

LITCHFIELD SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

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PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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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, 2011, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Litchfield School District, as of June 30, 2011, and the respective changes in financial position for the year then ended and the respective budgetary comparison for the general fund and the Grants Fund, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 2 through 16) and the Schedule of Funding Progress for Other Postemployment Benefit 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Litchfield School District's basic financial statements. The individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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 basic financial statements. The 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial schedules 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 basic financial statements as a whole.

Gregory A. Colby, CPA

PLODZIK & SANDERSON
Professional Association

January 11, 2012

LITCHFIELD SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2011

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, 2011. 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.

Beginning with this fiscal year, the District has implemented the provisions of the Governmental Accounting Standards Board Statement 54 (GASBS-54) on Fund Balance Reporting and Governmental Fund Type Definitions. As a result of this change, the year-end fund balance is now reported based on classifications that comprise a hierarchy based primarily on the spending constraints for the specific purpose of the fund balance. Historically reported year-end encumbrances are now reported as an assigned fund balance classification.

FINANCIAL HIGHLIGHTS

- The District's total net assets for the year ending June 30, 2011, were \$9,448,789. Net assets increased by \$795,672 between July 1, 2010 and June 30, 2011. The District's total net assets consisted of \$9,306,420 in capital assets net of debt and an unrestricted net asset balance of \$142,369.
- The District's long-term bonds for Campbell High School as of June 30, 2011 total \$2,885,000. 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 2011.
- During the year, the District's General Fund budgetary expenditures and transfers of \$18,703,373 were \$624,043 less than the final adjusted budget and the General Fund budgetary revenues of \$19,104,924 were \$148,073 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 unassigned fund balance for the General Fund was \$772,115, or 4.13% of total General Fund expenditures, an increase of 108.36% from the prior year. Major contributing factors to this fund balance were: \$148,073 in excess revenues, which must be returned to the year-end fund balance; school board encumbrances made in June 2010 totaling \$234,313 to help offset the 2011 tax rate impact of the then expected \$2.1 million loss in state adequacy aid; an underspend in Special Education tuition (\$225,029), services (\$62,137), and transportation (\$22,598); electricity underspend of \$43,674 due primarily to savings from the Smart Start light conversion program; and an underspend of approximately \$40,599 in self-funded programs.

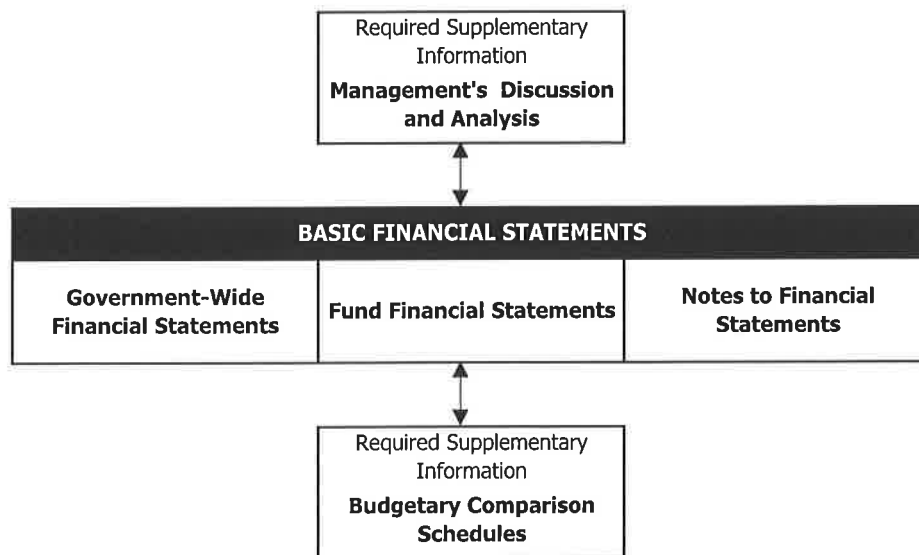
OVERVIEW OF FINANCIAL STATEMENTS

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, 2011

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, 2011

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, and Grants Fund. Under GASBS-54 the Expendable Trust Fund reported in previous years as a separate fund is now reported in the General Fund as a "Committed" fund balance. 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. The General Fund, Food Service Fund, and Grants 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 the Food Service Fund. 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, 2011

Net Assets for the period ending June 30, 2011

Total net assets at year end were \$9,448,789, an increase of \$795,672 or 9.20% over the prior year.

Net Assets	2011	2010	% Variance
Current Assets	1,905,138	1,602,483	18.89%
Non-current Assets	12,202,927	12,172,210	0.25%
Total Assets	14,108,065	13,774,693	2.42%
Current Liabilities	719,497	632,309	13.79%
Non-current Liabilities	3,939,779	4,489,267	-12.24%
Total Liabilities	4,659,276	5,121,576	-9.03%
Investment in capital assets (net of debt)	9,306,420	8,487,210	9.65%
Unrestricted net assets	142,369	165,907	-14.19%
Total Net Assets	9,448,789	8,653,117	9.20%

Change in Net Assets

The District's total revenues were \$20,440,873; total expenses were \$19,645,201; resulting in an increase of \$795,672 in net assets. This year, 92.26% of the District's revenues came from the local tax assessment and the State of New Hampshire, an increase of 8.06% from last year. This large increase is the result of the state using \$1,698,409 in American Recovery and Reinvestment Act monies in the prior year to offset some of its 2010 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 expenditures continue to be largely for instruction (59.6%) and student and instructional staff support services (10.5%).

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, 2011

Statement of Activities	2011	% of Total	2010	% of Total	% Variance
Revenues:					
Program revenues:					
Charges for services	523,900	2.6%	542,734	2.6%	-3.47%
Operating grants	1,417,633	6.9%	1,457,526	7.0%	-2.74%
Capital grants	380,560	1.9%	482,159	2.3%	-21.07%
General revenues:					
School district assessment	10,136,035	49.6%	10,217,075	49.3%	-0.79%
Unrestricted grants	7,956,258	38.9%	7,955,508	38.4%	0.01%
Miscellaneous	26,487	0.1%	87,894	0.4%	-69.86%
Total revenues	\$20,440,873	100%	\$20,742,896	100%	-1.46%
Program Expenses:					
Instruction	11,699,252	59.6%	11,844,889	58.7%	-1.23%
Support services:					
Student	1,545,303	7.9%	1,592,430	7.9%	-2.96%
Instructional staff	512,299	2.6%	572,605	2.8%	-10.53%
General administration	107,712	0.5%	43,496	0.2%	147.64%
Executive administration	470,193	2.4%	543,861	2.7%	-13.55%
School administration	1,225,320	6.2%	1,160,829	5.8%	5.56%
Business	277,802	1.4%	309,330	1.5%	-10.19%
Operation and maintenance of plant	1,635,739	8.3%	1,880,331	9.3%	-13.01%
Student transportation	741,667	3.8%	727,095	3.6%	2.00%
Other	515,271	2.6%	495,541	2.5%	3.98%
Non-instructional services	570,629	2.9%	558,732	2.8%	2.13%
Interest on long-term debt	175,675	0.9%	215,757	1.1%	-18.58%
Facilities acquisition and construction	168,339	0.9%	238,802	1.2%	-29.51%
Total governmental activities	\$19,645,201	100%	\$20,183,698	100%	-2.67%
Change in net assets	\$795,672		\$559,198		42.29%
Beginning net assets	\$8,653,117		\$8,093,919		6.91%
Ending net assets	\$9,448,789		\$8,653,117		9.20%

Revenues

School district assessment was 49.59% of total revenues for the fiscal year ended June 30, 2011, an increase of 0.29% from the prior year.

