

LITCHFIELD SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

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PLODZIK & SANDERSON

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Litchfield School District as of and for the fiscal year ended June 30, 2012, 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, 2012, and the respective changes in financial position for the year then ended and the respective budgetary comparison for the general and grants funds, 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 39) 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.

January 16, 2013


PLODZIK & SANDERSON
Professional Association

LITCHFIELD SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2012

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, 2012. The District has prepared this discussion and analysis to encourage readers to consider the information presented here in conjunction with additional information found within the body of the annual financial statements.

FINANCIAL HIGHLIGHTS

- The District's total net assets for the year ending June 30, 2012, were \$9,281,146. Net assets decreased by \$167,643 between July 1, 2011 and June 30, 2012. The District's total net assets consisted of \$9,632,672 in capital assets net of debt, \$78,435 restricted for food service, and an unrestricted net asset balance of (\$429,961).
- The District's long-term bonds for Campbell High School as of June 30, 2012 total \$2,085,000. 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 2012.
- During the year, the District's General Fund budgetary expenditures and transfers of \$18,617,993 were \$326,826 less than the final adjusted budget and the General Fund budgetary revenues of \$18,238,372 were \$65,668 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 \$392,494, or 2.11% of total General Fund expenditures, a decrease of 49.17% from the prior year. Major contributing factors to this fund balance were: \$65,668 in excess revenues, which must be returned to the year-end fund balance; an under spend in non-SPED and non-self-funded salaries and benefits (excluding health insurance) of \$236,022; an underspend in health insurance of \$116,821; an under spend in utilities (electricity, fuel oil, propane and gasoline) of \$55,363 due to the above average temperatures last winter; and an under spend in self-funded programs of \$56,340.
- Special education overspent their total budget by \$15,740. While not a large overspend, it was a major change to our financial results as we usually have a significant underspend in the SPED total budget. The prior three years averaged a budget underspend of \$293,959 (\$334,794 in 2009, \$148,682 in 2010, and \$398,400 in 2011).

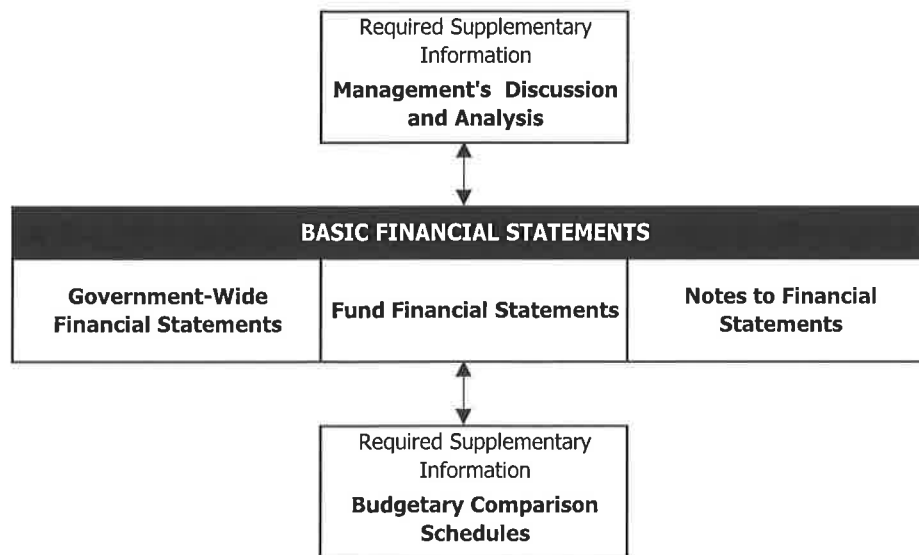
OVERVIEW OF FINANCIAL STATEMENTS

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, 2012

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.

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. 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, 2012

Net Assets for the period ending June 30, 2012

Total net assets at year end were \$9,281,146, a decrease of \$167,643 or 1.77% from the prior year.

Net Assets	2012	2011	% Variance
Current Assets	1,523,975	1,905,138	-20.01%
Non-current Assets	11,786,179	12,202,927	-3.42%
Total Assets	13,310,154	14,108,065	-5.66%
Current Liabilities	721,439	719,497	0.27%
Non-current Liabilities	3,307,569	3,939,779	-16.05%
Total Liabilities	4,029,008	4,659,276	-13.53%
Investment in capital assets (net of debt)	9,632,672	9,306,420	3.51%
Restricted net assets	78,435	93,607	-16.2%
Unrestricted net assets	(429,961)	48,762	-981.75%
Total Net Assets	9,281,146	9,448,789	-1.77%

Change in Net Assets

The District's total revenues were \$19,380,415; total expenses were \$19,548,058; resulting in a decrease of \$167,643 in net assets. This year, 95.24% of the District's revenues came from the local tax assessment and the State of New Hampshire, an increase of 2.98% from last year. The State of New Hampshire's sources include the locally raised state property tax, federal aid received through the state, and the various state aid programs.

The District's expenditures continue to be largely for instruction (58.6%) and student and instructional staff support services (10.3%).

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, 2012

Statement of Activities	2012	% of Total	2011	% of Total	% Variance
Revenues:					
Program revenues:					
Charges for services	487,536	2.5%	523,900	2.6%	-6.94%
Operating grants	986,589	5.1%	1,417,633	6.9%	-30.41%
Capital grants	471,466	2.4%	380,560	1.9%	23.89%
General revenues:					
School district assessment	9,006,079	46.5%	10,136,035	49.6%	-11.15%
Unrestricted grants	8,068,941	41.6%	7,956,258	38.9%	1.42%
Miscellaneous	359,804	1.9%	26,487	0.1%	1258.42%
Total revenues	\$19,380,415	100%	\$20,440,873	100%	-5.19%
Program Expenses:					
Instruction	11,463,814	58.6%	11,699,252	59.6%	-2.01%
Support services:					
Student	1,508,375	7.7%	1,545,303	7.9%	-2.39%
Instructional staff	512,628	2.6%	512,299	2.6%	0.06%
General administration	80,101	0.4%	107,712	0.5%	-25.63%
Executive administration	531,379	2.7%	470,193	2.4%	13.01%
School administration	1,168,806	6.0%	1,225,320	6.2%	-4.61%
Business	309,558	1.6%	277,802	1.4%	11.43%
Operation and maintenance of plant	1,874,578	9.6%	1,635,739	8.3%	14.60%
Student transportation	693,012	3.5%	741,667	3.8%	-6.56%
Other	452,027	2.3%	515,271	2.6%	-12.27%
Non-instructional services	572,750	2.9%	570,629	2.9%	0.37%
Interest on long-term debt	133,725	0.7%	175,675	0.9%	-23.88%
Facilities acquisition and construction	247,305	1.3%	168,339	0.9%	46.91%
Total governmental activities	\$19,548,058	100%	\$19,645,201	100%	-0.49%
Change in net assets	(\$167,643)		\$795,672		-121.07%
Beginning net assets	\$9,448,789		\$8,653,117		9.20%
Ending net assets	\$9,281,146		\$9,448,789		-1.77%

Revenues

School district assessment was 46.47% of total revenues for the fiscal year ended June 30, 2012, a decrease of 3.12% from the prior year.

