 82,535 |
| Student transportation | 801,565 | 720,317 | 81,248 |
| Other | 399,008 | 591,270 | (192,262) |
| Debt service: | | | |
| Principal | 800,000 | 800,000 | - |
| Interest | 235,463 | 235,462 | 1 |
| Facilities acquisition and construction | 287,938 | 408,580 | (120,642) |
| Total expenditures | <u>19,570,482</u> | <u>19,388,067</u> | <u>182,415</u> |
| Other financing uses: | | | |
| Transfers out | (50,000) | (50,000) | (50,000) |
| Net change in fund balance | <u>\$ (572,557)</u> | (201,993) | <u>\$ (5,734)</u> |
| Decrease in fund balance reserved for special purposes | | 50,000 | |
| Unreserved fund balance, beginning | | 522,557 | |
| Unreserved fund balance, ending | | <u>\$ 370,564</u> | |

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

EXHIBIT E-2
LITCHFIELD SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (GAAP Basis)
Grants Fund
For the Fiscal Year Ended June 30, 2010

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|----------------------------|--------------------|-----------------|----------------|------------------------------------|
| Revenues: | | | | |
| Local | \$ - | \$ - | \$ 16,734 | \$ 16,734 |
| Federal | 535,000 | 798,947 | 682,988 | (115,959) |
| Total revenues | <u>535,000</u> | <u>798,947</u> | <u>699,722</u> | <u>(99,225)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction | 535,000 | 798,947 | 535,184 | 263,763 |
| Support services: | | | | |
| Student | - | - | 146,240 | (146,240) |
| Instructional staff | - | - | 500 | (500) |
| Student transportation | - | - | 6,778 | (6,778) |
| Other | - | - | 11,020 | (11,020) |
| Total expenditures | <u>535,000</u> | <u>798,947</u> | <u>699,722</u> | <u>99,225</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 schedule.

EXHIBIT F
LITCHFIELD SCHOOL DISTRICT
Schedule of Funding Progress for Other Postemployment Benefit Plan
For the Fiscal Year Ended June 30, 2010

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b-a]/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| July 1, 2009 | \$ - | \$910,124 | \$910,124 | 0.00% | \$8,913,827 | 10.20% |

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

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

| | |
|--------------------------------|---|
| General Budget Policies | 1 |
| Budgetary Reconciliation | 2 |

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

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 current year 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 2010, \$572,557 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: | |
| Per Exhibit E-1 (budgetary basis) | \$ 19,236,074 |
| Adjustments: | |
| 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 | 251,886 |
| Per Exhibit C-3 (GAAP basis) | <u>\$ 19,487,960</u> |
| Expenditures and other financing uses: | |
| Per Exhibit E-1 (budgetary basis) | \$ 19,438,067 |
| Adjustments: | |
| Basis difference: | |
| Encumbrances, beginning | 62,899 |
| Encumbrances, ending | (420,320) |
| 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 | 251,886 |
| Per Exhibit C-3 (GAAP basis) | <u>\$ 19,332,532</u> |

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, 2010

| | Estimated | Actual | Variance Positive (Negative) |
|--|----------------------|----------------------|------------------------------------|
| School district assessment: | | | |
| Current appropriation | \$ 10,217,075 | \$ 10,217,075 | \$ - |
| Other local sources: | | | |
| Tuition | 15,000 | 79,079 | 64,079 |
| Transportation | 6,000 | 9,169 | 3,169 |
| Investment earnings | 10,000 | 9,676 | (324) |
| Rentals | - | 1,050 | 1,050 |
| Miscellaneous | 65,715 | 77,891 | 12,176 |
| Total from other local sources | <u>96,715</u> | <u>176,865</u> | <u>80,150</u> |
| State sources: | | | |
| Adequacy aid (grant) | 4,426,754 | 4,426,754 | - |
| Adequacy aid (tax) | 1,830,345 | 1,830,345 | - |
| School building aid | 270,050 | 270,050 | - |
| Kindergarten building aid | 317,334 | 315,609 | (1,725) |
| Catastrophic aid | 129,243 | 137,513 | 8,270 |
| Vocational aid | 2,000 | 2,545 | 545 |
| Total from state sources | <u>6,975,726</u> | <u>6,982,816</u> | <u>7,090</u> |
| Federal sources: | | | |
| Medicaid | 60,000 | 160,909 | 100,909 |
| ARRA stabilization funding | 1,698,409 | 1,698,409 | - |
| Total from federal sources | <u>1,758,409</u> | <u>1,859,318</u> | <u>100,909</u> |
| Total revenues | 19,047,925 | <u>\$ 19,236,074</u> | <u>\$ 188,149</u> |
| Use of fund balance to reduce school district assessment | <u>572,557</u> | | |
| Total revenues and use of fund balance | <u>\$ 19,620,482</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, 2010

