

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

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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
Pelham School District
Pelham, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of the Pelham School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School 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 Pelham School District as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparison for the general fund, food service 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 17) and the Schedule of Funding Progress for Other Postemployment Benefit Plan (page 41) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is

***Pelham 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 the Pelham 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 January 29, 2014 on our consideration of the Pelham 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 Pelham School District's internal control over financial reporting and compliance.

Sheryl A. Platt, CPA

January 29, 2014

PLODZIK & SANDERSON
Professional Association

PELHAM 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) #28, as management of the Pelham 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, was \$16,280,793. Net position increased by \$837,719 between July 1, 2012 and June 30, 2013. The District's total net position consisted of \$14,251,412 in capital assets net of debt, \$248,146 restricted for food service fund and an unrestricted net position balance of \$1,781,235.
- The District initiated a renovation project to Pelham High School for HVAC improvements and the installation of a fire sprinkler system. The District did not issue any bonds in fiscal year 2013.
- During the year, the District's General Fund Non-GAAP budgetary expenditures and transfers of \$25,787,860 were \$76,946 less than the final adjusted budget and the General Fund Non-GAAP budgetary revenues of \$25,526,805 were \$150,113 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 \$232,060, or 0.90% of total General Fund expenditures, a decrease of 52.94% from the prior year. Major contributing factors to this fund balance were: \$150,113 in excess revenues, which must be returned to the year-end fund balance; an under spend in salary and benefit accounts of \$166,261; an under spend in utilities of \$140,151; and an underspend in contingency accounts of \$29,008. The budgetary accounts underspent were offset by over expenditures in other accounts. Major contributing overspent accounts included technology equipment of \$207,545, and student transportation of \$78,033.
- At the end of the current fiscal year, the existing agreement between the Pelham School District and the Windham School District to be managed by a common School Administrative Unit was dissolved. All hard assets were distributed on a pro-rata basis. In addition, the District received a cash distribution in the amount of \$20,180.59 which was accounted for as other revenue and is reflected on the June 30, 2013 financial statements as intergovernmental receivables.
- During the year, the District received \$694,476 in federal grants, \$77,910 or 12.64% more than the original budget for the Grants Fund.

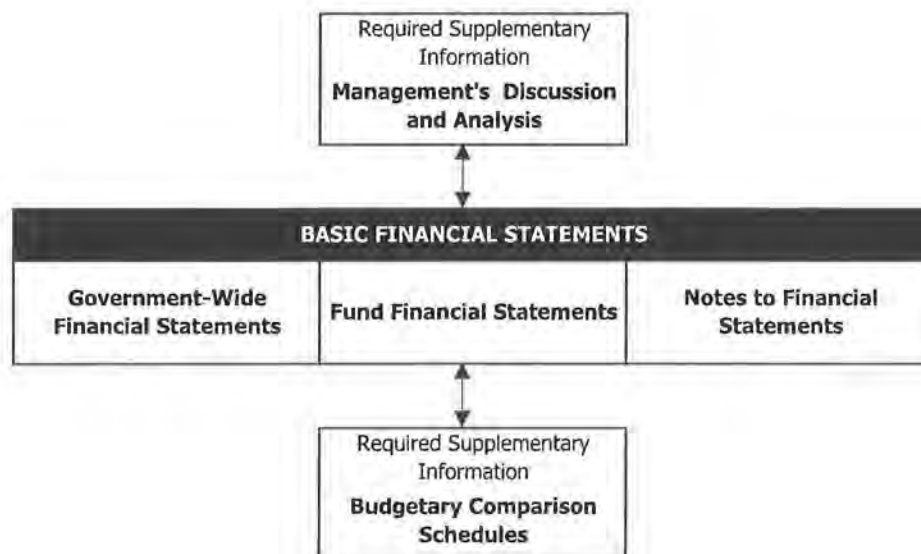
OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's annual financial report, which consists of basic financial statements, notes to the financial statements, and related financial information. Our annual financial report consists of five elements: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, 4) required supplementary information, and 5) this discussion and analysis. This report also contains other supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two kinds of statements that present different views of the District based upon measurement focus and basis of accounting.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements. The governmental funds statements tell how the District's services were financed in the short term as well as what remains for future spending. Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The following exhibit shows how the required parts of this annual report are arranged and related to one another.



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

The following exhibit summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain.

	Government-Wide	Fund Statements	
		Governmental	Fiduciary
SCOPE	Entire District government (except fiduciary funds)	All activities of the District that are not proprietary or fiduciary	Instances in which the District is the trustee or agent for someone else's resources
REQUIRED FINANCIAL STATEMENTS	Statement of Net 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 capital 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. All three funds expenditures are compared to budget in the Budgetary Comparison Statements. All Food Service revenues are expended on program operations and the Grants Fund revenues are spent mainly on instruction. Fiduciary Funds are agency funds established to account for monies belonging to student groups and are shown on a separate schedule.

Notes To The Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net 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.

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

Net Position for the period ending June 30, 2013

The total net position at year end was \$16,280,793, an increase of \$837,719 or 5.42% from the prior year.

Net Position	2013	2012	% Variance
Current Assets	2,141,733	1,703,037	25.76%
Non-current Assets	14,464,137	14,607,396	-0.98%
Total Assets	16,605,870	16,310,433	1.81%
Current Liabilities	160,903	698,089	-76.95%
Non-current Liabilities	164,174	169,270	-3.01%
Total Liabilities	325,077	867,359	-62.52%
Net Investment in capital assets			
Restricted net position	14,251,412	14,298,484	0.09%
Restricted for food service	248,146	210,766	-0.08%
Unrestricted net position	1,781,235	933,824	90.75%
Total Net Position	16,280,793	15,443,074	5.42%

Change in Net Position

The District's total revenues were \$27,080,527; total expenses were \$26,242,808; resulting in an increase of \$837,719 in net position. This year, 93.42% of the District's revenues came from the local tax assessment and the State of New Hampshire, an increase of 1.11% from last year. The State of New Hampshire's sources include the locally raised state property tax, federal aid received through the state, and the various state aid programs.

The following Statement of Activities provides a more detailed breakdown of revenues and expenses.

