

PELHAM SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

PELHAM SCHOOL DISTRICT
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JUNE 30, 2016

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PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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INDEPENDENT AUDITOR'S REPORT

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

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, 2016, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, 2016, and the respective changes in financial position and the respective budgetary comparison for the general 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, Schedule of Funding Progress for Other Postemployment Benefit Plan, the Schedule of the School District's Proportionate Share of Net Pension Liability, and the Schedule of the School District Contributions be

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

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

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 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual fund schedules and 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 schedules and 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 9, 2017 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 the Pelham School District's internal control over financial reporting and compliance.

Sheryl A. Platt, CPA

January 9, 2017

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, 2016

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, 2016. 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 revenues were \$28,835,840; total expenses from governmental activities were \$27,426,456; resulting in an increase of \$1,409,384 in net position over the prior years' ending net position.
- The District's total net position for the year ending June 30, 2016, was \$4,492,304. Net position increased by \$1,409,384 between July 1, 2015 and June 30, 2016. Capital assets, net of debt, were \$13,563,254, a decrease of \$4,326,328 from July 1, 2015 to June 30, 2016.
- During the year, the District's General Fund Non-GAAP budgetary expenditures and transfers of \$27,526,714 were \$922,353 less than the final adjusted budget and the General Fund Non-GAAP budgetary revenues of \$27,305,797 were \$569,448 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 \$1,497,325, or 5.43% of total General Fund expenditures, a decrease of 4.5% from the prior year.
- During the year, the District received \$623,309 in federal grants, a decrease of \$2,585 or 0.43% less than the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

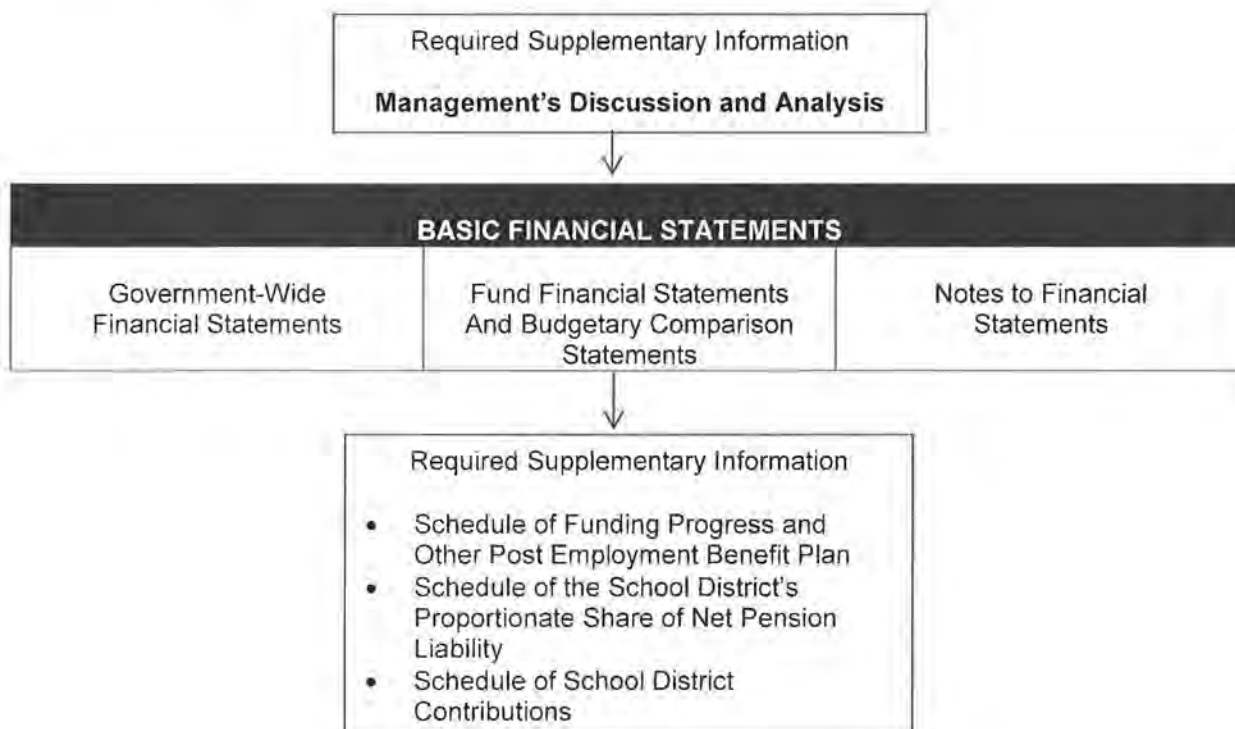
OVERVIEW OF FINANCIAL STATEMENTS

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

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, 2016

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

	Government-Wide	Fund Statements	
		Governmental	Fiduciary
SCOPE	Entire District government (except fiduciary funds)	All activities of the District that are not proprietary or fiduciary	Instances in which the District is the trustee or agent for someone else's resources
REQUIRED FINANCIAL STATEMENTS	Statement of Net Position	Balance Sheet	Statement of Fiduciary 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)
ACCOUNTING BASIS	Accrual	Modified Accrual	Accrual
MEASUREMENT FOCUS	Economic Resources	Current Financial Resources	Economic Resources
TYPE OF INFORMATION ASSETS AND LIABILITIES	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both short-term and long-term
TYPE OF INFORMATION REVENUES, EXPENSES, AND EXPENDITURES	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

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. The general fund's 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, 2016

Net Position for the period ending June 30, 2016

Total net position at year end was \$4,492,304, an increase of \$1,409,384 or 45.72% from the prior year.

Net Position	2016	2015	% Variance
Current Assets	8,019,996	18,036,613	-55.53%
Non-current Assets	35,742,910	26,557,498	34.59%
Total Assets	43,762,906	44,594,111	-1.86%
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pensions	1,780,792	1,433,065	24.26%
Current Liabilities	2,727,289	3,144,609	-13.27%
Non-current Liabilities	37,597,084	38,000,514	-1.06%
Total Liabilities	40,324,373	41,145,123	-1.99%
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pensions	727,021	1,799,133	-59.59%
Investment in capital assets (net of debt)			
Restricted net position	13,563,254	17,889,582	-24.18%
Restricted for food service	300,704	271,169	10.89%
Unrestricted net position	(9,371,654)	(15,077,831)	-37.84%
Total Net Position	4,492,304	3,082,920	45.72%

Change in Net Position

The District's total revenues were \$28,835,840; total expenses from governmental activities were \$27,426,456; resulting in an increase of \$1,409,384 in net position over the prior years' ending net position.

This year, 92.3% of the District's revenues came from the local tax assessment and the State of New Hampshire, a decrease of 0.21% 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, 2016

Statement of Activities	2016	% of Total	2015	% of Total	% Variance
Revenues:					
Program revenues:					
Charges for services	727,134	2.5%	823,411	3.0%	-11.69%
Operating grants	1,485,275	5.2%	1,238,076	4.5%	19.97%
Capital grants	0	0.0%	0	0.0%	0.00%
General revenues:					
School district assessment	18,273,047	63.4%	17,531,967	63.4%	4.23%
Unrestricted grants	7,906,731	27.4%	7,548,782	27.3%	4.74%
Interest	21,223	0.1%	48,127	0.2%	-55.90%
Miscellaneous	422,430	1.5%	461,599	1.7%	-8.49%
Total revenues	\$28,835,840	100%	\$27,651,962	100%	4.28%
Program Expenses:					
Instruction	15,646,751	57.0%	13,971,003	52.0%	11.99%
Support services:					
Student	1,995,490	7.3%	2,294,923	8.5%	-13.05%
Instructional staff	775,348	2.8%	1,274,984	4.7%	-39.19%
General administration	90,140	0.3%	86,067	0.3%	4.73%
Executive administration	521,140	1.9%	574,294	2.1%	-9.26%
School administration	1,327,567	4.8%	1,593,963	5.9%	-16.71%
Business	373,717	1.4%	499,548	1.9%	-25.19%
Operation and maintenance of plant	2,177,450	7.9%	2,123,043	7.9%	2.56%
Student transportation	1,570,403	5.7%	1,642,439	6.1%	-4.39%
Other	891,813	3.3%	899,657	3.4%	-0.87%
Non-instructional services	859,004	3.1%	965,493	3.6%	-11.03%
Interest on long-term debt	785,732	2.9%	895,856	3.3%	-12.29%
Facilities acquisition and construction	411,901	1.5%	33,463	0.1%	1130.91%
Total governmental activities	\$27,426,456	100%	\$26,854,733	100%	2.13%
Change in net position	\$1,409,384		\$797,229		76.79%
Beginning net position	\$3,082,920		\$2,285,691		34.88%
Ending net position	\$4,492,304		\$3,082,920		45.72%

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

Revenues

School district assessment was 63.4% of total revenues for the fiscal year ended June 30, 2016, the same as the prior year.