State of New Hampshire source intergovernmental revenues were 42.67% of total revenues for the fiscal year ended June 30, 2011, an increase of 7.77% from the prior year. This increase was due to the state using federal ARRA monies to fund part of the state's adequacy aid grant in 2010.

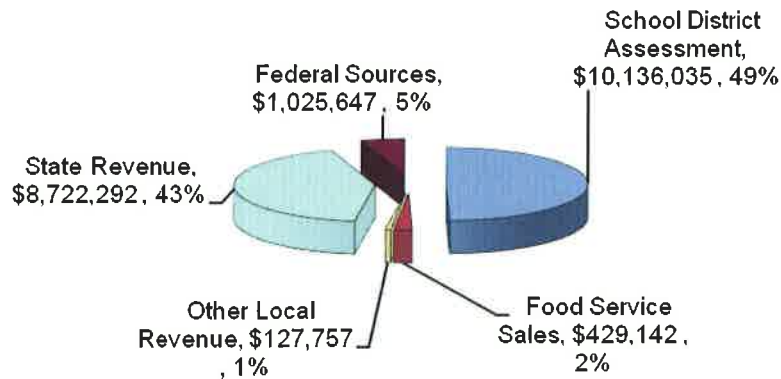
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2011

Federal revenues were 5.02% of total revenues for the fiscal year ended June 30, 2011, a decrease of 7.68% from the prior year. This decrease was due to the loss of American Recovery and Reinvestment Act of 2009 (ARRA) grants.

Summary of Revenues

The biggest share, \$18,858,327 (92.26%), 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 2010 - 2011



Expenses

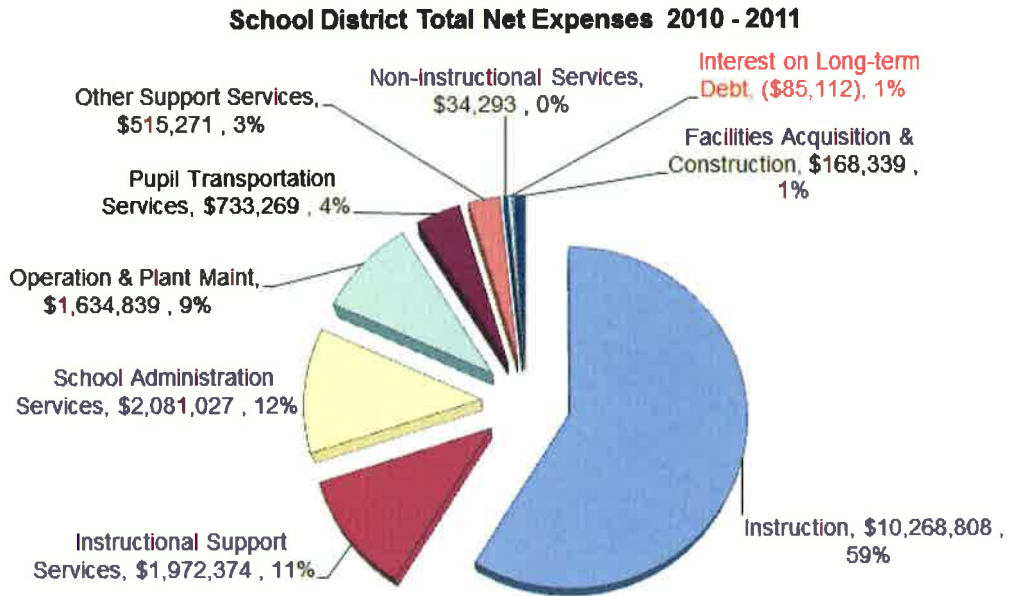
Expenses are reported on an accrual accounting basis. Amounts over or under the prior year expense amounts for the District in area's easily compared are as follows:

- Instruction expenses were 59.28% of total net expenses for the fiscal year ended June 30, 2011, a decrease of 0.12% from the prior year.
- Instructional Support service expenses were 11.40% of total net expenses for the fiscal year ended June 30, 2011, a decrease of 0.01% from the prior year.

Summary of Net Expenses

The Litchfield School District used its budgetary resources as depicted in the chart below. 70.67% of all expenses were on instruction and instructional support. Federal revenues were 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 \$260,787 were applied as an offset to the interest on long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2011



Highlighted changes in total net expenses include:

- A decrease in Instruction spending of \$250,795 or 2.38% under the prior year
- A decrease in Instructional Support Services of \$45,922 or 2.28% under the prior year
- A decrease in Operation & Plant Maintenance spending of \$244,442 or 13.00% under the prior year
- An increase in Facilities Acquisition & Construction spending of \$97,996 or 139.31% over the prior year

Governmental Activities

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2011

TOTAL AND NET COST OF SERVICES

Total Cost of Services					
	2011		2010		Variance
Functions / Programs					
Instruction	\$11,699,252	59.6%	\$11,844,889	58.7%	(\$145,637)
Support services	7,031,306	35.8%	7,325,518	36.3%	(\$294,212)
Food service program	570,629	2.9%	558,732	2.8%	\$11,897
Facilities acquisition	168,339	0.9%	238,802	1.2%	(\$70,463)
Unallocated					
Interest	175,675	0.9%	215,757	1.1%	(\$40,082)
	<u>\$19,645,201</u>	<u>100%</u>	<u>\$20,183,698</u>	<u>100%</u>	<u>(\$538,497)</u>
Net Cost of Services					
	2011		2010		Variance
Functions / Programs					
Instruction	\$10,268,808	59.3%	\$10,519,603	59.4%	(\$250,795)
Support services	6,936,780	40.0%	7,161,782	40.5%	(\$225,002)
Food service program	34,293	0.2%	3,844	0.0%	\$30,449
Facilities acquisition	168,339	1.0%	70,343	0.4%	\$97,996
Unallocated					
Interest	(85,112)	-0.5%	(54,293)	-0.3%	(\$30,819)
	<u>\$17,323,108</u>	<u>100%</u>	<u>\$17,701,279</u>	<u>100%</u>	<u>(\$378,171)</u>

The total cost of all governmental activities this year was \$19,645,201; the total net cost was \$17,323,108. The primary financing for these activities of the District was as follows:

Property taxes

- The amount that was paid by taxpayers through property taxes was \$11,943,860; which consisted of \$10,136,035 paid in the form of local property taxes and \$1,807,825 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 \$6,147,683 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. The State used \$215,171 from the Federal EdJobs grant monies to meet part of this funding obligation. Thus the actual adequacy aid received directly from State sources was \$5,932,512.

