

LITCHFIELD SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

LITCHFIELD SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

TABLE OF CONTENTS

| | <u>PAGES</u> |
|---|--------------|
| INDEPENDENT AUDITOR'S REPORT | 1 - 2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3 - 15 |
| BASIC FINANCIAL STATEMENTS | |
| Government-wide Financial Statements | |
| A Statement of Net Position | 16 |
| B Statement of Activities | 17 |
| Fund Financial Statements | |
| <i>Governmental Funds</i> | |
| C-1 Balance Sheet | 18 |
| C-2 Reconciliation of Total Governmental Fund Balances to the Statement of Net Position | 19 |
| C-3 Statement of Revenues, Expenditures, and Changes in Fund Balances..... | 20 |
| C-4 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 21 |
| <i>Budgetary Comparison Information</i> | |
| D-1 Statement of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund | 22 |
| D-2 Statement of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual (GAAP Basis) – Grants Fund | 23 |
| <i>Fiduciary Funds</i> | |
| E Statement of Fiduciary Net Position | 24 |
| NOTES TO THE BASIC FINANCIAL STATEMENTS | 25 - 37 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| F Schedule of Funding Progress for Other Postemployment Benefit Plan | 38 |
| NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION | 39 |
| COMBINING AND INDIVIDUAL FUND SCHEDULES | |
| Governmental Funds | |
| <i>Major General Fund</i> | |
| 1 Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)..... | 40 |
| 2 Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)..... | 41 |
| 3 Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)..... | 42 |
| Fiduciary Funds | |
| <i>Agency Funds</i> | |
| 4 Student Activities Funds – Combining Schedule of Changes in Student Activities Funds..... | 43 |

LITCHFIELD SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

TABLE OF CONTENTS

| | | <u>PAGES</u> |
|--|---|--------------|
| SINGLE AUDIT ACT SCHEDULES AND INDEPENDENT AUDITOR'S REPORTS | | |
| INDEPENDENT AUDITOR'S 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..... | | 44 |
| 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..... | | 45 - 46 |
| I | Schedule of Findings and Questioned Costs..... | 47 |
| II | Schedule of Expenditures of Federal Awards..... | 48 |
| NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS..... | | 49 |



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX- 603-224-1380

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Litchfield School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *Governmental 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position and the respective budgetary comparison for the general fund and the grants fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3 through 15) and the Schedule of Funding Progress for Other Postemployment Benefit Plan (page 38) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is

***Litchfield School District
Independent Auditor's Report***

required by the Governmental Accounting Standards Board, who considers them 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.

Emphasis of Matter – Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Litchfield School District's basic financial statements. The combining and 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 combining and individual fund financial schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2014 on our consideration of the Litchfield School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Litchfield School District's internal control over financial reporting and compliance.

March 7, 2014

Sheryl A. Platt, CPA

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, 2013

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, 2013. 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 position for the year ending June 30, 2013, were \$9,913,740. Net position increased by \$632,594 between July 1, 2012 and June 30, 2013. Total liabilities were reduced by \$915,065 with the reduction of \$800,000 in bond payments due in more than one year being the major contributor to the increase in net position.
- The District did not initiate any new construction projects nor issue any bonds in fiscal year 2013.
- During the year, the District's General Fund budgetary expenditures and transfers of \$19,504,890 were -\$79,794 less than the final adjusted budget. General Fund budgetary revenues of \$19,438,759 were \$246,544 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 \$378,363 or 1.9% of total General Fund expenditures, a decrease of 3.6% from the prior year.

The major contributing factors to this fund balance was \$246,544 in excess revenues, which are returned to the year-end fund balance and an under spend in self-funded programs of \$50,080.

- Special education overspent their total budget by \$141,717. This was a result of hiring paraprofessional positions required by new or modified Student Individualized Education Plans (IEP) appropriated after budget approval.

OVERVIEW OF FINANCIAL STATEMENTS

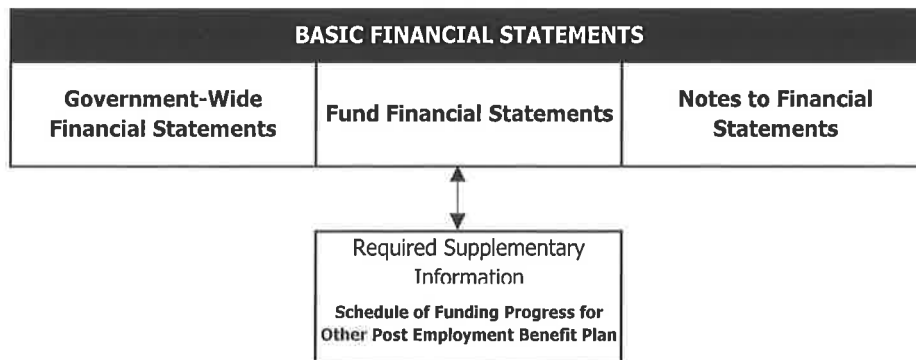
This discussion and analysis is intended to serve as an introduction to the District's annual financial report, which consists of basic financial statements, notes to the financial statements, and related financial information. Our annual financial report consists of five elements: 1) government-wide 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2013

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.



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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2013

| | | | |
|---|--|--|--|
| REQUIRED FINANCIAL STATEMENTS | Statement of Net Position | Balance Sheet | Statement of Fiduciary Position |
| | Statement of Activities | Statement of Revenues, Expenditures and Changes in Fund Balances | Statement of Changes in Fiduciary Net Position (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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2013

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 position may serve, over time, as a useful indicator of a government's financial position. The largest portion of the District's net position 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.

Net Position

Total net position at year end is \$9,913,740, an increase of \$632,594 or 6.8% from the prior year.

| | 2013 | 2012 | % Variance |
|--|-------------------|-------------------|---------------|
| Current Assets | 1,413,444 | 1,523,975 | -7.3% |
| Non-Current Assets | <u>11,673,474</u> | <u>11,786,179</u> | <u>-1.0%</u> |
| Total Assets | 13,086,918 | 13,310,154 | -1.7% |
| | | | |
| Current Liabilities | 688,282 | 721,439 | -4.6% |
| Non-Current Liabilities | <u>2,425,661</u> | <u>3,307,569</u> | <u>-26.7%</u> |
| Total Liabilities | 3,113,943 | 4,029,008 | -22.7% |
| | | | |
| Deferred Inflows of Resources | 59,235 | - | 100% |
| Net Position | | | |
| Investment in Capital Assets (Net of Debt) | 10,352,219 | 9,632,672 | 7.5% |
| Restricted Net Assets | 70,852 | 78,435 | -9.7% |
| Unrestricted Net Assets | <u>-509,331</u> | <u>-429,961</u> | <u>18.5%</u> |
| Total Net Position | 9,913,740 | 9,281,146 | 6.8% |

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2013

Change in Net Position

Total revenues were \$20,426,803 and total expenses were \$19,794,209, resulting in an increase of \$632,594 in the district's net position. The Local Tax Assessment and the State of New Hampshire accounted for 90.1% of the District's revenue, an increase of 2%.

Instructional program continues to be the largest expenditure, representing 59.6% of total expenditures, a 1% increase from the previous year. Student and Instructional staff expenditures represent 10.4% of total expenditures, an increase of .1%.

| | <u>2013</u> | <u>% Total</u> | <u>2012</u> | <u>% Total</u> |
|---|-------------------|----------------|-------------------|----------------|
| Revenue | | | | |
| Program Revenues: | | | | |
| Charges for Services | 503,808 | 2.5% | 487,536 | 2.5% |
| Operating Grants | 1,025,773 | 5.0% | 986,589 | 5.1% |
| Capital Grants | 260,787 | 1.3% | 471,466 | 2.4% |
| General Revenues: | | | | |
| School District Assessment | 10,405,248 | 50.9% | 9,006,079 | 46.5% |
| Unrestricted Grants | 7,995,081 | 39.1% | 8,068,941 | 41.6% |
| Miscellaneous | <u>236,106</u> | <u>1.2%</u> | <u>359,804</u> | <u>1.9%</u> |
| Total Revenues | 20,426,803 | 100% | 19,380,415 | 100% |
| Program Expenses | | | | |
| Instructional | 11,795,318 | 59.6% | 11,463,814 | 58.6% |
| Support Services: | | | | |
| Student | 1,560,159 | 7.9% | 1,508,375 | 7.7% |
| Instructional Staff | 492,422 | 2.5% | 512,628 | 2.6% |
| General Administration | 71,442 | 0.4% | 80,101 | 0.4% |
| Executive Administration | 450,923 | 2.3% | 531,379 | 2.7% |
| School Administration | 1,255,287 | 6.3% | 1,168,806 | 6.0% |
| Business | 286,905 | 1.4% | 309,558 | 1.6% |
| Operation and Maintenance of Plant | 1,731,201 | 8.7% | 1,874,578 | 9.6% |
| Student Transportation | 779,593 | 3.9% | 693,012 | 3.5% |
| Other | 528,522 | 2.7% | 452,027 | 2.3% |
| Non-Instructional Services | 556,666 | 2.8% | 572,750 | 2.9% |
| Interest on Long-Term Debt | 91,405 | 0.5% | 133,725 | 0.7% |
| Facilities Acquisition and Construction | 194,366 | 1.0% | <u>247,305</u> | <u>1.3%</u> |
| Total Governmental Activities | 19,794,209 | 100% | 19,548,058 | 100% |
| Change in Net Position | 632,594 | | -167,643 | 477.3% |
| Beginning Net Position | 9,281,146 | | 9,448,789 | -1.8% |
| Ending Net Position | 9,913,740 | | 9,281,146 | 6.8% |