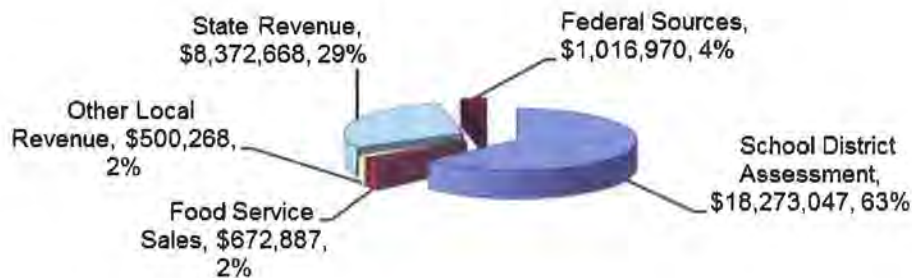
State of New Hampshire source intergovernmental revenues were 29% of total revenues for the fiscal year ended June 30, 2016, an increase of 0.90% from the prior year.

Federal revenues were 3.53% of total revenues for the fiscal year ended June 30, 2016, a decrease of 0.11% from the prior year.

Summary of Revenues

The biggest share, \$26,645,715 (92.4%), 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 2015-2016



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:

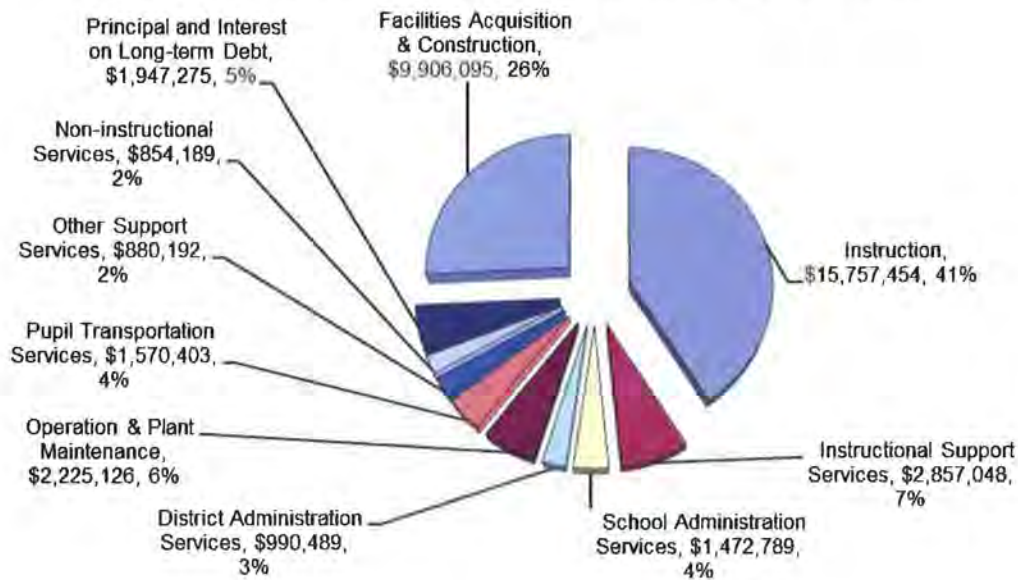
- Instruction expenses were 40.97% of total expenses for the fiscal year ended June 30, 2016, an increase of 4.54% from the prior year, however, excluding the high school capital project, instruction expenses increased 1.53% to 59.22% of expenses.
- Instructional and staff support service expenses were 7.43% of total expenses for the fiscal year ended June 30, 2016, a decrease of 11.72% from the prior year, and, excluding the high school capital project, these expenses decreased 1.65% to 10.74% of expenses.
- Facilities acquisition and construction expenses were 25.76% of total expenses for the fiscal year ended June 30, 2016, a decrease of 3.07% from the prior year as a result of the high school capital project.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

Summary of Expenses

The Pelham School District used its budgetary resources as depicted in the following chart. Excluding the high school capital project, 65.19% 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.

School District Total Expenses 2015 - 2016



Highlighted changes in total expenses include:

- An increase in Instruction spending of \$684,798 or 4.54% over the prior year
- A decrease in Instructional and Staff Support Services of \$379,379 or -11.72% over the prior year
- A decrease in District Administration of \$128,011 or -11.44% over the prior year.
- An increase in School Administration services of \$178,573 or 13.80% over the prior year.
- A decrease in Pupil Transportation services of \$55,285 or -3.40% over the prior year.
- A decrease in Facilities Acquisition & Construction spending of \$893,966 or -8.28% over the prior year.
- An increase in Interest on Long-term Debt of \$1,407,749 or 260.92% over the prior year, due to the high school capital project.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

Governmental Activities

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

TOTAL AND NET COST OF SERVICES					
Total Cost of Services					
	2016		2015		Variance
Functions / Programs					
Instruction	\$15,646,751	57.0%	\$13,987,754	52.1%	\$1,658,997
Support services	9,723,068	35.5%	10,972,167	40.9%	(1,249,099)
Food service program	859,004	3.1%	965,493	3.6%	(106,489)
Facilities acquisition	411,901	1.5%	33,463	0.1%	378,438
Unallocated					
Interest	785,732	2.9%	895,856	3.3%	(110,124)
	<u>\$27,426,456</u>	<u>100%</u>	<u>\$ 26,854,733</u>	<u>100%</u>	<u>\$ 571,723</u>
Net Cost of Services					
	2016		2015		Variance
Functions / Programs					
Instruction	\$14,399,038	57.1%	\$12,843,105	51.8%	\$1,555,933
Support services	9,642,096	38.2%	10,972,167	44.2%	(1,330,071)
Food service program	(24,720)	-0.1%	58,558	0.2%	(83,278)
Facilities acquisition	411,901	1.6%	33,463	0.1%	378,438
Unallocated					
Interest	785,732	3.1%	895,856	3.6%	(110,124)
	<u>\$25,214,047</u>	<u>100%</u>	<u>\$ 24,803,149</u>	<u>100%</u>	<u>\$ 410,898</u>

The total cost of all governmental activities in 2016 was \$27,426,456; the total net cost was \$25,214,047. 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 \$21,657,601; which consisted of \$18,273,047 paid in the form of local property taxes and \$3,384,554 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 \$4,522,177 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

Charges for Services

- Total food service revenues of \$883,724 consisted of food service sales and local miscellaneous revenues in the amount of \$672,887 and federal and state food nutrition program operating contributions (free and reduced lunch reimbursements and commodities) of \$210,837.