Charges for Services

- Tuition and self-funded program revenues were received in the amount of \$85,460.
- Total food service revenues of \$536,336 consisted of food service sales and local miscellaneous revenues in the amount of \$429,143 and federal and state food nutrition program operating contributions (free and reduced lunch reimbursements and commodities) of \$107,193.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2011

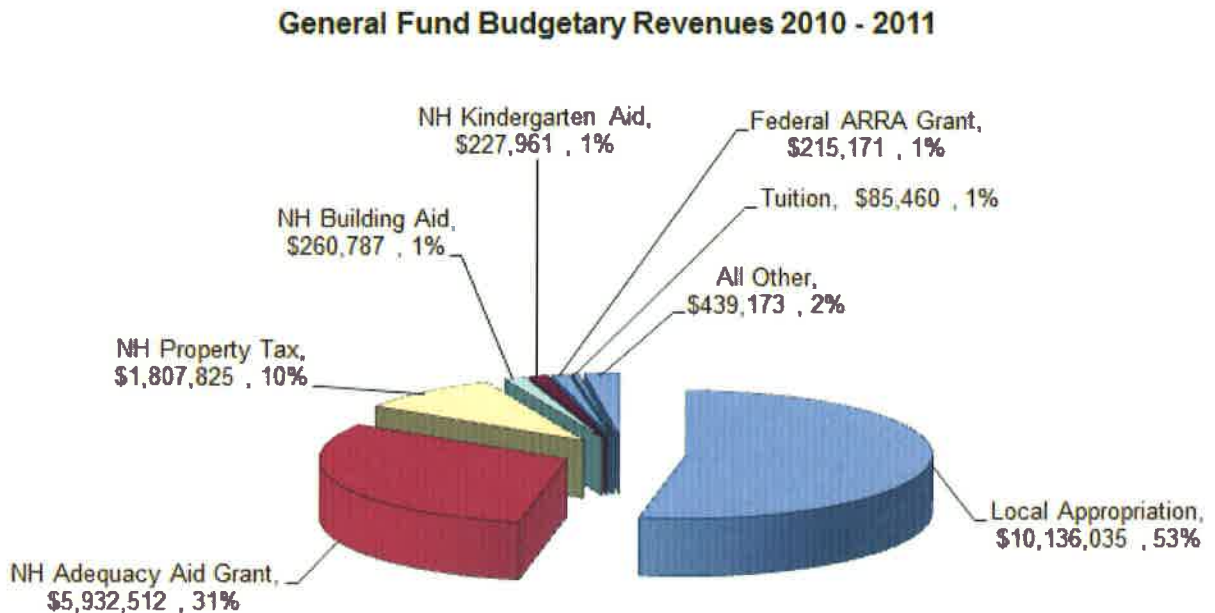
Operating Grants and Contributions

- Federal grants for instruction were received in the amount of \$587,913 with local and state grants of \$6,512. Including the EdJobs grant monies, total federal grants for instruction totaled \$803,084.

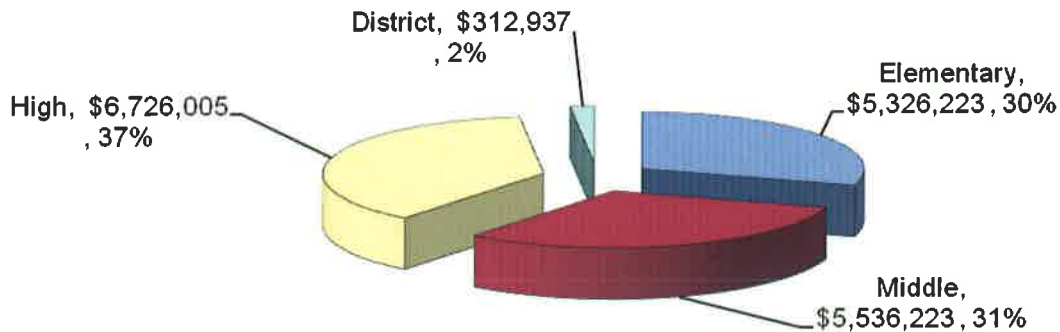
INDIVIDUAL FUND ANALYSIS

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 62.52% of general fund revenues. Together, the revenues raised locally and the state adequacy grant comprises 93.57% 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.

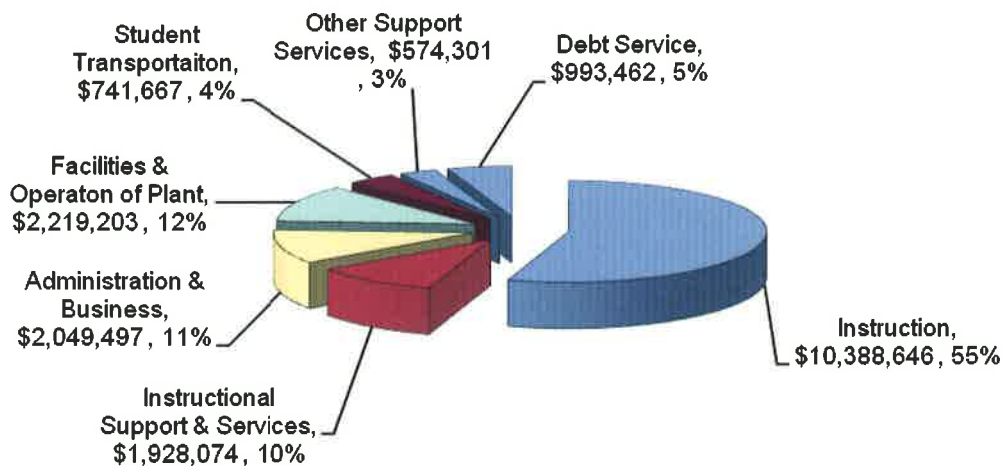


**General Fund Budgetary Expenditures by Grade Level
 2010 - 2011**



Instruction makes up 54.98% of all general fund expenditures, a decrease of 0.12% from the prior year, while Instructional Support and Services, including transportation, operation of plant, and administration make up 39.76% of all General Fund expenditures, an increase of 0.26% over the prior year. The remaining 5.26% includes debt service – principal and interest, a decrease of 0.14% from the prior year. The following charts provide a more detailed depiction of the makeup and proportions of the expenditures in these broad categories.