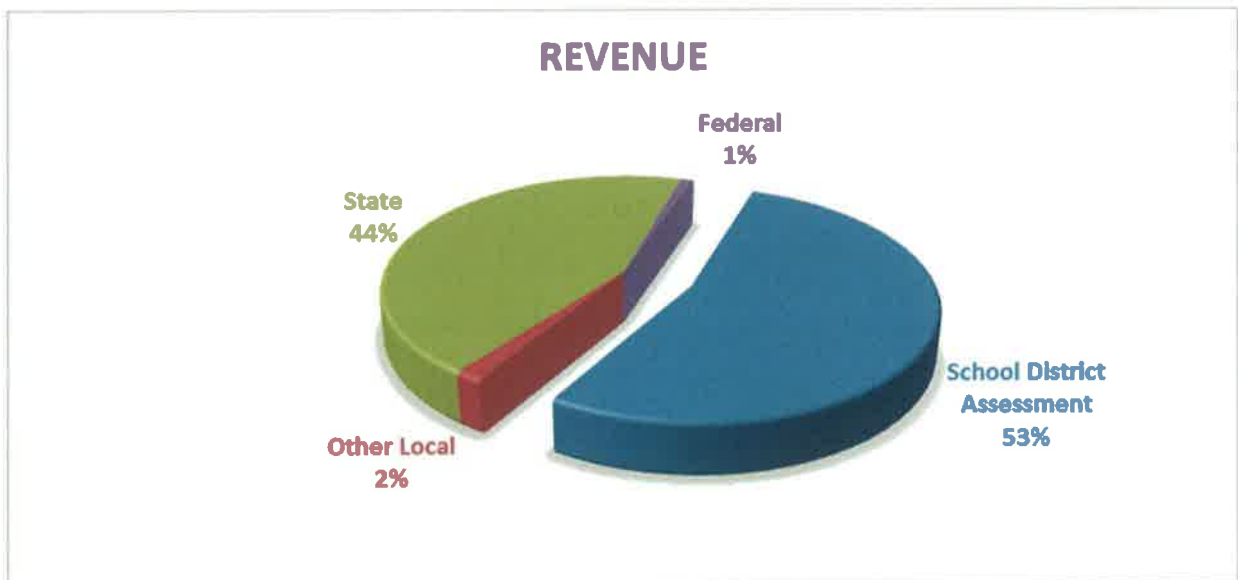
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2013

Change in General Fund Balance

The District's General Fund total revenues and other funding sources were \$19,490,759; total expenses were \$19,504,890. This resulted in a reduction of **-\$14,131** in the General Fund unassigned fund balance to \$378,363.

Summary of Revenues

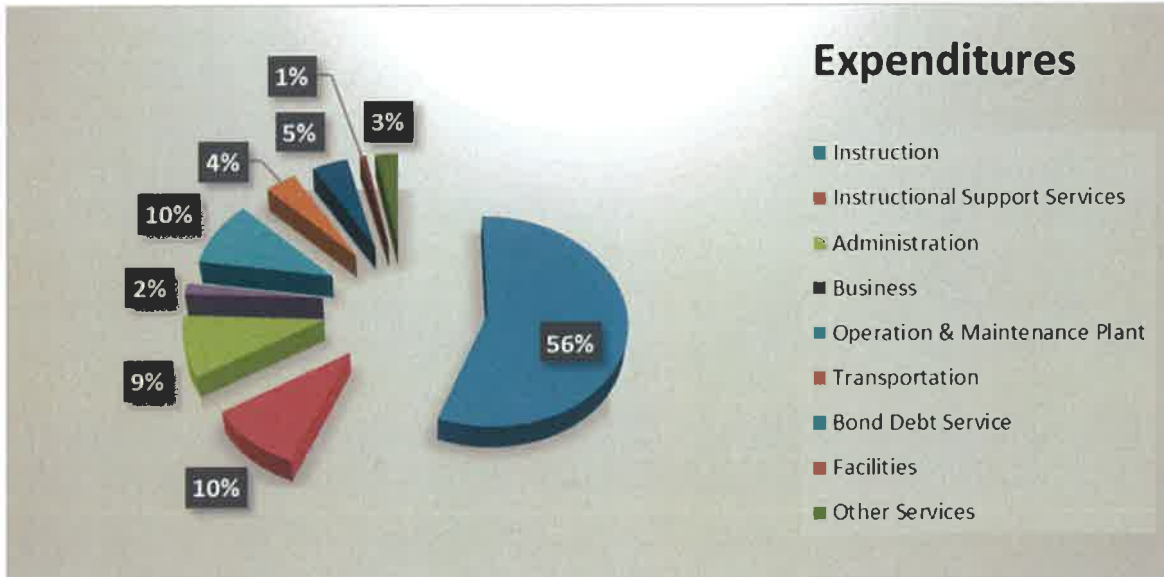
The biggest share of revenue (\$10,405,248) was derived from local appropriations and intergovernmental source (8,547,151) State of NH. The state property tax is included as part of intergovernmental revenue even though it is raised locally. This revenue statement includes all revenues from local, state and federal sources.



Summary of Expenses

The District's expenditures continue to be largely for instruction (56%), student and instructional staff support services (10.2%), and Operation and Maintenance of Buildings (10.2%)

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2013



Summary of Net Expenses

The Litchfield School District used its budgetary resources as depicted in the following chart. 71.4% 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.

Net Expenses

| | | |
|---|------------|-------|
| Instructional | 10,912,017 | 60.6% |
| Support Services: | | |
| Student | 1,457,150 | 8.1% |
| Instructional Staff | 492,122 | 2.7% |
| General Administration | 71,442 | 0.4% |
| Executive Administration | 450,923 | 2.5% |
| School Administration | 1,255,287 | 7.0% |
| Business | 286,905 | 1.6% |
| Operation and Maintenance of Plant | 1,731,201 | 9.6% |
| Student Transportation | 767,338 | 4.3% |
| Other | 528,123 | 2.9% |
| Non-Instructional Services | 26,349 | 0.1% |
| Interest on Long-Term Debt | -169,382 | -0.9% |
| Facilities Acquisition and Construction | 194,366 | 1.1% |

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2013

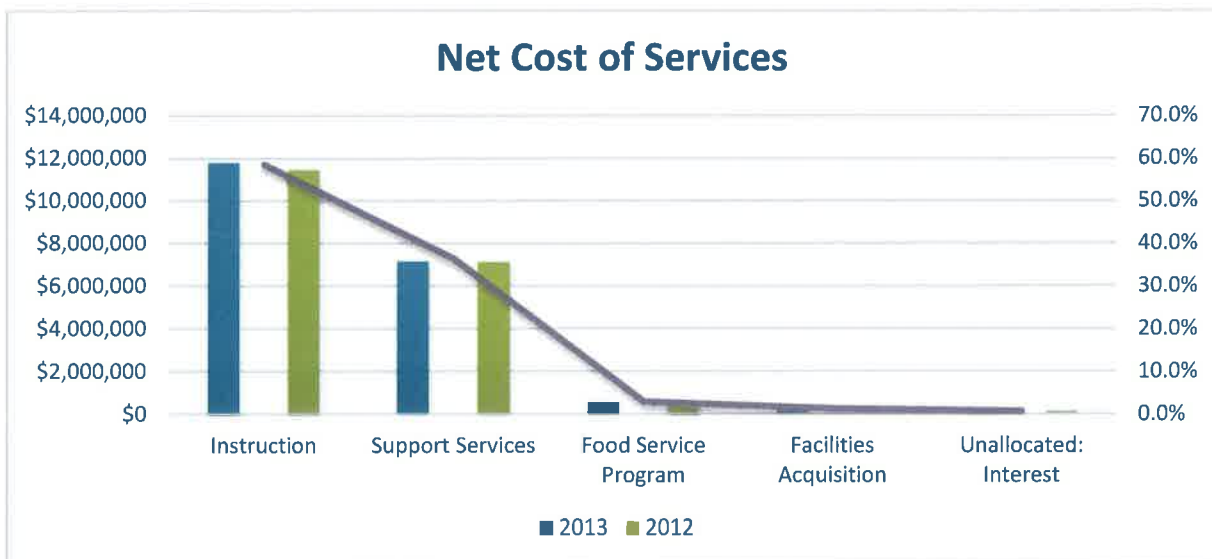
Highlighted changes in total net expenses include:

- An increase in Instruction spending of \$268,916 or 2.5% over the prior year
- An increase in Instructional Support Services of \$29,443 or 1.5% over the prior year
- A decrease in Operation & Plant Maintenance spending of \$143,377 or -7.6% under the prior year
- A decrease in Facilities Acquisition & Construction spending of \$52,939 or 21.4% under 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).

| <u>Functions and Programs</u> | <u>2013</u> | | | <u>2012</u> | | <u>Variance</u> |
|-------------------------------|-------------------|---------------|-------------------|---------------|----------------|-----------------|
| Instruction | \$10,912,017 | 60.6% | \$10,643,101 | 60.5% | 268,916 | |
| Support Services | 7,040,491 | 39.1% | 7,015,537 | 39.9% | 24,954 | |
| Food Service Program | 26,349 | 0.1% | 34,265 | 0.2% | -7,916 | |
| Facilities Acquisition | 194,366 | 1.1% | 247,305 | 1.4% | -52,939 | |
| Unallocated: Interest | <u>-169,382</u> | <u>-0.9%</u> | <u>-337,741</u> | <u>-1.9%</u> | <u>168,359</u> | |
| TOTAL | 18,003,841 | 100.0% | 17,602,467 | 100.0% | 401,374 | |



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2013

The total cost of all governmental activities in 2013 was \$19,794,209; the total net cost was \$18,003,841.

The primary financing for these activities of the District was as follows:

Property taxes

- The amount that was paid by taxpayers through property taxes was \$12,252,646; which consisted of \$10,405,248 paid in the form of local property taxes and \$1,847,398 paid in the form of property taxes under the State of New Hampshire state-wide education tax system raised locally for the annual school district assessment.
- An additional amount of \$6,147,683 was received from the State of New Hampshire under the "adequacy grant" provisions of the State's educational funding system, which in addition to other State funding sources includes statewide property taxes collected from other local governments.

Charges for Services

- Tuition and self-funded program revenues were received in the amount of \$65,947.
- Total food service revenues of \$530,317 consisted of food service sales and local miscellaneous revenues in the amount of \$425,606 and federal and state food nutrition program operating contributions (free and reduced lunch reimbursements and commodities) of \$104,711.

Operating Grants and Contributions

- Federal grants for instruction were received in the amount of \$817,354, and an additional \$103,009 for Student Support Services.

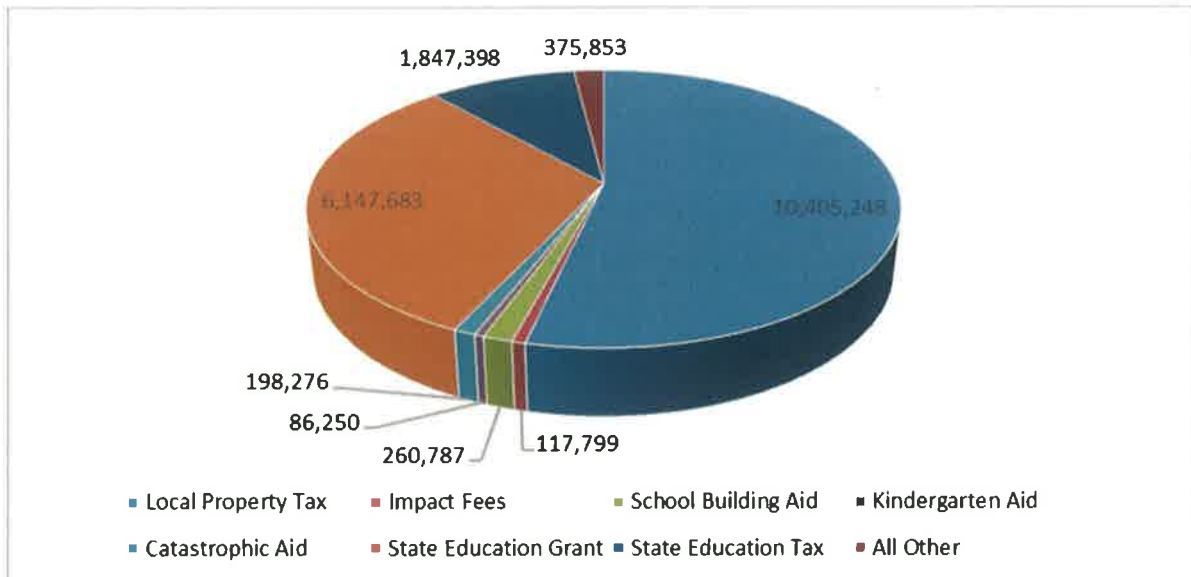
INDIVIDUAL FUND ANALYSIS

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 63.03% of general fund revenues. Together, the revenues raised locally and the state adequacy grant comprises 94.66% of the District's General Fund Budgetary Revenues.

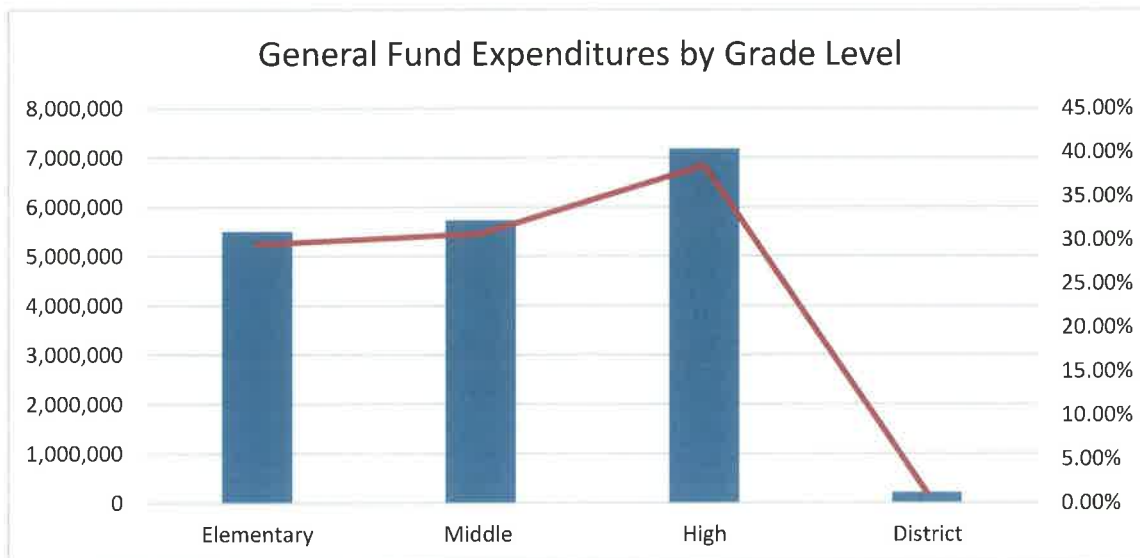
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
 OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2013