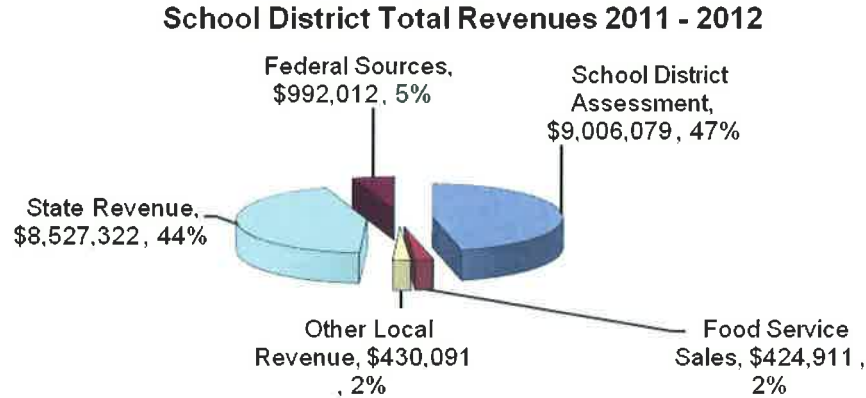
State of New Hampshire source intergovernmental revenues were 44.0% of total revenues for the fiscal year ended June 30, 2012, an increase of 1.33% from the prior year.

Federal revenues were 5.12% of total revenues for the fiscal year ended June 30, 2012, an increase of 0.10% from the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2012

Summary of Revenues

The biggest share, \$17,533,401 (90.47%), 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.



Expenses

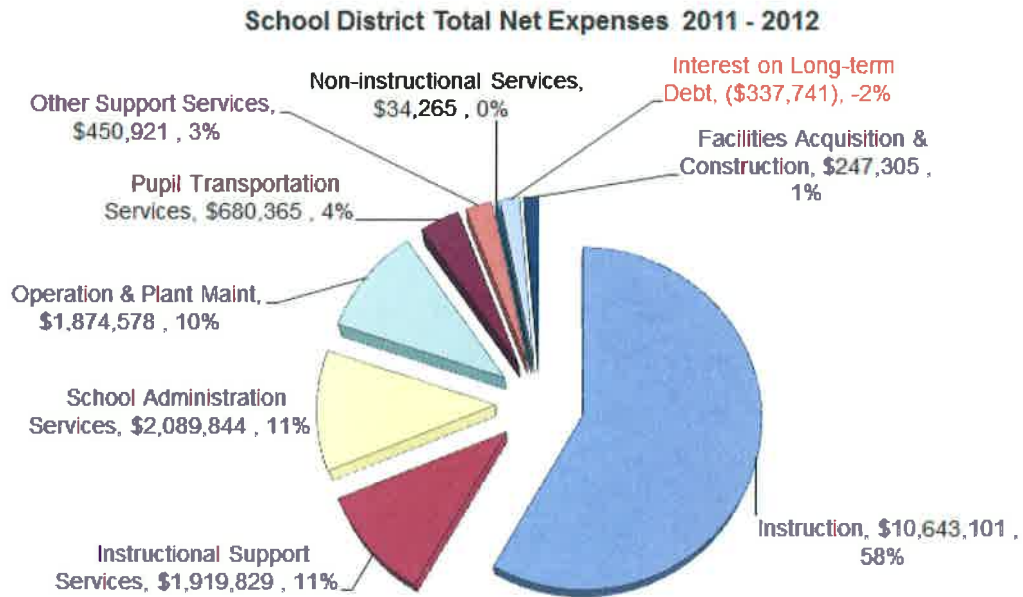
Expenses are reported on an accrual accounting basis. Amounts over or under the prior year expense amounts for the District in areas easily compared are as follows:

- Instruction expenses were 60.46% of total net expenses for the fiscal year ended June 30, 2012, an increase of 1.18% from the prior year.
- Instructional Support service expenses were 10.91% of total net expenses for the fiscal year ended June 30, 2012, a decrease of 0.49% from the prior year.

Summary of Net Expenses

The Litchfield School District used its budgetary resources as depicted in the following chart. 71.37% 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, 2012



Highlighted changes in total net expenses include:

- An increase in Instruction spending of \$374,293 or 3.65% over the prior year
- A decrease in Instructional Support Services of \$52,545 or 2.66% under the prior year
- An increase in Operation & Plant Maintenance spending of \$239,739 or 14.66% over the prior year
- An increase in Facilities Acquisition & Construction spending of \$78,966 or 46.91% 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, 2012

TOTAL AND NET COST OF SERVICES

	Total Cost of Services				Variance
	2012		2011		
Functions / Programs					
Instruction	\$11,463,814	58.6%	\$11,699,252	59.6%	(\$235,438)
Support services	7,130,464	36.5%	7,031,306	35.8%	\$99,158
Food service program	572,750	2.9%	570,629	2.9%	\$2,121
Facilities acquisition	247,305	1.3%	168,339	0.9%	\$78,966
Unallocated					
Interest	133,725	0.7%	175,675	0.9%	(\$41,950)
	\$ 19,548,058	100%	\$ 19,645,201	100%	\$ (97,143)

	Net Cost of Services				Variance
	2012		2011		
Functions / Programs					
Instruction	\$ 10,643,101	60.5%	\$ 10,268,808	59.3%	\$ 374,293
Support services	7,015,537	39.9%	6,936,780	40.0%	\$ 78,757
Food service program	34,265	0.2%	34,293	0.2%	\$ (28)
Facilities acquisition	247,305	1.4%	168,339	1.0%	\$ 78,966
Unallocated					
Interest	(337,741)	-1.9%	(85,112)	-0.5%	(252,629)
	\$ 17,602,467	100%	\$ 17,323,108	100%	\$ 279,359

The total cost of all governmental activities in 2012 was \$19,548,058; the total net cost was \$17,602,467. The primary financing for these activities of the District was as follows:

Property taxes

- The amount that was paid by taxpayers through property taxes was \$10,755,595; which consisted of \$9,006,079 paid in the form of local property taxes and \$1,749,516 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 \$6,142,361 was received from the State of New Hampshire under the "adequacy grant" provisions of the State's educational funding system, which in addition to other State funding sources includes statewide property taxes collected from other local governments.

