

**TWINFIELD UNION SCHOOL DISTRICT NO. 33
TWINFIELD, VERMONT**

**FINANCIAL STATEMENTS
JUNE 30, 2012
AND
INDEPENDENT AUDITOR'S REPORTS**

TWINFIELD UNION SCHOOL DISTRICT NO. 33

JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Twinfield Union School District No. 33

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Twinfield Union School District No. 33 (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Twinfield Union School District No. 33 as of June 30, 2012 and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund, Grants Fund, and Food Service Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2013 on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Montpelier, Vermont
February 22, 2013

*Mudgett, Jennett &
Krogh-Wisner, P.C.*

**TWINFIELD UNION SCHOOL DISTRICT NO. 33
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

This section of the Twinfield Union School District No. 33 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. The intent of the Management's Discussion and Analysis (MDA) is to look at the District's financial performance as a whole. With this in mind, please also refer to the District's financial statements, which immediately follow this section.

The MDA is required supplementary information specified in the Governmental Accounting Standards Board (GASB) Statement No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued in June, 1999.

Financial Statements

The implementation of the GASB No. 34 requires two separate presentations of financial statements. The Government-wide Financial Statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. The Statement of Net Assets includes all assets of the District, including capital assets net of depreciation, and all liabilities, including long-term debt; with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Activities focuses on the programs of the District and presents information showing how the District's net assets changed during the year.

The Fund Financial Statements present financial position and activities by fund using the modified accrual or accrual basis of accounting. 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. The funds of the District can be divided into two categories: governmental and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds primarily focus on near-term inflows and outflows of spendable resources and their balance at the end of the fiscal year. The District's major governmental funds are the General Fund, the Grants Fund, the Capital Projects Fund, and the Food Service Fund.

Fiduciary funds are used to account for resources held for the benefit of other parties (in trust or agency funds). Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

Government-wide Financial Analysis

The Statement of Net Assets shows the total assets, liabilities and net assets of the District at June 30, 2012. The following is a summary of the information from the Statement of Net Assets:

	Governmental Activities <u>2012</u>
Current Assets	\$ 383,883
Capital Assets, net	<u>2,885,641</u>
Total Assets	<u>3,269,524</u>

	Governmental Activities
	<u>2012</u>
Current Liabilities	213,469
Noncurrent Liabilities	<u>545,795</u>
Total Liabilities	<u>759,264</u>
Invested in Capital Assets, net of related debt	2,290,340
Restricted	288,027
Unrestricted	<u>(68,107)</u>
Total Net Assets	<u>\$ 2,510,260</u>

The Statement of Net Assets shows total assets of the District as of June 30, 2012 are \$3,269,524. The June 30, 2012 current assets of \$383,883 include cash, receivables, and prepaid expenses. Noncurrent assets are net capital assets (buildings and improvements, vehicles and equipment), and for the period ending June 30, 2012, the noncurrent assets totaled \$2,885,641 or 88.26% of total assets.

Total liabilities of the District are \$759,264 at June 30, 2012. \$213,469 or 28.12% of total liabilities are current liabilities (bank overdrafts, payables, and the current portions of other post-employment benefits, long-term debt and capital lease).

Noncurrent liabilities for the period ending June 30, 2012 are \$545,795 or 71.88% of total liabilities.

Net assets of the District are \$2,510,260 as of June 30, 2012. \$2,290,340 represents an investment in capital assets, net of related debt, \$288,027 represents restricted net assets and \$68,107 represents a deficit in the unrestricted net assets at June 30, 2012.

The June 30, 2012 summary for the Statement of Activities is indicated below:

	Governmental Activities	
	<u>2012</u>	<u>% of Total</u>
Expenses		
Education Expense	\$ 6,938,591	96.77%
Food Service Expense	204,435	2.85%
Interest Expense	<u>27,591</u>	<u>0.38%</u>
Total Operating Expenses	<u>7,170,617</u>	<u>100.00%</u>
Program Revenue		
Grants and Contributions	1,801,292	91.35%
Charges for Services	92,867	4.71%
Other	<u>77,705</u>	<u>3.94%</u>
Total Program Revenue	<u>1,971,864</u>	<u>100.00%</u>
General Revenue		
Education Spending Grant	4,932,383	99.47%
Investment Income	<u>26,345</u>	<u>0.53%</u>
Total General Revenue	<u>4,958,728</u>	<u>100.00%</u>
Total Revenue	<u>6,930,592</u>	
Change in Net Assets	<u>\$ (240,025)</u>	

The Statement of Activities reports total operating expenses for 2012. Expenses include all governmental expenditures plus depreciation of capital assets and increases in long-term liabilities, and exclude long-term liability payments and capital asset purchases. Program revenues offset expenses as they relate to specific programs. Program revenue is derived from three sources: grants and contributions, charges for services and revenue from other sources.

The net program costs of \$5,198,753 were more than general revenues of \$4,958,728, and caused a decrease in net assets of \$240,025. Of the general revenues received by the District for the period ending June 30, 2012, \$4,932,383 is from the Education Spending Grant and \$26,345 from investment income. Interfund transfers are eliminated on the Government-wide Statement of Activities.

Financial Analysis of the District's Funds

Governmental Funds

The General Fund, the primary operating fund of the District, reported fund expenditures in excess of revenues, which caused a decrease in the fund balance of \$166,822. At June 30, 2012, the District's General Fund had a nonspendable fund balance of \$8,200, a committed fund balance of \$46,434 and no unassigned fund balance for a total fund balance of \$54,634.

