

PELHAM SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

PELHAM SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

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JUNE 30, 2018**

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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, 2018, 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, 2018, and the respective changes in financial position and, the respective budgetary comparison for the general and grants funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2-C to the financial statements, in fiscal year 2018 the School District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

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

Other Matters

Required Supplementary Information – Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements:

- Management's Discussion and Analysis,
- Schedule of the School District's Proportionate Share of Net Pension Liability,
- Schedule of School District Contributions – Pensions
- Schedule of the School District's Proportionate Share of the Net Other Postemployment Benefits Liability,
- Schedule of the School District Contributions – Other Postemployment Benefits,
- Schedule of Changes in the School District's Total Other Postemployment Benefits Liability and Related Ratios, and
- Notes to the Required Supplementary Information

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 the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2018 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, 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. Pratt, CPA

December 5, 2018

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, 2018

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, 2018. 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 \$31,161,178; total expenses from governmental activities were \$30,406,182; resulting in an increase of \$754,996 in net position over the prior years' ending net position.
- The District's total net position for the year ending June 30, 2018, was \$-145,098. Net position increased by \$754,996 between July 1, 2017 and June 30, 2018. Capital assets, net of debt, were \$17,498,476, an increase of \$4,304,717 from July 1, 2017 to June 30, 2018.
- During the year, the District's General Fund Non-GAAP budgetary expenditures and transfers of \$29,270,377 were \$1,378,804 less than the final adjusted budget and the General Fund Non-GAAP budgetary revenues of \$29,631,063 were \$203,588 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 \$1,506,872, or 4.85% of total General Fund expenditures, an increase of 0.41% from the prior year.
- During the year, the District received \$732,157 in federal grants, an increase of \$88,791 or 12.13% more than the prior year.
- The School District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during fiscal year 2018. The beginning net position for governmental activities was restated by \$3,707,513 for the OPEB provided by NHRS and for the District's local OPEB plan to retroactively report the increase in the net OPEB liability as of July 1, 2017. OPEB expense for fiscal year 2017 and deferred outflows of resources at June 30, 2017 were not restated because the information needed to restate those amounts was not available.

PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

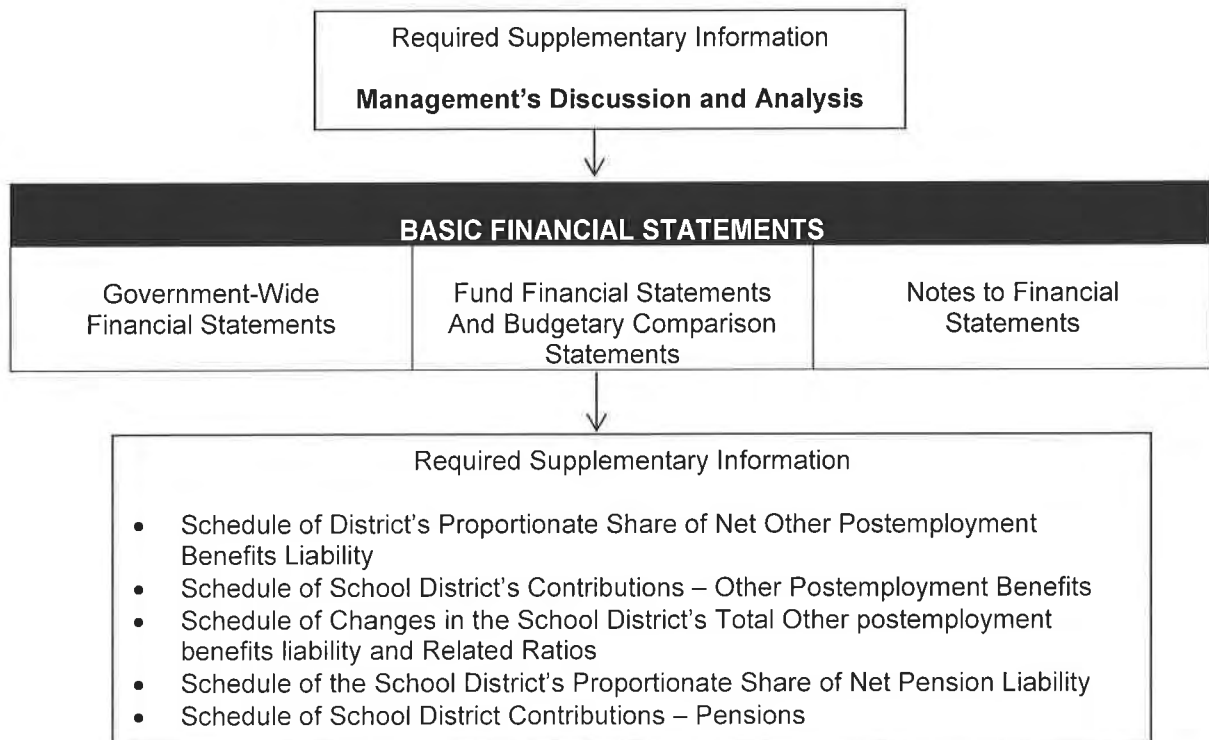
OVERVIEW OF FINANCIAL STATEMENTS

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.



PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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.

PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

Government-wide Financial Statements

The Government-wide Financial Statements show functions of the District that are principally supported by property taxes and intergovernmental revenues as "Governmental Activities." These functions are accounted for in the General Fund, Food Service Fund, Grants Fund, and Capital Projects Fund. Intergovernmental revenues include local, state and federal monies. The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Taxes and intergovernmental revenues also support capital assets and related debt.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund definitions are part of a state-mandated uniform accounting system and chart of accounts for all New Hampshire School Districts. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds. The General Fund, Food Service Fund, Grants Fund, and Capital Projects Fund are consolidated as Governmental Funds. Two of the funds' expenditures are compared to budget in the Budgetary Comparison Statements. All Food Service revenues are expended on program operations and the Grants Fund revenues are spent mainly on instruction. Fiduciary Funds are agency funds established to account for monies belonging to student groups and private purpose trust funds held for the benefit of others 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.

PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

Net Position for the period ending June 30, 2018

Total net position at year end was \$-145,098, a decrease of \$754,996 or 83.88% below the prior year.

| Net Position | 2018 | 2017 (as restated) | Change 2017-2018 | % Variance |
|--|-------------------|-------------------------------|-----------------------------|-----------------------|
| Current Assets | 3,428,730 | 3,333,755 | 94,975 | 2.85% |
| Non-current Assets | 37,069,055 | 36,881,716 | 187,339 | 0.51% |
| Total Assets | 40,497,785 | 40,215,471 | 282,314 | 0.70% |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred amounts related to pensions | 4,642,462 | 6,160,867 | (1,518,405) | -24.65% |
| Current Liabilities | 882,035 | 2,447,656 | (1,565,621) | -63.96% |
| Non-current Liabilities | 43,911,457 | 44,572,412 | (660,955) | -1.48% |
| Total Liabilities | 44,793,492 | 47,020,068 | (2,226,576) | -4.74% |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred amounts related to pensions | 491,853 | 256,363 | 235,490 | 91.86% |
| Investment in capital assets (net of debt) | | | | |
| Restricted net position | 17,498,476 | 15,907,961 | 1,590,515 | 10.00% |
| Restricted for food service | 298,238 | 420,562 | (122,324) | -29.09% |
| Unrestricted net position | (17,941,812) | (17,228,616) | (713,196) | 4.14% |
| Total Net Position | (145,098) | (900,093) | 754,995 | -83.88% |

Change in Net Position

The District's total revenues were \$31,161,178; total expenses from governmental activities were \$30,406,182; resulting in an increase of \$754,996 in net position over the prior years' ending net position.

This year, 94.09% of the District's revenues came from the local tax assessment and the State of New Hampshire, an increase of 1.53% 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.

PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

| Statement of Activities | 2018 | % of Total | 2017 | % of Total | Change | % Variance |
|--|---------------------|---------------|-----------------------|---------------|-----------------------|-----------------|
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | 734,154 | 2.4% | 735,774 | 2.5% | (1,620) | -0.22% |
| Operating grants | 1,665,334 | 5.3% | 1,659,345 | 5.6% | 5,989 | 0.36% |
| Capital grants | 0 | 0.0% | 0 | 0.0% | - | 0.00% |
| General revenues: | | | | | | |
| School district assessment | 20,880,721 | 67.0% | 19,447,035 | 65.4% | 1,433,686 | 7.37% |
| Unrestricted grants | 7,841,242 | 25.2% | 7,685,098 | 25.8% | 156,144 | 2.03% |
| Interest | 13,446 | 0.0% | 7,828 | 0.0% | 5,618 | 71.77% |
| Miscellaneous | 26,281 | 0.1% | 206,172 | 0.7% | (179,891) | -87.25% |
| Total revenues | \$31,161,178 | 100% | \$29,741,252 | 100% | \$1,419,926 | 4.77% |
| Program Expenses: | | | | | | |
| Instruction | 17,863,372 | 58.7% | 17,310,283 | 53.2% | 553,089 | 3.20% |
| Support services: | | | | | | |
| Student | 2,413,260 | 7.9% | 2,231,444 | 6.9% | 181,816 | 8.15% |
| Instructional staff | 823,295 | 2.7% | 880,210 | 2.7% | (56,915) | -6.47% |
| General administration | 101,319 | 0.3% | 99,303 | 0.3% | 2,016 | 2.03% |
| Executive administration | 669,109 | 2.2% | 587,797 | 1.8% | 81,312 | 13.83% |
| School administration | 1,539,281 | 5.1% | 1,440,586 | 4.4% | 98,695 | 6.85% |
| Business | 414,528 | 1.4% | 376,637 | 1.2% | 37,891 | 10.06% |
| Operation and maintenance of plant | 2,413,765 | 7.9% | 2,093,314 | 6.4% | 320,451 | 15.31% |
| Student transportation | 1,798,507 | 5.9% | 1,549,202 | 4.8% | 249,305 | 16.09% |
| Other | 819,851 | 2.7% | 844,306 | 2.6% | (24,455) | -2.90% |
| Non-instructional services | 871,865 | 2.9% | 936,004 | 2.9% | (64,139) | -6.85% |
| Interest on long-term debt | 678,030 | 2.2% | 740,141 | 2.3% | (62,111) | -8.39% |
| Facilities acquisition and construction | 0 | | 3,455,040 | 10.6% | (3,455,040) | -100.00% |
| Total governmental activities | \$30,406,182 | 100% | \$32,544,267 | 100% | (\$2,138,085) | -6.57% |
| Change in net position | 754,996 | | \$ (2,803,015) | | \$ 3,558,011 | -126.94% |
| Change in Prior Year Capital Assets | 0 | | \$ 2,714,201 | | | |
| Changes Related to Implementation of GASB75 | | | (3,707,514) | | | |
| Changes Related to Expendable Trusts | | | \$ 6,857 | | | |
| Net Position, Beginning, as restated | (900,094) | | \$ 2,889,377 | | \$ (3,789,471) | -131.15% |
| Net Position, Ending | \$ (145,098) | | \$ (900,094) | | \$ 754,996 | -83.88% |

PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

Revenues

School district assessment was 67.01% of total revenues for the fiscal year ended June 30, 2018, an increase of 1.62% from the prior year.