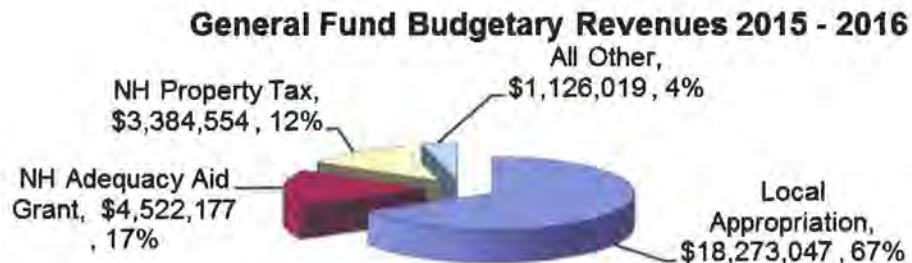
Operating Grants and Contributions

- Federal grants for instruction were received in the amount of \$623,309.

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 79.32% of general fund revenues. Together, the revenues raised locally and the state adequacy grant comprises 95.88% 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.



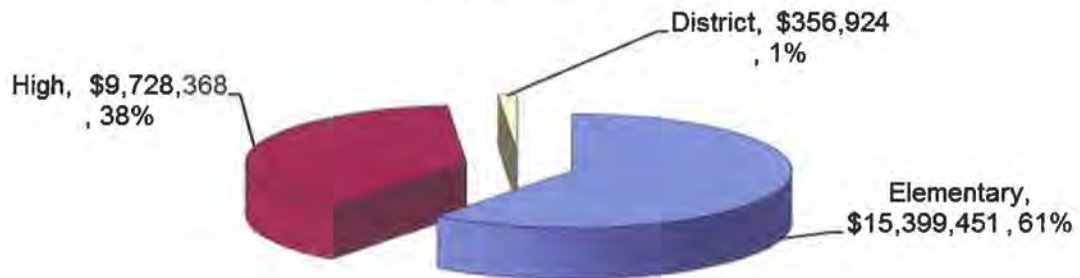
In 2016, instruction made up 55.15% of all general fund expenditures, a decrease of 1.47% from the prior year expenditures, while all other support services including transportation, operation of plant, and administration make up 37.24% of all General Fund expenditures, a decrease of 3.74% from the prior year. The remaining 7.6% includes facility acquisition & construction, debt service, and fund transfers, an increase of 4.2% from the prior year. The following charts provide a more detailed depiction of the makeup and proportions of the expenditures in these broad categories.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

**General Fund Budgetary Expenditures by Functions
2015- 2016**



**General Fund Budgetary Expenditures by Grade Level
2015 - 2016**



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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

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



SUMMARY OF FEDERAL SUPPORT OF THE DISTRICT

During fiscal year 2016, 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 \$407,872. 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 \$132,236. These grants funded: supplemental instruction for math and reading intervention; summer programming in math and reading; and professional development in math and reading intervention.
- Title IIA, Improving Teacher Quality State Grants was awarded for the current period in the amount of \$73,826. 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 \$5,474. The grant was used to purchase materials and equipment.
- U. S. Department of Agriculture National School Lunch Program revenues for the current period were \$199,611. These revenues were used to offset the expenses of the school lunch program.
- U.S. Environmental Protection Agency awarded an Environmental Education Grant during the current period in the amount of \$3,750, of which \$173 was expended to purchase materials used for water testing for arsenic for community members.

CAPITAL RESERVE ACCOUNTS

The district has six 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

ADA Modif Fund School District, Memorial Athletic Field, School Building Land and School Building Land - HS capital reserve fund accounts increased \$54.47 during the year. In addition, the Special Education CRF was funded with \$125,000 and earned \$154.71 in interest to reflect an ending balance of \$200,154.73. The School Building Maintenance CRF was funded with \$25,000 and earned \$180.34 in interest to reflect an ending balance of \$237,248.37. Total of all funds increased from to \$363,267.61 on June 30, 2015 to \$513,656.53 as of June 30, 2016, inclusive of new funding and interest earned. In accordance with statutory requirements, these funds are held in custody by the Trustees of Trust Funds of the Town of Pelham and are only released for the restricted specific purposes of the individual funds.

COMMENTS ON GENERAL FUND BUDGET COMPARISONS

The beginning General Fund equity was \$1,568,242. General Fund revenues, consisting largely of local taxes and state aid, were \$27,305,797. General Fund expenditures, including fund transfers, were \$27,582,023. The ending fund equity for the District was \$2,259,077 of which \$1,497,325 is an unassigned fund balance, a decrease of \$70,918 from the prior year's unassigned fund balance. The unassigned fund balance is used to lower the amount of money raised by property taxes.

- General Fund actual revenues were greater than the final budgeted revenues by \$569,448.
- General Fund expenditures were less than the final adjusted budgeted spending by \$922,353. The major components of this budget underspend include:
 - \$274,780 operating budget underspend from the RSA 198:20 (b) hearing budget adjustment for the HealthTrust Payment Holiday.
 - \$50,230 operating budget underspend in the Special Services functions, including a \$153,049 underspend in salaries for teacher and assistant positions, a \$51,765 underspend in benefits, and a \$81,491 underspend in transportation. Special Services transportation was overspent by \$329,511.
 - \$414,633 budget underspend in non-Special Services salaries. This was primarily due to turnover, including \$294,602 in regular education (excluding substitutes), \$32,909 in guidance, and \$41,000 in custodial/maintenance.
 - \$753,940 budget underspend in non-Special Services health insurance. \$610,000 is for medical insurance of which approximately \$275,000 is as a result of the Healthtrust refund. \$45,000 is a result of actual worker's compensation and unemployment rates coming in under budget. \$32,000 is a result of actual rates for insurance coming in under Guaranteed Maximum Rate, \$21,000 is for life and disability insurance, realized by switching to a new vendor, and the balance is from a savings in payroll benefits due to the underspend in salary accounts.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2016, the District reported capital assets of \$35,742,910 (net of accumulated depreciation), which consist of a broad range of capital assets, including land, buildings & improvements, and machinery and equipment.

There were building improvements as well as other increases in capital assets. Capital asset additions in 2016 included: PHS new Addition, PMS Emergency Generator and technology equipment. In addition, there was a \$19,650,449 work in progress as a result of the high school construction project.

Governmental Activities	2016	2015	% Variance
Land & Improvements	2,412,599	2,494,709	-3.29%
Buildings & Improvements	18,429,018	18,525,018	-0.52%
Machinery, Equipment & Vehicles	527,531	468,536	12.59%
Work In Progress	19,650,449	10,101,279	94.53%
Totals at Historical Cost	41,019,597	31,589,542	29.85%
Total Accumulated Depreciation	5,276,687	5,032,044	4.86%
NET CAPITAL ASSETS	35,742,910	26,557,498	34.59%

Long-Term Liabilities

On June 30, 2016, the District had \$21,521,784 in general obligation bonds. In addition, \$657,872 in capital leases and \$631,194 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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

Governmental Activities	2016	2015	% Variance
General Obligation Bonds	21,521,784	22,657,404	-5.01%
Compensated Absences	631,194	522,582	20.78%
Capital Leases Payable	657,872	923,935	-28.80%
Other Post-Employment Benefits Payable	(151,487)	(164,538)	-7.93%
TOTAL LONG-TERM LIABILITIES	22,659,363	23,939,383	-5.35%

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 2016-2017 fiscal year is \$1,497,325.

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

1. At the time of this report, the Pelham School Board and the Pelham Educational Support Personnel Association (PESPA) have negotiated a new three-year contract to be effective with the 2017-2018 school year. Should the voters approve the agreement, the first year costs are estimated to be \$71,971, the second year costs are estimated to be \$81,511 and \$78,551 in year 3.
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 not 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, but may in the future.