General Fund Revenue

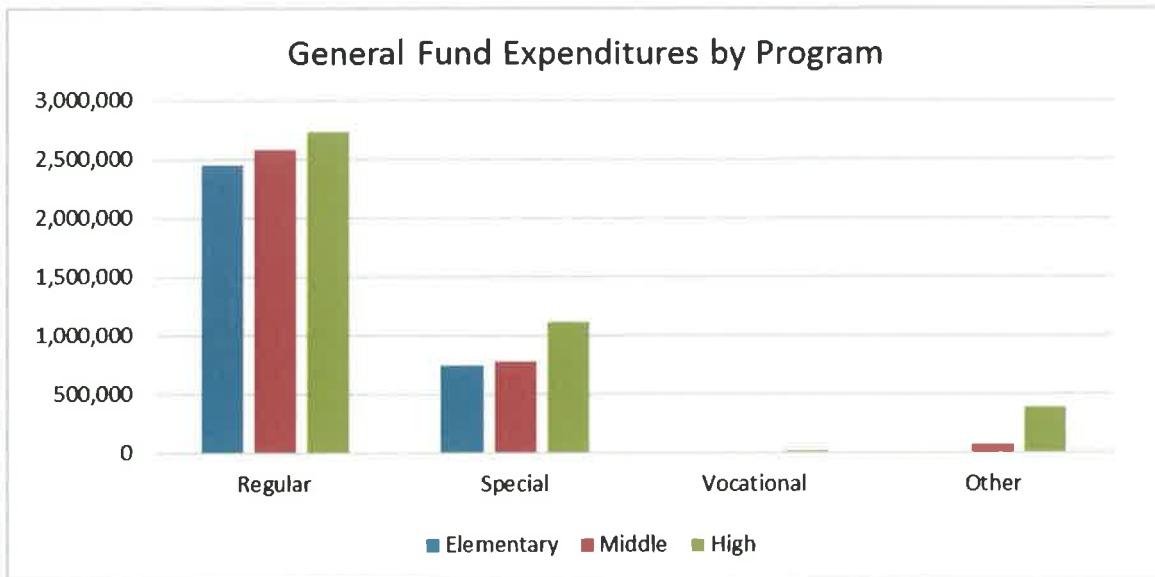


Depicted below are expenditures and percentages by grade level and district wide including all facilities acquisition and construction expenditures, but excluding debt service and inter-fund transfers.

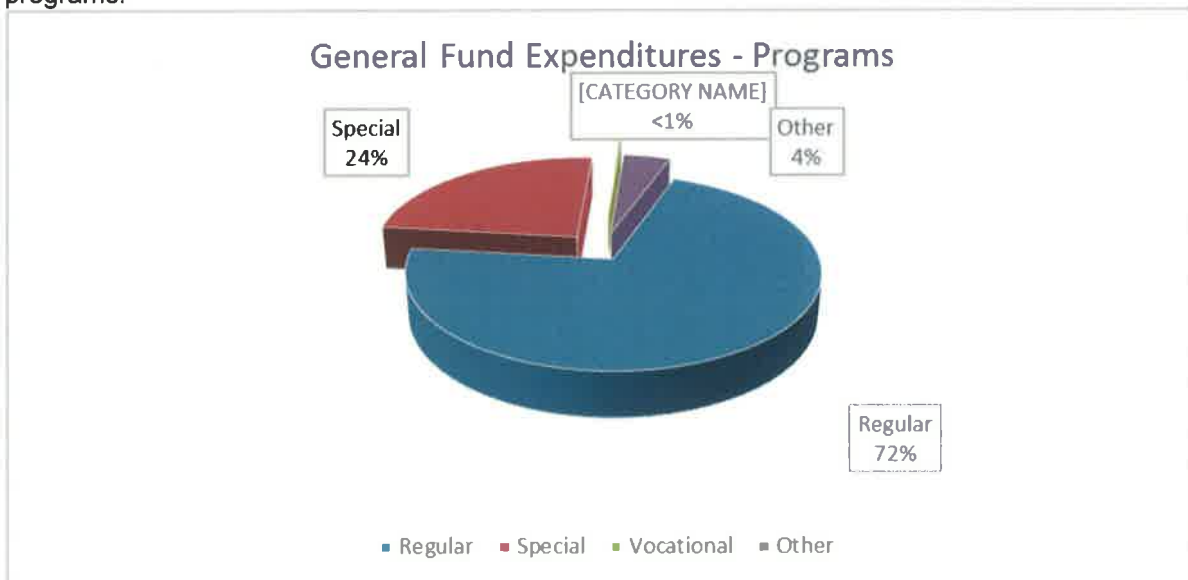
In 2013, instruction made up 60.6% of all general fund expenditures, an increase of 0.1% from the prior year, while Instructional Support and Services, including transportation, operation of plant, and administration make up 35.95% of all General Fund expenditures, a decrease of -3.19% from the prior year. The remaining 3.45% includes debt service – principal and interest. 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, 2013



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



SUMMARY OF FEDERAL SUPPORT OF THE DISTRICT

During fiscal year 2013, 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 \$250,896. These grants funded special needs services and supplies for students throughout the District.
- Title I, Student Achievement and School Accountability Programs revenues for the current period were \$68,676. 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).

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2013

- Title IIA, Improving Teacher Quality State Grants was awarded for the current period in the amount of \$12,391. This grant funded teacher professional development and a teacher mentoring program.
- A Preschool Grant was awarded for the current period in the amount of \$5,918. 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 \$104,711. 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 decreased \$51,465 during the year from \$155,701 at June 30, 2012, to \$104,236 at June 30, 2013. 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2013, the District reported capital assets of \$11,673,474 (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. District annually invests in new furnishings, computers and peripherals, printed media and other equipment, as needed.

| Governmental Activities | 2013 | 2012 | % Variance |
|----------------------------------|-------------------|-------------------|-------------------|
| Land & Improvements | 460,792 | 460,792 | 0.00% |
| Buildings & Improvements | 19,227,819 | 18,958,125 | 1.4% |
| Equipment | 321,375 | 205,505 | 56% |
| Totals at Historical Cost | 20,009,986 | 19,624,442 | 1.96% |
| Total Accumulated Depreciation | 8,336,512 | 7,838,243 | 6.36% |
| NET CAPITAL ASSETS | 11,673,474 | 11,786,179 | -.96% |

Long-Term Liabilities

On June 30, 2013, the District had \$1,285,000 of outstanding long-term debt, \$574,108 in compensated absences payable, and \$36,255 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, 2013

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, 2013, the annual required contribution to cover OPEB obligations was \$168,982 which was offset by District pay-as-you-go contributions of \$59,274. The net OPEB obligation as of June 30, 2013 is \$530,298. As of June 30, 2012, the date of the most recent actuarial valuation, the actuarial accrued liability for these OPEB benefits was \$1,419,265 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability of \$1,419,265.

| Governmental Activities | 2013 | 2012 | % Variance |
|--|------------------|------------------|-------------------|
| General Obligation Bonds | 1,285,000 | 2,085,000 | -38.37 |
| Compensated Absences | 574,108 | 733,472 | -21.73 |
| Capital Leases Payable | 36,255 | 68,507 | -47.08 |
| Other Post-Employment Benefits Payable | 530,298 | 420,590 | 26.08 |
| TOTAL LONG-TERM LIABILITIES | 2,425,661 | 3,307,569 | -26.66% |

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 2013-2014 fiscal year is \$378,363.

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 three-year agreement to be effective with the 2014-2015 school year. The net cost increases from this new agreement, if approved by the voters in March 2014, will be \$213,383 in the 2015 fiscal year and \$195,737 in the 2016 fiscal year, and \$175,545 in the 2017 fiscal year.
2. The State of New Hampshire 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. With Litchfield's projected drop in students will come a decrease in the amount of State funding.

Questions regarding this report should be directed to Brian Cochrane, Ph. D., Superintendent of Schools or to Mr. Frank Markiewicz, 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 Position
June 30, 2013

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 1,160,045 |
| Intergovernmental receivable | 227,463 |
| Other receivables | 25,936 |
| Capital assets, not being depreciated: | |
| Land | 460,792 |
| Capital assets, net of accumulated depreciation: | |
| Buildings and building improvements | 11,032,989 |
| Equipment | 179,693 |
| Total assets | 13,086,918 |
| LIABILITIES | |
| Accounts payable | 54,524 |
| Accrued interest payable | 27,625 |
| Accrued salaries and benefits | 606,133 |
| Noncurrent obligations: | |
| Due within one year: | |
| Bond | 800,000 |
| Capital leases | 28,660 |
| Compensated absences | 34,771 |
| Due in more than one year: | |
| Bond | 485,000 |
| Capital leases | 7,595 |
| Compensated absences | 539,337 |
| Other postemployment benefits | 530,298 |
| Total liabilities | 3,113,943 |
| DEFERRED INFLOWS OF RESOURCES | |
| Unavailable revenue - grant funds | 59,235 |
| NET POSITION | |
| Net investment in capital assets | 10,352,219 |
| Restricted | 70,852 |
| Unrestricted | (509,331) |
| Total net position | \$ 9,913,740 |