The Grants Fund, which accounts for the proceeds of specific grant sources that are legally restricted to expenditures for specific purposes, reported fund revenues in excess of expenditures, which caused an increase in the fund balance of \$9,090. At June 30, 2012, the District's Grants Fund had a restricted fund balance of \$24,389.

The Capital Projects Fund, which accounts for the resources used for the acquisition, construction or improvement of major capital facilities, infrastructure or equipment, reported loan proceeds and transfers in excess of expenditures, causing an increase in fund balance of \$311,933. At June 30, 2012 the Capital Projects Fund had a restricted fund balance of \$184,240 and a committed fund balance of \$25,000 for a total fund balance of \$209,240.

The Food Service Fund, which accounts for the operations of the food service program, reported fund expenditures in excess of revenues, which caused a decrease in the fund balance of \$32,481. At June 30, 2012, the District's Food Service Fund had a fund deficit of \$33,573. Management plans to eliminate this deficit through increases in meal prices, reductions in cost and maximizing non-student revenues of federal and state programs. If necessary, transfers from the General Fund would be used as a last resort.

Other Governmental Funds, which accounts for all of the District's nonmajor funds (Bus Sinking Fund and Endowment Fund), reported no revenues or expenditures during the year, and therefore, saw no change in fund balance. At June 30, 2012 the District's Other Governmental Funds had a restricted fund balance of \$500 and a committed fund balance of \$7,464, for a total fund balance of \$7,964.

Fiduciary Funds

The District reports fiduciary (trust and agency) funds that account for resources held for the benefit of other parties and are excluded from the government-wide financial statements. During 2012, the Trust Funds of the District reported scholarship awards in excess of scholarship donations, which caused a decrease in fund balance of \$304. As of June 30, 2012, the District's Trust Fund had total net assets of \$21,134. At June 30, 2012, the District also held \$87,002 as an agent for various student activity groups.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2012 the District had invested \$6,336,171 in a broad range of capital assets including buildings, building improvements, and vehicles and equipment. Total depreciation for the year was \$193,166. The net value of capital assets of the District as of June 30, 2012 was \$2,885,641 after deducting accumulated depreciation of \$3,450,530.

Long-term Debt

As of June 30, 2012, the District had an obligation to repay debt of \$563,000. The current portion was \$37,000 and \$526,000 was the long-term portion. The District's indebtedness to Merchant's Bank is for one bond which matures in March 2026. The District paid \$37,000 in principal payments and \$592 in interest on its long-term debt during the year.

General Fund Budgetary Highlights

The School District's budget is prepared according to the requirements of Vermont law. The most significant budgeted fund is the General Fund. The operating budget includes proposed expenditures and estimated revenues. On-behalf payments for licensed educators' retirement, paid by the state, are not budgeted.

For the General Fund, actual revenues were in excess of budgeted revenues by \$135,079. Of this \$135,079 difference, the significant variances of revenues in excess of budget include \$80,555 in state grants and \$59,130 in other income sources. Revenues where the funds received were less than the anticipated amount include \$8,655 in investment earnings. The District also received an education spending grant of \$4,932,383 from the State of Vermont Education Fund.

Expenditures and other financing uses were budgeted at \$5,944,647 while actual expenditures and other financing uses were \$6,246,548 for an unfavorable difference of \$301,901. The significant variances in actual expenditures in excess of budgeted expenditures include \$151,168 in regular education, \$81,394 in special education, \$47,495 in the Principal's office, and \$73,525 in plant operation.

General Fund expenditures and other financing uses were more than revenues by \$166,822, compared to budgeted revenues being equal to expenditures and other financing uses.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the School District's finances, and to reflect the School District's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to Robinson M. Billings, Business Manager, Washington Northeast Supervisory Union, P.O. Box 470, Plainfield, VT 05667.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Governmental Activities</u>
ASSETS:	
Current assets -	
Cash	\$ 135,192
Accounts receivable	114,117
Prepaid expenses	8,200
Due from other districts	<u>126,374</u>
Total current assets	<u>383,883</u>
Noncurrent assets -	
Capital assets	6,336,171
less - accumulated depreciation	<u>(3,450,530)</u>
Total noncurrent assets	<u>2,885,641</u>
Total assets	<u>3,269,524</u>
LIABILITIES:	
Current liabilities -	
Bank overdraft	74,561
Accounts payable	25,534
Due to trust funds	21,134
Current portion - other post-employment benefits	22,939
Current portion - capital lease	32,301
Current portion - long-term debt	<u>37,000</u>
Total current liabilities	<u>213,469</u>
Noncurrent liabilities -	
Other post-employment benefits	12,399
Accrued compensated absences	7,396
Long-term debt	<u>526,000</u>
Total noncurrent liabilities	<u>545,795</u>
Total liabilities	<u>759,264</u>
NET ASSETS:	
Invested in capital assets, net of related debt	2,290,340
Restricted	288,027
Unrestricted	<u>(68,107)</u>
Total net assets	\$ <u>2,510,260</u>

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

TWINFIELD UNION SCHOOL DISTRICT NO. 33
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012
 (Page 1 of 2)

