

**PELHAM SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2014**

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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, each major fund, and aggregate remaining fund information of the Pelham School District as of and for the year ended June 30, 2014, 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 aggregate remaining fund information of the Pelham School District as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparison for the general fund and major grants fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Other Matters***

**Required Supplementary Information** - Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3 through 16) and the Schedule of Funding Progress for Other Postemployment Benefit Plan (page 40) be presented to supplement the basic financial statements. Such information, although

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

not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it(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.

**Other 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 30, 2015 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.

January 30, 2015

*Sheryl A. Platt, CPA*

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, 2014

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, 2014. 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, 2014, was \$16,923,200. Net position increased by \$1,109,204 between July 1, 2013 and June 30, 2014. The District's total net position consisted of \$14,587,153 in capital assets net of debt, \$233,289 restricted for food service fund and an unrestricted net position balance of \$2,102,758.
- The District initiated an addition and renovation project to Pelham High School. The District did not issue any bonds in fiscal year 2014. The District did enter into a \$1.1 million five-year capital lease for a new SAU/classroom modular building.
- During the year, the District's General Fund Non-GAAP budgetary expenditures and transfers of \$24,380,982 were \$1,456,689 less than the final adjusted budget and the General Fund Non-GAAP budgetary revenues of \$25,928,899 were \$315,788 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 \$1,404,305, or 5.76% of total General Fund expenditures, an increase of 505.15% from the prior year. Major contributing factors to this fund balance were: a \$304,326 operating budget underspend from the RSA 198:20 (b) hearing budget adjustment for the HealthTrust Payment Holiday; a \$113,872 underspend from the FY13 budget carryover in the PHS HVAC/sprinkler special warrant article; a \$1,038,491 underspend in the general fund operating budget exclusive of the above two items; and \$315,788 in unanticipated revenues which must be returned to the taxpayers.
- During the year, the District received \$556,763 in federal grants, a decrease of \$137,713 or 19.83% less than the prior year.
- During the year the District implemented several new accounting practices that resulted in some changes to the accounts where expenditures were charged, as well as a new fixed asset accounting policy and food service inventory policy. The most significant change was charging employee benefits to the employees' budget unit rather than one district-wide account. As a result of these changes in accounting practices several prior year balances were re-stated to be in line with the changes.



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2014

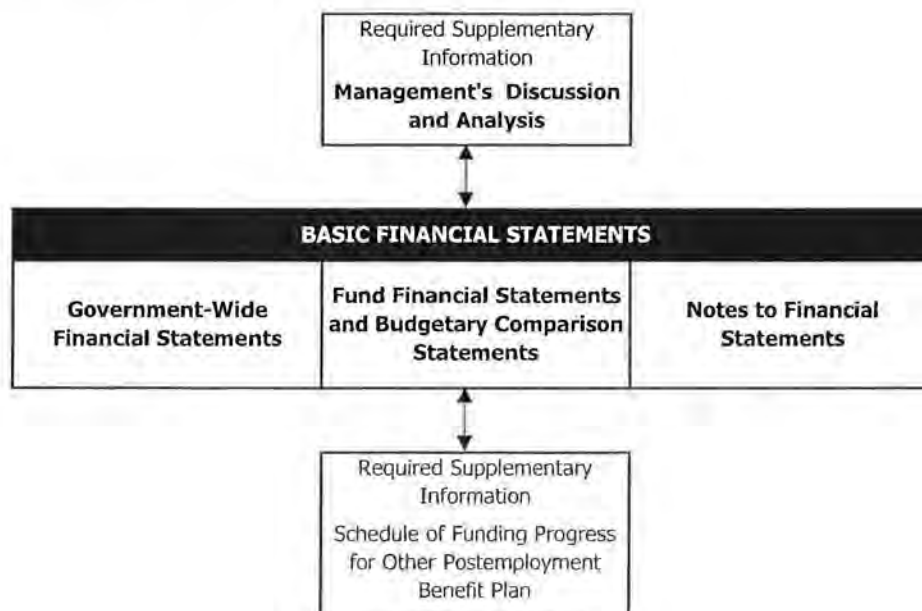
## OVERVIEW OF FINANCIAL STATEMENTS

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, 2014**

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.

	<b>Government-Wide</b>	<b>Fund Statements</b>	
		<b>Governmental</b>	<b>Fiduciary</b>
<b>SCOPE</b>	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
<b>REQUIRED FINANCIAL STATEMENTS</b>	Statement of Net Position	Balance Sheet	Statement of Fiduciary Net 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)
<b>ACCOUNTING BASIS</b>	Accrual	Modified Accrual	Accrual
<b>MEASUREMENT FOCUS</b>	Economic Resources	Current Financial Resources	Economic Resources
<b>TYPE OF INFORMATION ASSETS AND LIABILITIES</b>	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
<b>TYPE OF INFORMATION REVENUES, EXPENSES, AND EXPENDITURES</b>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2014

**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, Grants Fund, and Capital Projects 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, Grants Fund, and Capital Projects Fund are consolidated as Governmental Funds. Two of the 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, 2014

**Net Position for the period ending June 30, 2014**

Total net position at year end was \$16,923,200, an increase of \$1,109,204 or 3.95% from the prior year.

<b>Net Position</b>	<b>2014</b>	<b>2013</b>	<b>% Variance</b>
Current Assets	3,332,941	2,141,733	55.62%
Non-current Assets	15,789,004	14,464,137	9.16%
<b>Total Assets</b>	<b>19,121,945</b>	<b>16,605,870</b>	<b>15.15%</b>
Current Liabilities	926,840	160,903	476.02%
Non-current Liabilities	1,271,905	164,174	674.73%
<b>Total Liabilities</b>	<b>2,198,745</b>	<b>325,077</b>	<b>576.38%</b>
Investment in capital assets (net of debt)			
Restricted net position	14,587,153	14,251,412	2.36%
Restricted for food service	233,289	248,146	-5.99%
Unrestricted net position	2,102,758	1,781,235	18.05%
<b>Total Net Assets</b>	<b>16,923,200</b>	<b>16,280,793</b>	<b>3.95%</b>

**Change in Net Position**

The District's total revenues were \$27,334,722; total expenses were \$26,225,518; resulting in an increase of \$1,109,204 in net position. This year, 92.51% of the District's revenues came from the local tax assessment and the State of New Hampshire, a decrease of 0.91% 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, 2014