Questions regarding this report should be directed to Ms. Amanda Lecaroz, Superintendent of Schools, or to Ms. Deborah Mahoney, 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, 2016

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 7,303,947
Accounts receivable	3,562
Intergovernmental receivable	707,652
Prepaid items	4,835
Capital assets, not being depreciated	20,395,129
Capital assets, net of accumulated depreciation	15,347,781
Total assets	<u>43,762,906</u>
DEFERRED OUTFLOWS OF RESOURCES	
Amounts related to pensions	<u>1,780,792</u>
LIABILITIES	
Accounts payable	1,111,241
Intergovernmental payable	10
Retainage payable	1,268,286
Other	5,920
Accrued interest payable	341,832
Noncurrent obligations:	
Due within one year	1,412,121
Due in more than one year	21,247,242
Net pension liability	14,937,721
Total liabilities	<u>40,324,373</u>
DEFERRED INFLOWS OF RESOURCES	
Amounts related to pensions	<u>727,021</u>
NET POSITION	
Net investment in capital assets	13,563,254
Restricted	300,704
Unrestricted	(9,371,654)
Total net position	<u>\$ 4,492,304</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, 2016

		Program Revenues		Net (Expense)
		Charges	Operating	Revenue and
		for	Grants and	Change In
	Expenses	Services	Contributions	Net Position
Governmental activities:				
Instruction	\$ 15,646,751	54,247	1,193,466	\$ (14,399,038)
Support services:				
Student	1,995,490	-	-	(1,995,490)
Instructional staff	775,348	-	80,063	(695,285)
General administration	90,140	-	-	(90,140)
Executive administration	521,140	-	-	(521,140)
School administration	1,327,567	-	-	(1,327,567)
Business	373,717	-	-	(373,717)
Operation and maintenance of plant	2,177,450	-	-	(2,177,450)
Student transportation	1,570,403	-	-	(1,570,403)
Other	891,813	-	909	(890,904)
Noninstructional services	859,004	672,887	210,837	24,720
Interest on long-term debt	785,732	-	-	(785,732)
Facilities acquisition and construction	411,901	-	-	(411,901)
Total governmental activities	<u>\$ 27,426,456</u>	<u>\$ 727,134</u>	<u>\$ 1,485,275</u>	<u>(25,214,047)</u>
General revenues:				
School district assessment				18,273,047
Grants and contributions not restricted to specific programs				7,906,731
Miscellaneous				443,653
Total general revenues				<u>26,623,431</u>
Change in net position				1,409,384
Net position, beginning				3,082,920
Net position, ending				<u>\$ 4,492,304</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, 2016

	General	Capital Project High School	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,047,793	\$ 4,939,585	\$ 316,569	\$ 7,303,947
Accounts receivable	3,538	-	24	3,562
Intergovernmental receivable	542,282	-	165,370	707,652
Interfund receivable	156,254	-	-	156,254
Prepaid items	4,835	-	-	4,835
Total assets	<u>\$ 2,754,702</u>	<u>\$ 4,939,585</u>	<u>\$ 481,963</u>	<u>\$ 8,176,250</u>
LIABILITIES				
Accounts payable	\$ 495,615	\$ 596,541	\$ 19,085	\$ 1,111,241
Intergovernmental payable	10	-	-	10
Interfund payable	-	-	156,254	156,254
Retainage payable	-	1,268,286	-	1,268,286
Other	-	-	5,920	5,920
Total liabilities	<u>495,625</u>	<u>1,864,827</u>	<u>181,259</u>	<u>2,541,711</u>
FUND BALANCES				
Restricted	-	3,074,758	300,704	3,375,462
Committed	513,657	-	-	513,657
Assigned	248,095	-	-	248,095
Unassigned	1,497,325	-	-	1,497,325
Total fund balances	<u>2,259,077</u>	<u>3,074,758</u>	<u>300,704</u>	<u>5,634,539</u>
Total liabilities and fund balances	<u>\$ 2,754,702</u>	<u>\$ 4,939,585</u>	<u>\$ 481,963</u>	<u>\$ 8,176,250</u>

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

EXHIBIT C-2
PELHAM SCHOOL DISTRICT
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2016

Total fund balances of governmental funds (Exhibit C-1)		\$ 5,634,539
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	\$ 41,019,597	
Less accumulated depreciation	<u>(5,276,687)</u>	
		35,742,910
Certain items are not current financial resources in the governmental funds, but instead are reported in the Statement of Net Position.		
Deferred outflows of resources related to pensions	1,780,792	
Deferred inflows of resources related to pensions	<u>(727,021)</u>	
		1,053,771
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (156,254)	
Payables	<u>156,254</u>	
		-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(341,832)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bond	\$ 19,705,000	
Unamortized bond premium	1,816,784	
Capital lease	657,872	
Compensated absences	631,194	
Other postemployment benefits	(151,487)	
Net pension liability	<u>14,937,721</u>	
		(37,597,084)
Net position of governmental activities (Exhibit A)		<u>\$ 4,492,304</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, 2016

	General	Capital Project High School	Other Governmental Funds	Total Governmental Funds
REVENUES				
School district assessment	\$ 18,273,047	\$ -	\$ -	\$ 18,273,047
Other local	477,647	20,253	675,255	1,173,155
State	8,361,442	-	11,226	8,372,668
Federal	194,050	-	822,920	1,016,970
Total revenues	27,306,186	20,253	1,509,401	28,835,840
EXPENDITURES				
Current:				
Instruction	15,212,749	-	544,705	15,757,454
Support services:				
Student	1,983,555	-	79,672	2,063,227
Instructional staff	793,430	-	391	793,821
General administration	90,140	-	-	90,140
Executive administration	524,577	-	-	524,577
School administration	1,472,789	-	-	1,472,789
Business	375,772	-	-	375,772
Operation and maintenance of plant	2,225,126	-	-	2,225,126
Student transportation	1,570,403	-	-	1,570,403
Other	879,283	-	909	880,192
Noninstructional services	-	-	854,189	854,189
Debt service:				
Principal	1,040,000	-	-	1,040,000
Interest	907,275	-	-	907,275
Facilities acquisition and construction	356,924	9,549,171	-	9,906,095
Total expenditures	27,432,023	9,549,171	1,479,866	38,461,060
Net change in fund balances	(125,837)	(9,528,918)	29,535	(9,625,220)
Fund balances, beginning	2,384,914	12,603,676	271,169	15,259,759
Fund balances, ending	\$ 2,259,077	\$ 3,074,758	\$ 300,704	\$ 5,634,539

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, 2016

Net change in fund balances of total governmental funds (Exhibit C-3)		\$ (9,625,220)
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	\$ 9,628,504	
Depreciation expense	(364,794)	
		9,263,710
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, donations, reclassifications, and disposals)		(78,298)
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expenses.		
Contributions subsequent to the measurement date	\$ 1,346,463	
Net pension expense	(803,214)	
		543,249
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net position. Neither consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Principal repayment of bond	\$ 1,040,000	
Amortization of bond premium	95,620	
Principal repayment of capital leases	266,063	
		1,401,683
Some expenses reported in the Statement of Activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued interest expense	\$ 25,923	
Increase in compensated absences payable	(108,612)	
Increase in other postemployment benefits	(13,051)	
		(95,740)
Change in net position of governmental activities (Exhibit B)		<u>\$ 1,409,384</u>