Charges for Services

- Tuition and self-funded program revenues were received in the amount of \$49,978.
- Total food service revenues of \$538,485 consisted of food service sales and local miscellaneous revenues in the amount of \$424,911 and federal and state food nutrition program operating contributions (free and reduced lunch reimbursements and commodities) of \$113,574.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2012

Operating Grants and Contributions

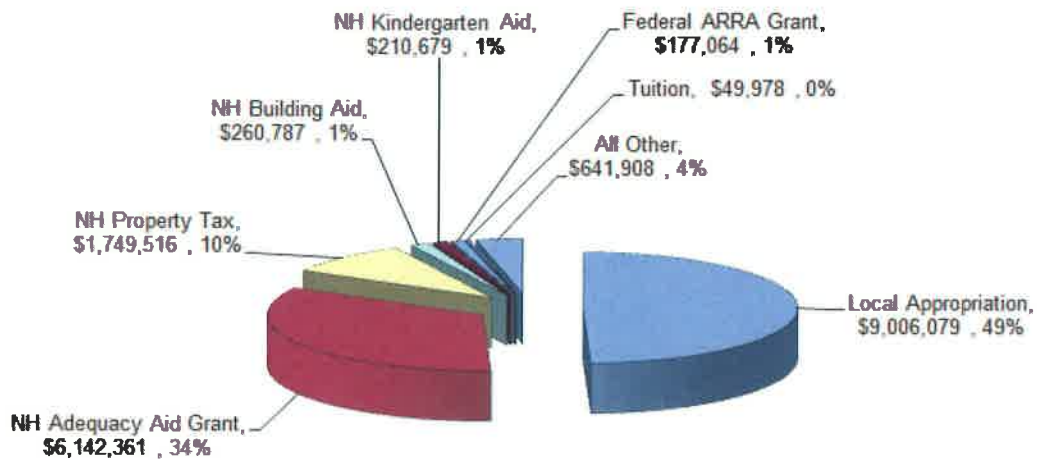
- Federal grants for instruction were received in the amount of \$884,130, which included \$177,064 in EdJobs grant monies. Local grants received totaled \$7,661.

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 58.97% of general fund revenues. Together, the revenues raised locally and the state adequacy grant comprises 92.65% of the District’s General Fund Budgetary Revenues. Also depicted below are expenditures and percentages by grade level and district wide including all facilities acquisition and construction expenditures, but excluding debt service and interfund transfers.

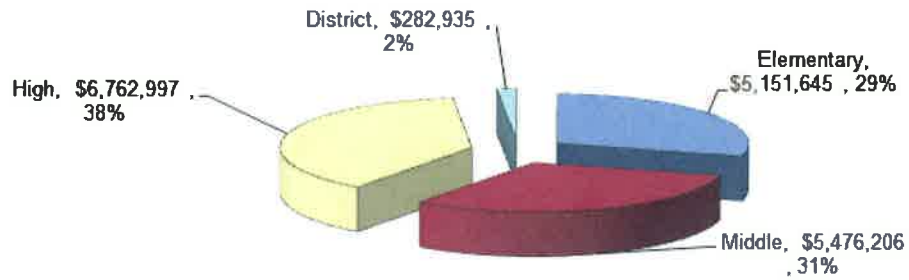
General Fund Budgetary Revenues 2011 - 2012



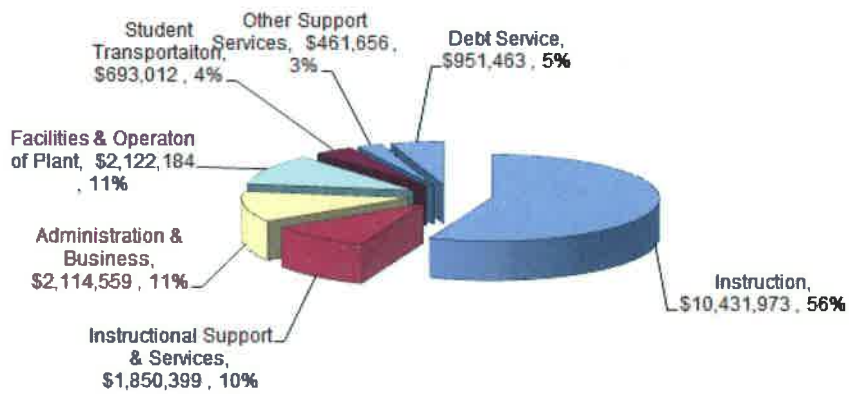
In 2012, instruction made up 55.77% of all general fund expenditures, an increase of 0.79% from the prior year, while Instructional Support and Services, including transportation, operation of plant, and administration make up 39.14% of all General Fund expenditures, a decrease of 0.62% from the prior year. The remaining 5.09% includes debt service – principal and interest, a decrease of 0.17% from the prior year. The following charts provide a more detailed depiction of the makeup and proportions of the expenditures in these broad categories.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
 OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2012

**General Fund Budgetary Expenditures by Grade Level
 2011 - 2012**

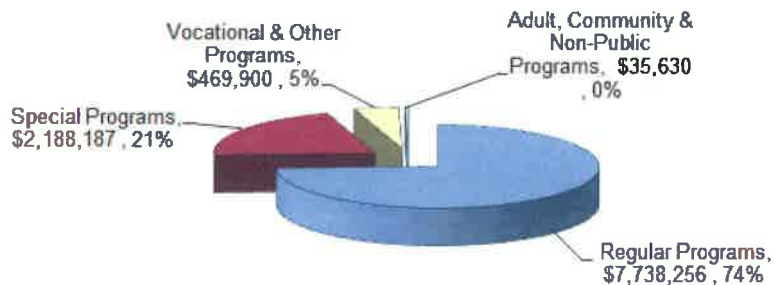


**General Fund Budgetary Expenditures by Functions
 2011-2012**



The following chart examines how the direct instructional expenditures were allocated to the various programs.