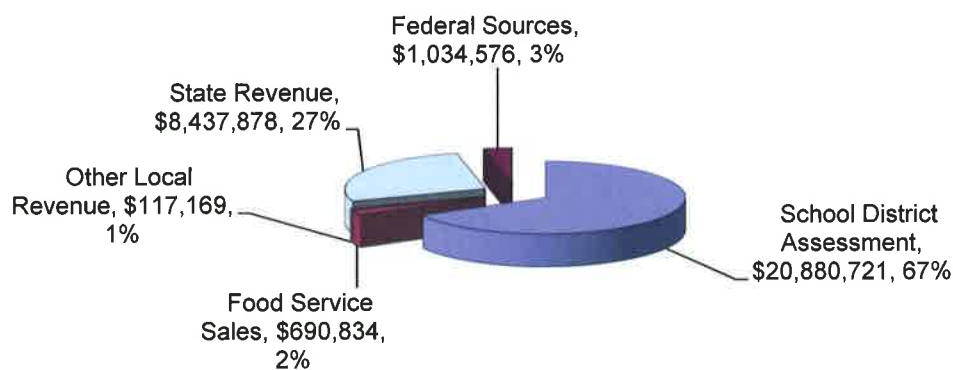
State of New Hampshire source intergovernmental revenues were 27.08% of total revenues for the fiscal year ended June 30, 2018, a decrease of 1.09% from the prior year.

Federal revenues were 3.32% of total revenues for the fiscal year ended June 30, 2018, a decrease of 0.17% from the prior year.

Summary of Revenues

The biggest share, \$29,318,599 (94.09%), of the revenue total 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 2017- 2018



Expenses

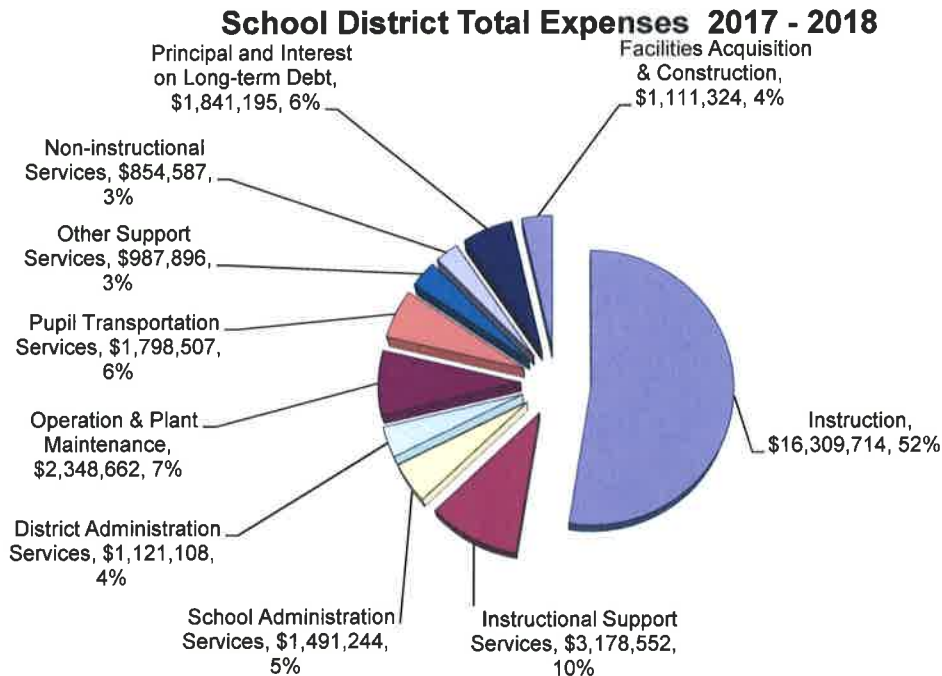
Expenses are reported on an accrual accounting basis. Amounts over or under the prior year expense amounts in the primary areas of instruction and instructional and staff support is as follows:

- Instruction expenses were 52.54% of total expenses for the fiscal year ended June 30, 2018, an increase of 2.30% from the prior year.
- Instructional and staff support service expenses were 10.24% of total expenses for the fiscal year ended June 30, 2018, an increase of 1.13% from the prior year.
- Facilities acquisition and construction expenses were 3.58% of total expenses for the fiscal year ended June 30, 2018, a decrease of 6.66% from the prior year as a result of the end of the high school capital project.

PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

Summary of Expenses

The Pelham School District used its budgetary resources as depicted in the following chart. Excluding the high school capital project, 68.41% 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.



Highlighted changes in total expenses include:

- A decrease in Instruction spending of \$198,571 or **-1.20%** over the prior year.
- An increase in Instructional and Staff Support Services of \$184,435 or 6.16% over the prior year.
- An increase in District Administration of \$65,640 or 6.22% over the prior year.
- An increase in School Administration services of \$128,423 or 9.42% over the prior year.
- An increase in Pupil Transportation services of \$249,305 or 9.42% over the prior year.
- A decrease in Facilities Acquisition & Construction spending of \$2,253,582 or **-66.97%** over the prior year.
- A decrease in Interest on Long-term Debt of \$53,040 or **-2.80%** over the prior year, due to the high school capital bond payment schedule.

PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

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 | | | | | |
| | 2018 | | 2017 | | Variance |
| Functions / Programs | | | | | |
| Instruction | \$17,863,372 | 58.7% | \$17,310,283 | 53.2% | \$1,663,532 |
| Support services | 10,992,915 | 36.2% | 10,102,799 | 31.0% | \$379,731 |
| Food service program | 871,865 | 2.9% | 936,004 | 2.9% | \$77,000 |
| Facilities acquisition | 0 | 0.0% | 3,455,040 | 10.6% | \$3,043,139 |
| Unallocated | | | | | |
| Interest | 678,030 | 2.2% | 740,141 | 2.3% | (45,591) |
| | \$30,406,182 | 100.0% | \$ 32,544,267 | 100% | \$5,117,811 |
| Net Cost of Services | | | | | |
| | 2018 | | 2017 | | Variance |
| Functions / Programs | | | | | |
| Instruction | \$16,565,782 | 59.1% | \$15,885,490 | 52.7% | \$1,486,452 |
| Support services | 10,771,335 | 38.5% | 10,001,449 | 33.2% | \$359,353 |
| Food service program | (8,453) | 0.0% | 67,028 | 0.2% | \$91,748 |
| Facilities acquisition | 0 | 0.0% | 3,455,040 | 11.5% | \$3,043,139 |
| Unallocated | | | | | |
| Interest | 678,030 | 2.4% | 740,141 | 2.5% | (45,591) |
| | \$28,006,694 | 100% | \$ 30,149,148 | 100% | \$4,935,101 |

The total cost of all governmental activities in 2018 was \$30,406,182; the total net cost was \$28,006,694. 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 \$24,522,675; which consisted of \$20,880,721 paid in the form of local property taxes and \$3,641,954 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 \$4,199,288 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. This figure includes \$7185 that was received for special education services provided at charter schools.

PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

Charges for Services

- Total food service revenues of \$880,318 consisted of food service sales and local miscellaneous revenues in the amount of \$690,834 and federal and state food nutrition program operating contributions (free and reduced lunch reimbursements and commodities) of \$189,484.

Operating Grants and Contributions

- Federal grants for instruction were received in the amount of \$723,157.

PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

INDIVIDUAL FUND ANALYSIS

General Fund

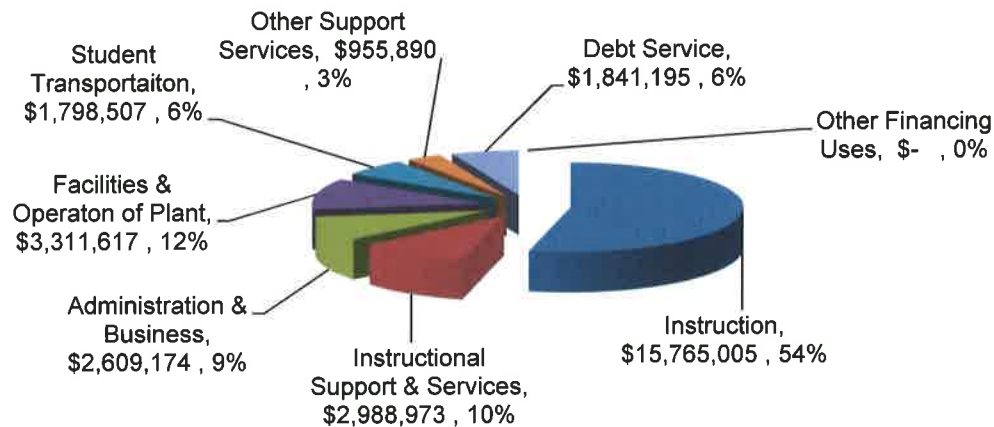
The General Fund is what most people think of as “the budget”, since it is the focal point of the Annual Deliberative Session and largely supported by locally raised taxes. The local appropriation and the state property tax are raised locally and make up 82.76% of general fund revenues. Together, the revenues raised locally and the state adequacy grant comprises 96.9% 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, including interfund transfers.

General Fund Budgetary Revenues 2017 - 2018



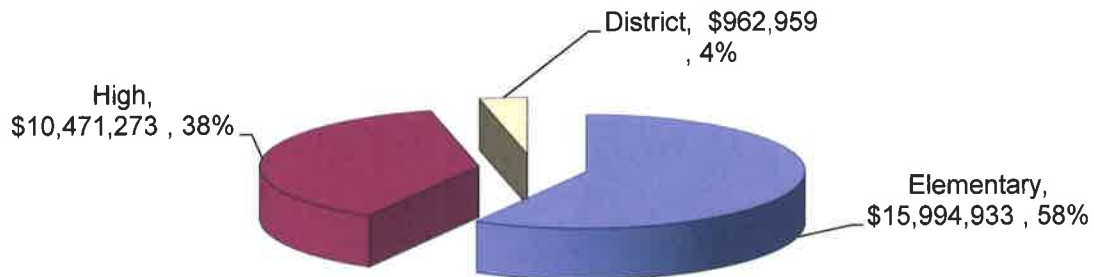
In 2018, instruction made up 53.86% of all general fund expenditures, a decrease of 2.08% from the prior year expenditures, while all other support services including transportation, operation of plant, and administration make up 39.85% of all General Fund expenditures, an increase of 2.51% from the prior year. The remaining 6.29% includes facility acquisition & construction, debt service, and fund transfers, a decrease of 0.43% from the prior year. The following charts provide a more detailed depiction of the makeup and proportions of the expenditures in these broad categories.

General Fund Budgetary Expenditures by Functions 2017- 2018



PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

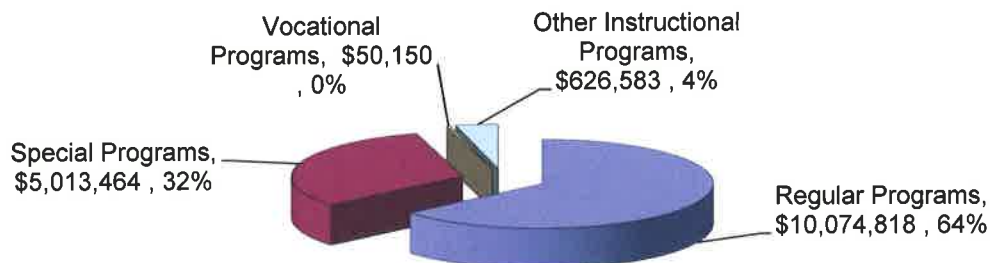
**General Fund Budgetary Expenditures by Grade Level
2017 - 2018**



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

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

**General Fund Budgetary Expenditures for Instruction
2017 - 2018**



SUMMARY OF FEDERAL SUPPORT OF THE DISTRICT

During fiscal year 2018, 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 \$419,057. We received a Collaborative Improvement & Innovation Network (COIIN) grant and for the current period revenues were \$103,752. These grants funded special needs services and supplies for students throughout the District.

PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

- Title I, Student Achievement and School Accountability Programs revenues for the current period were \$161,874. 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 II, Improving Teacher Quality State Grants was awarded for the current period in the amount of \$39,442. These grants funded: differentiated instruction professional development; Common Core State Standards professional development; and mentoring.
- U. S. Department of Agriculture National School Lunch Program revenues for the current period were \$168,469 and the expanded/new National Breakfast Program for the current period were \$10,311, for a total of \$178,781 . These revenues were used to offset the expenses of the school lunch program.
- Title IV(A), Student Support and Academic Enrichment Grant was awarded for the current period for Robotics for an amount of \$4,065 and for Personalized Learning for \$2,500. These funds are issued by the Department of Education, Bureau of Integrated Programs and will continue into the upcoming school year.

CAPITAL RESERVE ACCOUNTS

The district has seven expendable and 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. Each fund incurred fees and earned interest during this period. The ADA Modif Fund School District increased by \$516.08, ending with a balance of \$26,876.57. Memorial Athletic Field fund previous balance of \$36,232.29 was paid to the district and used to install a new field area between PMS and the elementary entrance, the fiscal year ending balance was \$0. Robinson Tennis Courts expendable trust increased by \$94.14, and \$3,025.95 was withdrawn to help offset maintenance costs, ending with a balance of \$3,924.85. School Building Land and School Building Land - HS capital reserve fund account balances were \$0 and closed as voted in March 2018.

The Special Education CRF increased by \$1727.37 through interest earned less fees, ending with a balance of \$201,953.38. The School Building Maintenance CRF increased by \$7,158.43 through interest earned less fees, ending with a balance of \$258,463.67.

Total of all funds decreased from \$520,980.68 on June 30, 2017 to \$491,218.47 as of June 30, 2018, 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 \$1,457,591. General Fund revenues, consisting largely of local taxes and state aid, were \$29,501,593. General Fund expenditures, including fund transfers, were \$29,506,263. The ending fund equity for the District was \$2,619,789 of which \$1,506,872 is an unassigned fund balance, an increase of \$49,281 from the prior year's

PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

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 \$113,376.
- General Fund expenditures were less than the final adjusted budgeted spending by \$1,378,804. The major components of this budget underspend include:
 - Special Services' budget was underspent by approx. \$567,000. \$288,720 underspent in salaries, \$56,995 underspent in benefits, and \$243,294 underspent in tuition. Special Education transportation was overspent by \$17,450, professional and tutor services were overspent by \$79,693, and legal services overspent by only \$1,700.
 - Salaries were underspent by approximately \$343,360 (excluding special services). This was primarily due to turnover, including \$296,303 in regular education, \$24,353 in library, and approximately \$37,400 in superintendent services that includes separation payments and pay adjustments and merit pools. Reports also indicate an overspend of \$27,622 in nurse salaries during this year.
 - All benefits (excluding special services) were underspent by \$535,750. Medical insurance was underspent by \$329,602, the NH retirement and social security budget was underspent by approximately \$92,117 and approximately \$49,540 is a result of actual worker's compensation and unemployment rates coming in under budget. Dental insurance was overspent by about \$3,200 during this year.

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 prior expenditure data.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2018, the District reported capital assets of \$37,069,055 (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 adjustments for retired/replaced capital assets. Capital asset additions in 2018 included: PHS Business Labs computers, Network switches and other technology equipment, PHS auditorium lighting and microphone system, PHS front-loading Kiln and a 2017 Ford F250 Pick-up Truck.

PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

| Governmental Activities | 2018 | 2017 (as restated) | 2016 (as restated) | Increase (Decrease) | % Increase (% Decrease) |
|---------------------------------|-------------------|-----------------------|-----------------------|------------------------|----------------------------|
| Land & Improvements | \$ 699,000 | \$ 699,000 | \$ 699,000 | \$ - | 0.00% |
| CIP | 0 | 0 | 19,650,449 | \$ - | 0.00% |
| Land Improvements | 1,873,405 | 1,873,405 | 1,429,194 | 0 | 0.00% |
| Buildings & Improvements | 38,954,895 | 38,248,281 | 15,833,879 | 706,614 | 1.85% |
| Machinery, Equipment & Vehicles | 1,111,297 | 794,886 | 516,385 | 316,411 | 39.81% |
| Total Historical Cost | 42,638,597 | 41,615,572 | 38,128,907 | 1,023,025 | 2.46% |
| Total Accumulated Depreciation | (5,569,542) | (4,733,855) | (3,988,924) | (835,687) | 17.65% |
| NET CAPITAL ASSETS | 37,069,055 | 36,881,717 | 34,139,983 | 187,338 | 0.51% |

Long-Term Liabilities

On June 30, 2018, the District had \$19,250,544 in general obligation bonds. In addition, \$320,035 in capital leases, \$834,121 in compensated absences payable long term liabilities, \$4,550,494 in net other post employment benefits liability, and, \$18,956,263 in net pension liability were also reported as long term liabilities as can be seen below:

| Governmental Activities | 2018 | 2017 (As Restated) | 2016 | Increase (Decrease) | % Increase (% Decrease) |
|--|-------------------|-----------------------|-------------------|------------------------|----------------------------|
| General Obligation Bonds | 19,250,544 | 20,386,164 | 21,521,784 | (1,135,620) | -5.28% |
| Capital Lease | 320,035 | 587,592 | 657,872 | (70,280) | -10.68% |
| Compensated Absences | 834,121 | 730,103 | 631,194 | 98,909 | 15.67% |
| Other Post Employment Benefits Payable | 4,550,494 | 4,267,320 | (151,487) | 4,418,807 | -2916.95% |
| Net Pension Liability | 18,956,263 | 20,115,897 | 14,937,721 | 5,178,176 | 34.67% |
| TOTAL LONG-TERM LIABILITIES | 43,911,457 | 46,087,076 | 37,597,084 | 8,489,992 | 22.58% |

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 2018-2019 fiscal year is \$1,506,872.