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

Statement of Activities	2013	% of Total	2012	% of Total	% Variance
Revenues:					
Program revenues:					
Charges for services	645,269	2.4%	763,501	3.0%	-15.49%
Operating grants	1,419,441	5.2%	1,249,815	4.9%	13.57%
Capital grants	0	0.0%	278,145	1.1%	-100.00%
General revenues:					
School district assessment	17,969,905	66.4%	16,024,217	63.3%	12.14%
Unrestricted grants	6,939,048	25.6%	6,935,042	27.4%	0.06%
Interest	691	0.0%	1,384	0.0%	-50.07%
Miscellaneous	106,173	0.4%	74,428	0.3%	42.65%
Total revenues	\$27,080,527	100%	\$25,326,532	100%	6.93%
Program Expenses:					
Instruction	11,436,143	43.6%	10,941,180	44.9%	4.52%
Support services:					
Student	1,582,547	6.0%	1,586,094	6.5%	-0.22%
Instructional staff	1,318,060	5.0%	1,041,114	4.3%	26.60%
General administration	151,121	0.6%	97,479	0.4%	55.03%
Executive administration	918,965	3.5%	752,870	3.1%	22.06%
School administration	871,610	3.3%	844,556	3.5%	3.20%
Operation and maintenance of plant	1,647,416	6.3%	1,446,404	5.9%	13.90%
Student transportation	1,669,985	6.4%	1,449,083	5.9%	15.24%
Other	5,129,401	19.5%	5,135,888	21.1%	-0.13%
Non-instructional services	821,764	3.1%	803,894	3.3%	2.22%
Facilities acquisition and construction	695,796	2.7%	273,661	1.1%	154.25%
Total governmental activities	\$26,242,808	100%	\$24,372,223	100%	7.68%
Change in net position	\$837,719		\$954,309		-12.22%
Beginning net position	\$15,443,074		\$14,488,765		6.59%
Ending net position	\$16,280,793		\$15,443,074		5.42%

After reallocating employee benefits that were expended as "other" expenditures, the District's expenditures continue to be largely for instruction (57.94%) and student and instructional staff support services (12.95%).

Revenues

School district assessment was 66.36% of total revenues for the fiscal year ended June 30, 2013, an increase of 3.09% from the prior year.

State of New Hampshire source intergovernmental revenues were 27.06% of total revenues for the fiscal year ended June 30, 2013, a decrease of 1.98% from the prior year.

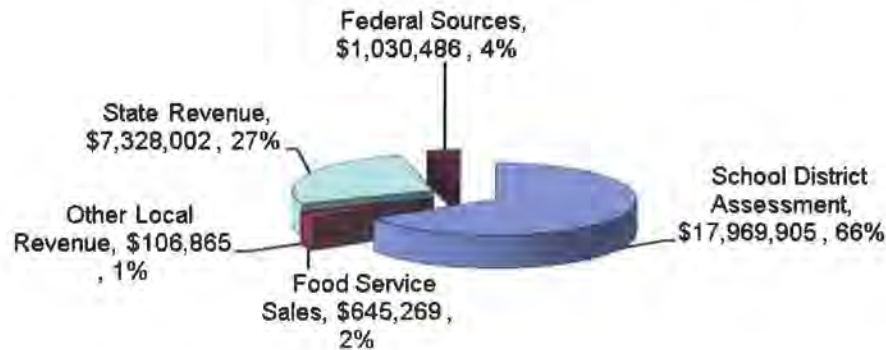
Federal revenues were 3.81% of total revenues for the fiscal year ended June 30, 2013, a decrease of 0.57% from the prior year.

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

Summary of Revenues

The biggest share, \$25,297,907 (93.42%), of revenue was derived from local appropriations and intergovernmental sources (State of NH). The state property tax is included as part of intergovernmental revenue even though it is raised locally. This revenue statement includes all revenues from local, state and federal sources.

School District Total Revenues 2012 - 2013



Expenses

Expenses are reported on an accrual accounting basis. Amounts over or under the prior year expense amounts in the primary areas of instruction and instructional and staff support is as follows:

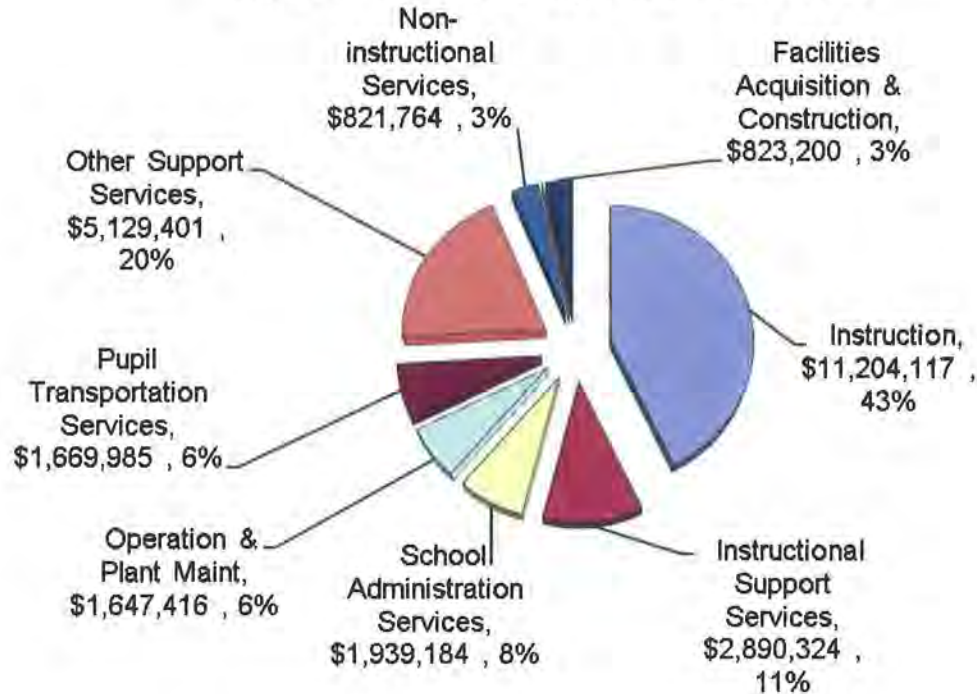
- Instruction expenses were 42.89% of total expenses for the fiscal year ended June 30, 2013, a decrease of 0.78% from the prior year.
- Instructional and staff support service expenses were 11.06% of total expenses for the fiscal year ended June 30, 2013, an increase of 0.59% from the prior year.

Summary of Expenses

The Pelham School District used its budgetary resources as depicted in the following chart. 53.95% of all expenses were on instruction and instructional support. Federal revenues were expended mostly on special needs instruction and support, teacher professional development, and the district's school lunch program. This expense statement includes expenses paid from local, state and federal appropriations.

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

School District Total Expenses 2012 - 2013



Highlighted changes in total expenses include:

- An increase in Instruction spending of \$254,215 or 2.32% over the prior year
- An increase in Instructional and Staff Support Services of \$263,116 or 10.02% over the prior year
- An increase in Student Transportation spending of \$220,902 or 15.24% over the prior year
- An increase in Operation & Plant Maintenance spending of \$188,932 or 12.95% over the prior year
- An decrease in Facilities Acquisition & Construction spending of \$100,027 or 10.83% less than the prior year

Restated Expenses

For the two years ending on June 30, 2013, the district's accounting practice was to charge all employee benefits to a district-wide "other" function account. In order to get a more accurate analysis of the costs associated with each of the district's operational functions, effective July 1, 2013 employee benefits are now being charged to the same operational function as the employees' salary.