Statement of Activities	2014	% of Total	2013	% of Total	% Variance
<b>Revenues:</b>					
Program revenues:					
Charges for services	740,014	2.7%	645,269	2.4%	14.68%
Operating grants	1,203,703	4.4%	1,419,441	5.2%	-15.20%
Capital grants	0	0.0%	0	0.0%	0.00%
General revenues:					
School district assessment	17,796,307	65.1%	17,969,905	66.4%	-0.97%
Unrestricted grants	7,236,802	26.5%	6,939,048	25.6%	4.29%
Interest	341	0.0%	691	0.0%	-50.65%
Miscellaneous	357,555	1.3%	106,173	0.4%	236.77%
<b>Total revenues</b>	<b>\$27,334,722</b>	<b>100%</b>	<b>\$27,080,527</b>	<b>100%</b>	<b>0.94%</b>
<b>Program Expenses:</b>					
Instruction	14,542,304	55.5%	11,436,143	43.6%	27.16%
Support services:					
Student	2,129,490	8.1%	1,582,547	6.0%	34.56%
Instructional staff	925,512	3.5%	1,318,060	5.0%	-29.78%
General administration	113,588	0.4%	151,121	0.6%	-24.84%
Executive administration	543,506	2.1%	918,965	3.5%	-40.86%
School administration	1,185,905	4.5%	871,610	3.3%	36.06%
Business	515,480	2.0%	0	0.0%	100.00%
Operation and maintenance of plant	2,212,002	8.4%	1,647,416	6.3%	34.27%
Student transportation	1,706,615	6.5%	1,669,985	6.4%	2.19%
Other	897,045	3.4%	5,129,401	19.5%	-82.51%
Non-instructional services	837,196	3.2%	821,764	3.1%	1.88%
Interest on long-term debt	6,858	0.0%	0	0.0%	100.00%
Facilities acquisition and construction	610,017	2.3%	695,796	2.7%	-12.33%
<b>Total governmental activities</b>	<b>\$26,225,518</b>	<b>100%</b>	<b>\$26,242,808</b>	<b>100%</b>	<b>-0.07%</b>
<b>Change in net position</b>	<b>\$1,109,204</b>		<b>\$837,719</b>		<b>32.41%</b>
<b>Beginning net position, as restated</b>	<b>\$15,813,996</b>		<b>\$15,443,074</b>		<b>2.40%</b>
<b>Ending net position</b>	<b>\$16,923,200</b>		<b>\$16,280,793</b>		<b>3.95%</b>

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 65.11% of total revenues for the fiscal year ended June 30, 2014, a decrease of 1.25% from the prior year.

State of New Hampshire source intergovernmental revenues were 27.40% of total revenues for the fiscal year ended June 30, 2014, an increase of 0.34% from the prior year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2014**

Federal revenues were 3.48% of total revenues for the fiscal year ended June 30, 2014, a decrease of 0.33% from the prior year.

### **Summary of Revenues**

The biggest share, \$25,286,165 (92.51%), 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 2013 - 2014**



### **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 52.55% of total expenses for the fiscal year ended June 30, 2014, an increase of 9.66% from the prior year. This increase was primarily due to the accounting change of expensing employee benefits to their budget unit rather than as a district-wide expense.
- Instructional and staff support service expenses were 11.05% of total expenses for the fiscal year ended June 30, 2014, a decrease of 0.01% from the prior year.

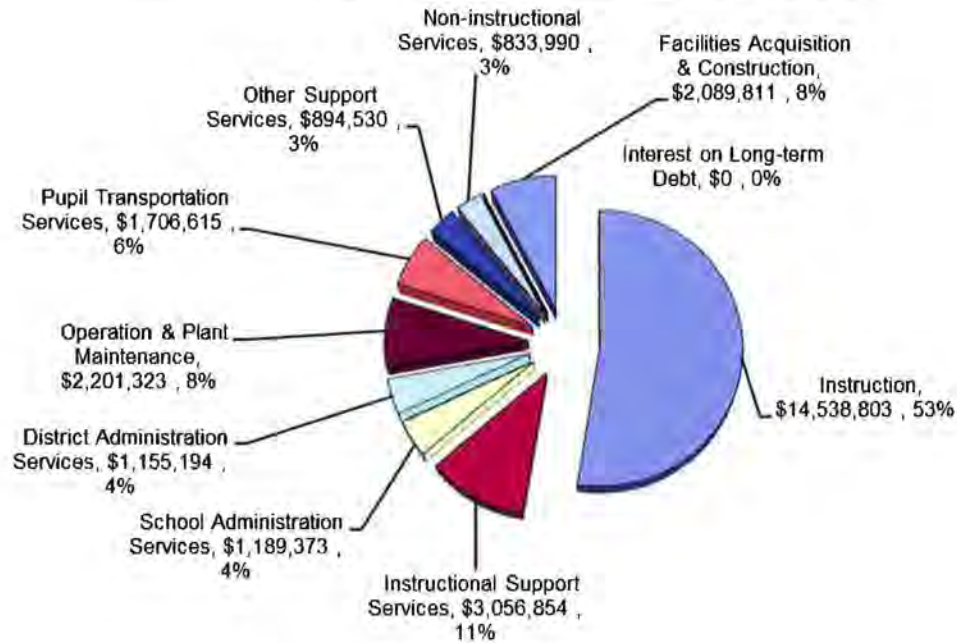
### **Summary of Expenses**

The Pelham School District used its budgetary resources as depicted in the following chart. 63.60% 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, 2014**

**School District Total Expenses 2013 - 2014**



Highlighted changes in total expenses include:

- An increase in Instruction spending of \$3,334,686 or 29.76% over the prior year
- An increase in Instructional and Staff Support Services of \$166,530 or 5.76% over the prior year
- An increase of \$1,155,194 in District Administration over the prior year reflecting expenses previously incurred by the old SAU 28 operation.
- An increase in Operation & Plant Maintenance spending of \$553,907 or 33.62% over the prior year
- An increase in Facilities Acquisition & Construction spending of \$1,266,611 or 153.86% higher than the prior year

**Governmental Activities**

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



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2014

**TOTAL AND NET COST OF SERVICES**

<b>Total Cost of Services</b>					
	<b>2014</b>		<b>2013</b>		<b>Variance</b>
<b>Functions / Programs</b>					
Instruction	\$14,542,304	55.5%	\$11,436,143	43.6%	\$3,106,161
Support services	10,229,143	39.0%	13,289,105	50.6%	(\$3,059,962)
Food service program	837,196	3.2%	821,764	3.1%	\$15,432
Facilities acquisition	610,017	2.3%	695,796	2.7%	(\$85,779)
<b>Unallocated</b>					
Interest	6,858	0.0%	0	0.0%	\$6,858
	<u>\$ 26,225,518</u>	<u>100%</u>	<u>\$ 26,242,808</u>	<u>100%</u>	<u>\$ 1,870,585</u>
<b>Net Cost of Services</b>					
	<b>2014</b>		<b>2013</b>		<b>Variance</b>
<b>Functions / Programs</b>					
Instruction	\$ 13,449,252	55.4%	\$ 10,319,770	42.7%	\$3,129,482
Support services	10,229,143	42.1%	13,199,912	54.6%	(\$2,970,769)
Food service program	(13,469)	-0.1%	(37,380)	-0.2%	\$23,911
Facilities acquisition	610,017	2.5%	695,796	2.9%	(\$85,779)
<b>Unallocated</b>					
Interest	6,858	0.0%	-	0.0%	6,858
	<u>\$ 24,281,801</u>	<u>100%</u>	<u>\$ 24,178,098</u>	<u>100%</u>	<u>\$ 103,703</u>

The total cost of all governmental activities in 2014 was \$26,225,518; the total net cost was \$24,281,801. 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 \$17,796,307 paid in the form of local property taxes and \$3,359,266 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 \$3,877,038 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 \$850,435 consisted of food service sales and local miscellaneous revenues in the amount of \$635,243 and federal and state food nutrition program operating contributions (free and reduced lunch reimbursements and commodities) of \$215,192.