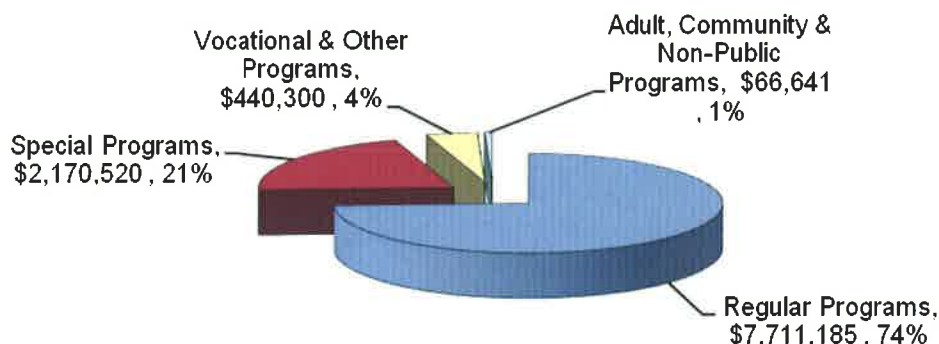
**General Fund Budgetary Expenditures by Functions
 2010- 2011**



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2011

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

**General Fund Budgetary Expenditures for Instruction
2010 - 2011**



SUMMARY OF FEDERAL SUPPORT OF THE DISTRICT

During fiscal year 2011, Litchfield School District applied for and received the following significant federal grants:

- Education Jobs Funds (Ed Jobs) revenues for the current period were \$215,171 and used by the State to offset a portion of their required adequate education grant.
- 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 were \$167,765. These grants funded special needs services and supplies for students throughout the District, partial funding of a reading specialist, and staff professional development.
- Special Education Individuals with Disabilities Education Improvement Act (IDEA) revenues for the current period were \$289,929. These grants funded special needs services and supplies for students throughout the District.
- Title I, Student Achievement and School Accountability Programs revenues for the current period were \$95,522. These grants funded the services of part-time reading and math tutors, a summer reading program for elementary and middle school students, professional development, and school improvement programs.
- Title IIA, Improving Teacher Quality State Grants was awarded for the current period in the amount of \$22,322. This grant funded teacher professional development and a teacher mentoring program.
- A Preschool Grant was awarded for the current period in the amount of \$10,875. The grant was used to provide supplies to support special needs students.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2011

- U. S. Department of Agriculture National School Lunch Program revenues for the current period were \$107,193. These revenues were used to offset the expenses of the school lunch program.

CAPITAL RESERVE ACCOUNTS

As a result of implementing GASB-54, expendable capital reserve funds (established by voters at an annual school district meeting as trust funds in accordance with statutory requirements) are now classified as a "Committed" fund balance in the general fund for the basic financial statements. The District's Special Education capital reserve fund and the School Capital Improvement capital reserve fund balances increased \$77.24 during the year from \$154,419.28 at June 30, 2010, to \$154,496.52 at June 30, 2011. 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 restated beginning General Fund equity was \$945,303. General Fund revenues, consisting largely of local taxes and state aid, were \$19,310,112. General Fund expenditures, including fund transfers, were \$19,099,960. The ending fund equity for the District was \$1,155,455, of which \$772,115 is an unassigned fund balance, an increase of \$401,551 from the prior year's unassigned fund balance. This large increase was due to actions taken by the district to lessen the impact of the expected loss of state adequacy aid on the tax rate. The unassigned 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 \$148,073.
- General Fund expenditures were less than the final adjusted budgeted spending by \$624,043. These variances are absorbed in the General Fund ending balance. Significant contributors to the under spend in the general fund budget were:
 - School board encumbrances made in June 2010 totaling \$234,313 to help offset the 2011 tax rate impact of the then expected \$2.1 million loss in state adequacy aid.
 - Underspend in Special Education tuition (\$225,029), services (\$62,137), and transportation (\$22,598).
 - Underspend in electricity of \$43,674 due primarily to savings from the Smart Start light conversion program as payments for the conversion did not start until mid-year.
 - Self-funded programs, which do not impact the local property tax rate, were under spent by \$40,599.
 - Under spending in salaries and benefits offset over spending in several major accounts including building repairs, fuel oil, software leases, and data communications.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2011

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, 2011, the District reported capital assets of \$12,202,927 (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 2011 included a roof replacement, two additional bathrooms, and a replacement playground at Griffin Memorial School, and district-wide networking equipment and Smart Start lighting upgrades. The District also annually invests in new furnishings, computers and peripherals, printed media and other equipment, as needed.

Governmental Activities	2011	2010	% Variance
Land & Improvements	460,792	460,792	0.00%
Buildings & Improvements	18,914,049	18,460,642	2.46%
Vehicles	14,000	14,000	0.00%
Furniture & Equipment	166,382	119,942	38.72%
Work In Progress			
Totals at Historical Cost	19,555,223	19,055,376	2.62%
Total Accumulated Depreciation	7,352,296	6,869,166	7.03%
NET CAPITAL ASSETS	12,202,927	12,186,210	0.14%

Long-Term Liabilities

On June 30, 2011, the District had \$2,885,000 of outstanding long-term debt, \$743,270 in compensated absences payable, and \$11,507 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.

For the fiscal year ending June 30, 2011, the annual required contribution to cover OPEB obligations was \$180,285 which was offset by District pay-as-you-go contributions of \$60,124. The net OPEB obligation as of June 30, 2011 is \$300,002. As of June 30, 2011, the date of the most recent actuarial valuation, the actuarial accrued liability for these OPEB benefits was \$1,383,635 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability of \$1,383,635.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2011

Governmental Activities	2011	2010	% Variance
General Obligation Bonds	2,885,000	3,685,000	-21.71%
Compensated Absences	743,270	608,701	22.11%
Capital Leases Payable	11,507	16,152	-28.76%
Other Post-Employment Benefits Payable	300,002	179,414	67.21%
TOTAL LONG-TERM LIABILITIES	3,939,779	4,489,267	-12.24%

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 unassigned equity for the 2011-2012 fiscal year is \$772,115.

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

1. At the time of this report, the Litchfield School Board and the Litchfield Educational Association (teachers) are currently negotiating a new contract to be effective with the 2012-2013 school year. The impact of a potential agreement is not currently known, and
2. The State of New Hampshire did not reduce its adequate education aid funding to Litchfield as was planned for 2011-2012. The legislature continues to look at a new model for funding public education and a constitutional amendment. The amount of available State revenues to fund its adequate education in the future is yet to be determined.