After reallocating employee benefits accounted for as "other" expenditures, amounts over or under the prior year expense amounts in the primary areas of instruction and instructional and staff support are as follows:

- Instruction expenses were 57.99% of total expenses for the fiscal year ended June 30, 2013, a decrease of 4.61% from the prior year.

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

- Instructional and Staff Support service expenses were 13.63% of total expenses for the fiscal year ended June 30, 2013, a decrease of 1.18% from 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).

TOTAL AND NET COST OF SERVICES					
	Total Cost of Services				Variance
	2013		2012		
Functions / Programs					
Instruction	\$11,436,143	43.6%	\$10,941,180	44.9%	\$494,963
Support services	13,289,105	50.6%	12,353,488	50.7%	\$935,617
Food service program	821,764	3.1%	803,894	3.3%	\$17,870
Facilities acquisition	695,796	2.7%	273,661	1.1%	\$422,135
Unallocated					
Interest	0	0.0%	0	0.0%	\$0
	\$26,242,808	100%	\$24,372,223	100%	\$,870,585
	Net Cost of Services				Variance
	2013		2012		
Functions / Programs					
Instruction	\$10,319,770	42.7%	\$10,026,179	45.4%	\$ 293,591
Support services	13,199,912	54.6%	12,278,521	55.6%	\$ 921,391
Food service program	(37,380)	-0.2%	99,425	-0.5%	\$ 62,045
Facilities acquisition	695,796	2.9%	153,632	0.7%	\$ 542,164
Unallocated					
Interest	-	0.0%	(278,145)	-1.3%	(278,145)
	\$24,178,098	100%	\$22,080,762	100%	\$2,097,336

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 \$26,242,808; the total net cost was \$24,178,098. 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 \$21,559,755; which consisted of \$17,969,905 paid in the form of local property taxes and \$3,589,850 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 \$3,349,198 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

- Total food service revenues of \$859,144 consisted of food service sales and local miscellaneous revenues in the amount of \$645,269 and federal and state food nutrition program operating contributions (free and reduced lunch reimbursements and commodities) of \$213,875.

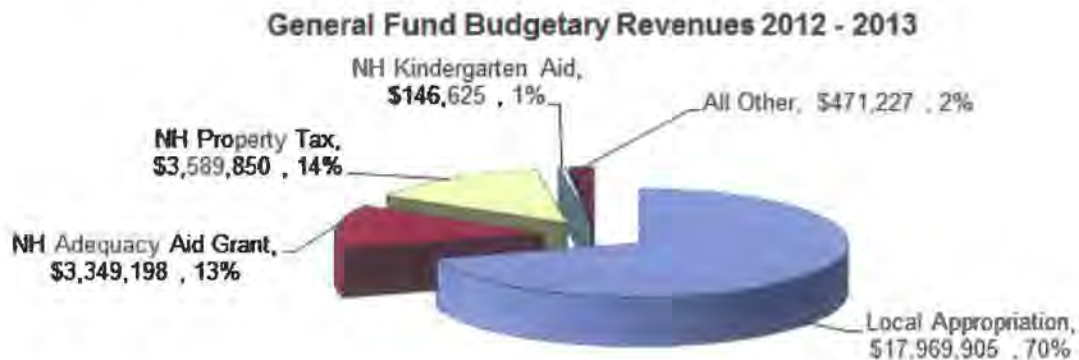
Operating Grants and Contributions

- Federal grants for instruction were received in the amount of \$694,476.

INDIVIDUAL FUND ANALYSIS

General Fund

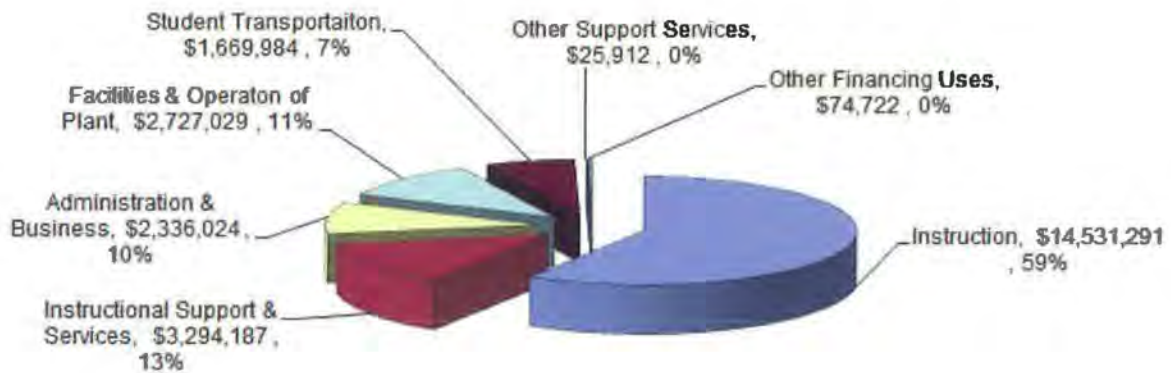
The General Fund is what most people think of as "the budget", since it is the focal point of the Annual Deliberative Session and largely supported by locally raised taxes. The local appropriation and the state property tax are raised locally and make up 84.46% of general fund revenues. Together, the revenues raised locally and the state adequacy grant comprises 97.58% of the District's General Fund Budgetary Revenues. Also depicted below are expenditures and percentages by grade level and district wide including all facilities acquisition and construction expenditures, but excluding interfund transfers.



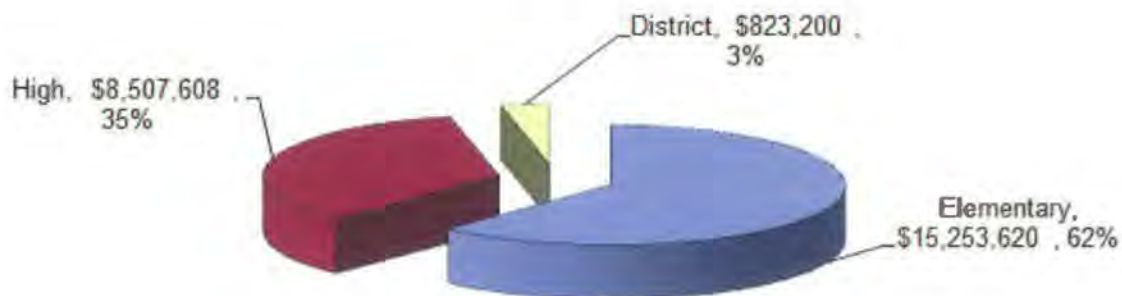
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2013

In 2013, after re-allocating employee benefits, instruction made up 58.93% of all general fund expenditures, a decrease of 1.69% from the prior year, while all other support services including transportation, operation of plant, and administration make up 37.43% of all General Fund expenditures, an increase of 0.81% from the prior year. The remaining 3.64% includes facility acquisition & construction and fund transfers, an increase of 0.87% from the prior year. The following charts provide a more detailed depiction of the makeup and proportions of the expenditures in these broad categories.