EXHIBIT D
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, 2016

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
REVENUES				
School district assessment	\$ 18,273,047	\$ 18,273,047	\$ 18,273,047	\$ -
Other local	65,350	65,350	477,258	411,908
State	8,272,952	8,272,952	8,361,442	88,490
Federal	125,000	125,000	194,050	69,050
Total revenues	26,736,349	26,736,349	27,305,797	569,448
EXPENDITURES				
Current:				
Instruction	15,422,421	15,422,421	15,112,684	309,737
Support services:				
Student	2,146,046	2,146,046	1,982,968	163,078
Instructional staff	913,470	913,470	813,239	100,231
General administration	109,306	109,306	102,058	7,248
Executive administration	660,242	660,242	524,512	135,730
School administration	1,326,665	1,328,290	1,472,498	(144,208)
Business	385,192	383,567	370,560	13,007
Operation and maintenance of plant	2,314,652	2,314,652	2,235,627	79,025
Student transportation	1,817,386	1,817,386	1,571,768	245,618
Other	965,773	965,773	855,413	110,360
Debt service:				
Principal	1,040,000	1,040,000	1,040,000	-
Interest	907,275	907,275	907,275	-
Facilities acquisition and construction	290,639	290,639	388,112	(97,473)
Total expenditures	28,299,067	28,299,067	27,376,714	922,353
Excess (deficiency) of revenues over (under) expenditures	(1,562,718)	(1,562,718)	(70,917)	1,491,801
OTHER FINANCING USES				
Transfers out	(150,000)	(150,000)	(150,000)	-
Net change in fund balance	\$ (1,712,718)	\$ (1,712,718)	(220,917)	\$ 1,491,801
Decrease in committed fund balance			150,000	
Unassigned fund balance, beginning			1,568,242	
Unassigned fund balance, ending			\$ 1,497,325	

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

EXHIBIT E-1
PELHAM SCHOOL DISTRICT
Fiduciary Funds
Statement of Net Position
June 30, 2016

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ -	\$ 287,696
Intergovernmental receivable	3,443	-
Total assets	3,443	287,696
LIABILITIES		
Due to student groups	-	287,696
NET POSITION		
Held in trust for specific purposes	\$ 3,443	\$ -

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 Net Position
For The Fiscal Year Ended June 30, 2016

	Private Purpose Trust
Additions:	
Interest	\$ 2
Deductions:	
Scholarships	<u>200</u>
Change in net position	(198)
Net position, beginning	<u>3,641</u>
Net position, ending	<u><u>\$ 3,443</u></u>

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

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

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PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

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 principles 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, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements – The School District's government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental activities for the School District. 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, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the School District are reported in two categories: 1) charges for services, 2) operating grants and contributions.

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

Governmental Fund Financial Statements – Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds, and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements. The School District has presented all major funds that met those qualifications.

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

Fiduciary Fund Financial Statements – Fiduciary fund financial statements include a Statement of Net Position and a Statement of Changes in 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.

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

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.

Capital Project Fund – the Pelham High School capital project fund accounts for the activity pertaining to the construction/renovation of Pelham High School.

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

Fiduciary Funds – The School District also reports the following fiduciary funds:

Private Purpose Trust Funds – are used to account for trust arrangements under which principal and income benefit individuals in the form of scholarships.

Agency Fund - used to account for assets held in an agency capacity on behalf of students of the School District in the form of student activity funds.

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

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

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 reported amounts of assets, deferred inflows/outflows, and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 practice 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 practice 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.

PELIHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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1-D Receivables

Receivables in the government-wide and governmental fund financial statements represent amounts due to the School District at June 30, recorded as revenue, which will be collected in the future and consist primarily of accounts and intergovernmental receivables.

1-E Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and governmental fund financial statements and expensed as the items are used.

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 Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then.

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

1-H Compensated Absences

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

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

1-I Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums are deferred and amortized over the life of the bond using the straight line method. Bonds payable are reported net of the applicable bond premium.

PELHAM SCHOOL DISTRICT
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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 or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

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

In the governmental fund financial statements, fund balance is composed of four 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:

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the legislative body (School District Meeting). These amounts cannot be used for any other purpose unless the legislative body removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the School District’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the School Board or through the Board delegating this responsibility to the Superintendent or Business Administrator through the budgetary process.

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

1-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.

1-L Defined Benefit Pension Plan

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* requires participating employers to recognize their proportionate share of collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, and schedules have been prepared to provide employers with their calculated proportionate share of these amounts. The collective amounts have been allocated based on employer contributions during the respective fiscal years. Contributions from employers are recognized when legally due, based on statutory requirements.

The schedules prepared by New Hampshire Retirement System, and audited by the plan’s independent auditors, require management to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature and uncertainty of these estimates, actual results could differ, and the differences may be material.

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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 fund, as well as the nonmajor grants and food service funds. Except as reconciled below, the budget was adopted on a basis consistent with United States generally accepted accounting principles.

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

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

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. In the fiscal year 2016, \$1,712,718 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 (budgetary basis)	\$ 27,305,797
Adjustments:	
Basis difference:	
GASB Statement No. 54:	
Revenue of the blended expendable trust fund	389
Per Exhibit C-3 (GAAP basis)	<u>\$ 27,306,186</u>
Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 27,526,714
Adjustments:	
Basis difference:	
Encumbrances, beginning	303,404
Encumbrances, ending	(248,095)
GASB Statement No. 54:	
Eliminate transfers between blended expendable trust fund	(150,000)
Per Exhibit C-3 (GAAP basis)	<u>\$ 27,432,023</u>

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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 \$7,591,643 and the bank balances totaled \$9,075,276.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 7,303,947
Cash per Statement of Net Position-Fiduciary Funds (Exhibit E-1)	287,696
Total cash and cash equivalents	<u>\$ 7,591,643</u>

NOTE 4 – RECEIVABLES

Receivables at June 30, 2016, 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.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 consisted of the following:

	Balance, beginning	Additions	Retirements/ Reclassifications	Balance, ending
At cost:				
Not being depreciated:				
Land	\$ 744,680	\$ -	\$ -	\$ 744,680
Construction in progress	10,101,279	9,549,170	-	19,650,449
Total capital assets not being depreciated	<u>10,845,959</u>	<u>9,549,170</u>	<u>-</u>	<u>20,395,129</u>
Being depreciated:				
Land improvements	1,750,029	-	(82,110)	1,667,919
Buildings and building improvements	18,525,018	-	(96,000)	18,429,018
Machinery and equipment	468,536	79,334	(20,339)	527,531
Total capital assets being depreciated	<u>20,743,583</u>	<u>79,334</u>	<u>(198,449)</u>	<u>20,624,468</u>
Total capital assets	<u>31,589,542</u>	<u>9,628,504</u>	<u>(198,449)</u>	<u>41,019,597</u>
Less accumulated depreciation:				
Land improvements	(661,119)	(53,904)	164,776	(550,247)
Buildings and building improvements	(4,194,245)	(274,706)	(52,551)	(4,521,502)
Machinery and equipment	(176,680)	(36,184)	7,926	(204,938)
Total accumulated depreciation	<u>(5,032,044)</u>	<u>(364,794)</u>	<u>120,151</u>	<u>(5,276,687)</u>
Net book value, capital assets being depreciated	<u>15,711,539</u>	<u>(285,460)</u>	<u>(78,298)</u>	<u>15,347,781</u>
Net book value, all capital assets	<u>\$ 26,557,498</u>	<u>\$ 9,263,710</u>	<u>\$ (78,298)</u>	<u>\$ 35,742,910</u>

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

Support services:	
Operation and maintenance of plant	\$ 34,254
Other	6,129
Noninstructional services	3,372
Facilities acquisition and construction	321,039
Total depreciation expense	<u>\$ 364,794</u>

NOTE 6 – INTERFUND BALANCES

Interfund receivable and payable balances consisting of overdrafts in pooled cash and budgetary transfers at June 30, 2016, are as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor	<u>\$ 156,254</u>

NOTE 7 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows of resources of \$1,780,792 and deferred inflows of resources of \$727,021 in the governmental activities at June 30, 2016 consists of amounts related to pensions, see Note 14 for further information.

NOTE 8 – CONSTRUCTION COMMITMENTS

At June 30, 2016 the School District had uncompleted construction and architecture contracts in the High School capital project fund. The remaining commitment on these contracts is approximately \$2,813,636.