| | Encumbered from Prior Year | Appropriations | Expenditures | Encumbered to Subsequent Year | Variance Positive (Negative) |
|--|----------------------------------|-----------------------------|-----------------------------|-------------------------------------|------------------------------------|
| Current: | | | | | |
| Instruction: | | | | | |
| Regular programs | \$ 7,192 | \$ 7,733,979 | \$ 7,623,818 | \$ 33,000 | \$ 84,353 |
| Special programs | 961 | 2,534,263 | 2,350,662 | 19,191 | 165,371 |
| Vocational programs | - | 34,072 | 24,664 | - | 9,408 |
| Adult and community programs | 179 | 23,585 | 17,144 | 41,569 | (34,949) |
| Other | - | 510,103 | 459,707 | - | 50,396 |
| Total instruction | <u>8,332</u> | <u>10,836,002</u> | <u>10,475,995</u> | <u>93,760</u> | <u>274,579</u> |
| Support services: | | | | | |
| Student | 865 | 1,453,582 | 1,445,499 | 1,137 | 7,811 |
| Instructional staff | 4,053 | 602,842 | 577,404 | 10,165 | 19,326 |
| General administration | - | 93,233 | 41,669 | - | 51,564 |
| Executive administration | - | 518,469 | 538,114 | 871 | (20,516) |
| School administration | - | 1,163,388 | 1,163,051 | 476 | (139) |
| Business | 14,750 | 298,427 | 304,455 | 9,812 | (1,090) |
| Operation and maintenance of plant | 360 | 2,080,565 | 1,887,732 | 110,658 | 82,535 |
| Student transportation | - | 801,565 | 720,317 | - | 81,248 |
| Other | 39 | 399,008 | 502,438 | 88,871 | (192,262) |
| Total support services | <u>20,067</u> | <u>7,411,079</u> | <u>7,180,679</u> | <u>221,990</u> | <u>28,477</u> |
| Debt service: | | | | | |
| Principal of long-term debt | - | 800,000 | 800,000 | - | - |
| Interest on long-term debt | - | 235,463 | 235,462 | - | 1 |
| Total debt service | <u>-</u> | <u>1,035,463</u> | <u>1,035,462</u> | <u>-</u> | <u>1</u> |
| Facilities acquisition and construction | <u>34,500</u> | <u>287,938</u> | <u>338,510</u> | <u>104,570</u> | <u>(120,642)</u> |
| Other financing uses: | | | | | |
| Transfers out | <u>-</u> | <u>50,000</u> | <u>50,000</u> | <u>-</u> | <u>-</u> |
| Total appropriations, expenditures, other financing uses and encumbrances | <u>\$ 62,899</u> | <u>\$ 19,620,482</u> | <u>\$ 19,080,646</u> | <u>\$ 420,320</u> | <u>\$ 182,415</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, 2010

| | | |
|---|----------------|--------------------------|
| Unreserved, undesignated fund balance, beginning | | \$ 522,557 |
| Changes: | | |
| Unreserved fund balance used to reduce school district assessment | | (572,557) |
| 2009-2010 Budget summary: | | |
| Revenue surplus (Schedule 1) | \$ 188,149 | |
| Unexpended balance of appropriations (Schedule 2) | 182,415 | |
| 2009-2010 Budget surplus | <u>370,564</u> | |
| Decrease in reserve for special purposes | | <u>50,000</u> |
| Unreserved, undesignated fund balance, ending | | <u><u>\$ 370,564</u></u> |

SCHEDULE 4
LITCHFIELD SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2010

| | Special Revenue Funds | | Total |
|--------------------------------------|-----------------------|---------------------|-------------------|
| | Food Service | Expendable Trust | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 107,403 | \$ - | \$ 107,403 |
| Receivables: | | | |
| Accounts | 517 | - | 517 |
| Intergovernmental | 4,960 | 154,419 | 159,379 |
| Total assets | <u>\$ 112,880</u> | <u>\$ 154,419</u> | <u>\$ 267,299</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accrued salaries and benefits | \$ 270 | \$ - | \$ 270 |
| Deferred revenue | 6,531 | - | 6,531 |
| Total liabilities | <u>6,801</u> | <u>-</u> | <u>6,801</u> |
| Fund balances: | | | |
| Unreserved, undesignated | 106,079 | 154,419 | 260,498 |
| Total liabilities and fund balances | <u>\$ 112,880</u> | <u>\$ 154,419</u> | <u>\$ 267,299</u> |