**General Fund Budgetary Expenditures by Functions
2012- 2013**



**General Fund Budgetary Expenditures by Grade Level
2012 - 2013**

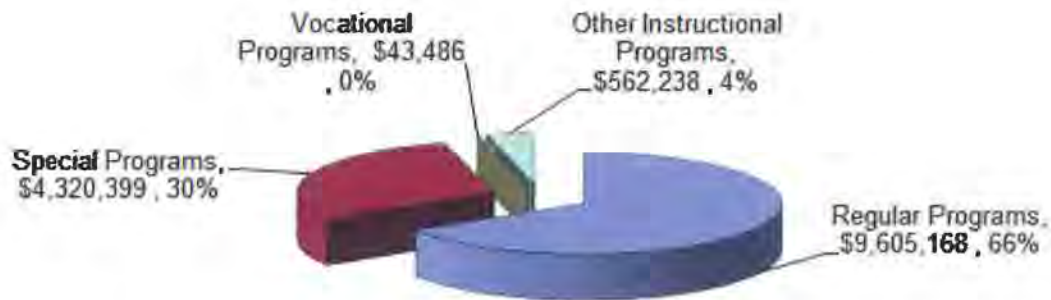


Note that all grades Pre-Kindergarten through grade 8 are reported as elementary school expenditures as we do not have an approved middle school by the NH Department of Education.

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.

**General Fund Budgetary Expenditures for Instruction
2012 - 2013**



SUMMARY OF FEDERAL SUPPORT OF THE DISTRICT

During fiscal year 2013, the Pelham 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 \$470,277. 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 \$139,012. These grants funded: supplemental instruction for math and reading intervention; summer programming in math and reading; and professional development in math and reading intervention.
- Title IIA, Improving Teacher Quality State Grants was awarded for the current period in the amount of \$78,352. These grants funded: differentiated instruction professional development; Common Core State Standards professional development; and mentoring.
- A Preschool Grant was awarded for the current period in the amount of \$6,835. The grant was used to purchase materials and equipment to establish a second preschool.
- U. S. Department of Agriculture National School Lunch Program revenues for the current period were \$203,203. These revenues were used to offset the expenses of the school lunch program.

CAPITAL RESERVE ACCOUNTS

The District has five 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 School Building Maintenance, ADA Modif Fund School District, Memorial Athletic Field, School Building Land and School Building Land - HS capital reserve funds increased

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

\$50,101.59 during the year from \$238,103.85 at June 30, 2012, to \$288,205.44 at June 30, 2013. In accordance with statutory requirements, they are held in custody by the Trustees of Trust Funds of the Town of Pelham and are only released for the restricted specific purposes of the individual funds.

COMMENTS ON GENERAL FUND BUDGET COMPARISONS

- The beginning General Fund equity was \$890,369. General Fund revenues, consisting largely of local taxes and state aid, were \$25,526,805. General Fund expenditures, including fund transfers, were \$24,659,151. The ending fund equity for the District was \$1,808,125, of which \$232,060 is an unassigned fund balance, a decrease of \$261,054 from the prior year's unassigned fund balance. The unassigned fund balance is used to lower the amount of money raised by property taxes.
- General Fund actual revenues were greater than the final adjusted budgeted revenues by \$150,113.
- General Fund expenditures were less than the final adjusted budgeted spending by \$81,947. While the final expenditures were within 0.30% of the final adjusted budget, there were some significant variances in spending that were absorbed in the General Fund ending balance. These variances included:
 - An under spend in salary and benefit accounts of \$166,261
 - An under spend in utilities of \$140,151
 - An underspend in contingency accounts of \$29,008
 - An over expenditure in technology equipment of \$207,545 as a result of implementing a Bring Your Own Device (BYOD) program and other unbudgeted improvements
 - An over expenditure in student transportation of \$78,033 due to the costs of a new five-year contract being higher than was budgeted

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2013, the District reported capital assets of \$14,464,137 (net of accumulated depreciation), which consist of a broad range of capital assets, including land, buildings & improvements, and machinery and equipment.

There were no additions of land assets during the year. Capital asset additions in 2013 included: technology equipment storage array upgrade, data cabling upgrade at PMS, and the purchase of a used artic boom lift.

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

Governmental Activities	2013	2012	% Variance
Land & Improvements	1,764,528	1,764,528	0.00%
Buildings & Improvements	16,260,390	16,213,366	0.29%
Machinery, Equipment & Vehicles	856,297	775,917	10.36%
Work In Progress			
Totals at Historical Cost	18,881,215	18,753,811	0.68%
Total Accumulated Depreciation	4,417,078	4,146,415	6.53%
NET CAPITAL ASSETS	14,464,137	14,607,396	-0.98%

Long-Term Liabilities

On June 30, 2013, the District had no outstanding long-term debt, but has \$313,011 in compensated absences payable, and \$212,725 in capital leases payable long term liabilities.

The District has implemented the provisions of the Governmental Accounting Standards Board Statement 45 (GASB-45) *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, which requires that the long-term cost of retiree health care and obligations for other OPEB benefits be determined on an actuarial basis and reported in the District's annual financial report. The District does not explicitly subsidize health care benefits of its retirees. In general, 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 may create a GASB-45 liability to the District. The District has historically funded these higher OPEB costs on a pay-as-you-go basis. Some retirees who meet eligibility requirements under the PEA collective bargaining agreement may qualify for district contributions towards their health and dental insurance costs which are also calculated into the GASB-45 liability to the district.

For the fiscal year ending June 30, 2013, the annual required contribution to cover OPEB obligations was \$300,323 and a required adjustment of \$11,871, which was offset by District pay-as-you-go contributions of \$311,825 and interest on the net OPEB obligation of \$12,534. The net OPEB asset as of June 30, 2013 is \$290,688.

Governmental Activities	2013	2012	% Variance
Compensated Absences	313,011	235,068	33.16%
Capital Leases Payable	212,725	308,912	-31.14%
Other Post-Employment Benefits Payable	(290,688)	(278,523)	4.37%
TOTAL LONG-TERM LIABILITIES	235,048	265,457	-11.46%

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.

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

The beginning General Fund unassigned equity for the 2013-2014 fiscal year is \$232,060.

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

1. The District will be proposing the construction of an addition to Pelham High School and a remodel of the existing Pelham High School facility on the 2014 School District Ballot, and
2. At the time of this report, the Pelham School Board and the Pelham Education Association (teachers) are currently negotiating a new contract to be effective with the 2014-2015 school year. The impact of a potential agreement is not currently known, and
3. At the time of this report, the Pelham School Board and the Pelham Educational Support Personnel Association (instructional assistants) are currently negotiating a new contract to be effective with the 2014-2015 school year. The impact of a potential agreement is not currently known, and
4. Effective June 30, 2013 the existing agreement between the Pelham School District and the Windham School District to be managed by a common School Administrative Unit (SAU) was dissolved. This event resulted in the District approving a replacement modular building at the elementary school site to house the SAU staff. The incremental costs of this event are reflected in the current fiscal year's operating budget.