Operating Grants and Contributions

- Federal grants for instruction were received in the amount of \$553,837.

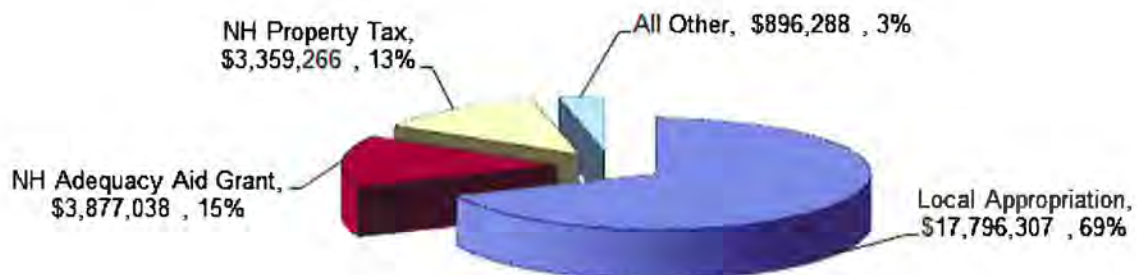
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2014

## INDIVIDUAL FUND ANALYSIS

### General Fund

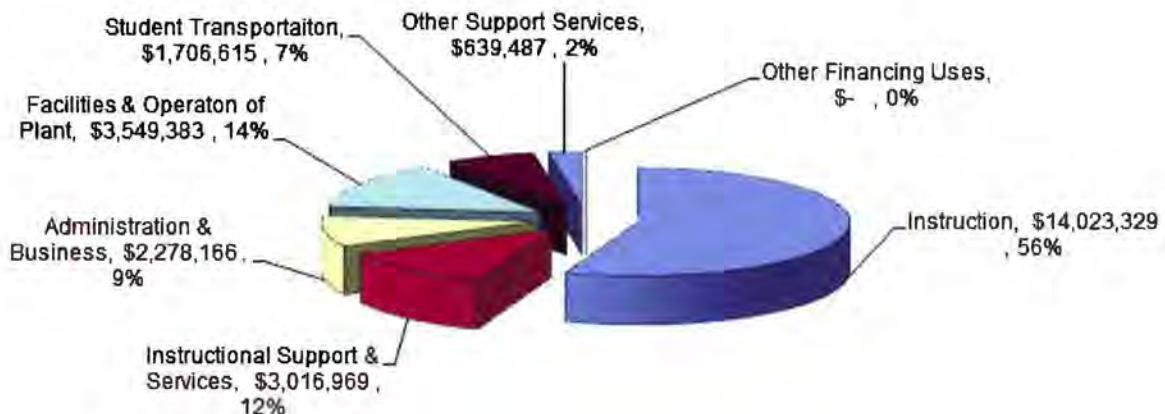
The General Fund is what most people think of as "the budget", since it is the focal point of the Annual Deliberative Session and largely supported by locally raised taxes. The local appropriation and the state property tax are raised locally and make up 81.59% of general fund revenues. Together, the revenues raised locally and the state adequacy grant comprises 96.54% 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.

#### General Fund Budgetary Revenues 2013 - 2014



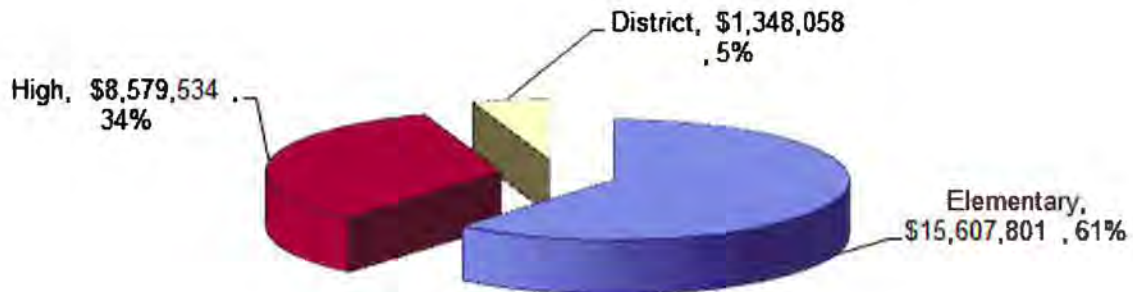
In 2014, instruction made up 56.12% of all general fund expenditures, a decrease of 2.81% from the prior year re-allocated expenditures, while all other support services including transportation, operation of plant, and administration make up 38.61% of all General Fund expenditures, an increase of 1.18% from the prior year. The remaining 5.28% includes facility acquisition & construction and fund transfers, an increase of 1.64% 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 2013- 2014



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2014

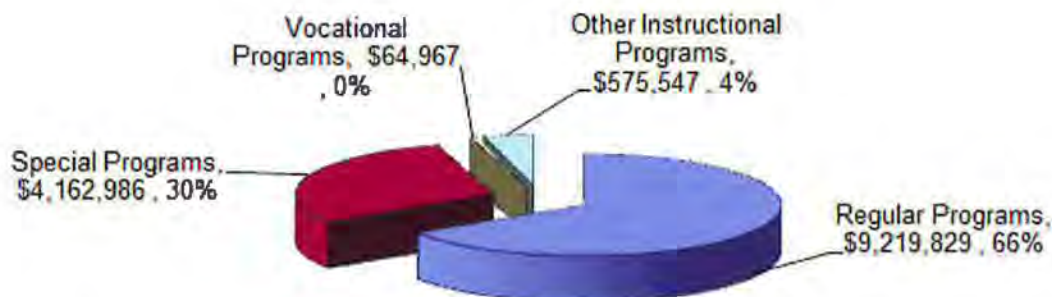
**General Fund Budgetary Expenditures by Grade Level  
2013 - 2014**



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.

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

**General Fund Budgetary Expenditures for Instruction  
2013 - 2014**



**SUMMARY OF FEDERAL SUPPORT OF THE DISTRICT**

During fiscal year 2014, 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 \$343,872. 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 \$140,972. These grants funded: supplemental instruction for math and reading intervention; summer programming in math and reading; and professional development in math and reading intervention.