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, 2011

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,563,641
Intergovernmental receivable	333,825
Other receivables	7,672
Capital assets, not being depreciated:	
Land	460,792
Capital assets, net of accumulated depreciation:	
Buildings and building improvements	11,656,555
Equipment	85,580
Total assets	14,108,065
LIABILITIES	
Accounts payable	49,673
Accrued interest payable	63,421
Accrued salaries and benefits	583,144
Unearned revenue	23,259
Noncurrent obligations:	
Due within one year:	
Bond	800,000
Capital leases	5,348
Due in more than one year:	
Bond	2,085,000
Capital leases	6,159
Compensated absences	743,270
Other postemployment benefits	300,002
Total liabilities	4,659,276
NET ASSETS	
Invested in capital assets, net of related debt	9,306,420
Unrestricted	142,369
Total net assets	\$ 9,448,789

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, 2011

	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	\$ 11,699,252	\$ 85,460	\$ 1,225,211	\$ 119,773	\$ (10,268,808)
Support services:					
Student	1,545,303	-	82,751	-	(1,462,552)
Instructional staff	512,299	-	2,477	-	(509,822)
General administration	107,712	-	-	-	(107,712)
Executive administration	470,193	-	-	-	(470,193)
School administration	1,225,320	-	-	-	(1,225,320)
Business	277,802	-	-	-	(277,802)
Operation and maintenance of plant	1,635,739	900	-	-	(1,634,839)
Student transportation	741,667	8,398	-	-	(733,269)
Other	515,271	-	-	-	(515,271)
Noninstructional services	570,629	429,142	107,194	-	(34,293)
Interest on long-term debt	175,675	-	-	260,787	85,112
Facilities acquisition and construction	168,339	-	-	-	(168,339)
Total governmental activities	<u>\$ 19,645,201</u>	<u>\$ 523,900</u>	<u>\$ 1,417,633</u>	<u>\$ 380,560</u>	<u>(17,323,108)</u>
General revenues:					
School district assessment					10,136,035
Grants and contributions not restricted to specific programs					7,956,258
Interest					3,822
Miscellaneous					22,665
Total general revenues					<u>18,118,780</u>
Change in net assets					795,672
Net assets, beginning					8,653,117
Net assets, ending					<u>\$ 9,448,789</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, 2011

	General	Grants	Other Governmental Fund (Food Service)	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,468,826	\$ -	\$ 94,815	\$ 1,563,641
Receivables, net of allowance for uncollectible:				
Accounts	7,416	-	256	7,672
Intergovernmental	1,680	171,155	6,493	179,328
Interfund receivable	156,098	-	-	156,098
Intergovernmental receivable - restricted	154,497	-	-	154,497
Total assets	<u>\$ 1,788,517</u>	<u>\$ 171,155</u>	<u>\$ 101,564</u>	<u>\$ 2,061,236</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 49,573	\$ 100	\$ -	\$ 49,673
Accrued salaries and benefits	583,144	-	-	583,144
Interfund payable	-	156,098	-	156,098
Deferred revenue	345	14,957	7,957	23,259
Total liabilities	<u>633,062</u>	<u>171,155</u>	<u>7,957</u>	<u>812,174</u>
Fund balances:				
Restricted :				
Food service	-	-	93,607	93,607
Committed:				
Expendable trust funds	154,497	-	-	154,497
Assigned:				
Encumbrances	228,843	-	-	228,843
Unassigned	772,115	-	-	772,115
Total fund balances	<u>1,155,455</u>	<u>-</u>	<u>93,607</u>	<u>1,249,062</u>
Total liabilities and fund balances	<u>\$ 1,788,517</u>	<u>\$ 171,155</u>	<u>\$ 101,564</u>	<u>\$ 2,061,236</u>

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

EXHIBIT C-2
LITCHFIELD SCHOOL DISTRICT
Reconciliation of Total Governmental Fund Balances to the Statement of Net Assets
June 30, 2011

Total fund balances of governmental funds (Exhibit C-1)		\$ 1,249,062
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.		
Cost	\$ 19,555,223	
Less accumulated depreciation	<u>(7,352,296)</u>	
		12,202,927
Interfund receivables and payables between governmental funds are eliminated on the statement of net assets.		
Receivables	\$ (156,098)	
Payables	<u>156,098</u>	
		-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(63,421)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bond	\$ (2,885,000)	
Capital leases	(11,507)	
Compensated absences	(743,270)	
Other postemployment benefits	<u>(300,002)</u>	
		<u>(3,939,779)</u>
Net assets of governmental activities (Exhibit A)		<u><u>\$ 9,448,789</u></u>

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, 2011

	General	Grants	Other Governmental Fund (Food Service)	Total Governmental Funds
Revenues:				
School district assessment	\$ 10,136,035	\$ -	\$ -	\$ 10,136,035
Other local	121,245	6,512	429,142	556,899
State	8,717,138	-	5,154	8,722,292
Federal	335,694	587,913	102,040	1,025,647
Total revenues	<u>19,310,112</u>	<u>594,425</u>	<u>536,336</u>	<u>20,440,873</u>
Expenditures:				
Current:				
Instruction	10,593,756	509,197	-	11,102,953
Support services:				
Student	1,419,875	82,751	-	1,502,626
Instructional staff	508,199	2,477	-	510,676
General administration	99,953	-	-	99,953
Executive administration	470,193	-	-	470,193
School administration	1,202,100	-	-	1,202,100
Business	277,251	-	-	277,251
Operation and maintenance of plant	1,972,906	-	-	1,972,906
Student transportation	741,667	-	-	741,667
Other	574,301	-	-	574,301
Noninstructional services	-	-	548,808	548,808
Debt service:				
Principal	800,000	-	-	800,000
Interest	193,462	-	-	193,462
Facilities acquisition and construction	246,297	-	-	246,297
Total expenditures	<u>19,099,960</u>	<u>594,425</u>	<u>548,808</u>	<u>20,243,193</u>
Net change in fund balances	210,152	-	(12,472)	197,680
Fund balances, beginning, as restated (see Note 12)	945,303	-	106,079	1,051,382
Fund balances, ending	<u>\$ 1,155,455</u>	<u>\$ -</u>	<u>\$ 93,607</u>	<u>\$ 1,249,062</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, 2011

Net change in fund balances of total governmental funds (Exhibit C-3)		\$ 197,680
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.		
Capitalized capital outlay	\$ 513,847	
Depreciation expense	<u>(483,130)</u>	30,717
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>4,645</u>	804,645
Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued interest expense	\$ 17,787	
Increase in compensated absences payable	(134,569)	
Increase in other postemployment benefits liability	<u>(120,588)</u>	<u>(237,370)</u>
Change in net assets of governmental activities (Exhibit B)		<u><u>\$ 795,672</u></u>

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

EXHIBIT D-1
LITCHFIELD SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2011

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
School district assessment	\$ 10,136,035	\$ 10,136,035	\$ -
Other local	123,900	121,167	(2,733)
State	8,421,745	8,512,028	90,283
Federal	275,171	335,694	60,523
Total revenues	<u>18,956,851</u>	<u>19,104,924</u>	<u>148,073</u>
Expenditures:			
Current:			
Instruction	10,986,135	10,295,990	690,145
Support services:			
Student	1,470,592	1,419,863	50,729
Instructional staff	478,516	498,034	(19,518)
General administration	100,033	99,953	80
Executive administration	533,026	469,322	63,704
School administration	1,189,663	1,201,624	(11,961)
Business	286,491	284,821	1,670
Operation and maintenance of plant	2,009,491	1,919,875	89,616
Student transportation	778,867	741,667	37,200
Other	266,176	487,035	(220,859)
Debt service:			
Principal	800,000	800,000	-
Interest	193,463	193,462	1
Facilities acquisition and construction	234,963	291,727	(56,764)
Total expenditures	<u>19,327,416</u>	<u>18,703,373</u>	<u>624,043</u>
Net change in fund balance	<u>\$ (370,565)</u>	401,551	<u>\$ 772,116</u>
Unassigned fund balance, beginning		370,564	
Unassigned fund balance, ending		<u>\$ 772,115</u>	