Questions regarding this report should be directed to Ms. Amanda Lecaroz, Superintendent of Schools, or to Mr. Stephen F. Martin, Business Administrator, at (603-635-1145), or by mail at:

Pelham School District
SAU #28
59A Marsh Road
Pelham, NH 03076

BASIC FINANCIAL STATEMENTS

EXHIBIT A
PELHAM SCHOOL DISTRICT
Statement of Net Position
June 30, 2013

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,621,979
Intergovernmental receivable	484,423
Other receivables	4,029
Inventory and prepaid items	31,302
Capital assets, not being depreciated:	
Land	744,680
Capital assets, net of accumulated depreciation:	
Land improvements	525,604
Buildings and building improvements	12,738,888
Machinery and equipment	454,965
Total assets	<u>16,605,870</u>
LIABILITIES	
Accounts payable	51,383
Accrued interest payable	4,567
Accrued salaries and benefits	9,219
Unearned revenue	24,860
Long-term liabilities:	
Due within one year	70,874
Due in more than one year	164,174
Total liabilities	<u>325,077</u>
NET POSITION	
Net investment in capital assets	14,251,412
Restricted for food service	248,146
Unrestricted	1,781,235
Total net position	<u>\$ 16,280,793</u>

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

EXHIBIT B
PELHAM SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2013

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Change In Net Position
Governmental activities:				
Instruction	\$ 11,436,143	\$ -	\$ 1,116,373	\$ (10,319,770)
Support services:				
Student	1,582,547	-	74,162	(1,508,385)
Instructional staff	1,318,060	-	15,031	(1,303,029)
General administration	151,121	-	-	(151,121)
Executive administration	918,965	-	-	(918,965)
School administration	871,610	-	-	(871,610)
Operation and maintenance of plant	1,647,416	-	-	(1,647,416)
Student transportation	1,669,985	-	-	(1,669,985)
Other	5,129,401	-	-	(5,129,401)
Noninstructional services	821,764	645,269	213,875	37,380
Facilities acquisition and construction	695,796	-	-	(695,796)
Total governmental activities	<u>\$ 26,242,808</u>	<u>\$ 645,269</u>	<u>\$ 1,419,441</u>	<u>(24,178,098)</u>
General revenues:				
School district assessment				17,969,905
Grants and contributions not restricted to specific programs				6,939,048
Interest				691
Miscellaneous				106,173
Total general revenues				<u>25,015,817</u>
Change in net position				837,719
Net position, beginning				15,443,074
Net position, ending				<u>\$ 16,280,793</u>

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

EXHIBIT C-1
PELHAM SCHOOL DISTRICT
Governmental Funds
Balance Sheet
June 30, 2013

	General	Food Service	Grants	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,401,057	\$ 220,922	\$ -	\$ 1,621,979
Receivables, net of allowance for uncollectible:				
Accounts	2,529	-	1,500	4,029
Intergovernmental	323,315	12,504	148,604	484,423
Interfund receivable	148,377	-	-	148,377
Inventory	-	31,302	-	31,302
Total assets	<u>\$ 1,875,278</u>	<u>\$ 264,728</u>	<u>\$ 150,104</u>	<u>\$ 2,290,110</u>
LIABILITIES				
Accounts payable	\$ 49,656	\$ -	\$ 1,727	\$ 51,383
Accrued salaries and benefits	9,219	-	-	9,219
Interfund payable	-	-	148,377	148,377
Advanced revenues	8,278	16,582	-	24,860
Total liabilities	<u>67,153</u>	<u>16,582</u>	<u>150,104</u>	<u>233,839</u>
FUND BALANCES				
Nonspendable	-	31,302	-	31,302
Restricted	-	216,844	-	216,844
Committed	288,205	-	-	288,205
Assigned	1,287,860	-	-	1,287,860
Unassigned	232,060	-	-	232,060
Total fund balances	<u>1,808,125</u>	<u>248,146</u>	<u>-</u>	<u>2,056,271</u>
Total liabilities and fund balances	<u>\$ 1,875,278</u>	<u>\$ 264,728</u>	<u>\$ 150,104</u>	<u>\$ 2,290,110</u>

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

EXHIBIT C-2
PELHAM SCHOOL DISTRICT
Reconciliation of Total Governmental Fund Balances to the Statement of Net Position
For Fiscal Year Ended June 30, 2013

Total fund balances of governmental funds (Exhibit C-1)		\$ 2,056,271
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	\$ 18,881,215	
Less accumulated depreciation	<u>(4,417,078)</u>	
		14,464,137
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (148,377)	
Payables	<u>148,377</u>	
		-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(4,567)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Capital leases	\$ (212,725)	
Compensated absences	(313,011)	
Other postemployment benefits	<u>290,688</u>	
		<u>(235,048)</u>
Net position of governmental activities (Exhibit A)		<u>\$ 16,280,793</u>

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

EXHIBIT C-3
PELHAM SCHOOL DISTRICT
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2013

	General	Food Service	Grants	Total Governmental Funds
REVENUES				
School district assessment	\$ 17,969,905	\$ -	\$ -	\$ 17,969,905
Other local	97,484	645,269	-	742,753
State	7,326,711	10,672	-	7,337,383
Federal	132,807	203,203	694,476	1,030,486
Total revenues	<u>25,526,907</u>	<u>859,144</u>	<u>694,476</u>	<u>27,080,527</u>
EXPENDITURES				
Current:				
Instruction	10,598,834	-	605,283	11,204,117
Support services:				
Student	1,498,102	-	74,162	1,572,264
Instructional staff	1,303,029	-	15,031	1,318,060
General administration	151,121	-	-	151,121
Executive administration	918,374	-	-	918,374
School administration	869,689	-	-	869,689
Operation and maintenance of plant	1,647,416	-	-	1,647,416
Student transportation	1,669,985	-	-	1,669,985
Other	5,129,401	-	-	5,129,401
Noninstructional services	-	821,764	-	821,764
Facilities acquisition and construction	823,200	-	-	823,200
Total expenditures	<u>24,609,151</u>	<u>821,764</u>	<u>694,476</u>	<u>26,125,391</u>
Net change in fund balances	917,756	37,380	-	955,136
Fund balances, beginning	890,369	210,766	-	1,101,135
Fund balances, ending	<u>\$ 1,808,125</u>	<u>\$ 248,146</u>	<u>\$ -</u>	<u>\$ 2,056,271</u>

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

EXHIBIT C-4
PELHAM 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)		\$ 955,136
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. In the Statement of Activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capitalized capital outlay in the current period.		
Capitalized capital outlay	\$ 127,404	
Depreciation expense	<u>(270,663)</u>	
		(143,259)
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 capital leases		96,187
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.		
Increase in accrued interest expense	\$ (4,567)	
Increase in compensated absences payable	(77,943)	
Decrease in other postemployment benefits	<u>12,165</u>	
		<u>(70,345)</u>
Change in net position of governmental activities (Exhibit B)		<u>\$ 837,719</u>