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2014

- Title IIA, Improving Teacher Quality State Grants was awarded for the current period in the amount of \$65,112. 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 \$3,166. The grant was used to purchase materials and equipment.
- U. S. Department of Agriculture National School Lunch Program revenues for the current period were \$203,299. 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 \$28.94 during the year from \$288,205.44 at June 30, 2013, to \$288,234.38 at June 30, 2014. 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 restated beginning General Fund equity was (\$143,612). General Fund revenues, consisting largely of local taxes and state aid, were \$25,928,928. General Fund expenditures, including fund transfers, were \$25,535,391. The ending fund equity for the District was \$1,825,990 of which \$1,404,305 is an unassigned fund balance, an increase of \$1,547,917 from the prior year's restated 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 \$315,788.
- General Fund expenditures were less than the final adjusted budgeted spending by \$1,456,689. The major components of this budget underspend include:
  - \$304,326 operating budget underspend from the RSA 198:20 (b) hearing budget adjustment for the HealthTrust Payment Holiday. \$250,000 of this amount was reported as anticipated revenue to reduce the 2013 tax rate.
  - \$113,872 underspend from the FY13 budget carryover in the PHS HVAC/sprinkler special warrant article. Special warrant article underspends must be returned to the taxpayers.
  - \$293,555.80 or a 1.07% underspend of the 2014 salaries budget. The key contributing factors of this underspend were a \$198,000 underspend from the Instructional Associate (IA) account due to both unfilled positions and staff turnover; and a \$136,000 underspend in the 110 salary account due to staff turnover. Substitute and overtime salaries were overspent by \$41,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2014

- Excluding the HealthTrust refund, an \$836,640.27 or 12.87% underspend in benefits. The key contributing factors of this underspend were: a \$362,000 underspend in health insurance; a \$115,000 underspend in dental insurance; a \$266,000 underspend in NH Retirement, and an \$89,000 underspend in FICA/Medicare. Part of the retirement and social security underspend is the result of the underspend in salaries.
- Special Education ended the year overspending its budget, including the \$160,000 contingency, by \$165,000.

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. We expect that the change in budgeting benefits to each budget unit will allow for more accurate budgeting of these accounts. 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, 2014, the District reported capital assets of \$15,789,004 (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 2014 included: parking lot expansion at PES; HVAC and sprinkler improvements at PHS; and various technology and facilities equipment.

Governmental Activities	2014	2013	% Variance
Land & Improvements	1,853,963	1,764,528	5.07%
Buildings & Improvements	17,461,608	16,260,390	7.39%
Machinery, Equipment & Vehicles	416,885	394,935	5.56%
Work In Progress	741,753	414,205	79.08%
<b>Totals at Historical Cost</b>	<b>20,474,209</b>	<b>18,834,058</b>	<b>8.71%</b>
Total Accumulated Depreciation	4,685,205	4,397,574	6.54%
<b>NET CAPITAL ASSETS</b>	<b>15,789,004</b>	<b>14,436,484</b>	<b>9.37%</b>

### Long-Term Liabilities

On June 30, 2014, the District had \$1,201,851 in capital leases and \$291,147 in compensated absences 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



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2014

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, 2014 the District's OPEB statement was re-stated due to the SAU split with Windham. The adjusted annual required contribution to cover OPEB obligations was \$372,896 and a required adjustment of \$19,889, which was offset by District pay-as-you-go contributions of \$343,727 and interest on the net OPEB obligation of \$11,633. The net OPEB asset as of June 30, 2014 is \$221,093.

<b>Governmental Activities</b>	<b>2014</b>	<b>2013</b>	<b>% Variance</b>
Compensated Absences	291,147	313,011	33.16%
Capital Leases Payable	1,201,851	212,725	-31.14%
Other Post Employment Benefits Payable	(221,093)	(258,518)	-7.18%
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>1,271,905</b>	<b>267,218</b>	<b>0.66%</b>

#### **FUTURE BUDGETARY IMPLICATIONS**

In New Hampshire, the public school fiscal year is July 1 to June 30; other programs, i.e., some federal budgets, operate on a different fiscal calendar, but are reflected in the District overall budget as they impact on the District.

The beginning General Fund unassigned equity for the 2014-2015 fiscal year is \$1,404,305.

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

1. The District successfully bonded through the NH Municipal Bond Bank a twenty year bond for \$20,645,000 after applying a premium received in the amount of \$1,909,000 to reduce the loan amount. The proceeds will be used for an addition and renovations to Pelham High School, and
2. The State of New Hampshire legislature passed new legislation in 2012 that allows school district's with voter approval to withhold up to 2.5% of the current year's net assessment of any uncommitted year-end fund balance, such fund balance to be used only for reducing the tax rate or for emergency expenditures. The School Board is planning to place an article on the warrant to ask the voters to approve the school district's ability to carry a year-end fund balance.

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, 2014*

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,899,620
Accounts receivable	5,310
Intergovernmental receivable	428,011
Capital assets, not being depreciated	1,486,433
Capital assets, net of accumulated depreciation	14,302,571
Total assets	<u>19,121,945</u>
<b>LIABILITIES</b>	
Accounts payable	839,969
Intergovernmental payable	298
Retainage payable	75,148
Accrued interest payable	11,425
Noncurrent obligations:	
Due within one year	289,266
Due in more than one year	982,639
Total liabilities	<u>2,198,745</u>
<b>NET POSITION</b>	
Net investment in capital assets	14,587,153
Restricted for food service	233,289
Unrestricted	2,102,758
Total net position	<u>\$ 16,923,200</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, 2014**

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Change In Net Position
Instruction	\$ 14,542,304	\$ 104,541	\$ 988,511	\$ (13,449,252)
Support services:				
Student	2,129,490	-	-	(2,129,490)
Instructional staff	925,512	-	-	(925,512)
General administration	113,588	-	-	(113,588)
Executive administration	543,506	-	-	(543,506)
School administration	1,185,905	-	-	(1,185,905)
Business	515,480	-	-	(515,480)
Operation and maintenance of plant	2,212,002	-	-	(2,212,002)
Student transportation	1,706,615	-	-	(1,706,615)
Other	897,045	-	-	(897,045)
Noninstructional services	837,196	635,473	215,192	13,469
Interest on long-term debt	6,858	-	-	(6,858)
Facilities acquisition and construction	610,017	-	-	(610,017)
Total governmental activities	<u>\$ 26,225,518</u>	<u>\$ 740,014</u>	<u>\$ 1,203,703</u>	<u>(24,281,801)</u>
General revenues:				
School district assessment				17,796,307
Grants and contributions not restricted to specific programs				7,236,802
Miscellaneous				357,896
Total general revenues				<u>25,391,005</u>
Change in net position				1,109,204
Net position, beginning as restated (see Note 12)				15,813,996
Net position, ending				<u>\$ 16,923,200</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, 2014*