NOTE 9 – LEASE OBLIGATIONS

Capital Lease – The School District has entered into a certain capital lease agreement 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, 2016
Capital lease obligations:		
Modular building	2.67%	<u>\$ 657,872</u>

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

	Governmental Activities
Buildings and building improvements:	
Modular building	\$ 1,063,410
Less: accumulated depreciation	74,084
Total capital lease equipment	<u>\$ 989,326</u>

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The annual requirements to amortize the capital lease payable as of June 30, 2016, including interest payments, are as follows:

Fiscal Year Ending June 30,	Governmental Activities
2017	\$ 217,000
2018	217,000
2019	217,000
2020	44,610
Total requirements	695,610
Less: interest	37,738
Present value of remaining payments	<u>\$ 657,872</u>

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

Operating Leases – The School District is committed under various noncancelable operating leases, primarily for photo copy machines in the general fund. Future minimum operating lease commitments are as follows:

Fiscal Year Ending June 30,	Principal
2017	\$ 15,420
2018	15,420
Totals	<u>\$ 30,840</u>

NOTE 10 – LONG-TERM LIABILITIES

Changes in the School District's long-term liabilities consisted of the following for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
General obligation bond payable	\$ 20,745,000	\$ -	\$ (1,040,000)	\$ 19,705,000	\$ 1,040,000
Premium	1,912,404	-	(95,620)	1,816,784	95,620
Total bond payable	22,657,404	-	(1,135,620)	21,521,784	1,135,620
Capital leases	923,935	-	(266,063)	657,872	199,435
Compensated absences	522,582	108,612	-	631,194	77,066
Net other postemployment benefits	(164,538)	13,051	-	(151,487)	-
Total long-term liabilities	<u>\$ 23,939,383</u>	<u>\$ 121,663</u>	<u>\$ (1,401,683)</u>	<u>\$ 22,659,363</u>	<u>\$ 1,412,121</u>

The long-term bond is comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate	Outstanding at June 30, 2016
General obligation bond payable: Pelham High School Addition	\$ 20,745,000	2015	2035	3.10-5.10%	\$ 19,705,000

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The annual requirements to amortize the general obligation bond outstanding as of June 30, 2016, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 1,040,000	\$ 854,235	\$ 1,894,235
2018	1,040,000	801,195	1,841,195
2019	1,040,000	748,155	1,788,155
2020	1,040,000	695,115	1,735,115
2021	1,040,000	642,075	1,682,075
2022-2026	5,190,000	2,425,635	7,615,635
2027-2031	5,175,000	1,373,963	6,548,963
2032-2035	4,140,000	339,480	4,479,480
Totals	<u>\$ 19,705,000</u>	<u>\$ 7,879,853</u>	<u>\$ 27,584,853</u>

The bond premium will be amortized using the straight-line method over the life of the bond.

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

NOTE 11 – ENCUMBRANCES

Encumbrances outstanding at June 30, 2016 are as follows:

General fund:	
Assigned fund balance:	
Instruction:	
Regular programs	\$ 2,105
Other	7,840
Total instruction	<u>9,945</u>
Support services:	
Student	152
Instructional staff	26,918
General administration	11,918
School administration	1,636
Business	1,500
Operation and maintenance of plant	82,645
Student transportation	1,365
Other	22,016
Total support services	<u>148,150</u>
Facilities acquisition and construction	<u>90,000</u>
Total general fund	<u>248,095</u>
Food service fund:	
Restricted fund balance:	
Noninstructional services	<u>80,117 *</u>
Total encumbrances	<u>\$ 328,212</u>

*Due to reporting requirements under GASB Statement No. 54, the encumbrance amount is included in the restricted fund balance amount of the food service fund.

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 – GOVERNMENTAL ACTIVITIES NET POSITION

The governmental activities net position at June 30, 2016 consisted of the following:

Net investment in capital assets:	
Net property, buildings, and equipment	\$ 35,742,910
Less:	
General obligation bond payable	(19,705,000)
Unamortized bond premium	(1,816,784)
Capital leases payable	(657,872)
Total net investment in capital assets	<u>13,563,254</u>
Restricted for food service	<u>300,704</u>
Unrestricted	<u>(9,371,654)</u>
Total net position	<u><u>\$ 4,492,304</u></u>

NOTE 13 – GOVERNMENTAL FUND BALANCES

Governmental fund balances at June 30, 2016 consist of the following:

Restricted:		
Major fund:		
High school capital project	\$ 3,074,758	
Nonmajor fund:		
Food service	<u>300,704</u>	
Total restricted fund balance		\$ 3,375,462
Committed:		
Major fund:		
General:		
Expendable trust		513,657
Assigned:		
Major fund:		
General:		
Encumbrances		248,095
Unassigned:		
Major fund:		
General	<u>1,497,325</u>	
Total governmental fund balances		<u><u>\$ 5,634,539</u></u>

NOTE 14 – DEFINED BENEFIT PENSION PLAN

Plan Description: The New Hampshire Retirement System (NHRS or the System) is a public employee retirement system that administers one cost-sharing multiple-employer defined benefit pension plan (Pension Plan), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The Pension Plan was 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 Pension Plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers with in the State are eligible and required to participate in the Pension Plan. The System issues a publically available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

PELHAM SCHOOL DISTRICT
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Benefits Provided: The Pension Plan is divided into two membership groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and available to pay retirement benefits to all members.

Group I members at age 60 or 65 (for members who commence service after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest of either three or five years, depending on when their service commenced. The yearly pension amount is 1/60 or 1.667% of average final compensation (AFC) multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at 1/66 or 1.515% of AFC multiplied by years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have nonvested status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the member attains 52.5 years of age by $\frac{1}{4}$ of 1% or age 60.

Members of both groups may qualify for vested deferred allowances, disability allowances and death benefit allowances, subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

Contributions: 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 2016, the School District contributed 15.67% for teachers and 11.17% for other employees. The contribution requirements for the fiscal years 2014, 2015, and 2016 were \$1,406,493, \$1,465,785, and \$1,623,384, respectively, which were paid in full in each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2016 the School District reported a liability of \$14,937,721 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating towns and school districts, actuarially determined. At June 30, 2015, the School District's proportion was .37706978% which was an increase of .00246449% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$1,081,335. At June 30, 2016 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 434,329	\$ -
Differences between expected and actual experience	-	327,793
Net difference between projected and actual investment earnings on pension plan investments	-	399,228
Contributions subsequent to the measurement date	1,346,463	-
Total	<u>\$ 1,780,792</u>	<u>\$ 727,021</u>

The \$1,346,463 reported as deferred outflows of resources related to pensions results from the School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	
2016	\$ (171,416)
2017	(171,416)
2018	(171,416)
2019	243,332
2020	(21,776)
Totals	<u>\$ (292,692)</u>

Actuarial Assumptions: The collective total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2014, using the following actuarial assumptions which, apply to 2015 measurements:

Inflation:	3.0%
Salary increases:	3.75- 5.8% average, including inflation
Investment rate of return:	7.75% net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2005 – June 30, 2010.

Long-term Rates of Return: The long-term expected rate of return on pension plan investment was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. Following is a table presenting target allocations and long-term rates of return for 2015:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return <u>2015</u>
Large Cap Equities	22.50%	3.00%
Small/Mid Cap Equities	7.50%	3.00%
Total domestic equity	30.00%	
Int'l Equities (unhedged)	13.00%	4.00%
Emerging Int'l Equities	7.00%	6.00%
Total international equity	20.00%	
Core Bonds	4.50%	(0.70%)
Short Duration	2.50%	(1.00%)
Global Multi-Sector Fixed Income	11.00%	0.28%
Unconstrained Fixed Income	7.00%	0.16%
Total fixed income	25.00%	
Private equity	5.00%	5.50%
Private debt	5.00%	4.50%
Real estate	10.00%	3.50%
Opportunistic	5.00%	2.75%
Total alternative investments	25.00%	
Total	<u>100.00%</u>	

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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JUNE 30, 2016

Discount Rate: The discount rate used to measure the collective total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the Pension Plan's actuarial funding policy as required by RSA 100-A:16. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on Pension Plan investment was applied to all periods of projected benefit payments to determine the collective total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following table presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.75% as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

Actuarial Valuation Date	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
June 30, 2015	\$ 19,663,569	\$ 14,937,721	\$ 10,908,909
June 30, 2014	\$ 18,520,797	\$ 14,061,131	\$ 10,298,734
June 30, 2013	\$ 19,972,877	\$ 15,579,212	\$ 11,885,923

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued New Hampshire Retirement System Cost-Sharing Multiple Employer Defined Benefit Pension Plan financial report.