	<u>General</u>	<u>Grants</u>	<u>Capital</u>	<u>Food</u>	<u>Other</u>	<u>Totals</u>
	<u>Fund</u>	<u>Fund</u>	<u>Projects</u>	<u>Service</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
<u>ASSETS</u>						
Cash	\$ -	\$ -	\$ 135,192	\$ -	\$ -	\$ 135,192
Accounts receivable	91,649	2,089	-	20,379	-	114,117
Prepaid expenditures	8,200	-	-	-	-	8,200
Due from other districts	4,118	132,880	-	-	-	136,998
Due from other funds	55,326	30,384	74,248	-	7,964	167,922
Total assets	<u>\$ 159,293</u>	<u>\$ 165,353</u>	<u>\$ 209,440</u>	<u>\$ 20,379</u>	<u>\$ 7,964</u>	<u>\$ 562,429</u>
<u>LIABILITIES AND FUND EQUITY</u>						
<u>LIABILITIES:</u>						
Bank overdraft	\$ 74,241	-	\$ 200	\$ 120	-	\$ 74,561
Accounts payable	25,359	175	-	-	-	25,534
Due to other districts	5,059	5,565	-	-	-	10,624
Due to other funds	-	135,224	-	53,832	-	189,056
Total liabilities	<u>104,659</u>	<u>140,964</u>	<u>200</u>	<u>53,952</u>	<u>-</u>	<u>299,775</u>
<u>FUND BALANCES:</u>						
Nonspendable	8,200	-	-	-	-	8,200
Restricted	-	24,389	184,240	-	500	209,129
Committed	46,434	-	25,000	-	7,464	78,898
Unassigned	-	-	-	(33,573)	-	(33,573)
Total fund balances (deficit)	<u>54,634</u>	<u>24,389</u>	<u>209,240</u>	<u>(33,573)</u>	<u>7,964</u>	<u>262,654</u>
Total liabilities and fund equity	<u>\$ 159,293</u>	<u>\$ 165,353</u>	<u>\$ 209,440</u>	<u>\$ 20,379</u>	<u>\$ 7,964</u>	<u>\$ 562,429</u>

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

TWINFIELD UNION SCHOOL DISTRICT NO. 33
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012
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RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS:

Amount reported on Balance Sheet - Governmental Funds - total fund balances	\$ 262,654
Amounts reported for governmental activities in the Government-wide Statement of Net Assets are different because -	
Capital assets used in governmental funds are not financial resources and are therefore not reported in the funds.	6,336,171
Capital assets	(3,450,530)
Accumulated depreciation	
Accrued compensated absences in the governmental funds are only recognized if immediately payable, while the full liability is included in the government-wide statements.	(7,396)
Liabilities not due and payable in the current year are not reported in the governmental funds.	
Other post-employment benefits	(35,338)
Long-term debt	(563,000)
Capital leases	<u>(32,301)</u>
Net Assets of Governmental Activities - Government-wide Statement of Net Assets	<u>\$ 2,510,260</u>

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

TWINFIELD UNION SCHOOL DISTRICT NO. 33
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

(Page 1 of 3)

	General Fund	Grants Fund	Capital Projects Fund	Food Service Fund	Other Governmental Funds	Totals Governmental Funds
REVENUE:						
Education spending grant	\$ 4,932,383	\$ -	\$ -	-	-	\$ 4,932,383
Intergovernmental - State	1,267,727	13,158	-	3,404	-	1,284,289
- Federal	43,349	321,856	-	98,642	-	463,847
Charges for services	32,055	-	-	60,812	-	92,867
Investment earnings	26,345	-	-	-	-	26,345
Other income	67,130	54,635	-	9,096	-	130,861
Total revenue	<u>6,368,989</u>	<u>389,649</u>	<u>-</u>	<u>171,954</u>	<u>-</u>	<u>6,930,592</u>
EXPENDITURES:						
Regular education	3,083,912	156,908	-	-	-	3,240,820
Special education	1,212,777	122,259	-	-	-	1,335,036
Co-curricular and athletics	97,622	-	-	-	-	97,622
Support services -						
Students	213,244	59,273	-	-	-	272,517
Instructional staff	248,093	21,316	-	-	-	269,409
Central administration	205,039	-	-	-	-	205,039
School administration	426,855	-	-	-	-	426,855
Other	919,630	20,803	-	-	-	940,433
Food service	-	-	-	204,435	-	204,435
Debt service - Principal	30,972	-	37,000	-	-	67,972
- Interest	26,999	-	592	-	-	27,591
Capital outlay	45,668	-	275,475	-	-	321,143
Total expenditures	<u>6,510,811</u>	<u>380,559</u>	<u>313,067</u>	<u>204,435</u>	<u>-</u>	<u>7,408,872</u>

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

TWINFIELD UNION SCHOOL DISTRICT NO. 33
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

(Page 2 of 3)

	General Fund	Grants Fund	Capital Projects Fund	Food Service Fund	Other Governmental Funds	Totals Governmental Funds
EXCESS OF REVENUE OR (EXPENDITURES)	(141,822)	9,090	(313,067)	(32,481)	-	(478,280)
OTHER FINANCING SOURCES (USES):						
Operating transfers in (out)	(25,000)	-	25,000	-	-	-
Loan proceeds	-	-	600,000	-	-	600,000
Total other financing sources (uses)	<u>(25,000)</u>	<u>-</u>	<u>625,000</u>	<u>-</u>	<u>-</u>	<u>600,000</u>
NET CHANGE IN FUND BALANCES	(166,822)	9,090	311,933	(32,481)	-	121,720
FUND BALANCES (DEFICIT), July 1, 2011, as restated	<u>221,456</u>	<u>15,299</u>	<u>(102,693)</u>	<u>(1,092)</u>	<u>7,964</u>	<u>140,934</u>
FUND BALANCES (DEFICIT), June 30, 2012	\$ <u>54,634</u>	\$ <u>24,389</u>	\$ <u>209,240</u>	\$ <u>(33,573)</u>	\$ <u>7,964</u>	\$ <u>262,654</u>