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

1. At the time of this report, the district is currently in negotiations with the Pelham Education Association, Teacher group, for the Fiscal Year 2020 and forward. The Pelham Education Support Personnel Association is eligible for negotiations next year, for the period of Fiscal Year 2021 and forward.
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 do so in the future.

PELHAM SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

3. The State of New Hampshire legislature passed new legislation in 2017 that funds an additional \$1,100 per student for those districts that provide full-day kindergarten with potential additional funding based on the success of Keno proceeds in the state. With this additional state support, the District may pursue a change in programming offered from half-day kindergarten to full-day kindergarten. Gross appropriations requirements may reflect an increase in future budget requirements that will be off-set by anticipated state funding. The community may see a warrant article the future, for this purpose.
4. The Pelham School Board has directed a Pelham Renovations and Upgrade committee for Pelham Memorial School to assess the current facility status and make recommendations for improvements. The committee has recommended that an Owner's Project Management team be utilized to prepare and present a plan for the building that offers the required educational spaces to meet educational standards for a "middle school" as well as better meets the overall needs of the students and community. A plan will be developed in FY2019, with a warrant article targeted for March of 2020.

Questions regarding this report should be directed to William Furbush, 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, 2018

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 2,717,137 |
| Accounts receivable | 791 |
| Intergovernmental receivables | 710,802 |
| Capital assets, not being depreciated | 699,000 |
| Capital assets, net of accumulated depreciation | 36,370,055 |
| Total assets | <u>40,497,785</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Amounts related to pensions | 4,181,596 |
| Amounts related to other postemployment benefits | 460,866 |
| Total deferred outflows of resources | <u>4,642,462</u> |
| LIABILITIES | |
| Accounts payable | 586,222 |
| Accrued interest payable | 295,813 |
| Noncurrent obligations: | |
| Due within one year | 1,563,730 |
| Due in more than one year | 42,347,727 |
| Total liabilities | <u>44,793,492</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Amounts related to pensions | 482,677 |
| Amounts related to other postemployment benefits | 9,176 |
| Total deferred inflows of resources | <u>491,853</u> |
| NET POSITION | |
| Net investment in capital assets | 17,498,476 |
| Restricted | 298,238 |
| Unrestricted | <u>(17,941,812)</u> |
| Total net position | <u>\$ (145,098)</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, 2018

| | | Program Revenues | | Net (Expense) |
|--|----------------------|-------------------|---------------------|---------------------|
| | | Charges | Operating | Revenue and |
| | | for | Grants and | Change In |
| | Expenses | Services | Contributions | Net Position |
| Instruction | \$ 17,863,372 | \$ 43,320 | \$ 1,254,270 | \$ (16,565,782) |
| Support services: | | | | |
| Student | 2,413,260 | - | 140,888 | (2,272,372) |
| Instructional staff | 823,295 | - | 48,687 | (774,608) |
| General administration | 101,319 | - | - | (101,319) |
| Executive administration | 669,109 | - | - | (669,109) |
| School administration | 1,539,281 | - | - | (1,539,281) |
| Business | 414,528 | - | - | (414,528) |
| Operation and maintenance of plant | 2,413,765 | - | - | (2,413,765) |
| Student transportation | 1,798,507 | - | - | (1,798,507) |
| Other | 819,851 | - | 32,005 | (787,846) |
| Noninstructional services | 871,865 | 690,834 | 189,484 | 8,453 |
| Interest on long-term debt | 678,030 | - | - | (678,030) |
| Total governmental activities | <u>\$ 30,406,182</u> | <u>\$ 734,154</u> | <u>\$ 1,665,334</u> | <u>(28,006,694)</u> |
| General revenues: | | | | |
| School district assessment | | | | 20,880,721 |
| Grants and contributions not restricted to specific programs | | | | 7,841,242 |
| Miscellaneous | | | | 39,727 |
| Total general revenues | | | | <u>28,761,690</u> |
| Change in net position | | | | 754,996 |
| Net position, beginning, as restated (see Note 15) | | | | (900,094) |
| Net position, ending | | | | <u>\$ (145,098)</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, 2018

| | General | Grants | Other Governmental Funds | Total Governmental Funds |
|-------------------------------------|---------------------|-------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 2,360,847 | \$ 51,688 | \$ 229,083 | \$ 2,641,618 |
| Accounts receivable | 791 | - | - | 791 |
| Intergovernmental receivable | 516,748 | 182,829 | 11,225 | 710,802 |
| Interfund receivable | 180,683 | - | 2,146 | 182,829 |
| Restricted assets: | | | | |
| Cash | 75,519 | - | - | 75,519 |
| Total assets | <u>\$ 3,134,588</u> | <u>\$ 234,517</u> | <u>\$ 242,454</u> | <u>\$ 3,611,559</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 514,799 | \$ 51,688 | \$ 19,735 | \$ 586,222 |
| Interfund payable | - | 182,829 | - | 182,829 |
| Total liabilities | <u>514,799</u> | <u>234,517</u> | <u>19,735</u> | <u>769,051</u> |
| FUND BALANCES | | | | |
| Restricted | 75,519 | - | 222,719 | 298,238 |
| Committed | 491,219 | - | - | 491,219 |
| Assigned | 546,179 | - | - | 546,179 |
| Unassigned | 1,506,872 | - | - | 1,506,872 |
| Total fund balances | <u>2,619,789</u> | <u>-</u> | <u>222,719</u> | <u>2,842,508</u> |
| Total liabilities and fund balances | <u>\$ 3,134,588</u> | <u>\$ 234,517</u> | <u>\$ 242,454</u> | <u>\$ 3,611,559</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, 2018