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, 2013

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Change In Net Position |
|--|----------------------|----------------------------|--|--|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities: | | | | | |
| Instruction | \$ 11,795,318 | \$ 65,947 | \$ 817,354 | \$ - | \$ (10,912,017) |
| Support services: | | | | | |
| Student | 1,560,159 | - | 103,009 | - | (1,457,150) |
| Instructional staff | 492,422 | - | 300 | - | (492,122) |
| General administration | 71,442 | - | - | - | (71,442) |
| Executive administration | 450,923 | - | - | - | (450,923) |
| School administration | 1,255,287 | - | - | - | (1,255,287) |
| Business | 286,905 | - | - | - | (286,905) |
| Operation and maintenance of plant | 1,731,201 | - | - | - | (1,731,201) |
| Student transportation | 779,593 | 12,255 | - | - | (767,338) |
| Other | 528,522 | - | 399 | - | (528,123) |
| Noninstructional services | 556,666 | 425,606 | 104,711 | - | (26,349) |
| Interest on long-term debt | 91,405 | - | - | 260,787 | 169,382 |
| Facilities acquisition and construction | 194,366 | - | - | - | (194,366) |
| Total governmental activities | <u>\$ 19,794,209</u> | <u>\$ 503,808</u> | <u>\$ 1,025,773</u> | <u>\$ 260,787</u> | <u>(18,003,841)</u> |
| General revenues: | | | | | |
| School district assessment | | | | | 10,405,248 |
| Grants and contributions not restricted to specific programs | | | | | 7,995,081 |
| Miscellaneous | | | | | 236,106 |
| Total general revenues | | | | | <u>18,636,435</u> |
| Change in net position | | | | | 632,594 |
| Net position, beginning | | | | | 9,281,146 |
| Net position, ending | | | | | <u>\$ 9,913,740</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, 2013

| | General | Grants | Other Governmental Fund (Food Service) | Total Governmental Funds |
|--|---------------------|------------------|---|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,095,167 | \$ - | \$ 64,878 | \$ 1,160,045 |
| Accounts receivable | 25,936 | - | - | 25,936 |
| Intergovernmental receivable | 120,036 | 91,566 | 15,861 | 227,463 |
| Interfund receivable | 32,331 | - | - | 32,331 |
| Total assets | <u>\$ 1,273,470</u> | <u>\$ 91,566</u> | <u>\$ 80,739</u> | <u>\$ 1,445,775</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 44,637 | \$ - | \$ 9,887 | \$ 54,524 |
| Accrued salaries and benefits | 606,133 | - | - | 606,133 |
| Interfund payable | - | 32,331 | - | 32,331 |
| Total liabilities | <u>650,770</u> | <u>32,331</u> | <u>9,887</u> | <u>692,988</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue - grant funds | - | 59,235 | - | 59,235 |
| FUND BALANCES | | | | |
| Restricted | - | - | 70,852 | 70,852 |
| Committed | 104,236 | - | - | 104,236 |
| Assigned | 140,101 | - | - | 140,101 |
| Unassigned | 378,363 | - | - | 378,363 |
| Total fund balances | <u>622,700</u> | <u>-</u> | <u>70,852</u> | <u>693,552</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 1,273,470</u> | <u>\$ 91,566</u> | <u>\$ 80,739</u> | <u>\$ 1,445,775</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 Position
June 30, 2013

| | | |
|---|--------------------|---------------------|
| Total fund balances of governmental funds (Exhibit C-1) | | \$ 693,552 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds. | | |
| Cost | \$ 20,009,986 | |
| Less accumulated depreciation | <u>(8,336,512)</u> | 11,673,474 |
| Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position. | | |
| Receivables | \$ 32,331 | |
| Payables | <u>(32,331)</u> | - |
| Interest on long-term debt is not accrued in governmental funds. | | |
| Accrued interest payable | | (27,625) |
| Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds. | | |
| Bond | \$ (1,285,000) | |
| Capital leases | (36,255) | |
| Compensated absences | (574,108) | |
| Other postemployment benefits | <u>(530,298)</u> | <u>(2,425,661)</u> |
| Net position of governmental activities (Exhibit A) | | <u>\$ 9,913,740</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, 2013

| | General | Grants | Other Governmental Fund (Food Service) | Total Governmental Funds |
|---|-------------------|----------------|---|--------------------------------|
| REVENUES | | | | |
| School district assessment | \$ 10,405,248 | \$ - | \$ - | \$ 10,405,248 |
| Other local | 314,309 | 1,255 | 425,606 | 741,170 |
| State | 8,547,150 | - | 5,541 | 8,552,691 |
| Federal | 172,587 | 455,937 | 99,170 | 727,694 |
| Total revenues | <u>19,439,294</u> | <u>457,192</u> | <u>530,317</u> | <u>20,426,803</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instruction | 10,930,320 | 353,484 | - | 11,283,804 |
| Support services: | | | | |
| Student | 1,496,531 | 103,009 | - | 1,599,540 |
| Instructional staff | 510,241 | 300 | - | 510,541 |
| General administration | 110,017 | - | - | 110,017 |
| Executive administration | 464,471 | - | - | 464,471 |
| School administration | 1,255,287 | - | - | 1,255,287 |
| Business | 332,998 | - | - | 332,998 |
| Operation and maintenance of plant | 2,020,048 | - | - | 2,020,048 |
| Student transportation | 779,593 | - | - | 779,593 |
| Other | 583,043 | 399 | - | 583,442 |
| Noninstructional services | - | - | 537,900 | 537,900 |
| Debt service: | | | | |
| Principal | 800,000 | - | - | 800,000 |
| Interest | 109,463 | - | - | 109,463 |
| Facilities acquisition and construction | 194,366 | - | - | 194,366 |
| Total expenditures | <u>19,586,378</u> | <u>457,192</u> | <u>537,900</u> | <u>20,581,470</u> |
| Net change in fund balances | (147,084) | - | (7,583) | (154,667) |
| Fund balances, beginning | 769,784 | - | 78,435 | 848,219 |
| Fund balances, ending | <u>\$ 622,700</u> | <u>\$ -</u> | <u>\$ 70,852</u> | <u>\$ 693,552</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, 2013

| | | |
|--|------------------|--------------------------|
| Net change in fund balances of total governmental funds (Exhibit C-3) | | \$ (154,667) |
| 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 | \$ 385,564 | |
| Accumulated depreciation on retired assets | 4,406 | |
| Depreciation expense | <u>(502,675)</u> | (112,705) |
| 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 position. | | |
| Principal repayment of bond | \$ 800,000 | |
| Principal repayment of capital leases | <u>32,252</u> | 832,252 |
| 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 | \$ 18,058 | |
| Decrease in compensated absences payable | 159,364 | |
| Increase in other postemployment benefits liability | <u>(109,708)</u> | 67,714 |
| Change in net position of governmental activities (Exhibit B) | | <u><u>\$ 632,594</u></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, 2013

| | Budgeted | | Variance Positive (Negative) |
|--|----------------------------------|-------------------|------------------------------------|
| | Amounts Original and Final | Actual | |
| REVENUES | | | |
| School district assessment | \$ 10,405,248 | \$ 10,405,248 | \$ - |
| Other local | 226,698 | 313,773 | 87,075 |
| State | 8,500,269 | 8,547,151 | 46,882 |
| Federal | 60,000 | 172,587 | 112,587 |
| Total revenues | <u>19,192,215</u> | <u>19,438,759</u> | <u>246,544</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Instruction | 11,050,216 | 10,929,003 | 121,213 |
| Support services: | | | |
| Student | 1,503,111 | 1,497,446 | 5,665 |
| Instructional staff | 521,538 | 495,614 | 25,924 |
| General administration | 105,953 | 110,018 | (4,065) |
| Executive administration | 629,237 | 464,471 | 164,766 |
| School administration | 1,167,771 | 1,255,287 | (87,516) |
| Business | 294,592 | 339,934 | (45,342) |
| Operation and maintenance of plant | 1,962,163 | 1,995,984 | (33,821) |
| Student transportation | 832,819 | 779,593 | 53,226 |
| Other | 508,067 | 576,646 | (68,579) |
| Debt service: | | | |
| Principal | 800,000 | 800,000 | - |
| Interest | 109,463 | 109,463 | - |
| Facilities acquisition and construction | 99,754 | 151,431 | (51,677) |
| Total expenditures | <u>19,584,684</u> | <u>19,504,890</u> | <u>79,794</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(392,469)</u> | <u>(66,131)</u> | <u>326,338</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | - | 52,000 | 52,000 |
| Transfers out | (25) | - | 25 |
| Total other financing sources (uses) | <u>(25)</u> | <u>52,000</u> | <u>52,025</u> |
| Net change in fund balance | <u>\$ (392,494)</u> | <u>(14,131)</u> | <u>\$ 378,363</u> |
| Unassigned fund balance, beginning | | 392,494 | |
| Unassigned fund balance, ending | | <u>\$ 378,363</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, 2013