	General	Grants	Capital Project Modular Building	Other Governmental Fund (Food Service)	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,866,908	\$ -	\$ 794,493	\$ 238,219	\$ 2,899,620
Accounts receivable	2,380	2,930	-	-	5,310
Intergovernmental receivable	307,018	108,792	-	12,201	428,011
Interfund receivable	108,792	-	-	-	108,792
Total assets	<u>\$ 2,285,098</u>	<u>\$ 111,722</u>	<u>\$ 794,493</u>	<u>\$ 250,420</u>	<u>\$ 3,441,733</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 458,810	\$ 2,930	\$ 361,098	\$ 17,131	\$ 839,969
Intergovernmental payable	298	-	-	-	298
Interfund payable	-	108,792	-	-	108,792
Retainage payable	-	-	75,148	-	75,148
Total liabilities	<u>459,108</u>	<u>111,722</u>	<u>436,246</u>	<u>17,131</u>	<u>1,024,207</u>
<b>FUND BALANCES</b>					
Restricted	-	-	-	233,289	233,289
Committed	288,234	-	358,247	-	646,481
Assigned	133,451	-	-	-	133,451
Unassigned	1,404,305	-	-	-	1,404,305
Total fund balances	<u>1,825,990</u>	<u>-</u>	<u>358,247</u>	<u>233,289</u>	<u>2,417,526</u>
Total liabilities and fund balances	<u>\$ 2,285,098</u>	<u>\$ 111,722</u>	<u>\$ 794,493</u>	<u>\$ 250,420</u>	<u>\$ 3,441,733</u>

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



*EXHIBIT C-2*  
*PELHAM SCHOOL DISTRICT*  
*Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position*  
*June 30, 2014*

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Total fund balances of governmental funds (Exhibit C-1)		\$ 2,417,526
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.		
Cost	\$ 20,474,209	
Less accumulated depreciation	<u>(4,685,205)</u>	
		15,789,004
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (108,792)	
Payables	<u>108,792</u>	
		-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(11,425)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Capital leases	\$ 1,201,851	
Compensated absences	291,147	
Other postemployment benefits	<u>(221,093)</u>	
		<u>(1,271,905)</u>
Net Position of governmental activities (Exhibit A)		<u>\$ 16,923,200</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, 2014*

	General	Grants	Capital Project Modular Building	Other Governmental Fund (Food Service)	Total Governmental Funds
<b>REVENUES</b>					
School district assessment	\$ 17,796,307	\$ -	\$ -	\$ -	\$ 17,796,307
Other local	461,145	1,522	-	635,243	1,097,910
State	7,477,965	-	-	11,893	7,489,858
Federal	193,511	553,837	-	203,299	950,647
Total revenues	<u>25,928,928</u>	<u>555,359</u>	<u>-</u>	<u>850,435</u>	<u>27,334,722</u>
<b>EXPENDITURES</b>					
Current:					
Instruction	14,023,329	515,474	-	-	14,538,803
Support services:					
Student	2,127,546	3,796	-	-	2,131,342
Instructional staff	889,423	36,089	-	-	925,512
General administration	113,588	-	-	-	113,588
Executive administration	526,126	-	-	-	526,126
School administration	1,189,373	-	-	-	1,189,373
Business	515,480	-	-	-	515,480
Operation and maintenance of plant	2,201,323	-	-	-	2,201,323
Student transportation	1,706,615	-	-	-	1,706,615
Other	894,530	-	-	-	894,530
Noninstructional services	-	-	-	833,990	833,990
Facilities acquisition and construction	1,348,058	-	741,753	-	2,089,811
Total expenditures	<u>25,535,391</u>	<u>555,359</u>	<u>741,753</u>	<u>833,990</u>	<u>27,666,493</u>
Excess (deficiency) of revenues over (under) expenditures	393,537	-	(741,753)	16,445	(331,771)
<b>OTHER FINANCING SOURCES</b>					
Inception of capital lease	-	-	1,100,000	-	1,100,000
Net change in fund balances	393,537	-	358,247	16,445	768,229
Fund balances, beginning, as restated (see Note 12)	1,432,453	-	-	216,844	1,649,297
Fund balances, ending	<u>\$ 1,825,990</u>	<u>\$ -</u>	<u>\$ 358,247</u>	<u>\$ 233,289</u>	<u>\$ 2,417,526</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, 2014*

Net change in fund balances of total governmental funds (Exhibit C-3)		\$ 768,229
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 capitalized capital outlay exceeded depreciation expense in the current period.		
Capitalized capital outlay	\$ 1,640,151	
Depreciation expense	<u>(287,631)</u>	
		1,352,520
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.		
Inception of capital leases	\$ (1,100,000)	
Principal repayment of capital leases	<u>110,874</u>	
		(989,126)
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	\$ (6,858)	
Decrease in compensated absences payable	21,864	
Increase in other postemployment benefits	<u>(37,425)</u>	
		(22,419)
Change in net position of governmental activities (Exhibit B)		<u>\$ 1,109,204</u>

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

**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, 2014**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
School district assessment	\$ 17,796,307	\$ 17,796,307	\$ -
Other local	325,500	461,116	135,616
State	7,416,304	7,477,965	61,661
Federal	75,000	193,511	118,511
Total revenues	<u>25,613,111</u>	<u>25,928,899</u>	<u>315,788</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	10,509,504	14,050,057	(3,540,553)
Support services:			
Student	1,518,940	2,105,062	(586,122)
Instructional staff	511,585	891,710	(380,125)
General administration	114,350	113,588	762
Executive administration	368,123	528,622	(160,499)
School administration	908,681	1,177,923	(269,242)
Business	300,051	545,377	(245,326)
Operation and maintenance of plant	1,948,384	2,134,896	(186,512)
Student transportation	1,780,018	1,706,615	73,403
Other	7,429,912	929,813	6,500,099
Facilities acquisition and construction	448,123	197,319	250,804
Total expenditures	<u>25,837,671</u>	<u>24,380,982</u>	<u>1,456,689</u>
Excess (deficiency) of revenues over (under) expenditures	(224,560)	1,547,917	1,772,477
<b>OTHER FINANCING USES</b>			
Transfers out	(7,500)	-	(7,500)
Net change in fund balance	<u>\$ (232,060)</u>	1,547,917	<u>\$ 1,764,977</u>
Unassigned fund balance, beginning as restated (see Note 12)		(143,612)	
Unassigned fund balance, ending		<u>\$ 1,404,305</u>	

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

**EXHIBIT D-2**  
**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, 2014**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Local	\$ -	\$ 1,522	\$ 1,522
Federal	619,307	553,837	(65,470)
Total revenues	<u>619,307</u>	<u>555,359</u>	<u>(63,948)</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	619,307	515,474	103,833
Support services:			
Student	-	3,796	(3,796)
Instructional staff	-	36,089	(36,089)
Total expenditures	<u>619,307</u>	<u>555,359</u>	<u>63,948</u>
Net change in fund balance	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance, beginning		-	
Fund balance, ending		<u>\$ -</u>	