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

EXHIBIT D-2
LITCHFIELD SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (GAAP Basis)
Grants Fund
For the Fiscal Year Ended June 30, 2011

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Local	\$ -	\$ 6,512	\$ 6,512
Federal	770,957	587,913	(183,044)
Total revenues	<u>770,957</u>	<u>594,425</u>	<u>(176,532)</u>
Expenditures:			
Current:			
Instruction	770,957	509,197	261,760
Support services:			
Student	-	82,751	(82,751)
Instructional staff	-	2,477	(2,477)
Total expenditures	<u>770,957</u>	<u>594,425</u>	<u>176,532</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning		-	
Fund balance, ending		<u>\$ -</u>	

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

EXHIBIT E
LITCHFIELD SCHOOL DISTRICT
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2011

	<u>Agency</u>
ASSETS	
Cash and cash equivalents	\$ 162,460
LIABILITIES	
Due to student groups	<u>162,460</u>
NET ASSETS	<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, 2011

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LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A Reporting Entity

The Litchfield School District, Litchfield, New Hampshire (the School District) is a municipal corporation governed by an elected 5-member School Board. The accompanying financial statements of the Litchfield 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 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.

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

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 entity's 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 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 of the individual governmental fund are at least 5% of the corresponding total for all governmental funds combined; and
- (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.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

Governmental Activities – Governmental funds are identified as general and special revenue funds 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 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.

Nonmajor Fund – The School District also reports one nonmajor governmental fund, the food service fund.

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 60 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.

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.

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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 60 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 monies in participation units in the public deposit investment pool established pursuant to NH 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 Restricted Assets

Certain intergovernmental receivables are classified as restricted on the balance sheet because they are in the custody of the Town of Litchfield trustees of trust funds and their use is restricted for specified purposes; laws and/or enabling legislation.

1-F Receivables

Receivables in the government-wide and governmental fund 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-G 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-H 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:

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

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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-I 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 Statement of Net Assets, deferred revenue is classified as unearned revenue.

1-J 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.

1-K 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-L Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. Claims and judgments are recorded in the government-wide financial statements as expense when the related liabilities are incurred. There were no significant claims or judgments at year-end.

1-M Equity/Fund Balance Classifications

Government-wide Statements – Equity is classified as net assets and displayed in two components:

- a) *Invested in capital assets, net of related debt* – Consists of 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 “restricted” or “invested in capital assets, net of related debt.”

Governmental Fund Balances Classification – The Litchfield School District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for this fiscal year ending June 30, 2011. GASB Statement No. 54 establishes fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) are legally or contractually required to be maintained intact. These items were previously reported as reserved for special purposes.

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Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. The School District has classified Federal grant and food service funds as being restricted because their use is restricted by Federal/State statutes for expenditures. These items were previously reported as reserved for special purposes or unreserved-undesignated or unreserved-designated for special purposes.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the legislative body (School District Meeting). These amounts cannot be used for any other purpose unless the legislative body (School District Meeting) removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. Legislative body votes relative to the use of unassigned fund balance at year-end, in addition to non-lapsing appropriations, are included in this classification. Expendable trust funds are restricted by State statute and are legally segregated for funding specific items of expenditure. These items were previously reported as reserved for special purposes or unreserved-designated for special purposes.

Assigned – This classification includes amounts that are constrained by the School District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the School Board or through the Board delegating this responsibility to the Superintendent or Business Administrator through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund. The School District also has assigned funds consisting of reserve for encumbrances in the general fund at year-end. This amount was previously reported as reserved for encumbrances.

Unassigned – This classification includes the residual fund balance for the general fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts. This amount was previously reported as unreserved-undesignated.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page19). As discussed in Note 1, restricted funds are used first as appropriate, followed by committed resources, and then assigned resources, as appropriate opportunities arise. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

1-N 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-O 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.

LITCHFIELD SCHOOL DISTRICT
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NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

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 US 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 assigned 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 unassigned fund balance to achieve that end. In the fiscal year 2011, \$370,565 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

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

Revenues:	
Per Exhibit D-1 (budgetary basis)	\$ 19,104,924
Adjustments:	
Basis difference:	
Interest earnings related to the expendable trust reported in the general fund	78
On-behalf retirement contributions made by the State of New Hampshire recognized as revenue on the GAAP basis, but not on the budgetary basis	205,110
Per Exhibit C-3 (GAAP basis)	<u>\$ 19,310,112</u>
Expenditures:	
Per Exhibit D-1 (budgetary basis)	\$ 18,703,373
Adjustments:	
Basis difference:	
Encumbrances, beginning	420,320
Encumbrances, ending	(228,843)
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	205,110
Per Exhibit C-3 (GAAP basis)	<u>\$ 19,099,960</u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – RESTRICTED ASSETS

Certain School District intergovernmental receivables in the amount of \$154,497 are restricted for specified purposes as part of the expendable trust funds in the custody of the Town of Litchfield trustees of trust funds.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2011, consisted of accounts 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.

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NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 consisted of the following:

	Balance, beginning	Additions	Retirements	Balance, ending
At cost:				
Not being depreciated:				
Land	\$ 460,792	\$ -	\$ -	\$ 460,792
Being depreciated:				
Buildings and building improvements	18,460,642	453,407	-	18,914,049
Equipment	119,942	60,440	-	180,382
Total capital assets being depreciated	<u>18,580,584</u>	<u>513,847</u>	<u>-</u>	<u>19,094,431</u>
Total capital assets	<u>19,041,376</u>	<u>513,847</u>	<u>-</u>	<u>19,555,223</u>
Less accumulated depreciation:				
Buildings and building improvements	(6,797,801)	(459,910)	217	(7,257,494)
Equipment	(71,365)	(23,437)	-	(94,802)
Total accumulated depreciation	<u>(6,869,166)</u>	<u>(483,347)</u>	<u>217</u>	<u>(7,352,296)</u>
Net book value, capital assets being depreciated	<u>11,711,418</u>	<u>30,500</u>	<u>217</u>	<u>11,742,135</u>
Net book value, all capital assets	<u>\$ 12,172,210</u>	<u>\$ 30,500</u>	<u>\$ 217</u>	<u>\$ 12,202,927</u>

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	\$ 420,079
Support services:	
Operation and maintenance of plant	41,447
Noninstructional services	21,821
Total depreciation expense	<u>\$ 483,347</u>

NOTE 6 – INTERFUND BALANCES

Interfund receivable and payable balances consisting of overdrafts in pooled cash and budgetary transfers at June 30, 2011, are as follows:

Receivable Fund	Payable Fund	Amount
General	Grants	<u>\$ 156,098</u>

The balance of \$156,098 due to the general fund from the grants fund results from loans made in anticipation of federal grants.