| | Budgeted | | Variance Positive (Negative) |
|----------------------------|----------------------------------|----------------|------------------------------------|
| | Amounts Original and Final | Actual | |
| REVENUES | | | |
| Local | \$ - | \$ 1,255 | \$ 1,255 |
| Federal | 575,000 | 455,937 | (119,063) |
| Total revenues | <u>575,000</u> | <u>457,192</u> | <u>(117,808)</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Instruction | 475,000 | 353,484 | 121,516 |
| Support services: | | | |
| Student | 100,000 | 103,009 | (3,009) |
| Instructional staff | - | 300 | (300) |
| Other | - | 399 | (399) |
| Total expenditures | <u>575,000</u> | <u>457,192</u> | <u>117,808</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 Position
June 30, 2013

| | <u>Agency</u> |
|---------------------------|--------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 154,703 |
| LIABILITIES | |
| Due to student groups | <u>154,703</u> |
| NET POSITION | <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, 2013

| | <u>NOTE</u> |
|---|-------------|
| Summary of Significant Accounting Policies | 1 |
| Reporting Entity | 1-A |
| Basis of Accounting, Measurement Focus, and Financial Statement Preparation | 1-B |
| Cash and Cash Equivalents | 1-C |
| Receivables | 1-D |
| Interfund Balances | 1-E |
| Capital Assets | 1-F |
| Deferred Inflows of Resources | 1-G |
| Compensated Absences | 1-H |
| Long-Term Obligations | 1-I |
| Claims and Judgments | 1-J |
| Net Position/Fund Balances | 1-K |
| Interfund Activities | 1-L |
| Use of Estimates | 1-M |
| Stewardship, Compliance, and Accountability | 2 |
| Budgetary Information | 2-A |
| Budgetary Reconciliation to GAAP Basis | 2-B |

DETAILED NOTES ON ALL FUNDS

| | |
|--|----|
| Cash and Cash Equivalents | 3 |
| Receivables | 4 |
| Interfund Balances | 5 |
| Capital Assets | 6 |
| Deferred Inflows of Resources | 7 |
| Capital Lease Obligations | 8 |
| Long-Term Liabilities | 9 |
| Encumbrances | 10 |
| Governmental Activities Net Position | 11 |
| Governmental Fund Balances | 12 |
| Employee Retirement Plan | 13 |
| Other Postemployment Benefits (OPEB) | 14 |
| Risk Management | 15 |
| Contingent Liabilities | 16 |
| Implementation of New GASB Pronouncements | 17 |
| Subsequent Events | 18 |

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

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 accounting policies of the School District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principals in the United States.

The following is a summary of the more significant accounting policies:

1-B Basis of Accounting, Measurement Focus, and Financial Statement Presentation

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements – The School District’s government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental activities for the School District, accompanied by a total column. Fiduciary activities of the School District are not included in these statements.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the School District’s assets, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the School District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated.

Governmental Fund Financial Statements – Governmental fund financial statements include a balance sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds, and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measureable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the School District, are district assessments, intergovernmental revenues, and other local sources. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Fiduciary Fund Financial Statements – Fiduciary fund financial statements include a Statement of Fiduciary Net Position. The School District’s fiduciary funds are agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are accounted for on a spending or “economic resources” measurement focus and the accrual basis of accounting.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

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 Funds – The School District also reports one nonmajor governmental fund.

Food Service Fund – accounts for the operation of the School District’s food service program.

The School District recognizes assets of nonexchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized, on the modified accrual basis, when they are measurable and available. Nonexchange transactions occur when one government provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return. Various intergovernmental revenues, the district assessment, and most donations are examples of nonexchange transactions.

Under the terms of grant agreements, the School District funds certain programs by specific grants, resources, and/or general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the School District’s policy to first apply grant resources to such programs and then general revenues.

Prioritization and Use of Available Resources – When both restricted and unrestricted resources are available for use, it is the School District’s practice to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in the general fund, it is the School District’s policy to use unassigned resources first, then assigned, and then committed as needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in any other governmental fund, it is the School District’s policy to use committed resources first, then assigned, and then unassigned as needed.

1-C 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-D 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-E 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 Position.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

1-F 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 Position. 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-G Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

1-H 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.

An expense and a liability for vacation, sick pay, and salary-related payments are accrued as the leave is earned in the government-wide financial statements. The compensated absences liability is liquidated using funds to which the liability accrued as the accumulated leave is used.

1-I Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources. The face amount of the debt issued and any related premiums are reported as other financing sources. Issuance costs are reported as a reduction of proceeds.

1-J 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.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

1-K Net Position/Fund Balances

Net position in government-wide financial statements is classified as follows:

Net Investment in Capital Assets – This classification includes the School District’s capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position – This classification includes assets that have third-party (statutory, bond covenant, or granting agency) limitation on their use. The School District typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

Unrestricted Net Position – This classification typically includes unrestricted liquid assets.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraint placed on how fund balance can be spent.

The governmental fund types classify fund balances 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.

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.

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.

Unassigned – This classification is the portion of fund balance that has not been restricted, committed, or assigned for a specific purpose.

1-L Interfund Activities

Interfund activities are reported as follows:

Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e. the current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

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

1-M Use of Estimates

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

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the School District's operations. At its annual meeting, the School District adopts a budget for the current year for the general and grants funds, as well as the nonmajor food service fund. Except as reconciled below, the budget was adopted on a basis consistent with 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 2013, \$392,494 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.

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

| | |
|---|----------------------|
| Revenues and other financing sources: | |
| Per Exhibit D-1 (budgetary basis) | \$ 19,490,759 |
| Adjustments: | |
| Basis difference: | |
| GASB Statement No. 54: | |
| Interest earnings related to the expendable trust funds | 535 |
| To remove transfer from expendable trust funds | (52,000) |
| Per Exhibit C-3 (GAAP basis) | <u>\$ 19,439,294</u> |
| Expenditures: | |
| Per Exhibit D-1 (budgetary basis) | \$ 19,504,890 |
| Adjustments: | |
| Basis difference: | |
| Encumbrances, beginning | 221,589 |
| Encumbrances, ending | (140,101) |
| Per Exhibit C-3 (GAAP basis) | <u>\$ 19,586,378</u> |

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

The School District's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held by the School District's agent in the School District's name. The FDIC currently insures the first \$250,000 of the School District's deposits at each financial institution, per case custodian. Deposit balances over \$250,000 are insured by the collateral. As of year-end, the carrying amount of the School District's deposits was \$1,314,748 and the bank balances totaled \$1,700,113.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

Cash and cash equivalents reconciliation:

| | |
|--|--------------|
| Cash per Statement of Net Position (Exhibit A) | \$ 1,160,045 |
| Cash per Statement of Fiduciary Net Position (Exhibit E) | 154,703 |
| Total cash and cash equivalents | \$ 1,314,748 |

NOTE 4 – RECEIVABLES

Receivables at June 30, 2013, consisted of accounts and intergovernmental amounts arising from grants, school lunch program, restricted 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 5 – INTERFUND BALANCES

Interfund receivable and payable balances consisting of overdrafts in pooled cash and budgetary transfers at June 30, 2013, are as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------|--------------|-----------|
| General | Grants | \$ 32,331 |

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 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 | 18,958,125 | 292,194 | (22,500) | 19,227,819 |
| Equipment | 205,505 | 115,870 | - | 321,375 |
| Total capital assets being depreciated | 19,163,630 | 408,064 | (22,500) | 19,549,194 |
| Total capital assets | 19,624,422 | 408,064 | (22,500) | 20,009,986 |
| Less accumulated depreciation: | | | | |
| Buildings and building improvements | (7,723,641) | (475,595) | 4,406 | (8,194,830) |
| Equipment | (114,602) | (27,080) | - | (141,682) |
| Total accumulated depreciation | (7,838,243) | (502,675) | 4,406 | (8,336,512) |
| Net book value, capital assets being depreciated | 11,325,387 | (94,611) | (18,094) | 11,212,682 |
| Net book value, all capital assets | \$ 11,786,179 | \$ (94,611) | \$ (18,094) | \$ 11,673,474 |

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 | \$ 414,431 |
| Support services: | |
| Instructional staff | 6,239 |
| Operation and maintenance of plant | 63,239 |
| Noninstructional services | 18,766 |
| Total depreciation expense | \$ 502,675 |

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

NOTE 7 – DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources are as follows:

| | |
|---|-----------|
| | Grants |
| Federal grant revenue collected in advance of eligible expenditure being made | \$ 51,673 |
| Local grant revenue collected in advance of eligible expenditure being made | 7,562 |
| Total deferred inflows of resources | \$ 59,235 |