| | | |
|--|--------------------|---------------------|
| Total fund balances of governmental funds (Exhibit C-1) | | \$ 2,842,508 |
| 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 | \$ 42,638,597 | |
| Less accumulated depreciation | <u>(5,569,542)</u> | |
| | | 37,069,055 |
| Pension and other postemployment benefits (OPEB) related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year, and therefore, are not reported in the governmental funds as follows: | | |
| Deferred outflows of resources related to pensions | \$ 4,181,596 | |
| Deferred inflows of resources related to pensions | (482,677) | |
| Deferred outflows of resources related to OPEB | 460,866 | |
| Deferred inflows of resources related to OPEB | <u>(9,176)</u> | |
| | | 4,150,609 |
| Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position. | | |
| Receivables | \$ (182,829) | |
| Payables | <u>182,829</u> | |
| | | |
| Interest on long-term debt is not accrued in governmental funds. | | |
| Accrued interest payable | | (295,813) |
| Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds. | | |
| Bond | \$ 17,625,000 | |
| Unamortized bond premium | 1,625,544 | |
| Capital leases | 320,035 | |
| Compensated absences | 834,121 | |
| Other postemployment benefits | 4,550,494 | |
| Net pension liability | <u>18,956,263</u> | |
| | | (43,911,457) |
| Net position of governmental activities (Exhibit A) | | <u>\$ (145,098)</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, 2018

| | General | Grants | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|----------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| School district assessment | \$ 20,880,721 | \$ - | \$ - | \$ 20,880,721 |
| Local | 82,738 | 34,122 | 691,143 | 808,003 |
| State | 8,427,173 | - | 10,705 | 8,437,878 |
| Federal | 123,640 | 732,157 | 178,779 | 1,034,576 |
| Total revenues | <u>29,514,272</u> | <u>766,279</u> | <u>880,627</u> | <u>31,161,178</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instruction | 15,765,015 | 544,699 | - | 16,309,714 |
| Support services: | | | | |
| Student | 2,179,782 | 140,888 | - | 2,320,670 |
| Instructional staff | 809,195 | 48,687 | - | 857,882 |
| General administration | 101,319 | - | - | 101,319 |
| Executive administration | 627,411 | - | - | 627,411 |
| School administration | 1,491,244 | - | - | 1,491,244 |
| Business | 392,378 | - | - | 392,378 |
| Operation and maintenance of plant | 2,348,662 | - | - | 2,348,662 |
| Student transportation | 1,798,507 | - | - | 1,798,507 |
| Other | 955,891 | 32,005 | - | 987,896 |
| Noninstructional services | - | - | 854,587 | 854,587 |
| Debt service: | | | | |
| Principal | 1,040,000 | - | - | 1,040,000 |
| Interest | 801,195 | - | - | 801,195 |
| Facilities acquisition and construction | 962,960 | - | 148,364 | 1,111,324 |
| Total expenditures | <u>29,273,559</u> | <u>766,279</u> | <u>1,002,951</u> | <u>31,042,789</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>240,713</u> | <u>-</u> | <u>(122,324)</u> | <u>118,389</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 75,519 | - | - | 75,519 |
| Transfers out | - | - | (75,519) | (75,519) |
| Total other financing sources (uses) | <u>75,519</u> | <u>-</u> | <u>(75,519)</u> | <u>-</u> |
| Net change in fund balances | 316,232 | - | (197,843) | 118,389 |
| Fund balances, beginning, as restated (see Note 15) | 2,303,557 | - | 420,562 | 2,724,119 |
| Fund balances, ending | <u>\$ 2,619,789</u> | <u>\$ -</u> | <u>\$ 222,719</u> | <u>\$ 2,842,508</u> |

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

EXHIBIT C-4
PELHAM SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

| | | |
|---|--------------|-------------------|
| Net change in fund balances of total governmental funds (Exhibit C-3) | | \$ 118,389 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report capital outlays as expenditures, while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows: | | |
| Capitalized capital outlay | \$ 1,023,025 | |
| Depreciation expense | (835,687) | |
| | | 187,338 |
| Transfers in and out between governmental funds are eliminated on the Statement of Activities. | | |
| Transfers in | \$ (75,519) | |
| Transfers out | 75,519 | |
| | | - |
| The repayment of the principal of long-term debt consumes the current financial resources of governmental funds but has no effect on net position. | | |
| Principal repayment of bond | \$ 1,040,000 | |
| Amortization of bond premium | 95,620 | |
| Principal repayment of capital lease | 267,557 | |
| | | 1,403,177 |
| 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 | \$ 27,545 | |
| Net increase in compensated absences payable | (104,018) | |
| Net increase in other postemployment benefits | (283,174) | |
| Increase in deferred outflows and inflows of resources related to other postemployment benefits | (145,850) | |
| Increase in net pension liability and deferred outflows and inflows of resources related to other postemployment benefits | (448,411) | |
| | | (953,908) |
| Change in net position of governmental activities (Exhibit B) | | <u>\$ 754,996</u> |