**General Fund Budgetary Expenditures for Instruction
 2011 - 2012**



SUMMARY OF FEDERAL SUPPORT OF THE DISTRICT

During fiscal year 2012, the Litchfield School District applied for and received the following significant federal grants:

- Special Education, Individuals with Disabilities Education Improvement Act (IDEA) revenues for the current period were \$302,356. These grants funded special needs services and supplies for students throughout the District.
- Education Jobs Funds (Ed Jobs) revenues for the current period were \$177,064.
- Title I, Student Achievement and School Accountability Programs revenues for the current period were \$172,364. These grants funded: the services of part-time reading and math tutors for all three buildings; a summer reading program for middle school students; professional development; school improvement programs; and required supplemental educational services (out-of-school tutoring).
- Title IIA, Improving Teacher Quality State Grants was awarded for the current period in the amount of \$33,681. This grant funded teacher professional development and a teacher mentoring program.
- A Preschool Grant was awarded for the current period in the amount of \$6,678. The grant was used to provide supplies to support special needs students.
- U. S. Department of Agriculture National School Lunch Program revenues for the current period were \$107,883. These revenues were used to offset the expenses of the school lunch program.

CAPITAL RESERVE ACCOUNTS

The district has two expendable capital reserve funds (established by voters at an annual school district meeting as trust funds in accordance with statutory requirements) 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 \$1,204.06 during the year from \$154,496.52 at June 30, 2011, to \$155,700.58 at June 30, 2012. In accordance with statutory requirements, they are held in custody by the Trustees of Trust Funds of the Town of Litchfield and are only released for the restricted specific purposes of the individual funds.

COMMENTS ON GENERAL FUND BUDGET COMPARISONS

- The beginning General Fund equity was \$1,155,455. General Fund revenues, consisting largely of local taxes and state aid, were \$18,238,372. General Fund expenditures, including fund transfers, were \$18,617,993. The ending fund equity for the District was \$769,784, of which \$392,494 is an unassigned fund balance, a decrease of \$379,621 from the prior year's unassigned fund balance. 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 \$65,668.
- General Fund expenditures were less than the final adjusted budgeted spending by \$326,826. These variances are absorbed in the General Fund ending balance. Significant contributors to the under spend in the general fund budget were:

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2012

- Underspend in non-SPED and non-self-funded salaries and benefits (excluding health insurance) of \$236,022, of which \$37,500 was due to not requiring the budgeted half-time kindergarten teacher and paraprofessional
- Underspend in health insurance of \$116,821 due to the actual rates for the year coming in at an average 6.0% below the guaranteed maximum rate used in developing the budget
- Underspend in utilities (electricity, fuel oil, propane and gasoline) of \$55,363 due to the above average temperatures last winter
- Self-funded programs, which do not impact the local property tax rate, were under spent by \$56,340

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2012, the District reported capital assets of \$11,786,179 (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 2012 included: air conditioning for the CHS IT office; replacement hot water tanks at CHS; and replacement bathroom floors at LMS. The District also annually invests in new furnishings, computers and peripherals, printed media and other equipment, as needed.

Governmental Activities	2012	2011	% Variance
Land & Improvements	460,792	460,792	0.00%
Buildings & Improvements	18,958,125	18,914,049	0.23%
Vehicles	14,000	14,000	0.00%
Furniture & Equipment	191,505	166,382	15.10%
Work In Progress			
Totals at Historical Cost	19,624,422	19,555,223	0.35%
Total Accumulated Depreciation	7,838,243	7,352,296	6.61%
NET CAPITAL ASSETS	11,786,179	12,202,927	-3.42%

Long-Term Liabilities

On June 30, 2012, the District had \$2,085,000 of outstanding long-term debt, \$733,472 in compensated absences payable, and \$68,507 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2012

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, 2012, 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, 2012 is \$420,590. 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.

Governmental Activities	2012	2011	% Variance
General Obligation Bonds	2,085,000	2,885,000	-27.73%
Compensated Absences	733,472	743,270	-1.32%
Capital Leases Payable	68,507	11,507	495.35%
Other Post-Employment Benefits Payable	420,590	300,002	40.20%
TOTAL LONG-TERM LIABILITIES	3,307,569	3,939,779	-16.05%

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 2012-2013 fiscal year is \$392,494.

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

1. The Litchfield School Board and the Litchfield Educational Association (teachers) have ratified a new two-year agreement to be effective with the 2013-2014 school year. The net cost increases from this new agreement, if approved by the voters in March 2013, will be \$110,329 in the 2014 fiscal year and \$162,856 in the 2015 fiscal year, and
2. The State of New Hampshire has approved a new funding model that changes the calculation of approved adequacy aid to be more in line with the district's current student enrollments which, with Litchfield's projected drop in students, will decrease the amount of available State revenues, and
3. The State of New Hampshire legislature passed new legislation in 2012 that allows school district's with voter approval to withhold up to 2.5% of the current year's net assessment of any uncommitted year-end fund balance, such fund balance to be used only for reducing the tax rate or for emergency expenditures. The School Board is planning to place an article on the warrant to ask the voters to approve the school district's ability to carry a year-end fund balance.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2012

Questions regarding this report should be directed to Brian Cochrane, Ph. 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, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,212,175
Intergovernmental receivable	290,379
Other receivables	21,421
Capital assets, not being depreciated:	
Land	460,792
Capital assets, net of accumulated depreciation:	
Buildings and building improvements	11,234,484
Equipment	90,903
Total assets	13,310,154
LIABILITIES	
Accounts payable	50,837
Accrued interest payable	45,683
Accrued salaries and benefits	581,134
Unearned revenue	43,785
Noncurrent obligations:	
Due within one year:	
Bond	800,000
Capital leases	32,252
Compensated absences	171,600
Due in more than one year:	
Bond	1,285,000
Capital leases	36,255
Compensated absences	561,872
Other postemployment benefits	420,590
Total liabilities	4,029,008
NET ASSETS	
Invested in capital assets, net of related debt	9,632,672
Restricted for food service	78,435
Unrestricted	(429,961)
Total net assets	\$ 9,281,146