NOTE 8 – CAPITAL LEASE OBLIGATIONS

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.

| | Standard Interest Rate | Present Value of Remaining Payments as of June 30, 2013 |
|----------------------------|------------------------------|--|
| Capital lease obligations: | | |
| Music equipment | 15.15% | \$ 36,255 |

The annual requirements to amortize the capital leases payable as of June 30, 2013, including interest payments, are as follows:

| June 30, | Activities |
|-------------------------------------|------------|
| 2014 | \$ 30,859 |
| 2015 | 7,714 |
| Total requirements | 38,573 |
| Less: interest | (2,318) |
| Present value of remaining payments | \$ 36,255 |

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

NOTE 9 – LONG-TERM LIABILITIES

Changes in the School District's long-term liabilities consisted of the following for the year ended June 30, 2013:

| | Balance July 1, 2012 | Additions | Reductions | Balance June 30, 2013 | Due Within One Year |
|-----------------------------------|-------------------------|------------|--------------|--------------------------|------------------------|
| Bond payable: | | | | | |
| General obligation bond | \$ 2,085,000 | \$ - | \$ (800,000) | \$ 1,285,000 | \$ 800,000 |
| Capital leases | 68,507 | - | (32,252) | 36,255 | 28,660 |
| Compensated absences | 733,472 | - | (159,364) | 574,108 | 34,771 |
| Net other postemployment benefits | 420,590 | 109,708 | - | 530,298 | - |
| Total long-term liabilities | \$ 3,307,569 | \$ 109,708 | \$ (991,616) | \$ 2,425,661 | \$ 863,431 |

Long term bonds are comprised of the following:

| | Original Amount | Issue Date | Maturity Date | Interest Rate | Outstanding at June 30, 2013 |
|----------------------------------|--------------------|------------|------------------|------------------|---------------------------------|
| General obligation bond payable: | | | | | |
| High school construction | \$ 11,685,000 | 2000 | 2015 | 4.5-5.25% | \$ 1,285,000 |

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

The annual requirements to amortize the general obligation bond outstanding as of June 30, 2013, including interest payments, are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|---------------------|------------------|---------------------|
| 2014 | \$ 800,000 | \$ 67,463 | \$ 867,463 |
| 2015 | 485,000 | 25,463 | 510,463 |
| Totals | <u>\$ 1,285,000</u> | <u>\$ 92,926</u> | <u>\$ 1,377,926</u> |

NOTE 10 – ENCUMBRANCES

Encumbrances reported at June 30, 2013 are as follows:

| | | |
|---|--|-------------------|
| Current: | | |
| Instruction: | | |
| Special programs | | \$ 600 |
| Support services: | | |
| Student | | 2,199 |
| Instructional staff | | 1,106 |
| Business | | 9,780 |
| Operation and maintenance of plant | | 63,916 |
| Total support services | | <u>77,001</u> |
| Facilities acquisition and construction | | 62,500 |
| Total encumbrances | | <u>\$ 140,101</u> |

NOTE 11 – GOVERNMENTAL ACTIVITIES NET POSITION

The government-wide Statement of Net Position at June 30, 2013 consisted of the following:

| | |
|--|---------------------|
| Net investment in capital assets: | |
| Net property, buildings, and equipment | \$ 11,673,474 |
| Less: | |
| General obligation bonds payable | (1,285,000) |
| Capital leases payable | (36,255) |
| Total net investment in capital assets | <u>10,352,219</u> |
| Restricted for food service | 70,852 |
| Unrestricted | (509,331) |
| Total net position | <u>\$ 9,913,740</u> |

NOTE 12 – GOVERNMENTAL FUND BALANCES

Governmental fund balances at June 30, 2013 consist of the following:

| | |
|----------------------------------|-------------------|
| Restricted: | |
| Nonmajor fund: | |
| Food service | \$ 70,852 |
| Committed: | |
| Major fund: | |
| General fund: | |
| Expendable trust | 104,236 |
| Assigned: | |
| Major fund: | |
| General: | |
| Encumbrances | 140,101 |
| Unassigned: | |
| Major fund: | |
| General | 378,363 |
| Total governmental fund balances | <u>\$ 693,552</u> |

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

NOTE 13 – EMPLOYEE RETIREMENT PLAN

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

The System is financed by contributions from both the employees and the School District. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees are required to contribute 7% of earnable compensation. For fiscal year 2013, the School District contributed 11.30% for teachers and 8.80% for other employees. The contribution requirements for the fiscal years 2011, 2012, and 2013 were \$753,404, \$973,009, and \$979,329, respectively, which were paid in full in each year.

NOTE 14 – 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. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2013:

| | |
|--|--------------------------|
| Annual required contribution/OPEB cost | \$ 168,982 |
| Contributions made (pay-as-you-go) | <u>(59,274)</u> |
| Increase in net OPEB obligation | 109,708 |
| Net OPEB obligation, beginning | <u>420,590</u> |
| Net OPEB obligation, ending | <u><u>\$ 530,298</u></u> |

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

| Fiscal Year Ended | Annual OPEB Contribution Cost | Percentage Contributed | Net OPEB Obligation |
|----------------------|--|---------------------------|------------------------|
| June 30, 2009 | \$ 136,340 | 32.73% | \$ 91,715 |
| June 30, 2010 | \$ 136,340 | 35.68% | \$ 179,414 |
| June 30, 2011 | \$ 180,712 | 33.35% | \$ 300,002 |
| June 30, 2012 | \$ 180,285 | 33.35% | \$ 420,590 |
| June 30, 2013 | \$ 168,982 | 35.08% | \$ 530,298 |

As of July 1, 2012, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$1,419,265, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,419,265. The covered payroll (annual payroll of active employees covered by the plan) was \$7,836,670 during fiscal year 2013, and the ratio of the UAAL to the covered payroll was 18.11%.

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

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

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 July 1, 2012 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 July 1, 2012 was 30 years.

NOTE 15 – RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2013, the School District was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pool, currently operating as common risk management and insurance program for member School Districts and cities.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from July 1 to June 30, 2013 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 Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated contribution from the Litchfield School District for the year ended June 30, 2013 was \$47,187 for workers' compensation. The School District paid \$21,998 and received a premium holiday in the amount of \$25,189. The School District was billed and paid \$50,564 for property/liability insurance. The workers' compensation section of the self-insurance membership agreement permits Primex³ to make additional assessments to members should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex³ foresees no likelihood of any additional assessment for this or any prior year.

NOTE 16 – CONTINGENT LIABILITIES

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

NOTE 17 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

The following GASB pronouncements were implemented by the School District for the fiscal year ended June 30, 2013, which included the early implementation of GASB Statement No. 65. Only GASB Statement No. 63 and GASB Statement No. 65 impacted these financial statements:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010. 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.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus and Amendments of GASB Statements No. 14 and No. 34*, issued November 2010. 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. 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. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement of New Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012, has an effective date of 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. Because GASB Statement No. 65 is so closely related to GASB Statement No. 63, implementing both as of June 30, 2013 is recommended.

The Governmental Accounting Standards Board (GASB) has issued several pronouncements 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. 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.

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 this statement will change how governments calculate and report the costs and obligations associated with pensions in important ways. This replaces the requirements of Statements No. 27 and 50.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued in January 2013, will be effective for the School District beginning with its fiscal year ending June 30, 2015. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations that have been transferred or sold.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued in April 2013, will be effective for the School District beginning with the fiscal year ending June 30, 2015. The objective of this statement is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

NOTE 18 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through March 7, 2014, the date the June 30, 2013 financial statements were available to be 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, 2013

| 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, 2008 | \$ - | \$ 910,124 | \$ 910,124 | 0.00% | \$ 8,913,827 | 16.30% |
| July 1, 2009 | \$ - | \$ 1,003,009 | \$ 1,003,009 | 0.00% | N/A | N/A |
| July 1, 2010 | \$ - | \$ 1,383,635 | \$ 1,383,635 | 0.00% | \$ 8,501,171 | 16.28% |
| July 1, 2011 | \$ - | \$ 1,383,635 | \$ 1,383,635 | 0.00% | \$ 8,501,171 | 16.28% |
| July 1, 2012 | \$ - | \$ 1,419,265 | \$ 1,419,265 | 0.00% | \$ 7,836,670 | 18.11% |

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, 2013

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 at June 30, 2013.