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

TWINFIELD UNION SCHOOL DISTRICT NO. 33
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

(Page 3 of 3)

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES:

Net change in fund balances - total Governmental Funds	\$ 121,720
Amounts reported for governmental activities in the Government-wide Statement of Activities are different because -	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	321,143
Additions to capital assets, net of dispositions	(193,166)
Depreciation	
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 has any effect on net assets.	
Proceeds from long-term debt	(600,000)
Principal payments on long-term debt	37,000
Principal payments on capital leases	30,972
Increase in accrued compensated absences accumulated by employees is an increase of a liability in the government-wide statements, but is recorded as an expenditure when paid in the governmental funds.	
	(7,396)
Changes in other post-employment benefits accumulated by employees will increase or decrease the liability reported in the government-wide statements, but are only recorded as an expenditure when paid in the governmental funds.	
Decrease in other post-employment benefits	<u>49,702</u>
Change in Net Assets of Governmental Activities - Government-wide Statement of Activities	<u>\$ (240,025)</u>

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

**TWINFIELD UNION SCHOOL DISTRICT NO. 33
STATEMENT OF REVENUE AND EXPENDITURES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUE:			
Education spending grant	\$ 4,932,379	\$ 4,932,383	\$ 4
Intergovernmental - State	897,909	978,464	80,555
- Federal	42,079	43,349	1,270
Charges for services	29,280	32,055	2,775
Investment earnings	35,000	26,345	(8,655)
Other income	<u>8,000</u>	<u>67,130</u>	<u>59,130</u>
Total revenue	<u>5,944,647</u>	<u>6,079,726</u>	<u>135,079</u>
EXPENDITURES:			
Regular education	2,643,031	2,794,649	(151,618)
Special education	1,131,383	1,212,777	(81,394)
Co-curricular and athletics	88,432	97,622	(9,190)
Guidance	130,248	125,107	5,141
Health	73,888	78,675	(4,787)
Psychological	-	785	(785)
Speech	-	113	(113)
Occupational therapy	-	8,564	(8,564)
Library	128,857	134,432	(5,575)
Technology	78,272	104,398	(26,126)
Professional development	27,144	18,395	8,749
Board of Education	39,879	43,091	(3,212)
Superintendent's office	172,757	161,948	10,809
Principal's office	359,524	407,019	(47,495)
Special services administration	20,164	19,836	328
Fiscal services	152,845	152,089	756
Plant operation	556,072	629,597	(73,525)
Transportation	241,151	174,480	66,671
Debt service - Principal	6,000	30,972	(24,972)
- Interest	<u>70,000</u>	<u>26,999</u>	<u>43,001</u>
Total expenditures	<u>5,919,647</u>	<u>6,221,548</u>	<u>(301,901)</u>
EXCESS OF REVENUE OR (EXPENDITURES)	25,000	(141,822)	(166,822)
OTHER FINANCING SOURCES (USES):			
Operating transfers in (out)	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	\$ <u>-</u>	\$ <u>(166,822)</u>	\$ <u>(166,822)</u>

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

**TWINFIELD UNION SCHOOL DISTRICT NO. 33
STATEMENT OF REVENUE AND EXPENDITURES -
BUDGET AND ACTUAL - GRANTS FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUE:			
Intergovernmental - State	\$ 27,282	\$ 13,158	\$ (14,124)
- Federal	392,581	321,856	(70,725)
Other income	<u>28,704</u>	<u>54,635</u>	<u>25,931</u>
Total revenue	<u>448,567</u>	<u>389,649</u>	<u>(58,918)</u>
EXPENDITURES:			
Regular education	244,062	156,908	87,154
Special education	102,718	122,259	(19,541)
Guidance	21,387	-	21,387
Behavior support	46,253	58,268	(12,015)
Health	-	1,005	(1,005)
Technology	-	664	(664)
Professional development	5,443	20,652	(15,209)
Community services	<u>28,704</u>	<u>20,803</u>	<u>7,901</u>
Total expenditures	<u>448,567</u>	<u>380,559</u>	<u>68,008</u>
EXCESS OF REVENUE OR (EXPENDITURES)	\$ <u>-</u>	\$ <u>9,090</u>	\$ <u>9,090</u>

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

**TWINFIELD UNION SCHOOL DISTRICT NO. 33
STATEMENT OF REVENUE AND EXPENDITURES -
BUDGET AND ACTUAL - FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUE:			
Intergovernmental - State	\$ 2,433	\$ 3,404	\$ 971
- Federal	99,000	98,642	(358)
Charges for services	-	60,812	60,812
Other income	-	<u>9,096</u>	<u>9,096</u>
Total revenue	<u>101,433</u>	<u>171,954</u>	<u>70,521</u>
EXPENDITURES:			
Food service	<u>101,433</u>	<u>204,435</u>	<u>(103,002)</u>
Total expenditures	<u>101,433</u>	<u>204,435</u>	<u>(103,002)</u>
EXCESS OF REVENUE OR (EXPENDITURES)	\$ <u>-</u>	\$ <u>(32,481)</u>	\$ <u>(32,481)</u>