EXHIBIT D-1
PELHAM 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 Amounts			Variance
	Original	Final	Actual	Positive (Negative)
REVENUES				
School district assessment *	\$ 18,346,905	\$ 17,969,905	\$ 17,969,905	\$ -
Other local	31,000	74,693	97,382	22,689
State	7,257,094	7,257,094	7,326,711	69,617
Federal	75,000	75,000	132,807	57,807
Total revenues	<u>25,709,999</u>	<u>25,376,692</u>	<u>25,526,805</u>	<u>150,113</u>
EXPENDITURES				
Current:				
Instruction	10,893,082	10,934,940	10,600,500	334,440
Support services:				
Student	1,557,512	1,559,347	1,521,069	38,278
Instructional staff	869,539	869,539	1,265,948	(396,409)
General administration	131,650	131,650	151,121	(19,471)
Executive administration	793,386	793,386	918,374	(124,988)
School administration	956,691	956,691	881,139	75,552
Operation and maintenance of plant	1,824,851	1,824,851	1,712,169	112,682
Student transportation	1,240,100	1,240,100	1,669,985	(429,885)
Other	5,876,638	5,876,638	5,129,401	747,237
Facilities acquisition and construction	1,677,664	1,677,664	1,938,154	(260,490)
Total expenditures	<u>25,821,113</u>	<u>25,864,806</u>	<u>25,787,860</u>	<u>76,946</u>
Excess (deficiency) of revenues over (under) expenditures	(111,114)	(488,114)	(261,055)	227,059
OTHER FINANCING USES				
Transfers out *	<u>(432,000)</u>	<u>(55,000)</u>	<u>(50,000)</u>	<u>5,000</u>
Net change in fund balance	<u>\$ (543,114)</u>	<u>\$ (543,114)</u>	(311,055)	<u>\$ 232,059</u>
Decrease in committed fund balance			50,000	
Unassigned fund balance, beginning			493,115	
Unassigned fund balance, ending			<u>\$ 232,060</u>	

* Reduction in Original Budget of \$377,000 is due to a Deficit Appropriation for fiscal year 2011-12.

EXHIBIT D-2
PELHAM SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (GAAP Basis)
Food Service Fund
For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local:				
Sales	\$ 780,122	\$ 780,122	\$ 644,544	\$ (135,578)
Miscellaneous	-	-	725	725
State:				
Lunch reimbursement	8,000	10,672	10,672	-
Federal:				
Lunch reimbursement	100,000	150,979	150,979	-
USDA commodities	-	52,224	52,224	-
Total revenues	888,122	993,997	859,144	(134,853)
EXPENDITURES				
Current:				
Noninstructional services	888,122	993,997	821,764	172,233
Net change in fund balance	\$ -	\$ -	37,380	\$ 37,380
Fund balance, beginning			210,766	
Fund balance, ending			\$ 248,146	

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

EXHIBIT D-3
PELHAM 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 Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Revenues:				
Federal	\$ 616,566	\$ 694,476	\$ 694,476	\$ -
Expenditures:				
Current:				
Instruction	537,379	605,283	605,283	-
Support services:				
Student	65,842	74,162	74,162	-
Instructional staff	13,345	15,031	15,031	-
Total expenditures	616,566	694,476	694,476	-
Net change in fund balance	\$ -	\$ -	-	\$ -
Fund balance, beginning			-	
Fund balance, ending			\$ -	

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

EXHIBIT E
PELHAM SCHOOL DISTRICT
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2013

	<u>Agency</u>
ASSETS	
Cash and cash equivalents	\$ 259,590
LIABILITIES	
Due to student groups	<u>259,590</u>
NET POSITION	<u>\$ -</u>

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

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

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PELHAM 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 Pelham School District, in Pelham, New Hampshire (the School District) is a municipal corporation governed by an elected five-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, 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 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 categories: 1) charges for services and 2) operating 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. The School District has presented all major funds that met those qualifications.

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 position. 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.

PELHAM 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.

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 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.

1-F Inventory

The inventories of the School District are valued at cost (first-in, first-out), which approximates market. The inventories of the School District's food service fund consist of materials and supplies held for subsequent use. The cost of these inventories is expended when consumed rather than when purchased.

PELHAM SCHOOL DISTRICT
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1-G Capital Assets

General capital assets are those assets of a capital nature which the School District owns. All capital assets are capitalized at cost (or estimated at historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000 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>
Land improvements	50-100
Buildings and building improvements	50-100
Machinery and equipment	10-75

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

1-H Unearned Revenues

Liabilities representing revenues collected but unearned.

1-I Compensated Absences

The School District's policy allows certain employees to earn varying amounts of 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 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-J 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.

1-K Claims and Judgments

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

1-L 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, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

PELHAM SCHOOL DISTRICT
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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-M 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." Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

1-N Use of Estimates

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the School District's operations. At its annual meeting, the School District adopts a budget for the current year for the general, food service, and grants funds. 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

PELHAM SCHOOL DISTRICT
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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, \$543,114 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:	
Per Exhibit D-1 (budgetary basis)	\$ 25,526,805
Adjustments:	
Basis difference:	
GASB Statement No. 54:	
Interest earnings related to the expendable trust funds	102
Per Exhibit C-3 (GAAP basis)	<u>\$ 25,526,907</u>
Expenditures and other financing uses:	
Per Exhibit D-1 (budgetary basis)	\$ 25,837,860
Adjustments:	
Basis difference:	
Encumbrances, beginning	109,151
Encumbrances, ending	(1,287,860)
GASB Statement No. 54:	
To remove transfer from the general fund to the expendable trust fund	(50,000)
Per Exhibit C-3 (GAAP basis)	<u>\$ 24,609,151</u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

The School District's deposits are 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 \$1,876,621 and the bank balances totaled \$3,510,084.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 1,621,979
Cash per Statement of Fiduciary Net Position (Exhibit E)	259,590
Total cash and cash equivalents	<u>\$ 1,881,569</u>

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 – RECEIVABLES

Receivables at June 30, 2013, consisted of accounts and intergovernmental amounts arising from grants, school lunch program, and capital reserve funds in the custody of the Town of Pelham 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 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 consisted of the following:

	Balance, beginning	Additions Disposals	Balance, ending
At cost:			
Not being depreciated:			
Land	\$ 744,680	\$ -	\$ 744,680
Being depreciated:			
Land improvements	1,019,848	-	1,019,848
Buildings and building improvements	16,213,366	47,024	16,260,390
Machinery and equipment	775,917	80,380	856,297
Total capital assets being depreciated	18,009,131	127,404	18,136,535
Total capital assets	18,753,811	127,404	18,881,215
Less accumulated depreciation:			
Land improvements	(473,763)	(20,481)	(494,244)
Buildings and building improvements	(3,302,063)	(219,439)	(3,521,502)
Machinery and equipment	(370,589)	(30,743)	(401,332)
Total accumulated depreciation	(4,146,415)	(270,663)	(4,417,078)
Net book value, capital assets being depreciated	13,862,716	(143,259)	13,719,457
Net book value, all capital assets	\$ 14,607,396	\$ (143,259)	\$ 14,464,137

Depreciation expense of \$270,663 was charged to the instruction function of the School District.