SCHEDULE 5
LITCHFIELD SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2010

| | Special Revenue Funds | | Total |
|--|-----------------------|---------------------|-------------------|
| | Food Service | Expendable Trust | |
| Revenues: | | | |
| Other local | \$ 453,671 | \$ 91 | \$ 453,762 |
| State | 5,072 | - | 5,072 |
| Federal | 96,380 | - | 96,380 |
| Total revenues | <u>555,123</u> | <u>91</u> | <u>555,214</u> |
| Expenditures: | | | |
| Non-instructional services | 558,732 | - | 558,732 |
| Excess (deficiency) of revenues over (under) expenditures | <u>(3,609)</u> | <u>91</u> | <u>(3,518)</u> |
| Other financing sources (uses): | | | |
| Transfers in | - | 50,000 | 50,000 |
| Net change in fund balances | (3,609) | 50,091 | 46,482 |
| Fund balances, beginning | <u>109,688</u> | <u>104,328</u> | <u>214,016</u> |
| Fund balances, ending | <u>\$ 106,079</u> | <u>\$ 154,419</u> | <u>\$ 260,498</u> |

SCHEDULE 6
LITCHFIELD SCHOOL DISTRICT
Combining Schedule of Changes in Student Activities Funds
Student Activities Funds
For the Fiscal Year Ended June 30, 2010

| | Balance, beginning | Additions | Deductions | Balance, ending |
|-------------------|-----------------------|-------------------|-------------------|--------------------|
| Schools: | | | | |
| Campbell High | \$ 85,381 | \$ 269,723 | \$ 270,109 | \$ 84,995 |
| Litchfield Middle | 31,550 | 179,536 | 184,422 | 26,664 |
| Griffin Memorial | 6,573 | 36,022 | 36,961 | 5,634 |
| Totals | <u>\$ 123,504</u> | <u>\$ 485,281</u> | <u>\$ 491,492</u> | <u>\$ 117,293</u> |

***SINGLE AUDIT ACT SCHEDULES
AND INDEPENDENT AUDITOR'S REPORTS***



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the 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, 2010, which collectively comprise the Litchfield School District's basic financial statements and have issued our report thereon dated January 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Litchfield School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Litchfield School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Litchfield School District's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and other Matters

As part of obtaining reasonable assurance about whether the Litchfield School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the school board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Murray A. Colby, CPA

January 11, 2011

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Professional Association



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the Litchfield School District with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The Litchfield School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Litchfield School District's management. Our responsibility is to express an opinion on the Litchfield School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Litchfield School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Litchfield School District's compliance with those requirements.

In our opinion, the Litchfield School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-01 and 10-02.

Internal Control over Compliance

Management of the Litchfield School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Litchfield School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

*Litchfield School District
Report on Compliance With Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with OMB Circular A-133*

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

The Litchfield School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Litchfield School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the school board, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 11, 2011

Gregory A. Collyer, CPA

PLODZIK & SANDERSON
Professional Association

SCHEDULE I
LITCHFIELD SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

SECTION I - SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements

1. The auditor's report expresses an unqualified opinion on the financial statements.
2. There were no material weaknesses identified relating to the internal control over financial reporting.
3. There were no significant deficiencies identified that were not considered material weaknesses relating to the internal control over financial reporting.
4. There were no instances of noncompliance material to the financial statements identified.

B. Federal Awards

1. There were no material weaknesses identified relating to the internal control over major programs.
2. There were no significant deficiencies identified that were not considered material weaknesses relating to the internal control over major programs.
3. The auditor's report on compliance for major programs expresses an unqualified opinion.
4. There are two audit findings required to be reported in accordance with section 510(a) of OMB Circular A-133.
5. The programs tested as major programs are the Special Education Cluster and CFDA No. 84.394: State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act.
6. The threshold for distinguishing between Types A and B programs was \$300,000.
7. The entity name was determined to be a low-risk auditee.

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

**Auditor
Reference
Number**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**U.S. Department of Education passed through the State of New Hampshire Department of Education:
Special Education Cluster**

- 10-01** **Criteria:** OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* states in Attachment B: *Selected Items of Cost*; Section 8: *Compensation for Personnel Services*; Subsection h: *Support of Salaries and Wages* that “where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.” The State of New Hampshire further requires that the certifications be signed by both the employee and the supervisor.

Condition: While performing compliance testing over payroll expenditures, it was noted that one employee's wages for the year were split between this Federal program and the General Fund based on a predetermined percentage rate. Timesheets were completed by this employee indicating total hours worked; however, did not differentiate the time been Federal and non-Federal as the employee works on a single cost objective.

SCHEDULE I (continued)
LITCHFIELD SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Cause: The School District only believed that semi-annual certifications needed to be completed for employee's whose wages were solely charged to one Federal project.