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



**EXHIBIT E-1**  
**PELHAM SCHOOL DISTRICT**  
*Fiduciary Funds*  
**Statement of Fiduciary Net Position**  
**June 30, 2014**

	Private Purpose Trust	Agency
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 284,358
Intergovernmental receivable	3,835	-
Total assets	3,835	284,358
<b>LIABILITIES</b>		
Due to student groups	-	284,358
<b>NET POSITION</b>		
Held in trust for specific purposes	\$ 3,835	\$ -

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

*EXHIBIT E-2*  
**PELHAM SCHOOL DISTRICT**  
*Fiduciary Funds*  
**Statement of Changes in Fiduciary Net Position**  
**For the Fiscal Year Ended June 30, 2014**

	Private Purpose Trust
Additions:	
New funds	\$ 3,935
Deductions:	
Scholarships	100
Change in net position	3,835
Net position, beginning	-
Net position, ending	<u>\$ 3,835</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, 2014**

	<u>NOTE</u>
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**DETAILED NOTES ON ALL FUNDS**

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**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. 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 two 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.

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 and a Statement of Changes in Fiduciary Net Position. These funds account for resources held by the School District for the benefit of other parties, and include the private purpose trust funds and agency funds. Fiduciary funds are accounted for on a spending or “economic resources” measurement focus and the accrual basis of accounting.

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**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.

**Modular Building Capital Project Fund** – the modular building capital project fund accounts for the activity pertaining to the construction of the SAU offices and additional classrooms.

**Nonmajor Funds** – The School District also reports one nonmajor governmental fund. All the governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

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 position available to finance the program. It is the School District's policy to first apply grant resources to such programs and then general revenues.

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

**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 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 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.



**PELHAM SCHOOL DISTRICT**  
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***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 Capital Assets***

General capital assets are those assets of a capital nature which the School District owns. All capital assets are capitalized at cost (or estimated at historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$10,000 per individual item for all classes except infrastructure assets, which has a capitalization threshold of \$100,000 per item, for all assets with one year or more 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	30
Buildings and building improvements	20-50
Machinery and equipment	5-15

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

***1-G 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-H 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-I 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-J 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.

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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.

In accordance with RSA 198:4-b, the School District voted to retain general fund unassigned fund balance of up to 2.5% of the net assessment to be used for emergency expenditures, or to use as a revenue source to reduce the tax rate.

***1-K 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.

***NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY***

***2-A Budgetary Information***

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

Management may transfer appropriations between operating categories as deemed necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at year-end unless encumbered.

Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects and specific items not fully expended at year-end) are recognized, is employed in the governmental funds. Encumbrances are not the equivalent of expenditures, and are therefore, reported as part of the assigned fund balance at year-end, and are carried forward to supplement appropriations of the subsequent year.

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State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. In the fiscal year 2014, \$232,060 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, Expenditures, and Changes in Fund Balance – 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)	\$ 25,928,899
Adjustments:	
Basis difference:	
GASB Statement No. 54:	
Miscellaneous revenue of blended funds	29
Per Exhibit C-3 (GAAP basis)	<u>\$ 25,928,928</u>
Expenditures:	
Per Exhibit D-1 (budgetary basis)	\$ 24,380,982
Adjustments:	
Basis difference:	
Encumbrances, beginning	1,287,860
Encumbrances, ending	(133,451)
Per Exhibit C-3 (GAAP basis)	<u>\$ 25,535,391</u>

**DETAILED NOTES ON ALL FUNDS**

**NOTE 3 – CASH AND CASH EQUIVALENTS**

The School District's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held by the School District's agent in the School District's name. The FDIC currently insures the first \$250,000 of the School District's deposits at each financial institution, per case custodian. Deposit balances over \$250,000 are insured by the collateral. As of year-end, the carrying amount of the School District's deposits was \$3,183,978 and the bank balances totaled \$4,564,887.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 2,899,620
Cash per Statement of Fiduciary Net Position (Exhibit E-1)	284,358
Total cash and cash equivalents	<u>\$ 3,183,978</u>

**NOTE 4 – RECEIVABLES**

Receivables at June 30, 2014, consisted of accounts and intergovernmental amounts arising from grants and school lunch program. 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.

**PELHAM SCHOOL DISTRICT**  
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**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014 consisted of the following:

	Balance, beginning (as restated)	Additions	Retirements	Balance, ending
At cost:				
Not being depreciated:				
Land	\$ 744,680	\$ -	\$ -	\$ 744,680
Construction in progress	414,205	741,753	(414,205)	741,753
Total capital assets not being depreciated	1,158,885	741,753	(414,205)	1,486,433
Being depreciated:				
Land improvements	1,019,848	89,435	-	1,109,283
Buildings and building improvements	16,260,390	1,201,218	-	17,461,608
Machinery and equipment	394,935	21,950	-	416,885
Total capital assets being depreciated	17,675,173	1,312,603	-	18,987,776
Total capital assets	18,834,058	2,054,356	(414,205)	20,474,209
Less accumulated depreciation:				
Land improvements	(494,244)	(22,703)	-	(516,947)
Buildings and building improvements	(3,774,104)	(241,945)	-	(4,016,049)
Machinery and equipment	(129,226)	(22,983)	-	(152,209)
Total accumulated depreciation	(4,397,574)	(287,631)	-	(4,685,205)
Net book value, capital assets being depreciated	13,277,599	1,024,972	-	14,302,571
Net book value, all capital assets	\$ 14,436,484	\$ 1,766,725	\$ (414,205)	\$ 15,789,004

Depreciation expense was charged to functions of the School District based on their usage of the related assets. The amounts allocated to each function are as follows:

Support services:	
Operation and maintenance of plant	\$ 32,629
Other	5,088
Noninstructional services	3,206
Facilities acquisition and construction	246,708
Total depreciation expense	<u>\$ 287,631</u>

**NOTE 6 – INTERFUND BALANCES**

Interfund receivable and payable balances consisting of overdrafts in pooled cash and budgetary transfers at June 30, 2014, are as follows:

Receivable Fund	Payable Fund	Amount
General	Grants	<u>\$ 108,792</u>

**NOTE 7 – CAPITAL LEASES**

The School District has entered into certain capital lease agreements under which the related equipment will become the property of the School District when all the terms of the lease agreements are met.