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, 2012

	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	\$ 11,463,814	\$ 49,978	\$ 770,735	\$ -	\$ (10,643,101)
Support services:					
Student	1,508,375	-	95,625	-	(1,412,750)
Instructional staff	512,628	-	5,549	-	(507,079)
General administration	80,101	-	-	-	(80,101)
Executive administration	531,379	-	-	-	(531,379)
School administration	1,168,806	-	-	-	(1,168,806)
Business	309,558	-	-	-	(309,558)
Operation and maintenance of plant	1,874,578	-	-	-	(1,874,578)
Student transportation	693,012	12,647	-	-	(680,365)
Other	452,027	-	1,106	-	(450,921)
Noninstructional services	572,750	424,911	113,574	-	(34,265)
Interest on long-term debt	133,725	-	-	471,466	337,741
Facilities acquisition and construction	247,305	-	-	-	(247,305)
Total governmental activities	<u>\$ 19,548,058</u>	<u>\$ 487,536</u>	<u>\$ 986,589</u>	<u>\$ 471,466</u>	<u>(17,602,467)</u>
General revenues:					
School district assessment					9,006,079
Grants and contributions not restricted to specific programs					8,068,941
Miscellaneous					359,804
Total general revenues					<u>17,434,824</u>
Change in net assets					(167,643)
Net assets, beginning					9,448,789
Net assets, ending					<u>\$ 9,281,146</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, 2012

	General	Grants	Other Governmental Fund (Food Service)	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,126,526	\$ -	\$ 85,649	\$ 1,212,175
Accounts receivable	21,073	-	348	21,421
Intergovernmental receivable	157,215	129,178	3,986	290,379
Interfund receivable	95,559	-	-	95,559
Total assets	<u>\$ 1,400,373</u>	<u>\$ 129,178</u>	<u>\$ 89,983</u>	<u>\$ 1,619,534</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 49,015	\$ -	\$ 1,822	\$ 50,837
Accrued salaries and benefits	581,134	-	-	581,134
Interfund payable	-	95,559	-	95,559
Deferred revenue	440	33,619	9,726	43,785
Total liabilities	<u>630,589</u>	<u>129,178</u>	<u>11,548</u>	<u>771,315</u>
Fund balances:				
Restricted	-	-	78,435	78,435
Committed	155,701	-	-	155,701
Assigned	221,589	-	-	221,589
Unassigned	392,494	-	-	392,494
Total fund balances	<u>769,784</u>	<u>-</u>	<u>78,435</u>	<u>848,219</u>
Total liabilities and fund balances	<u>\$ 1,400,373</u>	<u>\$ 129,178</u>	<u>\$ 89,983</u>	<u>\$ 1,619,534</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, 2012

Total fund balances of governmental funds (Exhibit C-1)		\$ 848,219
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	\$ 19,624,422	
Less accumulated depreciation	<u>(7,838,243)</u>	
		11,786,179
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Assets.		
Receivables	\$ (95,559)	
Payables	<u>95,559</u>	
		-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(45,683)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bond	\$ (2,085,000)	
Capital leases	(68,507)	
Compensated absences	(733,472)	
Other postemployment benefits	<u>(420,590)</u>	
		<u>(3,307,569)</u>
Net assets of governmental activities (Exhibit A)		<u><u>\$ 9,281,146</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, 2012

	General	Grants	Other Governmental Fund (Food Service)	Total Governmental Funds
Revenues:				
School district assessment	\$ 9,006,079	\$ -	\$ -	\$ 9,006,079
Other local	422,430	7,661	424,911	855,002
State	8,521,630	-	5,692	8,527,322
Federal	289,437	594,693	107,882	992,012
Total revenues	<u>18,239,576</u>	<u>602,354</u>	<u>538,485</u>	<u>19,380,415</u>
Expenditures:				
Current:				
Instruction	10,431,973	500,074	-	10,932,047
Support services:				
Student	1,410,552	95,625	-	1,506,177
Instructional staff	518,971	5,549	-	524,520
General administration	118,500	-	-	118,500
Executive administration	531,379	-	-	531,379
School administration	1,159,051	-	-	1,159,051
Business	305,630	-	-	305,630
Operation and maintenance of plant	1,874,879	-	-	1,874,879
Student transportation	693,012	-	-	693,012
Other	461,656	1,106	-	462,762
Noninstructional services	-	-	553,657	553,657
Debt service:				
Principal	800,000	-	-	800,000
Interest	151,463	-	-	151,463
Facilities acquisition and construction	247,305	-	-	247,305
Total expenditures	<u>18,704,371</u>	<u>602,354</u>	<u>553,657</u>	<u>19,860,382</u>
Deficiency of revenues under expenditures	(464,795)	-	(15,172)	(479,967)
Other financing sources:				
Capital lease inception	79,124	-	-	79,124
Net change in fund balances	(385,671)	-	(15,172)	(400,843)
Fund balances, beginning	1,155,455	-	93,607	1,249,062
Fund balances, ending	<u>\$ 769,784</u>	<u>\$ -</u>	<u>\$ 78,435</u>	<u>\$ 848,219</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, 2012

Net change in fund balances of total governmental funds (Exhibit C-3)		\$ (400,843)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. In the Statement of Activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capitalized capital outlay in the current period.		
Capitalized capital outlay	\$ 69,199	
Depreciation expense	<u>(485,947)</u>	(416,748)
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.		
Inception of capital leases	\$ (79,124)	
Principal repayment of bond	800,000	
Principal repayment of capital leases	<u>22,124</u>	743,000
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	\$ 17,738	
Decrease in compensated absence payable	9,798	
Increase in other postemployment benefits liability	<u>(120,588)</u>	(93,052)
Change in net assets of governmental activities (Exhibit B)		<u>\$ (167,643)</u>