Effect: The School District is not in compliance with allowable costs/cost principles requirements.

Recommendation: We recommend that employees who work on a single federal award or cost objective complete semi-annual certifications.

Management Response: We agree with this finding and recommendation. We will modify our practices to issue a semi-annual certification letter to any employee who is paid in any part by a federal award. If the employee is only partly funded by the federal award, the certification letter will state the allocation of the employee's time between the federal award and non-federal award time if they are assigned one position or cost objective. If the employee is not assigned to a single position or cost objective, the employee timecard will state the hours worked between the federal and non-federal positions. We will implement this procedure for all expenditures in the 2010 – 2011 school year and will re-issue all FY 2010 – 2011 letters.

10-02 Criteria: The State of New Hampshire, Department of Education (NH DOE) *Federal Funds Handbook* states that equipment is any tangible personal property having an acquisition cost of \$100 or more per unit and a useful life of more than one year. Any item meeting this criterion is required to be tagged with a NH DOE inventory sticker. It further states that individual property records must be accurately maintained for each item.

Condition: During our testing, we noted that all furniture items purchased through this program in the fiscal year that met the NH DOE criterion of equipment were not tagged with equipment inventory stickers nor included on an inventory listing.

Cause: The School District was not aware that furniture is considered to be equipment according to NH DOE standards.

Effect: The School District is not in compliance with equipment and real property management requirements.

Recommendation: We recommend that the School District ensure that all equipment items be tagged with a NH DOE Federal equipment sticker and be included on an inventory listing.

Management Response: We agree with this finding. We have modified our standard practices to tag and inventory all items purchased with a federal award with a value of \$100 or more and an expected life of more than one year.

SCHEDULE II
LITCHFIELD SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|--|---------------------------|---|-------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Passed Through the State of New Hampshire Department of Education | | | |
| CHILD NUTRITION CLUSTER | | | |
| National School Lunch Program (note 3) | 10.555 | N/A | \$ 95,735 |
| Special Milk Program for Children | 10.556 | N/A | 646 |
| <i>CLUSTER TOTAL</i> | | | <u>96,381</u> |
| U.S. DEPARTMENT OF EDUCATION | | | |
| Passed Through the State of New Hampshire Department of Education | | | |
| TITLE I, PART A CLUSTER | | | |
| Title I Grants to Local Educational Agencies: | | | |
| Title I 08-09 | 84.010 | 90086 | 24,723 |
| SINI | 84.010 | 90264 | 4,366 |
| Title I 09-10 | 84.010 | 00077 | 61,612 |
| Title I Grants to Local Educational Agencies, Recovery Act: | | | |
| Title I ARRA | 84.389 | N/A | 34,538 |
| Title I 1003(a) GMS | 84.389 | N/A | 16,894 |
| Title I 1003(a) LMS | 84.389 | N/A | 16,901 |
| <i>CLUSTER TOTAL</i> | | | <u>159,034</u> |
| SPECIAL EDUCATION CLUSTER | | | |
| Special Education - Grants to States | 84.027 | 02509 | 296,802 |
| Special Education - Preschool Grants: | | | |
| Preschool | 84.173 | 92738 | 6,090 |
| Preschool | 84.173 | 02708 | 2,919 |
| Special Education - Grants to States, Recovery Act | 84.391 | N/A | 129,751 |
| <i>CLUSTER TOTAL</i> | | | <u>435,562</u> |
| Safe and Drug-Free Schools and Communities - State Grants: | | | |
| Title IVA Redistribution | 84.186 | 94539 | 17,148 |
| Title IV | 84.186 | 96588 | 231 |
| Title IV | 84.186 | 06598 | 4,805 |
| <i>PROGRAM TOTAL</i> | | | <u>22,184</u> |
| Education Technology State Grants: | | | |
| Title IID | 84.318 | 94506 | 2,469 |
| Title IID Mini Grant CHS | 84.318 | 04505 | 9,097 |
| <i>PROGRAM TOTAL</i> | | | <u>11,566</u> |
| Improving Teacher Quality State Grants: | | | |
| Title IIA | 84.367 | 84867 | (242) |
| Title IIA 2009 | 84.367 | 94871 | 13,230 |
| Director of Curriculum | 84.367 | 04852 | 41,655 |
| <i>PROGRAM TOTAL</i> | | | <u>54,643</u> |
| State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | 84.394 | N/A | 1,698,409 |
| Total Expenditures of Federal Awards | | | <u>\$ 2,477,779</u> |

The accompanying notes are an integral part of this schedule.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal grant activity of the Litchfield School District under programs of the federal government for the year ended June 30, 2010. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Litchfield School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Litchfield School District.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A- 87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Note 3. Food Donation

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities on the date received.