	Standard Interest Rate	Present Value of Remaining Payments as of June 30, 2014
Capital lease obligations:		
Modular library	2.54%	\$ 141,851
Modular building	2.67%	1,060,000
Total capital lease obligations		<u>\$ 1,201,851</u>



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

	Governmental Activities
Construction in progress:	
Modular building	\$ 741,753
Buildings and building improvements:	
Modular library	465,803
Total equipment	1,207,556
Less: accumulated depreciation	(44,238)
Total capital lease equipment	<u>\$ 1,251,794</u>

The annual requirements to amortize the capital leases payable as of June 30, 2014, including interest payments, are as follows:

Fiscal Year Ending June 30,	Governmental Activities
2015	\$ 290,639
2016	290,639
2017	217,000
2018	217,000
2019	217,000
2020	44,610
Total requirements	1,276,888
Less: interest	75,037
Present value of remaining payments	<u>\$ 1,201,851</u>

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

**NOTE 8 – LONG-TERM LIABILITIES**

Changes in the School District's long-term liabilities consisted of the following for the year ended June 30, 2014:

	Balance July 1, 2013 (as restated)	Additions	Reductions	Balance June 30, 2014	One Year
Capital leases	\$ 212,725	\$ 1,100,000	\$ 110,874	\$ 1,201,851	\$ 277,916
Compensated absences	313,011	-	21,864	291,147	11,350
Net other postemployment benefits	(258,518)	37,425	-	(221,093)	-
Total long-term liabilities	<u>\$ 267,218</u>	<u>\$ 1,137,425</u>	<u>\$ 132,738</u>	<u>\$ 1,271,905</u>	<u>\$ 289,266</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.



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**NOTE 9 – ENCUMBRANCES**

Encumbrances outstanding at June 30, 2014 are as follows:

Current:		
Instruction:		
Regular programs	\$	3,015
Special programs		26,306
Vocational programs		3,180
Other		229
Total instruction		<u>32,730</u>
Support services:		
Student		483
Instructional staff		2,287
Executive administration		2,496
Business		29,897
Operation and maintenance of plant		22,976
Other		35,283
Total support services		<u>93,422</u>
Facilities acquisition and construction		<u>7,299</u>
Total encumbrances	\$	<u>133,451</u>

**NOTE 10 – GOVERNMENTAL ACTIVITIES NET POSITION**

The government-wide Statement of Net Position at June 30, 2014 consisted of the following:

Net investment in capital assets:		
Net property, buildings, and equipment	\$	15,789,004
Less:		
Capital leases payable		<u>(1,201,851)</u>
Total net investment in capital assets		14,587,153
Restricted for food service		233,289
Unrestricted		2,102,758
Total net position	\$	<u>16,923,200</u>

**NOTE 11 – GOVERNMENTAL FUND BALANCES**

Governmental fund balances at June 30, 2014 consist of the following:

Restricted:		
Nonmajor funds:		
Food service	\$	233,289
Committed:		
Major funds:		
General:		
Expendable trust	\$	288,234
Modular building capital project		<u>358,247</u>
Total committed		646,481

(Continued)

**PELHAM SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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*Governmental fund balances continued:*

<b>Assigned:</b>	
Major funds:	
General:	
Encumbrances	133,451
<b>Unassigned:</b>	
Major fund:	
General	1,404,305
Total governmental fund balances	<u><u>\$ 2,417,526</u></u>

**NOTE 12 – PRIOR PERIOD ADJUSTMENTS**

Net position/fund balance at July 1, 2013 was restated for the following:

	Government-wide Statements	General Fund	Other Governmental Fund (Food Service)
To adjust for recognition of the prior year accrual for summer pay benefits	\$ (375,672)	\$ (375,672)	\$ -
To recognize assets disposed in years prior and adjustments for unreasonable useful lives	(441,858)	-	-
To capitalize prior year expenditures included in current year capital asset addition	414,205	-	-
To remove inventory balance, no longer reported due to change in accounting policy	(31,302)	-	(31,302)
To restate beginning OPEB liability for absorption of SAU No. 28	(32,170)	-	-
Net position/fund balance, as previously reported	16,280,793	1,808,125	248,146
Net position/fund balance, as restated	<u><u>\$ 15,813,996</u></u>	<u><u>\$ 1,432,453</u></u>	<u><u>\$ 216,844</u></u>

**NOTE 13 – EMPLOYEE RETIREMENT PLAN**

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

The System is financed by contributions from both the employees and the School District. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees are required to contribute 7% of earnable compensation. For fiscal year 2014, the School District contributed 14.16% for teachers and 10.77% for other employees. The contribution requirements for the fiscal years 2012, 2013, and 2014 were \$1,078,733, \$1,110,425, and \$1,406,493, 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, or collective bargaining 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. Expenses for the postretirement health care benefits are recognized as eligible employee claims are paid.

**PELHAM SCHOOL DISTRICT**  
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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. 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 15 years. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2014:

Annual required contribution/OPEB cost	\$ 372,896
Interest on net OPEB obligation	(11,633)
Adjustment to annual required contribution	19,889
Annual OPEB cost (expense)	381,152
Contributions made	(343,727)
Increase in net OPEB obligation	37,425
Net OPEB obligation - beginning of year, as restated	(258,518)
Net OPEB obligation - end of year	<u>\$ (221,093)</u>

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ending June 30, 2014 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Contribution Cost	Percentage Contributed	Net OPEB Obligation
June 30, 2012	\$ 313,293	104.05%	\$ (278,523)
June 30, 2013	\$ 300,323	149.50%	\$ (290,688)
June 30, 2014	\$ 381,152	92.18%	\$ (221,093)

As of July 1, 2013, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$2,583,801, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,583,801. The covered payroll (annual payroll of active employees covered by the plan) was \$13,328,171 during fiscal year 2014, and the ratio of the UAAL to the covered payroll was 21%.

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 July 1, 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, 2014 was 29 years.

**PELHAM SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2014**

**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 2014, the School District was a member of the New Hampshire Public Risk Management Exchange (Primex<sup>3</sup>) Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pool, currently operating as common risk management and insurance program for member School Districts and cities.

The New Hampshire Public Risk Management Exchange (Primex<sup>3</sup>) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from July 1 to June 30, 2014 by Primex<sup>3</sup>, 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, 2014 was \$73,234 for workers' compensation and \$59,465 for property/liability. The workers' compensation section of the self-insurance membership agreement permits Primex<sup>3</sup> to make additional assessments to members should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex<sup>3</sup> foresees no likelihood of any additional assessment for this or any prior year.

**NOTE 16 – CONTINGENT LIABILITIES**

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

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

**NOTE 17 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

The following GASB pronouncements were implemented by the School District for the fiscal year ended June 30, 2014. These pronouncements had no impact on the current financial statements:

**GASB Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62***, issued March 2012. 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. The guidance contained in this Statement 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. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees***, issued in April 2013. The objective of this Statement is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees.

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. 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.