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, 2012

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
School district assessment	\$ 9,006,079	\$ 9,006,079	\$ -
Other local	442,853	421,225	(21,628)
State	8,486,708	8,521,631	34,923
Federal	237,064	289,437	52,373
Total revenues	<u>18,172,704</u>	<u>18,238,372</u>	<u>65,668</u>
Expenditures:			
Current:			
Instruction	10,720,042	10,432,785	287,257
Support services:			
Student	1,408,748	1,410,711	(1,963)
Instructional staff	488,588	455,581	33,007
General administration	104,271	118,500	(14,229)
Executive administration	522,923	531,379	(8,456)
School administration	1,161,379	1,159,051	2,328
Business	286,787	291,092	(4,305)
Operation and maintenance of plant	1,993,188	1,905,232	87,956
Student transportation	786,780	693,012	93,768
Other	400,579	466,448	(65,869)
Debt service:			
Principal	800,000	800,000	-
Interest	151,462	151,462	-
Facilities acquisition and construction	120,072	202,740	(82,668)
Total expenditures	<u>18,944,819</u>	<u>18,617,993</u>	<u>326,826</u>
Net change in fund balance	<u>\$ (772,115)</u>	<u>(379,621)</u>	<u>\$ 392,494</u>
Unassigned fund balance, beginning		772,115	
Unassigned fund balance, ending		<u>\$ 392,494</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, 2012

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Local	\$ -	\$ 7,661	\$ 7,661
Federal	602,341	594,693	(7,648)
Total revenues	<u>602,341</u>	<u>602,354</u>	<u>13</u>
Expenditures:			
Current:			
Instruction	602,341	500,074	102,267
Support services:			
Student	-	95,625	(95,625)
Instructional staff	-	5,549	(5,549)
Other	-	1,106	(1,106)
Total expenditures	<u>602,341</u>	<u>602,354</u>	<u>(13)</u>
Net change in fund balance	<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, 2012

	<u>Agency</u>
ASSETS	
Cash and cash equivalents	\$ 173,267
LIABILITIES	
Due to student groups	<u>173,267</u>
NET ASSETS	<u><u>\$ -</u></u>

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

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

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LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A Reporting Entity

The Litchfield School District, in 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 Basis of 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.

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.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

Fiduciary Fund Types – These funds account for resources held by the School District for the benefit of other parties and include the agency funds. 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. These funds are 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.

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.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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 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-F Interfund Balances

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "interfund receivables and payables." Interfund receivables and payables between funds are eliminated in the Statement of Net Assets.

1-G Capital Assets

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

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

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

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

1-H Deferred/Unearned Revenue

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

1-I Compensated Absences

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

LITCHFIELD SCHOOL DISTRICT
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1-J Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide statements.

1-K 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-L 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.
- 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 previously implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for fiscal year ending June 30, 2012. GASB Statement No. 54 established 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.

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 within this category.

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 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, including expendable trust funds which are legally segregated for funding specific expenditures, in addition to non-lapsing appropriations, are included in this classification.

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 has assigned funds consisting of encumbrances in the general fund at year-end.

Unassigned – This classification includes the residual fund balance for the general fund.

The details of the fund balances are included in Note 10 – Governmental Fund Balances. As discussed in Note 1-C, 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.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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1-M 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 “due to/from other funds” (i.e. the current portion of interfund loans). 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-N Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates and the differences could be material.

NOTE 2 – 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 fund, as well as the nonmajor food service fund. Except as reconciled below, the budget was adopted on a basis consistent with United States 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 2012, \$772,115 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

The School District employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statement of Revenues and Expenditures – Budgetary Basis, presents the actual results to provide a comparison with the budget. The major difference between the budgetary basis and GAAP basis is as follows:

Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities, but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and commitments (encumbrances) for goods or services not received at year end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no liability exists.

LITCHFIELD SCHOOL DISTRICT
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The following reconciles the general fund budgetary basis to the GAAP basis:

Revenues:	
Per Exhibit D-1 (budgetary basis)	\$ 18,238,372
Adjustments:	
Basis difference:	
Capital lease inception	79,124
GASB Statement No. 54:	
Interest earnings related to the expandable trust	1,204
Per Exhibit C-3 (GAAP basis)	<u>\$ 18,318,700</u>
Expenditures:	
Per Exhibit D-1 (budgetary basis)	\$ 18,617,993
Adjustments:	
Basis difference:	
Encumbrances, beginning	228,843
Encumbrances, ending	(221,589)
Capital lease inception	79,124
Per Exhibit C-3 (GAAP basis)	<u>\$ 18,704,371</u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – RECEIVABLES

Receivables at June 30, 2012, consisted of accounts and intergovernmental amounts arising from grants, and trust funds in the custody of the Town of Litchfield Trustees of Trust Funds. Receivables are recorded on the School District's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 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	18,914,049	44,076	-	18,958,125
Equipment	180,382	25,123	-	205,505
Total capital assets being depreciated	<u>19,094,431</u>	<u>69,199</u>	<u>-</u>	<u>19,163,630</u>
Total capital assets	<u>19,555,223</u>	<u>69,199</u>	<u>-</u>	<u>19,624,422</u>
Less accumulated depreciation:				
Buildings and building improvements	(7,257,494)	(466,147)	-	(7,723,641)
Equipment	(94,802)	(19,800)	-	(114,602)
Total accumulated depreciation	<u>(7,352,296)</u>	<u>(485,947)</u>	<u>-</u>	<u>(7,838,243)</u>
Net book value, capital assets being depreciated	<u>11,742,135</u>	<u>(416,748)</u>	<u>-</u>	<u>11,325,387</u>
Net book value, all capital assets	<u>\$ 12,202,927</u>	<u>\$ (416,748)</u>	<u>\$ -</u>	<u>\$ 11,786,179</u>

LITCHFIELD SCHOOL DISTRICT
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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	\$ 409,203
Support services:	
Operation and maintenance of plant	57,651
Noninstructional services	19,093
Total depreciation expense	<u>\$ 485,947</u>

NOTE 5 – INTERFUND BALANCES

Interfund receivable and payable balances consisting of overdrafts in pooled cash at June 30, 2012, are as follows:

Receivable Fund	Payable Fund	Amount
General	Grants	<u>\$ 95,559</u>

NOTE 6 – DEFERRED/UNEARNED REVENUE

Deferred/unearned revenue at June 30, 2012 consists of the following:

General fund:		
Fees collected in advance for miscellaneous programs	\$	440
Grants fund		
Federal grant revenue collected in advance of eligible expenditures being made		33,619
Nonmajor food service fund:		
Student lunch fees received in advance		<u>9,726</u>
Total deferred/unearned revenue		<u>\$ 43,785</u>

NOTE 7 – LONG-TERM LIABILITIES

Changes in the School District's long-term obligations consisted of the following for the year ended June 30, 2012:

	General Obligation Bond Payable	Capital Leases Payable	Compensated Absences Payable	Other Postemployment Benefits	Total
Balance, beginning	\$ 2,885,000	\$ 11,507	\$ 743,270	\$ 300,002	\$ 3,939,779
Additions	-	79,124	-	120,588	199,712
Reductions	(800,000)	(22,124)	(9,798)	-	(831,922)
Balance, ending	<u>\$ 2,085,000</u>	<u>\$ 68,507</u>	<u>\$ 733,472</u>	<u>\$ 420,590</u>	<u>\$ 3,307,569</u>

LITCHFIELD SCHOOL DISTRICT
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Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at June 30, 2012	Current Portion
General obligation bond payable:						
High School construction	\$ 11,685,500	2000	2015	4.50-5.25	\$ 2,085,000	\$ 800,000
Capital leases payable:						
Music equipment	\$ 27,277	2009	2013	15.15	6,159	6,159
Computer equipment	\$ 79,124	2012	2015	9.42	62,348	26,093
					<u>68,507</u>	<u>32,252</u>
Compensated absences payable:						
Vested sick leave					259,070	67,515
Accrued vacation leave					149,488	16,374
Vested retirement stipend					324,914	87,711
					<u>733,472</u>	<u>171,600</u>
Other postemployment benefits					420,590	-
Total					<u>\$ 3,307,569</u>	<u>\$ 203,852</u>

The annual requirements to amortize the general obligation bond outstanding as of June 30, 2012, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 800,000	\$ 109,463	\$ 909,463
2014	800,000	67,463	867,463
2015	485,000	25,463	510,463
Totals	<u>\$ 2,085,000</u>	<u>\$ 202,389</u>	<u>\$ 2,287,389</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 8 – 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 the capital leases payable as of June 30, 2012, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 32,252	\$ 5,699	\$ 37,951
2014	28,660	2,199	30,859
2015	7,595	119	7,714
Totals	<u>\$ 68,507</u>	<u>\$ 8,017</u>	<u>\$ 76,524</u>

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

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 9 – GOVERNMENTAL ACTIVITIES NET ASSETS

Governmental activities net assets reported on the government-wide Statement of Net Assets at June 30, 2012 include the following:

Invested in capital assets, net of related debt:	
Net property, buildings, and equipment	\$ 11,786,179
Less:	
General obligation bond payable	(2,085,000)
Capital leases payable	<u>(68,507)</u>
Total invested in capital assets, net of related debt	<u>9,632,672</u>
Unrestricted	<u>(351,526)</u>
Total net assets	<u><u>\$ 9,281,146</u></u>

None of the net assets are restricted by enabling legislation.

NOTE 10 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at June 30, 2012 include the following:

General Fund – The general fund has an unassigned fund balance of \$392,494. Also reported in the general fund is \$155,701 committed fund balance related to the expendable trust funds and \$221,589 in assigned for encumbrances.

Other Funds – The nonmajor food service fund has a restricted fund balance of \$78,435.

NOTE 11 – 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 7% of earnable compensation. For fiscal year 2012, the School District contributed 13.95% for teachers and 11.09% for other employees for the month of July 2011. For the remainder of the fiscal year, rates were adjusted to 11.39% for teachers and 8.80% for other employees. The contribution requirements for the fiscal years 2010, 2011, and 2012 were \$733,149, \$753,404, and \$973,009, respectively, which were paid in full in each year.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

GASB Statement No. 45, as amended by GASB Statement No. 57, was implemented by the School District during the 2008-2009 fiscal year, 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.

LITCHFIELD SCHOOL DISTRICT
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The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2012:

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	300,002
Net OPEB obligation, ending	<u>\$ 420,590</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 2012 was as follows:

Fiscal Year Ended	Annual Required Contribution (ARC)	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
June 30, 2012	\$180,252	\$60,124	0.00	\$420,590

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 2012, 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.

NOTE 13 – 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 2012, 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.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from July 1, 2011 to July 1, 2012 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, 2012 was \$48,726 for workers' compensation and \$71,510 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 14 – CONTINGENT LIABILITIES

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

NOTE 15 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS

The following GASB pronouncements were effective for the School District for the fiscal year ended June 30, 2012; however, neither GASB Statement impacted these financial statements:

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employee Plans*, issued in December 2009, and

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), issued July 2011.

The Governmental Accounting Standards Board (GASB) has issued several pronouncements during the fiscal year that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the School District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus and Amendments of GASB Statements No. 14 and No. 34*, issued November 2010, will be effective for the School District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued January 2011, will be effective for the School District beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of the Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011, will be effective for the School District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future.

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GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012, will be effective for the School District beginning with its fiscal year ending June 30, 2014. This Statement is intended to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

GASB Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*, issued March 2012, will be effective for the School District beginning with its fiscal year ending June 30, 2014. This Statement is intended to resolve conflicting accounting and financial report and guidance that emerged from two recent standards, Statement No. 54 and Statement No. 62. These standards conflicted with existing guidance in Statements No. 10, 13, and 48.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued in June 2012, will be effective for the School District beginning with its fiscal year ending June 30, 2014. **GASB Statement No. 68, *Accounting and Financial Reporting for Pensions***, issued in June 2012, will be effective for the School District beginning with its fiscal year ending June 30, 2015. The guidance contained in these two statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. They replace the requirements of Statements No. 27 and 50.

NOTE 16 – 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 16, 2013, the date the June 30, 2012 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, 2012

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, 2012

Schedule of Funding Progress for Other Postemployment Benefits (OPEB)

As required by GASB Statement No. 45, as amended in December 2009 by GASB Statement No. 57, Exhibit F represents the actuarial determined costs associated with the School District's other postemployment benefits for the fiscal year ended June 30, 2012.