NOTE 7 – DEFERRED/UNEARNED REVENUE

Deferred/unearned revenue at June 30, 2011 consists of the following:

General fund:	
Fees collected in advance for miscellaneous programs	\$ 345
Food service fund:	
Fees for lunch and milk collected in advance	7,957
Grants fund:	
Federal grant revenue collected in advance of eligible expenditure being made	<u>14,957</u>
Total deferred/unearned revenue	<u>\$ 23,259</u>

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NOTE 8 – LONG-TERM LIABILITIES

Changes in the School District's long-term obligations consisted of the following for the year ended June 30, 2011:

	General Obligation Bond Payable	Capital Lease Payable	Compensated Absences Payable	Other Postemployment Benefits	Total
Balance, beginning	\$ 3,685,000	\$ 16,152	\$ 608,701	\$ 179,414	\$ 4,489,267
Additions	-	-	134,569	120,588	255,157
Reductions	(800,000)	(4,645)	-	-	(804,645)
Balance, ending	<u>\$ 2,885,000</u>	<u>\$ 11,507</u>	<u>\$ 743,270</u>	<u>\$ 300,002</u>	<u>\$ 3,939,779</u>

Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at June 30, 2011	Current Portion
General obligation bond payable:						
High School construction	\$ 11,685,500	2000	2015	4.50-5.25	\$ 2,885,000	\$ 800,000
Capital lease payable	\$ 27,277	2009	2013	15.15	11,507	5,348
Compensated absences payable:						
Vested sick leave					154,637	-
Accrued vacation leave					273,048	-
Vested retirement stipend					315,585	-
					<u>743,270</u>	<u>-</u>
Other postemployment benefits					300,002	
Total					<u>\$ 3,939,779</u>	<u>\$ 805,348</u>

The annual requirements to amortize the general obligation bond outstanding as of June 30, 2011, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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>\$ 2,885,000</u>	<u>\$ 353,850</u>	<u>\$ 3,238,850</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 9 – 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.

The annual requirements to amortize capital leases payable outstanding as of June 30, 2011, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 5,348	\$ 1,745	\$ 7,093
2013	6,159	933	7,092
Totals	<u>\$ 11,507</u>	<u>\$ 2,678</u>	<u>\$ 14,185</u>

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

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NOTE 10 – GOVERNMENTAL ACTIVITIES NET ASSETS

Governmental activities net assets reported on the government-wide Statement of Net Assets at June 30, 2011 include the following:

Invested in capital assets, net of related debt:	
Net property, buildings, and equipment	\$ 12,202,927
Less:	
General obligation bonds payable	(2,885,000)
Capital leases payable	<u>(11,507)</u>
Total invested in capital assets, net of related debt	9,306,420
Unrestricted	<u>142,369</u>
Total net assets	<u><u>\$ 9,448,789</u></u>

None of the net assets are restricted by enabling legislation.

NOTE 11 – GOVERNMENTAL FUND BALANCES

Governmental fund balance balances reported on the fund financial statements at June 30, 2011 include the following:

General Fund – The general fund has an unassigned fund balance of \$ 772,115. Also reported in the general fund is \$154,497 restricted fund balance related to expendable trust funds and \$228,843 in assigned for encumbrances.

Other Funds – The nonmajor food service fund has a restricted fund balance of \$93,607.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

Fund equity at July 1, 2010 was restated to record expendable trust funds previously reported as a special revenue fund that under GASB Statement No. 54 is now considered part of the general fund, as follows:

	General Fund	Expendable Trust Fund	Total
Adjustment	\$ 154,419	\$ (154,419)	\$ -
Fund balance, as previously reported	790,884	154,419	945,303
Fund balance, as restated	<u>\$ 945,303</u>	<u>\$ -</u>	<u>\$ 945,303</u>

NOTE 13 – 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 2011, the School District contributed 8.02% for teachers and 9.16% for other employees. The contribution requirements for the fiscal years 2009, 2010, and 2011 were \$591,649, \$733,149, and \$753,404, respectively, which were paid in full in each year.

The State of New Hampshire funds 25% of the total employer normal contribution rate for teachers employed by the School District. This amount, \$205,110, 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.

LITCHFIELD SCHOOL DISTRICT
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NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 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 No. 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.

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 No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities 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 2011:

Annual required contribution/OPEB cost	\$ 180,285
Interest on Net OPEB obligation to end of year	8,074
Net OPEB amortization adjustment	(7,647)
Contributions made (pay-as-you-go)	<u>(60,124)</u>
Increase in net OPEB obligation	120,588
Net OPEB obligation, beginning	<u>179,414</u>
Net OPEB obligation, ending	<u><u>\$ 300,002</u></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 2011 was as follows:

Fiscal Year Ended	Annual Required Contribution (ARC)	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
June 30, 2011	\$ 180,285	\$ 60,124	0%	\$ 300,002

As of June 30, 2011, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$1,383,635, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,383,635. The covered payroll (annual payroll of active employees covered by the plan) was \$8,501,171 during fiscal year 2011, and the ratio of the UAAL to the covered payroll was 16.28%.

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 health care 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 for Other Postemployment Benefits Plan, 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, 2011 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 health care 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, 2011 was 30 years.

LITCHFIELD SCHOOL DISTRICT
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NOTE 15 – 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 2011, the School District was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs. These entities are considered public entity risk pools currently operating as common risk management and insurance programs for member School Districts and cities.

The Workers' Compensation and Property/Liability Programs provide coverage from July 1, 2010 to July 1, 2011 by Primex³, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The estimated net contribution from the Litchfield School District billed and paid for the year ended June 30, 2011 was \$41,930 for workers' compensation and \$68,681 for property/liability. The workers' compensation section of the self-insurance membership agreement permits Primex³ 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. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex³ foresees no likelihood of any additional assessment for this or any prior year.

NOTE 16 – CONTINGENT LIABILITIES

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.

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.

NOTE 17 – 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 mandatory for the School District for fiscal year ended June 30, 2011 and accordingly have been implemented. GASB Statements No. 60 through No. 64 issued during this period are not effective for financial statements until the subsequent years.

NOTE 18 – 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, 2012 the date the June 30, 2011 financial statements were issued, and no events occurred that require recognition or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT F
LITCHFIELD SCHOOL DISTRICT
Schedule of Funding Progress for Other Postemployment Benefit Plan
For the Fiscal Year Ended June 30, 2011

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, 2010	\$ -	\$ 1,383,635	\$ 1,383,635	0.00%	\$ 8,501,171	16.28%

The note to the required supplementary information is an integral part of this schedule.

LITCHFIELD SCHOOL DISTRICT
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

Schedule of Funding Progress for Other Postemployment Benefits (OPEB)

As required by GASB Statement No. 45, Exhibit F represents the actuarial determined costs associated with the School District's other postemployment benefits for the fiscal year ended June 30, 2011.