**PELHAM SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2014**

**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. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date***, issued in November 2013, should be implemented simultaneously with the provision of Statement No. 68, beginning with the fiscal year ending June 30, 2015. This Statement addresses an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

***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 30, 2015, the date the June 30, 2014 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, 2014*

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, 2014	\$ -	\$ 2,583,801	\$ 2,583,801	0.00%	\$ 12,328,171	21.00%
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, 2014**

***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, 2014, and the two preceding years.

***COMBINING AND 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, 2014*

	Estimated	Actual	Variance Positive (Negative)
School district assessment:			
Current appropriation	\$ 17,796,307	\$ 17,796,307	\$ -
Other local sources:			
Tuition	45,000	64,548	19,548
Transportation	30,000	39,993	9,993
Investment income	500	341	(159)
Rentals	-	23,296	23,296
Miscellaneous	250,000	332,938	82,938
Total from other local sources	325,500	461,116	135,616
State sources:			
Adequacy aid (grant)	3,877,038	3,877,038	-
Adequacy aid (tax)	3,359,266	3,359,266	-
Catastrophic aid	180,000	226,992	46,992
Vocational aid	-	14,669	14,669
Total from state sources	7,416,304	7,477,965	61,661
Federal sources:			
Medicaid	75,000	193,013	118,013
Other	-	498	498
Total from federal sources	75,000	193,511	118,511
Total revenues	25,613,111	\$ 25,928,899	\$ 315,788
Fund balance used to reduce school district assessment	232,060		
Total revenues and use of fund balance	\$ 25,845,171		



**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, 2014**

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
Instruction:					
Regular programs	\$ 1,104	\$ 6,747,680	\$ 9,219,829	\$ 3,015	\$ (2,474,060)
Special programs	4,898	3,210,474	4,162,986	26,306	(973,920)
Vocational programs	-	52,000	64,967	3,180	(16,147)
Other	-	499,350	575,547	229	(76,426)
Total instruction	6,002	10,509,504	14,023,329	32,730	(3,540,553)
Support services:					
Student	22,967	1,518,940	2,127,546	483	(586,122)
Instructional staff	-	511,585	889,423	2,287	(380,125)
General administration	-	114,350	113,588	-	762
Executive administration	-	368,123	526,126	2,496	(160,499)
School administration	11,450	908,681	1,189,373	-	(269,242)
Business	-	300,051	515,480	29,897	(245,326)
Operation and maintenance of plant	89,403	1,948,384	2,201,323	22,976	(186,512)
Student transportation	-	1,780,018	1,706,615	-	73,403
Other	-	7,429,912	894,530	35,283	6,500,099
Total support services	123,820	14,880,044	10,164,004	93,422	4,746,438
Facilities acquisition and construction	1,158,038	448,123	1,348,058	7,299	250,804
Other financing uses:					
Transfers out	-	7,500	-	-	7,500
Total appropriations, expenditures, other financing uses, and encumbrances	\$ 1,287,860	\$ 25,845,171	\$ 25,535,391	\$ 133,451	\$ 1,464,189

**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, 2014*

Unassigned fund balance, beginning, as restated (see Note 12)		\$ (143,612)
Changes:		
Fund balance used to reduce school district assessment		(232,060)
2013-2014 Budget summary:		
Revenue surplus (Schedule 1)	\$ 315,788	
Unexpended balance of appropriations (Schedule 2)	<u>1,464,189</u>	
2013-2014 Budget surplus		<u>1,779,977</u>
Unassigned fund balance, ending		<u><u>\$ 1,404,305</u></u>

*SCHEDULE 4*  
*PELHAM SCHOOL DISTRICT*  
*Student Activities Funds*  
*Combining Schedule of Changes in Student Activities Funds*  
*For the Fiscal Year Ended June 30, 2014*

	Balance, beginning	Additions	Deductions	Balance, ending
Schools:				
Pelham High School	\$ 155,743	\$ 228,650	\$ 193,510	\$ 190,883
Pelham Memorial School	66,782	61,430	73,303	54,909
Pelham Elementary School	19,593	24,186	22,312	21,467
Athletics	12,524	41,798	43,093	11,229
High School Principal's account	4,948	2,981	2,059	5,870
Totals	<u>\$ 259,590</u>	<u>\$ 359,045</u>	<u>\$ 334,277</u>	<u>\$ 284,358</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 States of America and the standards applicable to the financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the Pelham School District, as of and for the year ended June 30, 2014, 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 30, 2015.

#### ***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. Piatt, CPA*

PLODZIK & SANDERSON  
Professional Association

January 30, 2015



## **PLODZIK & SANDERSON**

*Professional Association/Accountants & Auditors*

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### ***INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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, 2014. 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, 2014.

#### ***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.



***Pelham School District***

***Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by OMB Circular A-133***

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

*Sheryl A. Platt, CPA*

PLODZIK & SANDERSON  
Professional Association

January 30, 2015

**SCHEDULE I**  
**PELHAM SCHOOL DISTRICT**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2014**

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**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 are requesting that Plodzik & Sanderson provide us with a template for the correct wording for the certifications letters which we will implement with our mid-year letter.

**Status:** Corrective action has been taken.

**SCHEDULE II**  
**PELHAM SCHOOL DISTRICT**  
*Schedule of Findings and Questioned Costs*  
*For the Year Ended June 30, 2014*

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued: Unmodified

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 federal programs: Unmodified

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee?   X   yes        no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**NONE**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**NONE**

**SCHEDULE III**  
**PELHAM SCHOOL DISTRICT**  
*Schedule of Expenditures of Federal Awards*  
*For the Year Ended June 30, 2014*

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed Through the State of New Hampshire Department of Education			
<b>CHILD NUTRITION CLUSTER</b>			
School Breakfast Program	10.553	N/A	\$ 781
National School Lunch Program <i>(note 3)</i>	10.555	N/A	202,505
Special Milk Program for Children	10.556	N/A	13
<i>CLUSTER TOTAL</i>			<u>203,299</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed Through the State of New Hampshire Department of Education			
Title I Grants to Local Educational Agencies:			
Title I	84.010	30110	2,775
Title I	84.010	40110	136,697
<i>PROGRAM TOTAL</i>			<u>139,472</u>
<b>SPECIAL EDUCATION CLUSTER</b>			
Special Education - Grants to States	84.027	42584	342,442
Special Education - Preschool Grants	84.173	42584	3,166
<i>CLUSTER TOTAL</i>			<u>345,608</u>
Improving Teacher Quality State Grants:			
Title II	84.367	24909	(706)
Title II	84.367	34909	32,909
Title II	84.367	44909	32,909
<i>PROGRAM TOTAL</i>			<u>65,112</u>
English Language Acquisition Grants:			
Passed Through the Windham School District, New Hampshire			
Title III (FY 2013)	84.365	30810	1,240
Passed Through the Hudson School District, New Hampshire			
Title III (FY 2014)	84.365	40815	2,405
<i>PROGRAM TOTAL</i>			<u>3,645</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 757,136</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, 2014**

***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, 2014. 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.