NOTE 6 – INTERFUND BALANCES

The balance of \$148,377 due to the general fund from the grants fund results from loans made in anticipation of federal grants.

NOTE 7 – UNEARNED REVENUES

Unearned revenues of \$24,860 at June 30, 2013 consists of:

General fund:	
Donations received in advance of eligible expenditures being made	\$ 8,278
Food service fund:	
Student lunch fees received in advance	16,582
Total unearned revenues	<u>\$ 24,860</u>

PELHAM SCHOOL DISTRICT
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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:		
Phone system	8.008%	\$ 88,049
Modular library	2.540%	465,803
Total capital lease obligations		<u>\$ 553,852</u>

Leased equipment under capital leases, included in capital assets, is as follows:

Equipment:	
Phone system	\$ 88,049
Modular library	465,803
Total equipment	<u>553,852</u>
Less: accumulated depreciation	(34,296)
Net capital lease equipment	<u>\$ 519,556</u>

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

Fiscal Year Ending June 30,	
2014	\$ 76,229
2015	73,639
2016	<u>73,639</u>
Total requirements	223,507
Less: interest	(10,782)
Present value of remaining payments	<u>\$ 212,725</u>

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
Capital leases	\$ 308,912	\$ -	\$ (96,187)	\$ 212,725	\$ 70,874
Compensated absences	235,068	77,943	-	313,011	-
Net other postemployment benefits	(278,523)	312,194	(324,359)	(290,688)	-
Total long-term liabilities	<u>\$ 265,457</u>	<u>\$ 390,137</u>	<u>\$ (420,546)</u>	<u>\$ 235,048</u>	<u>\$ 70,874</u>

All debt is general obligation debt of the School District, which is backed by its full faith and credit, and will be repaid from general governmental revenues.

PELHAM SCHOOL DISTRICT
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NOTE 10 – ENCUMBRANCES

Encumbrances reported at June 30, 2013 are as follows:

Current:	
Instruction:	
Regular programs	\$ 1,104
Special programs	4,898
Total instruction	<u>6,002</u>
Support services:	
Student	22,967
School administration	11,450
Operation and maintenance of plant	89,403
Total support services	<u>123,820</u>
Facilities acquisition and construction	<u>1,158,038</u>
Total encumbrances	<u><u>\$ 1,287,860</u></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	\$ 14,464,137
Less: Capital leases payable	<u>(212,725)</u>
Total invested in capital assets, net of related debt	14,251,412
Restricted for food service	248,146
Unrestricted	<u>1,781,235</u>
Total net position	<u><u>\$ 16,280,793</u></u>

NOTE 12 – GOVERNMENTAL FUND BALANCES

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

Nonspendable:	
Major fund:	
Food service:	
Inventory	\$ 31,302
Restricted:	
Major fund:	
Food service	216,844
Committed:	
Major fund:	
General:	
Expendable trust	288,205
Assigned:	
Major fund:	
General:	
Encumbrances	1,287,860
Unassigned:	
Major fund:	
General	<u>232,060</u>
Total governmental fund balances	<u><u>\$ 2,056,271</u></u>

PELHAM SCHOOL DISTRICT
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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 \$799,667, \$1,078,733, and \$1,110,425 respectively, which were paid in full in each year.

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to pension benefits described in the preceding note, the School District provides postemployment benefit options for health care and dental insurance to eligible retirees. The benefits are provided in accordance with the School District's agreements and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility include: years of service, employee age, and whether the employee has vested in the respective retirement plan. The School District funds the benefits on a pay-as-you-go basis. Eligible employees are required to pay set premiums for a portion of the cost with the School District subsidizing the remaining costs. Eligible employees are required to pay 100% of the cost of the plan. Expenses for the postretirement health care benefits are recognized as eligible employee claims are paid.

GASB Statement No. 45, as amended by GASB Statement No. 57, was implemented by the School District during the 2011 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 overfunded the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, resulting in a net OPEB asset. 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	\$ 300,323
Interest Net OPEB Obligation	(12,534)
Adjustment to Annual Required Contribution	11,871
Contributions made (pay-as-you-go)	<u>(311,825)</u>
Increase in net OPEB obligation	(12,165)
Net OPEB obligation, beginning	<u>(278,523)</u>
Net OPEB obligation, ending	<u><u>\$ (290,688)</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	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
June 30, 2013	\$ 300,323	\$ 312,488	104.05%	\$ (290,688)
June 30, 2012	\$ 313,293	\$ 468,370	149.50%	\$ (278,523)
June 30, 2011	\$ 302,079	\$ 425,525	140.87%	\$ (123,446)

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As of June 30, 2013, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$2,844,286, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,844,286. The covered payroll (annual payroll of active employees covered by the plan) was \$11,234,948 during fiscal year 2013, and the ratio of the UAAL to the covered payroll was 25.30%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for Other Postemployment Benefits Plan, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the June 30, 2013 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5% investment rate of return per annum. The projected annual health care cost trend is 10% initially, reduced by decrements to an ultimate rate of 5% after four years. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at June 30, 2013 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, which are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from July 1, 2012 to July 1, 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 net contribution from the Pelham School District billed and paid for the year ended June 30, 2013 was \$57,570 for workers' compensation and \$57,605 for property/liability. The workers' compensation section of the self-insurance membership agreement permits Primex³ to make additional assessments to members should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any.

NOTE 16 – CONTINGENT LIABILITIES

There are various claims and suits pending against the School District which arose in the normal course of the School District's activities. In the opinion of management, the ultimate disposition of these various claims and suits will not have a material effect on the financial position of the School District.

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

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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.

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 Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The School District has determined that they have no deferred outflows or inflows as defined by this standard.

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.

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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.

NOTE 18 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the Balance Sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through January 29, 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
PELHAM 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)
June 30, 2013	\$ -	\$ 2,844,286	\$ 2,844,286	0.00%	\$ 11,234,948	25.30%
June 30, 2012	\$ -	\$ 3,163,069	\$ 3,163,069	0.00%	\$ 12,307,661	25.70%
June 30, 2011	\$ -	\$ 3,468,953	\$ 3,468,953	0.00%	\$ 11,218,953	30.90%

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

PELHAM 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.