COMBINING AND INDIVIDUAL FUND SCHEDULES

SCHEDULE 1
LITCHFIELD SCHOOL DISTRICT
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2013

| | Estimated | Actual | Variance Positive (Negative) |
|--|----------------------|----------------------|------------------------------------|
| School district assessment: | | | |
| Current appropriation | \$ 10,405,248 | \$ 10,405,248 | \$ - |
| Other local sources: | | | |
| Tuition | 14,000 | 65,947 | 51,947 |
| Transportation | 8,000 | 12,255 | 4,255 |
| Investment earnings | 1,425 | 987 | (438) |
| Impact fees | 127,000 | 117,799 | (9,201) |
| Miscellaneous | 76,273 | 116,785 | 40,512 |
| Total from other local sources | <u>226,698</u> | <u>313,773</u> | <u>87,075</u> |
| State sources: | | | |
| Adequacy aid (grant) | 6,147,683 | 6,147,683 | - |
| Adequacy aid (tax) | 1,847,398 | 1,847,398 | - |
| School building aid | 260,787 | 260,787 | - |
| Kindergarten aid | 86,250 | 86,250 | - |
| Catastrophic aid | 156,151 | 198,276 | 42,125 |
| Vocational aid | 2,000 | 2,268 | 268 |
| Other state aid | - | 4,489 | 4,489 |
| Total from state sources | <u>8,500,269</u> | <u>8,547,151</u> | <u>46,882</u> |
| Federal sources: | | | |
| Medicaid | <u>60,000</u> | <u>172,587</u> | <u>112,587</u> |
| Other financing sources: | | | |
| Transfers in | <u>-</u> | <u>52,000</u> | <u>52,000</u> |
| Total revenues and other financing sources | 19,192,215 | <u>\$ 19,490,759</u> | <u>\$ 298,544</u> |
| Use of fund balance to reduce school district assessment | 392,494 | | |
| Total revenues and use of fund balance | <u>\$ 19,584,709</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, 2013

| | Encumbered from Prior Year | Appropriations | Expenditures | Encumbered to Subsequent Year | Variance Positive (Negative) |
|---|----------------------------------|----------------------|----------------------|-------------------------------------|------------------------------------|
| Current: | | | | | |
| Instruction: | | | | | |
| Regular programs | \$ 1,916 | \$ 7,982,471 | \$ 7,782,429 | \$ - | \$ 201,958 |
| Special programs | - | 2,494,471 | 2,635,588 | 600 | (141,717) |
| Vocational programs | - | 27,040 | 21,476 | - | 5,564 |
| Other | - | 546,234 | 490,826 | - | 55,408 |
| Total instruction | <u>1,916</u> | <u>11,050,216</u> | <u>10,930,319</u> | <u>600</u> | <u>121,213</u> |
| Support services: | | | | | |
| Student | 1,284 | 1,503,111 | 1,496,531 | 2,199 | 5,665 |
| Instructional staff | 15,733 | 521,538 | 510,241 | 1,106 | 25,924 |
| General administration | - | 105,953 | 110,018 | - | (4,065) |
| Executive administration | - | 629,237 | 464,471 | - | 164,766 |
| School administration | - | 1,167,771 | 1,255,287 | - | (87,516) |
| Business | 2,844 | 294,592 | 332,998 | 9,780 | (45,342) |
| Operation and maintenance of plant | 87,980 | 1,962,163 | 2,020,048 | 63,916 | (33,821) |
| Student transportation | - | 832,819 | 779,593 | - | 53,226 |
| Other | 6,397 | 508,067 | 583,043 | - | (68,579) |
| Total support services | <u>114,238</u> | <u>7,525,251</u> | <u>7,552,230</u> | <u>77,001</u> | <u>10,258</u> |
| Debt service: | | | | | |
| Principal of long-term debt | - | 800,000 | 800,000 | - | - |
| Interest on long-term debt | - | 109,463 | 109,463 | - | - |
| Total debt service | <u>-</u> | <u>909,463</u> | <u>909,463</u> | <u>-</u> | <u>-</u> |
| Facilities acquisition and construction | <u>105,435</u> | <u>99,754</u> | <u>194,366</u> | <u>62,500</u> | <u>(51,677)</u> |
| Other financing uses: | | | | | |
| Transfers out | <u>-</u> | <u>25</u> | <u>-</u> | <u>-</u> | <u>25</u> |
| Total appropriations, expenditures, other financing uses, and encumbrances | <u>\$ 221,589</u> | <u>\$ 19,584,709</u> | <u>\$ 19,586,378</u> | <u>\$ 140,101</u> | <u>\$ 79,819</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, 2013

| | | |
|---|------------|-------------------|
| Unassigned fund balance, beginning | | \$ 392,494 |
| Changes: | | |
| Unassigned fund balance used to reduce school district assessment | | (392,494) |
| 2012-2013 Budget summary: | | |
| Revenue surplus (Schedule 1) | \$ 298,544 | |
| Unexpended balance of appropriations (Schedule 2) | 79,819 | |
| 2012-2013 Budget surplus | | <u>378,363</u> |
| Unassigned fund balance, ending | | <u>\$ 378,363</u> |

SCHEDULE 4
LITCHFIELD SCHOOL DISTRICT
Student Activities Funds
Combining Schedule of Changes in Student Activities Funds
For the Fiscal Year Ended June 30, 2013

| | <u>Balance, beginning</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance, ending</u> |
|-------------------|-------------------------------|-------------------|-------------------|----------------------------|
| Schools: | | | | |
| Campbell High | \$ 130,720 | \$ 335,598 | \$ 356,907 | \$ 109,411 |
| Litchfield Middle | 34,103 | 197,480 | 198,287 | 33,296 |
| Griffin Memorial | 8,444 | 28,675 | 25,123 | 11,996 |
| Totals | <u>\$ 173,267</u> | <u>\$ 561,753</u> | <u>\$ 580,317</u> | <u>\$ 154,703</u> |

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



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX-224-1380

INDEPENDENT AUDITOR'S 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, in accordance with the auditing standards generally accepted in the United State of America and the standards applicable to the financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2013, and the related notes to the financial statements, which collectively comprise the Litchfield School District's basic financial statements, and have issued our report thereon dated March 7, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Litchfield School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Litchfield School District's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 7, 2014

Sheryl A. Platt CPA
PLODZIK & SANDERSON
Professional Association



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX-224-1380

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR 1-33

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

Report on Compliance for Each Major Federal Program

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 programs for the year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Litchfield School District's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Litchfield School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Litchfield School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of the Litchfield School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Litchfield School District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major program and to test and report on internal control over compliance in accordance with OMB Circular 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.

***Litchfield School District
Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control
over Compliance in Accordance with OMB Circular A-133***

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purposes.

Sheryl A. Piatt, CPA

March 7, 2014

PLODZIK & SANDERSON
Professional Association

SCHEDULE I
LITCHFIELD SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 84.027 and 84.173 | Special Education Cluster |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

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, 2013

| 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 | \$ 6,019 |
| National School Lunch Program <i>(note 3)</i> | 10.555 | N/A | 92,291 |
| Special Milk Program for Children | 10.556 | N/A | 860 |
| <i>CLUSTER TOTAL</i> | | | <u>99,170</u> |
| U.S. DEPARTMENT OF EDUCATION | | | |
| Passed Through the State of New Hampshire Department of Education | | | |
| Title I Grants to Local Educational Agencies: | | | |
| Title I - Part A | 84.010 | 20079 | 22,295 |
| Title I - SINI / DINI GMS | 84.010 | 20241 | 3,184 |
| Title I - SINI / DINI LMS | 84.010 | 20242 | 1,042 |
| Title I - Part A | 84.010 | 30079 | 72,412 |
| Title I - SINI / DINI GMS | 84.010 | 30241 | 9,996 |
| Title I - SINI / DINI LMS | 84.010 | 30242 | 6,846 |
| <i>PROGRAM TOTAL</i> | | | <u>115,775</u> |
| SPECIAL EDUCATION CLUSTER | | | |
| Special Education - Grants to States | 84.027 | 32556 | 311,508 |
| Special Education - Preschool Grants | 84.173 | 32556 | 6,780 |
| <i>CLUSTER TOTAL</i> | | | <u>318,288</u> |
| Improving Teacher Quality State Grants: | | | |
| Title II - Part A | 84.367 | 24872 | 14,704 |
| Title II - Part A | 84.367 | 34872 | 4,777 |
| ILN Summer Summit | 84.367 | 35354 | 2,394 |
| <i>PROGRAM TOTAL</i> | | | <u>21,875</u> |
| Total Expenditures of Federal Awards | | | <u><u>\$ 555,108</u></u> |

The accompanying notes are an integral part of this statement.

LITCHFIELD SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

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, 2013. 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. 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.