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, 2011

	Estimated	Actual	Variance Positive (Negative)
School district assessment:			
Current appropriation	\$ 10,136,035	\$ 10,136,035	\$ -
Other local sources:			
Tuition	102,900	85,460	(17,440)
Transportation	6,000	8,398	2,398
Investment earnings	8,000	3,744	(4,256)
Rentals	-	900	900
Miscellaneous	7,000	22,665	15,665
Total from other local sources	<u>123,900</u>	<u>121,167</u>	<u>(2,733)</u>
State sources:			
Adequacy aid (grant)	5,932,512	5,932,512	-
Adequacy aid (tax)	1,807,825	1,807,825	-
School building aid	260,787	260,787	-
Kindergarten aid	204,236	227,961	23,725
Catastrophic aid	214,385	258,404	44,019
Vocational aid	2,000	-	(2,000)
Driver education	-	6,300	6,300
Other state aid	-	18,239	18,239
Total from state sources	<u>8,421,745</u>	<u>8,512,028</u>	<u>90,283</u>
Federal sources:			
Medicaid	60,000	119,773	59,773
ARRA - Education jobs fund	215,171	215,171	-
Other	-	750	750
Total from federal sources	<u>275,171</u>	<u>335,694</u>	<u>60,523</u>
Total revenues	18,956,851	<u>\$ 19,104,924</u>	<u>\$ 148,073</u>
Use of fund balance to reduce school district assessment	370,565		
Total revenues and use of fund balance	<u>\$ 19,327,416</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, 2011

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
Instruction:					
Regular programs	\$ 33,000	\$ 7,896,020	\$ 7,711,185	\$ 1,071	\$ 216,764
Special programs	19,191	2,530,068	2,170,520	33	378,706
Vocational programs	-	27,040	29,056	-	(2,016)
Adult and community programs	41,569	25,559	18,656	-	48,472
Other	-	507,448	459,229	-	48,219
Total instruction	<u>93,760</u>	<u>10,986,135</u>	<u>10,388,646</u>	<u>1,104</u>	<u>690,145</u>
Support services:					
Student	1,137	1,470,592	1,419,875	1,125	50,729
Instructional staff	10,165	478,516	508,199	-	(19,518)
General administration	-	100,033	99,953	-	80
Executive administration	871	533,026	470,193	-	63,704
School administration	476	1,189,663	1,202,100	-	(11,961)
Business	9,812	286,491	277,251	17,382	1,670
Operation and maintenance of plant	110,658	2,009,491	1,972,906	57,627	89,616
Student transportation	-	778,867	741,667	-	37,200
Other	88,871	266,176	574,301	1,605	(220,859)
Total support services	<u>221,990</u>	<u>7,112,855</u>	<u>7,266,445</u>	<u>77,739</u>	<u>(9,339)</u>
Debt service:					
Principal of long-term debt	-	800,000	800,000	-	-
Interest on long-term debt	-	193,463	193,462	-	1
Total debt service	<u>-</u>	<u>993,463</u>	<u>993,462</u>	<u>-</u>	<u>1</u>
Facilities acquisition and construction	<u>104,570</u>	<u>234,963</u>	<u>246,297</u>	<u>150,000</u>	<u>(56,764)</u>
Total appropriations, expenditures, other financing uses, and encumbrances	<u><u>\$ 420,320</u></u>	<u><u>\$ 19,327,416</u></u>	<u><u>\$ 18,894,850</u></u>	<u><u>\$ 228,843</u></u>	<u><u>\$ 624,043</u></u>

SCHEDULE 3
LITCHFIELD SCHOOL DISTRICT
Major General Fund
Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2011

Unassigned fund balance, beginning		\$ 370,564
Changes:		
Unassigned fund balance used to reduce school district assessment		(370,565)
2010-2011 Budget summary:		
Revenue surplus (Schedule 1)	\$ 148,073	
Unexpended balance of appropriations (Schedule 2)	<u>624,043</u>	
2010-2011 Budget surplus		<u>772,116</u>
Unassigned fund balance, ending		<u><u>\$ 772,115</u></u>

SCHEDULE 4
LITCHFIELD SCHOOL DISTRICT
Student Activities Funds
Combining Schedule of Changes in Student Activities Funds
For the Fiscal Year Ended June 30, 2011

	<u>Balance, beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, ending</u>
Schools:				
Campbell High	\$ 84,995	\$ 322,216	\$ 298,373	\$ 108,838
Litchfield Middle	26,664	189,679	170,770	45,573
Griffin Memorial	5,634	37,135	34,720	8,049
Totals	<u>\$ 117,293</u>	<u>\$ 549,030</u>	<u>\$ 503,863</u>	<u>\$ 162,460</u>



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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, 2011, which collectively comprise the Litchfield School District's basic financial statements and have issued our report thereon dated January 11, 2012. 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.

January 11, 2012

Margaret A. Colby, CPA
PLODZIK & SANDERSON
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Litchfield School District's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on the Litchfield School District's major federal program for the year ended June 30, 2011. The Litchfield School District's major federal program is 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 its major federal program 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

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 the requirements that could have a direct and material effect on a major federal program to determine the 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 Litchfield School District'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.

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.

Litchfield School District

Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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.

Gregory A. Cally, CPA

January 11, 2012

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SCHEDULE I
LITCHFIELD SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2011

**Auditor
Reference
Number**

**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.

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.

Status: Corrective action has been taken.

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.

SCHEDULE I (continued)
LITCHFIELD SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2011

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.

Status: Corrective action has been taken.

SCHEDULE II
LITCHFIELD SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

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 no audit findings required to be reported in accordance with section 510(a) of OMB Circular A-133.
5. The program tested as a major program is the Special Education Cluster.
6. The threshold for distinguishing between Types A and B programs was \$300,000.
7. The Litchfield School District was determined to be a low-risk auditee.

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SCHEDULE III
LITCHFIELD SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

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			
School Breakfast Program	10.553	N/A	\$ 2,467
National School Lunch Program <i>(note 3)</i>	10.555	N/A	99,574
<i>CLUSTER TOTAL</i>			<u>102,041</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	84.010	00077	31,448
Title I - Part A	84.010	10079	39,572
Title I - SINI GMS	84.010	10241	10,032
Title I - SINI LMS	84.010	10242	14,470
Title I Grants to Local Educational Agencies, Recovery Act:			
Title I ARRA (FY 10)	84.389	N/A	1,200
Title I ARRA (FY 11)	84.389	N/A	23,789
<i>CLUSTER TOTAL</i>			<u>120,511</u>
SPECIAL EDUCATION CLUSTER			
Special Education - Grants to States	84.027	12584	289,929
Special Education - Preschool Grants	84.173	12584	10,875
Special Education - Grants to States, Recovery Act	84.391	N/A	139,542
Special Education - Preschool Grants, Recovery Act	84.392	N/A	4,434
<i>CLUSTER TOTAL</i>			<u>444,780</u>
Education Technology State Grants	84.318	04505	300
Improving Teacher Quality State Grants	84.367	14872	22,322
Education Jobs Fund	84.410	N/A	215,171
Total Expenditures of Federal Awards			<u>\$ 905,125</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 FISCAL YEAR ENDED
JUNE 30, 2011

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, 2011. 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.