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

TWINFIELD UNION SCHOOL DISTRICT NO. 33
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2012

	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS:		
Cash	\$ -	\$ 87,002
Due from other funds	<u>21,134</u>	<u>-</u>
Total assets	<u>21,134</u>	<u>87,002</u>
 LIABILITIES:		
Due to student organizations	<u>-</u>	<u>87,002</u>
Total liabilities	<u>-</u>	<u>87,002</u>
 NET ASSETS		
Held in trust for specific purposes	\$ <u>21,134</u>	\$ <u>-</u>

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

**TWINFIELD UNION SCHOOL DISTRICT NO. 33
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Trust Funds</u>
ADDITIONS:	
Investment income	\$ 221
Donations	<u>1,775</u>
Total additions	<u>1,996</u>
 DEDUCTIONS:	
Scholarships	<u>2,300</u>
Total deductions	<u>2,300</u>
CHANGE IN NET ASSETS	(304)
NET ASSETS, July 1, 2011	<u>21,438</u>
NET ASSETS, June 30, 2012	\$ <u>21,134</u>

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

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. Summary of significant accounting policies:

The Twinfield Union School District No. 33 (the District) is organized according to State law under the governance of the Board of Education to provide public school education for the Towns of Marshfield and Plainfield, Vermont. The District provides elementary and secondary educational services. Functions of the Office of the Superintendent are provided to the District by the Washington Northeast Supervisory Union (WNESU), of which the District is a member.

- A. Reporting entity - The District is a primary unit of government under reporting criteria established by the Governmental Accounting Standards Board (GASB). Those criteria include a separately elected governing body, separate legal standing, and fiscal independence from other state and local governmental entities. Based on these criteria, there are no other entities which are component units of the District.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing *Governmental Accounting and Financial Reporting Standards* which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

- B. Government-wide and fund financial statements - The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

In the government-wide statement of net assets, the financial position of the District is consolidated and incorporates capital assets as well as long-term debt and obligations. The government-wide statement of activities reflects both the gross and net costs by category. Direct expenses that are clearly identifiable with the category are offset by program revenues of the category. Program revenues include charges for services provided by a particular function or program and grants that are restricted to meeting the operational or capital requirements of the particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

- C. Basis of presentation - The accounts of the 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, fund balances, revenue and expenditures.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. Summary of significant accounting policies (continued):

C. Basis of presentation (continued) -

The District reports the following major governmental fund:

General Fund - The General Fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Grants Fund - The Grants Fund accounts for the proceeds of specific grant sources that are legally restricted to expenditures for specific purposes.

Capital Projects Fund - The Capital Projects Fund accounts for resources used for the acquisition, construction or improvement of major capital facilities, infrastructure or equipment.

Food Service Fund - The Food Service Fund accounts for the operations of the food service program.

The District also reports Other Governmental Funds, which are nonmajor funds that include the Bus Sinking Fund, and the Endowment Fund. Additionally, the District reports fiduciary (trust and agency) funds which are excluded from the government-wide financial statements.

- D. Measurement focus and basis of accounting - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported on a current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become both measurable and available. "Measurable" means the amount of the transaction that can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the fund liability is incurred, if measurable, except for principal and interest on long-term debt which are recognized when due.

- E. Budgets and budgetary accounting - The District adopts annual budgets for the General Fund, Grants Fund and Food Service Fund. The budgets are prepared by District administration with direction from the Board of Education, and assistance from the WNESU. The proposed budgets are published in the Annual Report of the District and the total appropriation for each budget is approved by voters at the annual meeting of the District. Annual appropriations lapse at year end.
- F. Cash and investments - The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments of the District are reported at fair market value. Unrealized gains and losses are reflected in the individual fund and government-wide operations.
- G. Prepaid items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. Summary of significant accounting policies (continued):

H. Capital assets - Capital assets, which include buildings, building improvements, and vehicles and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Building improvements	7 - 25 years
Vehicles and equipment	5 - 25 years

I. Compensated absences - Sick leave does not vest for any employee. It is accounted for as an expenditure when paid. The District allows certain employees to use vacation benefits in the subsequent year. Accrued vacation benefits of \$7,396 are included in accrued expenses on the government-wide statement of net assets.

J. Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental fund types recognize the amount of debt issued as other financing sources and the repayment of debt as debt service expenditures.

K. Fund equity - In the fund financial statements, governmental funds may report five categories of fund balances: nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance includes amounts associated with inventory, prepaid expenditures, long-term loans or notes receivable, and trust fund principal to be held in perpetuity.

Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed fund balance includes amounts that can be used only for specific purposes determined by the District's highest level of decision making authority, the voters, as a result of articles passed at Annual or Special Town Meetings.

Assigned fund balance includes amounts that are intended to be used by the District for specific purposes as authorized by the Board.

Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in another classification.

The District has not established policies or procedures for committing or assigning fund balance nor a policy specifying the order in which to apply expenditures to fund balance.

L. Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. Summary of significant accounting policies (continued):

- M. Risk management - The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and others; and natural disasters. The District manages these risks through commercial insurance packages and participation in public entity risk pools covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District.
- N. On-behalf payments - The State of Vermont makes payments on behalf of the District's teachers to the State Teachers' Retirement System of Vermont. As required by GASB Statement No. 24, the District recognized these pension contributions as intergovernmental grant revenue and education expenditures in the government-wide financial statements and in the statement of revenue, expenditures and changes in fund balances. The amounts are not budgeted and have been excluded from the budget basis statements; see note 11 for reconciling details.

2. Cash:

Custodial credit risk - deposits - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. The District's bank balance was fully insured or collateralized at June 30, 2012.

3. Interfund receivable and payable:

As of June 30, 2012 interfund receivable and payable balances, due to the pooling of cash, were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental funds -		
General Fund	\$ 55,326	\$ -
Grants Fund	30,384	135,224
Capital Projects Fund	74,248	-
Food Service Fund	-	53,832
Other Governmental Funds	<u>7,964</u>	<u>-</u>
	167,922	189,056
Fiduciary funds -		
Trust Fund	<u>21,134</u>	<u>-</u>
	<u>\$ 189,056</u>	<u>\$ 189,056</u>

4. Transfers:

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. Operating transfers during the year consisted of a \$25,000 voter authorized transfer from the General Fund to the Capital Projects Fund for future capital related expenditures.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

5. Capital assets:

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance <u>July 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2012</u>
Capital assets, not depreciated:				
Work in progress	\$ <u> -</u>	\$ <u>275,475</u>	\$ <u> -</u>	\$ <u>275,475</u>
Capital assets, depreciated:				
Buildings	3,273,127	-	-	3,273,127
Building improvements	967,523	9,132	-	976,655
Vehicles and equipment	<u>1,794,508</u>	<u>41,694</u>	<u>25,288</u>	<u>1,810,914</u>
Total capital assets, depreciated	<u>6,035,158</u>	<u>50,826</u>	<u>25,288</u>	<u>6,060,696</u>
Less accumulated depreciation:				
Buildings	1,320,384	65,463	-	1,385,847
Building improvements	643,558	45,393	-	688,951
Vehicles and equipment	<u>1,318,710</u>	<u>82,310</u>	<u>25,288</u>	<u>1,375,732</u>
Total accumulated depreciation	<u>3,282,652</u>	<u>193,166</u>	<u>25,288</u>	<u>3,450,530</u>
Capital assets, net	\$ <u>2,752,506</u>	\$ <u>133,135</u>	\$ <u> -</u>	\$ <u>2,885,641</u>

Depreciation expense of \$193,166 was charged to expenses of the education function on the government-wide statement of activities.

6. Debt:

Short-term - The District obtains revenue anticipation notes for cash flow purposes in anticipation of the collection of taxes and the Education spending grant. During the year, the District borrowed and repaid a \$1,217,565 revenue anticipation note at 2.00% interest. Interest expense for this note was \$24,285.

Also during the year the District borrowed and repaid a \$36,536 revenue anticipation note at 1.25% interest. Interest expense for this note was \$309.

Subsequent to year end, the District executed a revenue anticipation note in July 2012 for \$1,255,424 at an interest rate of 1.96% and a current expense note in August 2012 for \$36,000 at an interest rate of 2.45%. In September 2012, the Board authorized a water project bond for up to \$85,000 and anticipates closing on this loan in 2013.

Long-term - The District is indebted at year end as follows:

Bond payable, Merchants Bank - Qualified School Construction Bond for new roof, payable in annual principal payments of \$37,000 plus bi-annual interest payments of \$3,000. Final payment of principal and interest due in March 2026. \$ 563,000

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

6. Debt (continued):

Below is a summary of changes in long-term debt for the year ended June 30, 2012:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due Within</u> <u>One Year</u>
Construction bond	\$ <u>-</u>	\$ <u>600,000</u>	\$ <u>37,000</u>	\$ <u>563,000</u>	\$ <u>37,000</u>

The annual debt service requirement to maturity, including interest, as of June 30, 2012 is as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal year -		
2013	\$ 37,000	\$ 6,000
2014	37,000	6,000
2015	37,000	6,000
2016	37,000	6,000
2017	37,000	6,000
2018 - 2022	185,000	30,000
2023 - 2027	<u>193,000</u>	<u>24,000</u>
	\$ <u>563,000</u>	\$ <u>84,000</u>

7. Capital leases:

In January 2009, the District entered into a lease agreement as lessee for financing the acquisition of school buses. This lease agreement qualifies as a capital lease for accounting purposes. The costs of these assets are capitalized and depreciated on the government-wide statements. As of June 30, 2012, the cost and accumulated depreciation of the assets are \$157,000 and \$54,950, respectively. The present value of the minimum lease payments is recorded as a liability in the government-wide statements. Future minimum lease payments and the net present value as of June 30, 2012 are as follows:

Year ending June 30,	
2013	\$ 33,687
Total minimum lease payments	33,687
Less: amount representing interest	<u>(1,386)</u>
Present value of minimum lease payments	\$ <u>32,301</u>

8. Pension plans:

State Teachers' Retirement System of Vermont -

Plan description: The District participates in the State Teachers' Retirement System of Vermont (the System), a cost-sharing multiple-employer defined benefit public employee retirement system, administered by the State of Vermont, which makes annual contributions to the System. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

8. Pension plans (continued):

State Teachers' Retirement System of Vermont (continued) -

beneficiaries. The State statutory provisions, found in Section 1942, Title 16, Chapter 55, of the V.S.A., govern eligibility for benefits, service requirements and benefit provisions. The general administration and responsibility for the proper operation of the System is vested in a Board of Trustees consisting of eight members. The System issues annual financial information which is available and may be reviewed at the System's office, 109 State Street, Montpelier, Vermont, 05609-6901 or by calling (802) 828-2305.