INDIVIDUAL FUND SCHEDULES

SCHEDULE 1
PELHAM 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	\$ 17,969,905	\$ 17,969,905	\$ -
Other local sources:			
Transportation	30,000	35,487	5,487
Investment earnings	1,000	691	(309)
Miscellaneous	43,693	61,204	17,511
Total from other local sources	74,693	97,382	22,689
State sources:			
Adequacy aid (grant)	3,349,198	3,349,198	-
Adequacy aid (tax)	3,589,850	3,589,850	-
Kindergarten aid	153,525	146,625	(6,900)
Catastrophic aid	164,521	211,503	46,982
Vocational aid	-	9,381	9,381
Other state aid	-	20,154	20,154
Total from state sources	7,257,094	7,326,711	69,617
Federal sources:			
Medicaid	75,000	132,807	57,807
Total revenues	25,376,692	\$ 25,526,805	\$ 150,113
Use of fund balance to reduce school district assessment	543,114		
Total revenues and use of fund balance	\$ 25,919,806		

SCHEDULE 2
PELHAM 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	\$ 1,410	\$ 6,847,224	\$ 6,806,617	\$ 1,104	\$ 40,913
Special programs	2,926	3,574,459	3,319,609	4,898	252,878
Vocational programs	-	52,000	43,486	-	8,514
Other	-	461,257	429,121	-	32,136
Total instruction	<u>4,336</u>	<u>10,934,940</u>	<u>10,598,833</u>	<u>6,002</u>	<u>334,441</u>
Support services:					
Student	-	1,559,347	1,498,102	22,967	38,278
Instructional staff	37,081	869,539	1,303,029	-	(396,409)
General administration	-	131,650	151,121	-	(19,471)
Executive administration	-	793,386	918,374	-	(124,988)
School administration	-	956,691	869,689	11,450	75,552
Operation and maintenance of plant	24,650	1,824,851	1,647,416	89,403	112,682
Student transportation	-	1,240,100	1,669,985	-	(429,885)
Other	-	5,876,638	5,129,401	-	747,237
Total support services	<u>61,731</u>	<u>13,252,202</u>	<u>13,187,117</u>	<u>123,820</u>	<u>2,996</u>
Facilities acquisition and construction	<u>43,084</u>	<u>1,677,664</u>	<u>823,200</u>	<u>1,158,038</u>	<u>(260,490)</u>
Other financing uses:					
Transfers out	<u>-</u>	<u>55,000</u>	<u>50,000</u>	<u>-</u>	<u>5,000</u>
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 109,151</u>	<u>\$ 25,919,806</u>	<u>\$ 24,659,150</u>	<u>\$ 1,287,860</u>	<u>\$ 81,947</u>

SCHEDULE 3
PELHAM 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		\$ 493,114
Changes:		
Unassigned fund balance used to reduce school district assessment		(543,114)
2012-2013 Budget summary:		
Revenue surplus (Schedule 1)	\$ 150,113	
Unexpended balance of appropriations (Schedule 2)	81,947	
2012-2013 Budget surplus		232,060
Decrease in committed fund balance		50,000
Unassigned fund balance, ending		<u>\$ 232,060</u>

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

	Balance, beginning	Additions	Deductions	Balance, ending
Schools:				
Pelham High School	\$ 138,522	\$ 200,072	\$ 182,851	\$ 155,743
Pelham Memorial School	84,082	151,682	168,982	66,782
Pelham Elementary School	16,871	30,864	28,142	19,593
Athletics	16,846	32,515	36,837	12,524
High School Principal's account	3,139	4,484	2,675	4,948
Totals	<u>\$ 259,460</u>	<u>\$ 419,617</u>	<u>\$ 419,487</u>	<u>\$ 259,590</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
Pelham School District
Pelham, 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 and each major fund of the Pelham School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Pelham School District's basic financial statements, and have issued our report thereon dated January 29, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pelham 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 Pelham School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pelham 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 Pelham 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.

Sheryl A. Pratt, CPA

January 29, 2014

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Professional Association



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the Pelham 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 Pelham School District's major federal program for the year ended June 30, 2013. The Pelham 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 Pelham 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 Pelham 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 Pelham School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Pelham 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.

Other Matters

The results of our auditing procedures disclosed instance an of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001. Our opinion on the major federal program is not modified with respect to this matter.

The Pelham School District's response to the noncompliance finding in our audit is described in the accompany Schedule of Findings and Questioned Costs. The Pelham School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the response.

Pelham 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

Report on Internal Control over Compliance

Management of the Pelham 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 Pelham 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 Pelham School District's internal control over compliance.

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

January 29, 2014

PLODZIK & SANDERSON
Professional Association

SCHEDULE I
PELHAM 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? X yes 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

SCHEDULE I (continued)
PELHAM SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Auditor
Reference
Number**

2013-001 **U.S. Department of Education passed through the State of New Hampshire Department of Education:
Special Education Cluster**

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

This subsection goes on to say: “where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5)...”

Subsection (5) states “Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee;
- (b) They must account for the total activity for which each employee is compensated;
- (c) They must be prepared at least monthly and must coincide with one or more pay periods;
- (d) They must be signed by the employee; and
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal programs.

The State of New Hampshire, Department of Education further requires that all support for salaries and wages be signed by the employee’s supervisor as well as the employee.

Condition: While performing Federal compliance testing over payroll expenditures it was noted that salaried employees working on the grant only completed a semi-annual certification at the start of the fiscal year and one in the middle of the fiscal year and that they do not include the period for which they cover. It was also noted that the wording in the certifications does not meet Federal payroll requirements.

Cause: The School District is not fully aware of Federal payroll requirements.

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

Recommendation: We recommend that the School District make sure that all salaried employees working under the grant complete semi-annual certifications in the middle and at the end of the fiscal year; that the certifications include the period for which they cover; and that the wording be in accordance with Federal payroll requirements.

Management Response: We agree with this finding and recommendation. We will modify our practices to issue the semi-annual certification letter to any employee who is paid in any part by a federal award in the middle and end of the fiscal year. We have requested a template for the correct wording for the certifications letters which we will implement with our mid-year letter.

SCHEDULE II
PELHAM 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			
National School Lunch Program <i>(note 3)</i>	10.555	N/A	\$ 202,990
Special Milk Program for Children	10.556	N/A	213
<i>CLUSTER TOTAL</i>			<u>203,203</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	84.010	20110	5,709
Title I	84.010	30110	125,466
Title I SINI	84.010	31316	7,838
<i>PROGRAM TOTAL</i>			<u>139,013</u>
SPECIAL EDUCATION CLUSTER			
Special Education - Grants to States:			
IDEA-B	84.027	32582	463,738
Focus Monitoring	84.027	32588	6,539
Special Education - Preschool Grants	84.173	32582	6,835
<i>CLUSTER TOTAL</i>			<u>477,112</u>
Improving Teacher Quality State Grants:			
Title II	84.367		46,553
Title II	84.367		31,799
<i>PROGRAM TOTAL</i>			<u>78,352</u>
Total Expenditures of Federal Awards			<u><u>\$ 897,680</u></u>

The accompanying notes are an integral part of this schedule.

PELHAM 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 Pelham 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 Pelham School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Pelham School District.

Note 2. Summary of Significant Accounting Policies

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

Note 3. Food Donation

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