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, 2012

	Estimated	Actual	Variance Positive (Negative)
School district assessment:			
Current appropriation	\$ 9,006,079	\$ 9,006,079	\$ -
Other local sources:			
Tuition	79,230	49,978	(29,252)
Transportation	8,000	12,647	4,647
Investment earnings	2,500	1,787	(713)
Impact fees	343,213	353,213	10,000
Miscellaneous	9,910	3,600	(6,310)
Total from other local sources	<u>442,853</u>	<u>421,225</u>	<u>(21,628)</u>
State sources:			
Equitable education aid	6,142,361	6,142,361	-
Adequacy aid (tax)	1,749,516	1,749,516	-
School building aid	260,787	260,787	-
Kindergarten aid	207,261	210,679	3,418
Catastrophic aid	124,783	155,070	30,287
Vocational aid	2,000	2,624	624
Other	-	594	594
Total from state sources	<u>8,486,708</u>	<u>8,521,631</u>	<u>34,923</u>
Federal sources:			
Medicaid	60,000	112,373	52,373
Education jobs fund	177,064	177,064	-
Total from federal sources	<u>237,064</u>	<u>289,437</u>	<u>52,373</u>
Total revenues	18,172,704	<u>\$ 18,238,372</u>	<u>\$ 65,668</u>
Use of fund balance to reduce school district assessment	772,115		
Total revenues and use of fund balance	<u>\$ 18,944,819</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, 2012

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
Instruction:					
Regular programs	\$ 1,071	\$ 8,050,264	\$ 7,738,747	\$ 1,916	\$ 310,672
Special programs	33	2,119,912	2,187,696	-	(67,751)
Vocational programs	-	27,040	27,953	-	(913)
Adult and community programs	-	6,609	8,332	-	(1,723)
Other	-	516,217	469,245	-	46,972
Total instruction	<u>1,104</u>	<u>10,720,042</u>	<u>10,431,973</u>	<u>1,916</u>	<u>287,257</u>
Support services:					
Student	1,125	1,408,748	1,410,552	1,284	(1,963)
Instructional staff	-	488,588	439,848	15,733	33,007
General administration	-	104,271	118,500	-	(14,229)
Executive administration	-	522,923	531,379	-	(8,456)
School administration	-	1,161,379	1,159,051	-	2,328
Business	17,382	286,787	305,630	2,844	(4,305)
Operation and maintenance of plant	57,627	1,993,188	1,874,879	87,980	87,956
Student transportation	-	786,780	693,012	-	93,768
Other	1,605	400,579	461,656	6,397	(65,869)
Total support services	<u>77,739</u>	<u>7,153,243</u>	<u>6,994,507</u>	<u>114,238</u>	<u>122,237</u>
Debt service:					
Principal of long-term debt	-	800,000	800,000	-	-
Interest on long-term debt	-	151,462	151,462	-	-
Total debt service	<u>-</u>	<u>951,462</u>	<u>951,462</u>	<u>-</u>	<u>-</u>
Facilities acquisition and construction	150,000	120,072	247,305	105,435	(82,668)
Total appropriations, expenditures, and encumbrances	<u>\$ 228,843</u>	<u>\$ 18,944,819</u>	<u>\$ 18,625,247</u>	<u>\$ 221,589</u>	<u>\$ 326,826</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, 2012

Unassigned fund balance, beginning		\$ 772,115
Changes:		
Unassigned fund balance used to reduce school district assessment		(772,115)
2011-2012 Budget summary:		
Revenue surplus (Schedule 1)	\$ 65,668	
Unexpended balance of appropriations (Schedule 2)	<u>326,826</u>	
2011-2012 Budget surplus		<u>392,494</u>
Unassigned fund balance, ending		<u><u>\$ 392,494</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, 2012

	<u>Balance, beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, ending</u>
Schools:				
Campbell High	\$ 108,838	\$ 336,556	\$ 314,674	\$ 130,720
Litchfield Middle	45,573	184,965	196,435	34,103
Griffin Memorial	8,049	25,708	25,313	8,444
Totals	<u>\$ 162,460</u>	<u>\$ 547,229</u>	<u>\$ 536,422</u>	<u>\$ 173,267</u>

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



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Litchfield School District, as of and for the year ended June 30, 2012, which collectively comprise the Litchfield School District's basic financial statements and have issued our report thereon dated January 16, 2013. 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

Management of the Litchfield School District is responsible for establishing and maintaining effective 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 previously.

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.

Megyn A. Colby, CPA

January 16, 2013

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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, 2012. 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, 2012.

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.

Litchfield School District

*Independent Auditors 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*

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.

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 16, 2013

PLODZIK & SANDERSON
Professional Association

SCHEDULE I
LITCHFIELD SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

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 II
LITCHFIELD SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

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	\$ 1,185
National School Lunch Program <i>(note 3)</i>	10.555	N/A	105,660
Special Milk Program for Children	10.556	N/A	1,038
<i>CLUSTER TOTAL</i>			<u>107,883</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 - Part A	84.010	10079	32,984
Title I - SINI / DINI GMS	84.010	10241	4,840
Title I - SINI / DINI LMS	84.010	10242	489
Title I - Part A	84.010	20079	87,086
Title I - SINI / DINI GMS	84.010	20241	21,755
Title I - SINI / DINI LMS	84.010	20242	22,837
Title I Grants to Local Educational Agencies, Recovery Act	84.389	N/A	2,373
<i>CLUSTER TOTAL</i>			<u>172,364</u>
SPECIAL EDUCATION CLUSTER			
Special Education - Grants to States:			
IDEA - B	84.027	22514	302,356
POMS Mini Grant	84.027	22713	435
Special Education - Preschool Grants	84.173	22514	6,678
Special Education - Grants to States, Recovery Act	84.391	N/A	73,447
Special Education - Preschool Grants, Recovery Act	84.392	N/A	33
<i>CLUSTER TOTAL</i>			<u>382,949</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	16460	5,700
Improving Teacher Quality State Grants:			
Title II - Part A	84.367	14840	2,312
Title II - Part A	84.367	14872	19,537
Title II - Part A	84.367	24872	11,832
<i>PROGRAM TOTAL</i>			<u>33,681</u>
Education Jobs Fund	84.410	N/A	177,064
Total Expenditures of Federal Awards			<u><u>\$ 879,641</u></u>

The accompanying notes are an integral part of this schedule.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED
JUNE 30, 2012

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, 2012. 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.