Funding policy: Member teachers are required to contribute 5.5% (Group A) or 5.0% (Group C) of their annual covered salary and the State contributes the balance of an actuarially determined rate. The current State rate is 1.80% of annual covered payroll plus a payment to liquidate the unfunded accrued liability. The District estimates the State's fiscal 2012 contribution to the System on behalf of the District's teachers to be \$289,263. The teachers also contributed \$137,982. The contribution requirements of plan members and the State are established and may be amended by the System's Board of Trustees. The District is not required to contribute to the System.

The June 30, 2011 actuarial valuation of the System indicates an asset market value of approximately \$1,520,766,932; asset actuarial value (adjusted to recognize asset gains/losses over 5 years) of \$1,486,698,448; and actuarial accrued liability of \$2,331,806,328; leaving an unfunded actuarial accrued liability of \$845,107,880.

Vermont Municipal Employees' Retirement System -

Plan description: The District contributes to the Vermont Municipal Employees' Retirement System (VMERS) a cost-sharing multiple-employer public employee retirement system with defined benefit and defined contribution plans, administered by the State of Vermont. VMERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The State statutory provisions, found in Section 5062 of Title 24, Chapter 125, of the V.S.A., govern eligibility for benefits, service requirements and benefit provisions. The general administration and responsibility for the proper operation of VMERS is vested in the Board of Trustees consisting of five members. VMERS issues annual financial information which is available and may be reviewed at the VMERS' office, 109 State Street, Montpelier, Vermont, 05609-6901 or by calling (802) 828-2305.

Funding policy: Defined benefit plan members are required to contribute 2.5% (Group A), 4.5% (Group B) or 9.25% (Group C) of their annual covered salary and the District is required to contribute 4% (Group A), 5% (Group B) or 6.5% (Group C) of the employees' compensation. Defined Contribution Plan members are required to contribute 5% of their annual covered salary and the District is required to contribute an equal dollar amount. The contribution requirements of plan members and the District are established and may be amended by the Board of Trustees. The District's contribution to VMERS for the year ended June 30, 2012, was \$35,505, which was equal to the required contribution for the year.

The July 1, 2011 actuarial valuation of VMERS reports asset market value of \$402,550,150 and actuarial accrued liability of \$436,229,310, leaving an actuarial shortfall of \$33,679,160.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

9. Other post-employment benefits:

As of June 30, 2012, two former teachers are currently receiving early retirement incentive payments with a remaining liability of \$35,338 to the District. These benefits are financed on a pay as you go basis through annual operations. In the government-wide financial statements, the District has recognized the liability for post-employment benefits attributable to teachers that have elected to participate in the retirement incentive and have been approved by the District to receive post-employment benefits.

10. Related party:

The District is billed for its share of expenses relating to administrative services provided by the WNESU. The District paid an assessment of \$428,309 to the WNESU for the year ended June 30, 2012.

The following are the amounts receivable from and payable to the Cabot School and the WNESU at June 30, 2012:

	<u>Accounts Receivable</u>	<u>Accounts Payable</u>
WNESU	\$ 133,144	\$ 5,565
Cabot Town School District	<u>3,854</u>	<u>5,059</u>
	\$ <u>136,998</u>	\$ <u>10,624</u>

11. Budgetary basis of accounting:

These financial statements include totals for General Fund revenue and expenditures on the District's budgetary accounting basis, which vary from the totals of revenue and expenditures recognized on the basis of accounting prescribed by generally accepted accounting principles (GAAP), as follows:

	<u>Revenue</u>	<u>Expenditures</u>
GAAP basis	\$ 6,368,989	\$ 6,510,811
On-behalf payments - STRS	<u>(289,263)</u>	<u>(289,263)</u>
Budget basis	\$ <u>6,079,726</u>	\$ <u>6,221,548</u>

12. Fund balances and deficit:

As of June 30, 2012, the District's General Fund reported a nonspendable fund balance of \$8,200 for prepaid expenditures. The remaining \$46,434 has been committed by voters for future school tax rate stabilization.

As of June 30, 2012, the District's Grants Fund reported \$24,389 of fund balance that is restricted by federal and state grant requirements.

As of June 30, 2012, the District's Capital Projects Fund reported \$184,240 of fund balance that is restricted for building improvements under the District's Qualified School Construction Bond agreement. The remaining \$25,000 has been committed by voters for future capital expenditures.

TWINFIELD UNION SCHOOL DISTRICT NO. 33
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

12. Fund balances and deficit (continued):

As of June 30, 2012, the District's Other Governmental Funds reported fund balances totaling \$500 that are donor restricted until the use of these funds is determined by the Board. The remaining \$7,464 of fund balance is voter committed for the purchase of school buses.

Also as of June 30, 2012, the District's Food Service Fund reported an unassigned deficit of \$33,573. Management intends to recover this deficit through future voter authorized transfers of funds from the General Fund.

13. Commitments:

In June 2012, the District entered into two contracts for roof repairs. As of June 30, 2012, the District's obligations under these two contracts were \$244,579 and \$144,550.