NOTE 15 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description and Annual OPEB Cost - The School District provides postemployment benefit options for health care to eligible retirees, terminated employees, and their dependents in accordance with the provision of various employment contracts. The benefit levels, employee contributions, and employer contributions are governed by the School District's contractual agreements.

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 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. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements.

The School District has only partially funded (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2016:

Annual required contribution	\$ 251,711
Interest on net OPEB obligation	(7,404)
Adjustment to annual required contribution	12,659
Annual OPEB cost (expense)	256,966
Contributions made (pay-as-you-go)	(243,915)
Increase in net OPEB obligation	13,051
Net OPEB obligation - beginning of year	(164,538)
Net OPEB obligation - end of year	\$ (151,487)

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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JUNE 30, 2016

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2016 and the four preceding years were as follows:

Fiscal Year Ended	Annual OPEB Contribution Cost	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
June 30, 2016	\$ 251,711	\$ 243,915	96.90%	\$ (151,487)
June 30, 2015	\$ 273,040	\$ 223,546	81.87%	\$ (164,538)
June 30, 2014	\$ 372,896	\$ 343,727	92.18%	\$ (221,093)
June 30, 2013	\$ 300,323	\$ 312,488	104.05%	\$ (290,688)
June 30, 2012	\$ 313,293	\$ 468,370	149.50%	\$ (278,523)

As of July 1, 2015, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$1,955,271, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,955,271. The covered payroll (annual payroll of active employees covered by the plan) was \$12,107,395 during fiscal year 2016, and the ratio of the UAAL to the covered payroll was 16.15%.

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 healthcare 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, 2015 actuarial valuation, the actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return per annum. The projected annual healthcare cost trend is 8.5% initially, reduced by decrements to an ultimate rate of 5.0% for years 2024 and later. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at June 30, 2016 was 30 years.

NOTE 16 – 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 2015, the School District was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pool, currently operating as common risk management and insurance program for member School Districts and cities.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs is a pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from July 1 to June 30, 2016 by Primex³, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated net contribution from the Pelham School District billed and paid for the year ended June 30, 2016 was \$79,880 for workers' compensation and \$60,638 for property/liability. The workers' compensation section of the self-insurance membership agreement permits Primex³ to make additional assessments to members should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex³ foresees no likelihood of any additional assessment for this or any prior year.

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

NOTE 17 – 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 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 9, 2017, the date the June 30, 2016 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, 2016

Fiscal Year	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, 2016	July 1, 2015	\$ -	\$ 1,955,271	\$ 1,955,271	0.00%	\$ 12,107,395	16.15%
June 30, 2015	July 1, 2014	\$ -	\$ 2,158,881	\$ 2,158,881	0.00%	\$ 11,787,433	18.30%
June 30, 2014	July 1, 2013	\$ -	\$ 2,583,801	\$ 2,583,801	0.00%	\$ 12,328,171	21.00%
June 30, 2013	July 1, 2012	\$ -	\$ 2,844,286	\$ 2,844,286	0.00%	\$ 11,234,948	25.30%
June 30, 2012	July 1, 2011	\$ -	\$ 3,163,069	\$ 3,163,069	0.00%	\$ 12,307,661	25.70%
June 30, 2011	July 1, 2010	\$ -	\$ 3,468,953	\$ 3,468,953	0.00%	\$ 11,218,953	30.90%

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

EXHIBIT G
PELHAM SCHOOL DISTRICT
Schedule of the School District's Proportionate Share of Net Pension Liability
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For The Fiscal Year Ended June 30, 2016

<u>Fiscal Year</u>	<u>Valuation Date</u>	<u>District's Proportion of Net Pension Liability</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Covered Payroll</u>	<u>District Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2016	July 1, 2015	0.37706978%	\$ 14,937,721	\$ 10,751,805	138.93%	65.47%
June 30, 2015	July 1, 2014	0.37460529%	\$ 14,061,131	\$ 10,418,741	134.96%	59.81%
June 30, 2014	July 1, 2013	0.36198867%	\$ 15,579,212	\$ 10,076,276	154.61%	66.32%

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

EXHIBIT H
PELHAM SCHOOL DISTRICT
Schedule of School District Contributions
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For The Fiscal Year Ended June 30, 2016

Fiscal Year	Valuation Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2016	July 1, 2015	\$ 1,265,024	\$ 1,265,024	\$ -	\$ 10,751,805	11.77%
June 30, 2015	July 1, 2014	\$ 1,215,306	\$ 1,215,306	\$ -	\$ 10,418,741	11.66%
June 30, 2014	July 1, 2013	\$ 900,098	\$ 900,098	\$ -	\$ 10,076,276	8.93%

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

PELHAM SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

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, 2016, and the five preceding years.

The actuarial assumptions used represent a reasonable long-term expectation of future OPEB outcomes. As national economic and School District experience change over time, the assumptions will be tested for ongoing reasonableness and, if necessary, updated.

There are changes to the actuarial methods and assumptions since the last GASB valuation, which was for the fiscal year ending June 30, 2015. For the current year GASB valuation, the per capita costs have been updated.

Cost Method	Projected Unit Credit with linear proration to decrement.
Amortization	Level % of pay over fifteen years based on an open group.
Employer Funding Policy	Pay-as-you-go cash basis.
Mortality	RPH-2015 Total Dataset Mortality Table fully generational using Scale MP-2015 (RPH-2015 table is calculated based on RPH-2014 table with 8 years of MP-2014 mortality improvement backed out and projected to 2015 using Scale MP-2015).

Health Care Trend Rates	FYE	Medical/RX
	2017	8.5%
	2018	8.0%
	2019	7.5%
	2020	7.0%
	2021	6.5%
	2022	6.0%
	2023	5.5%
	2024+	5.0%

NHRS subsidy is assumed to remain the same in the future.

Retiree Contributions	Retiree contributions are assumed to increase according to health care trend rates.
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Schedule of the School District's Proportionate Share of Net Pension Liability & Schedule of School District Contributions

As required by GASB Statement No. 68, and as amended by GASB Statement No. 71, Exhibits G and H represent the actuarial determined costs associated with the School District's pension plan at June 30, 2016.

Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2015:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	25 years beginning July 1, 2015 (30 years beginning July 1, 2009)
Asset Valuation Method	5-year smooth market for funding purposes
Price Inflation	3.0% per year
Wage Inflation	3.75% per year
Salary Increases	5.8% Average, including inflation

PELHAM SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

Municipal Bond Rate	3.80% per year
Investment Rate of Return	7.75% per year
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2011 valuation pursuant to an experience study of the period 2005-2010.
Mortality	RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.
Other Information:	
Notes	Contribution rates for Fiscal Year 2015 were determined based on the benefit changes adopted under House Bill No. 2 as amended by 011-2513-CofC.