Also in June 2012, the District entered into a water system improvement contract. As of June 30, 2012, the District's obligation under this contract was \$41,115.

14. Fund balance and net assets restatements:

The District restated beginning fund balance of the General Fund from \$0 to \$221,456 to correctly report the District's tax stabilization fund balance in the General Fund and to correct the accrual of 2011 revenue and expenditures. Current accounting principles require reserve funds to be combined into the General Fund for financial reporting.

The District restated beginning fund balance of the Other Governmental funds from \$153,603 to \$7,964 to report the Grants Fund, Capital Projects Fund, and Food Service Fund individually as major governmental funds, to record the District's tax stabilization fund balance in the General Fund, to include the fund balance of a governmental fund that was previously omitted, and to correct the accrual of 2011 revenue and expenditures.

As a result of these fund balance restatements, the District restated beginning net assets of the governmental activities on the government-wide financial statements from \$2,757,797 to \$2,750,285.

**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**

The Board of Directors
Twinfield Union School District No. 33

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Twinfield Union School District No. 33 (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 22, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 a 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. We consider the deficiencies described in the accompanying schedule of findings and responses, as items 12-1 and 12-2, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted a certain matter, item 12-3, which was not considered a material weakness or a significant deficiency.

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors and management of the District and the State of Vermont and is not intended to be and should not be used by anyone other than these specified parties.

*Mudgett, Jennett &
Krogh-Winner, P.C.*

Montpelier, Vermont
February 22, 2013

TWINFIELD UNION SCHOOL DISTRICT NO. 33
SCHEDULE OF FINDINGS AND RESPONSES
AS OF JUNE 30, 2012

12-1 General ledger - excluded activity:

Condition - The general ledger of the District did not include the funds or accounts necessary to record capital assets of \$6,336,171 and accumulated depreciation of \$3,450,530, and it also did not include accounts for long-term liabilities of the District totaling \$638,035.

The general ledger did not include cash balances for student activity accounts held by the District. The balance of this cash account at year-end was \$87,002 and is reported in the financial statements as a fiduciary fund.

Audit adjustments were proposed to record the above June 30, 2012 balances as a starting point for future use.

Criteria - Generally accepted accounting principles require the District to account for all transactions and balances of assets, liabilities, revenues and expenditures of the District. That would include funds and accounts that are only reported in the government-wide financial statements or in the fiduciary funds.

Cause - The District has maintained funds and accounts for the governmental funds, but not the additional accounts needed to report the complete set of basic financial statements. Supplemental records of the District have been used to prepare annual financial statements.

Effect - The accounting records have not been maintained in a complete form during the year. General ledger controls have not been extended to all transactions and balances which increases the risk of errors or omissions.

Recommendation - We recommend that the District maintain complete general ledger records of all transactions and balances. We also recommend that the system of internal control be applied to all transactions and accounts of the District. This should include any Trust or Agency funds which the District is responsible for in a fiduciary capacity.

Management's response - We will establish new funds in the general ledger to maintain the District's transactions and balances for capital assets, long-term liabilities and fiduciary activity. Transactions relating to capital assets, long-term liabilities and fiduciary activity will be recorded as events occur and reconciled at the close of the fiscal year. Our internal control procedures will be amended to include review of these transactions.

12-2 Voter approved fund balance transfers:

Condition - The District did not record, in its general ledger, voter authorized transfers from the General Fund to the Reserve Fund totaling \$80,113 at June 30, 2010, and \$87,639 at June 30, 2011. Additionally, the District did not record, in its general ledger, a voter authorized transfer from the Reserve Fund to the General Fund to offset the 2012 General Fund deficit of \$166,822. Audit adjustments have been proposed to record these 2010, 2011 and 2012 voter authorized transfers.

Criteria - The District is obligated to record articles that are approved by voters during annual District meetings.

Cause - The District retained detailed minutes of voter approved articles but did not make the necessary entries within the District's general ledger.

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12-2 Voter approved fund balance transfers (continued):

Effect - The District's general ledger did not reflect activity approved by its voters. General ledger controls have not been extended to all transactions which increases the risk of errors or omissions.

Recommendation - We recommend that the District record all voter approved articles requiring adjustment to the District's general ledger. We recommend that the system of internal control be applied to all transactions of the District.

Management's response - We will review the voter ballot items as part of the annual closing process and make any appropriate transfers that were approved at Town Meeting.

12-3 Fund balances:

Condition - The District does not have a formal policy that addresses the levels of authority that are required to spend restricted, committed, or assigned funds held in the District's governmental funds. The financial statements have been adjusted to present fund balance in accordance with the required five categories.

Criteria - Generally accepted accounting principles define five categories of fund balance and require the District to have a policy that stipulates how fund balances in the governmental funds can be spent. This understanding is essential for the assignment and future use of fund balances.

Cause - The District has recorded fund balance amounts in the general ledger but has not categorized how these fund balances can be spent in accordance with generally accepted accounting principles.

Effect - The District's general ledger does not categorize fund balance amounts which could lead to incorrect use of the District's fund balances.

Recommendation - We recommend that the District develop a formal written fund balance policy that addresses fund balance classifications and that the District clearly categorize fund balance in its general ledger using the fund balance classifications defined in generally accepted accounting principles.

Management's response - As part of the financial policy review, we will create a policy to address and categorize the fund balances.