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, 2016

	Estimated	Actual	Variance Positive (Negative)
School district assessment:			
Current appropriation	\$ 18,273,047	\$ 18,273,047	\$ -
Other local sources:			
Tuition	50,000	54,247	4,247
Investment income	350	543	193
Rentals	10,000	28,655	18,655
Miscellaneous	5,000	393,813	388,813
Total from other local sources	65,350	477,258	411,908
State sources:			
Adequacy aid (grant)	4,522,177	4,522,177	-
Adequacy aid (tax)	3,384,554	3,384,554	-
Catastrophic aid	345,502	436,234	90,732
Vocational aid	20,719	18,477	(2,242)
Total from state sources	8,272,952	8,361,442	88,490
Federal sources:			
Medicaid	125,000	194,050	69,050
Total revenues	26,736,349	\$ 27,305,797	\$ 569,448
Fund balance used to reduce school district assessment	1,712,718		
Total revenues and use of fund balance	\$ 28,449,067		

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, 2016

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
Instruction:					
Regular programs	\$ 61,868	\$ 9,983,677	\$ 9,554,677	\$ 2,105	\$ 488,763
Special programs	4,477	4,727,365	4,900,922	-	(169,080)
Vocational programs	43,665	78,147	124,590	-	(2,778)
Other	-	633,232	632,560	7,840	(7,168)
Total instruction	<u>110,010</u>	<u>15,422,421</u>	<u>15,212,749</u>	<u>9,945</u>	<u>309,737</u>
Support services:					
Student	739	2,146,046	1,983,555	152	163,078
Instructional staff	7,109	913,470	793,430	26,918	100,231
General administration	-	109,306	90,140	11,918	7,248
Executive administration	65	660,242	524,577	-	135,730
School administration	1,927	1,328,290	1,472,789	1,636	(144,208)
Business	6,712	383,567	375,772	1,500	13,007
Operation and maintenance of plant	72,144	2,314,652	2,225,126	82,645	79,025
Student transportation	-	1,817,386	1,570,403	1,365	245,618
Other	45,886	965,773	879,283	22,016	110,360
Total support services	<u>134,582</u>	<u>10,638,732</u>	<u>9,915,075</u>	<u>148,150</u>	<u>710,089</u>
Debt service:					
Principal of long-term debt	-	1,040,000	1,040,000	-	-
Interest on long-term debt	-	907,275	907,275	-	-
Total debt service	<u>-</u>	<u>1,947,275</u>	<u>1,947,275</u>	<u>-</u>	<u>-</u>
Facilities acquisition and construction	<u>58,812</u>	<u>290,639</u>	<u>356,924</u>	<u>90,000</u>	<u>(97,473)</u>
Other financing uses:					
Transfers out	<u>-</u>	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>-</u>
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 303,404</u>	<u>\$ 28,449,067</u>	<u>\$ 27,582,023</u>	<u>\$ 248,095</u>	<u>\$ 922,353</u>

SCHEDULE 3
PELHAM SCHOOL DISTRICT
Major General Fund
Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)
For The Fiscal Year Ended June 30, 2016

Unassigned fund balance, beginning		\$ 1,568,242
Changes:		
Fund balance used to reduce school district assessment		(1,712,718)
Budget summary:		
Revenue surplus (Schedule 1)	\$ 569,448	
Unexpended balance of appropriations (Schedule 2)	<u>922,353</u>	
Budget surplus		1,491,801
Decrease in committed fund balance		<u>150,000</u>
Unassigned fund balance, ending (Non-GAAP budgetary basis)		<u><u>\$ 1,497,325</u></u>

SCHEDULE 4
PELHAM SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2016

	Special Revenue Funds		
	Food Service	Grants	Total
ASSETS			
Cash and cash equivalents	\$ 310,649	\$ 5,920	\$ 316,569
Accounts receivable	24	-	24
Intergovernmental receivable	9,511	155,859	165,370
Total assets	<u>\$ 320,184</u>	<u>\$ 161,779</u>	<u>\$ 481,963</u>
LIABILITIES			
Accounts payable	\$ 19,085	\$ -	\$ 19,085
Interfund payable	395	155,859	156,254
Other	-	5,920	5,920
Total liabilities	<u>19,480</u>	<u>161,779</u>	<u>181,259</u>
FUND BALANCES			
Restricted	<u>300,704</u>	<u>-</u>	<u>300,704</u>
Total liabilities and fund balances	<u>\$ 320,184</u>	<u>\$ 161,779</u>	<u>\$ 481,963</u>

SCHEDULE 5
PELHAM SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For The Fiscal Year Ended June 30, 2016

	Special Revenue Funds		
	Food		
	Service	Grants	Total
REVENUES			
Local	\$ 672,887	\$ 2,368	\$ 675,255
State	11,226	-	11,226
Federal	199,611	623,309	822,920
Total revenues	883,724	625,677	1,509,401
EXPENDITURES			
Current:			
Instruction	-	544,705	544,705
Support services:			
Student	-	79,672	79,672
Instructional staff	-	391	391
Other	-	909	909
Noninstructional services	854,189	-	854,189
Total expenditures	854,189	625,677	1,479,866
Net change in fund balances	29,535	-	29,535
Fund balances, beginning	271,169	-	271,169
Fund balances, ending	\$ 300,704	\$ -	\$ 300,704

SCHEDULE 6
PELHAM SCHOOL DISTRICT
Student Activities Funds
Combining Schedule of Changes in Student Activities Funds
For The Fiscal Year Ended June 30, 2016

	Balance, beginning	Additions	Deductions	Balance, ending
Schools:				
Pelham High School	\$ 195,278	\$ 174,728	\$ 161,991	\$ 208,015
Pelham Memorial School	38,927	71,353	74,289	35,991
Pelham Elementary School	25,134	28,336	22,496	30,974
Athletics	3,869	30,721	30,118	4,472
High School Principal's Account	6,532	6,277	4,565	8,244
Totals	<u>\$ 269,740</u>	<u>\$ 311,415</u>	<u>\$ 293,459</u>	<u>\$ 287,696</u>

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



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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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 *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pelham School District, as of and for the year ended June 30, 2016, 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 9, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pelham School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Sheryl A. Pratt, CPA

January 9, 2017

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

***Independent Auditor's Report on Compliance for
Each Major Federal Program and Report on Internal Control
Over Compliance Required by the Uniform Guidance***

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Sheryl A. Platt, CPA

PLODZIK & SANDERSON
Professional Association

January 9, 2017

SCHEDULE I
PELHAM SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:
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 2 CFR 200.516(a)? yes X no

Identification of major federal programs:

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

Dollar threshold used to distinguish between type A and
type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SCHEDULE II
PELHAM SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through the State of New Hampshire Department of Education				
CHILD NUTRITION CLUSTER				
School Breakfast Program	10,553	N/A	\$ -	\$ 2,165
National School Lunch Program <i>(note 4)</i>	10,555	N/A	-	197,446
<i>CLUSTER TOTAL</i>			-	199,611
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Passed Through MDI Biological Laboratory				
Environmental Education Grants	66,951	83592001/PELHAM	-	173
U.S. DEPARTMENT OF EDUCATION				
Passed Through the State of New Hampshire Department of Education				
Title I Grants to Local Educational Agencies:				
Title I	84,010	50110	-	1,048
Title I	84,010	60110	-	131,188
<i>PROGRAM TOTAL</i>			-	132,236
SPECIAL EDUCATION CLUSTER				
Special Education - Grants to States	84,027	62533	-	407,872
Special Education - Preschool Grants	84,173	62533	-	5,474
<i>CLUSTER TOTAL</i>			-	413,346
Improving Teacher Quality State Grants:				
Title II	84,367	44909	-	3,950
Title II	84,367	54909	-	35,818
Title II	84,367	64909	-	34,058
<i>PROGRAM TOTAL</i>			-	73,826
Passed Through the Hudson School District, New Hampshire				
English Language Acquisition State Grants:				
Title III	84,365	50815	-	870
Title III	84,365	60815	-	2,858
<i>PROGRAM TOTAL</i>			-	3,728
Total Expenditures of Federal Awards			\$ -	\$ 822,920

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, 2016

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, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, 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.

Note 3. Indirect Cost Rate

The Pelham School District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4. Food Donation

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities on the date received. For the fiscal year ended June 30, 2016 the value of food donations received was \$59,934.