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

EXHIBIT D-1
PELHAM SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2018

| | Budgeted Amounts | | | Variance |
|--|------------------|----------------|---------------|------------------------|
| | Original | Final | Actual | Positive (Negative) |
| REVENUES | | | | |
| School district assessment | \$ 20,880,721 | \$ 20,880,721 | \$ 20,880,721 | \$ - |
| Other local | 65,300 | 65,300 | 70,059 | 4,759 |
| State | 8,292,196 | 8,292,196 | 8,427,173 | 134,977 |
| Federal | 150,000 | 150,000 | 123,640 | (26,360) |
| Total revenues | 29,388,217 | 29,388,217 | 29,501,593 | 113,376 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instruction | 16,782,193 | 16,783,875 | 15,768,900 | 1,014,975 |
| Support services: | | | | |
| Student | 2,214,319 | 2,206,075 | 2,178,626 | 27,449 |
| Instructional staff | 929,769 | 932,015 | 811,079 | 120,936 |
| General administration | 94,971 | 95,427 | 95,274 | 153 |
| Executive administration | 846,385 | 847,945 | 627,411 | 220,534 |
| School administration | 1,427,475 | 1,427,033 | 1,482,095 | (55,062) |
| Business | 375,955 | 375,954 | 393,897 | (17,943) |
| Operation and maintenance of plant | 2,303,728 | 2,344,542 | 2,615,583 | (271,041) |
| Student transportation | 1,836,068 | 1,840,257 | 1,701,031 | 139,226 |
| Other | 1,069,820 | 1,066,818 | 950,462 | 116,356 |
| Debt service: | | | | |
| Principal | 1,040,000 | 1,040,000 | 1,040,000 | - |
| Interest | 801,195 | 801,195 | 801,195 | - |
| Facilities acquisition and construction | 1,123,931 | 1,123,931 | 1,040,710 | 83,221 |
| Total expenditures | 30,845,809 | 30,885,067 | 29,506,263 | 1,378,804 |
| Excess (deficiency) of revenues over (under) expenditures | (1,457,592) | (1,496,850) | (4,670) | 1,492,180 |
| OTHER FINANCING SOURCES | | | | |
| Transfers in | - | 39,258 | 129,470 | 90,212 |
| Net change in fund balance | \$ (1,457,592) | \$ (1,457,592) | 124,800 | \$ 1,582,392 |
| Increase in restricted fund balance | | | (75,519) | |
| Unassigned fund balance, beginning | | | 1,457,591 | |
| Unassigned fund balance, ending | | | \$ 1,506,872 | |

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

EXHIBIT D-2
PELHAM SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (GAAP Basis)
Grants Fund
For the Fiscal Year Ended June 30, 2018

| | Budgeted Amounts | | | Variance |
|----------------------------|------------------|---------|-----------|------------------------|
| | Original | Final | Actual | Positive (Negative) |
| REVENUES | | | | |
| Local | \$ - | \$ - | \$ 34,122 | \$ 34,122 |
| Federal | 734,681 | 734,681 | 732,157 | (2,524) |
| Total revenues | 734,681 | 734,681 | 766,279 | 31,598 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instruction | 734,681 | 518,322 | 544,699 | (26,377) |
| Support services: | | | | |
| Student | - | 147,329 | 140,888 | 6,441 |
| Instructional staff | - | 59,659 | 48,687 | 10,972 |
| Other | - | 4,371 | 32,005 | (27,634) |
| Total expenditures | 734,681 | 734,681 | 766,279 | (31,598) |
| Net change in fund balance | \$ - | \$ - | - | \$ - |
| Fund balance, beginning | | | - | |
| Fund balance, ending | | | \$ - | |

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

EXHIBIT E-1
PELHAM SCHOOL DISTRICT
Fiduciary Funds
Statement of Net Position
June 30, 2018

| | Private Purpose Trust | Agency |
|-------------------------------------|-----------------------------|----------------|
| ASSETS | | |
| Cash and cash equivalents | \$ - | \$245,160 |
| Intergovernmental receivable | 3,767 | - |
| Total assets | <u>3,767</u> | <u>245,160</u> |
| LIABILITIES | | |
| Due to student groups | <u>-</u> | <u>245,160</u> |
| NET POSITION | | |
| Held in trust for specific purposes | <u>\$3,767</u> | <u>\$ -</u> |

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, 2018

| | Private Purpose Trust |
|-------------------------|-----------------------------|
| Additions: | |
| Interest | \$ 144 |
| Deductions: | |
| Administrative costs | 35 |
| Change in net position | 109 |
| Net position, beginning | 3,658 |
| Net position, ending | <u>\$ 3,767</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, 2018

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PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Pelham School District, in Pelham, New Hampshire (the School District), have been prepared in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

In 2018, the School District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which changed the way other postemployment benefit (OPEB) liabilities and related expenses are recorded. See Note 11 for further information on OPEB.

1-A Reporting Entity

The Pelham School District is a municipal corporation governed by an elected five-member School Board. In evaluating how to define the School District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by the GASB. The School District has no component units to include in its reporting entity.

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

1-B Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. Generally, the effect of interfund activity has been eliminated from these statements. Governmental activities normally are supported through assessments and intergovernmental revenues.

The *Statement of Net Position* presents the financial position of the School District at year-end. This statement includes all of the School District's non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function. Assessments and other items not meeting the definition of program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenue rather than program revenue.

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

In the governmental fund financial statements, expenditures are reported by character: current, debt service or facilities acquisition and construction. Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Debt service includes both interest and principal outlays related to bonds. Capital outlay includes expenditures for equipment, real property, or infrastructure.

Other Financing Sources (Uses) – These additions to and reductions from resources in governmental fund financial statements normally result from transfers from/to other funds. Transfers are reported when incurred as "transfers in" by the receiving fund and as "transfers out" by the disbursing fund.

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

Measurement Focus and Basis of Accounting – The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

Governmental fund financial statements are reported using the *current financial resources* measurement focus and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of reimbursement-based grants, which use a period of one year. District assessments, intergovernmental revenue, and other local sources associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Financial Statement Presentation – A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to report financial position and the results of operations, to demonstrate legal compliance, and to aid financial management by segregating transactions related to certain government functions or activities.

The School District reports the following major governmental funds:

General Fund – is the School District’s primary operating fund. The general fund accounts for all financial resources except those required to be accounted for in another fund. The primary revenue sources include district assessments, state and federal grants, and other local sources. The primary expenditures are for instruction, support services, debt service, and facilities acquisition and construction. Under GASB Statement No. 54 guidance the expendable trust funds are consolidated in the general fund.

Grants Fund – accounts for the resources received from various federal, state, and local agencies. The resources are restricted to accomplishing the various objectives of the grantor agencies.

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.

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.

1-D 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. A cash pool is maintained that is available for use by all funds. Each fund’s portion of this pool is reflected on the combined financial statements under the caption “cash and cash equivalents.”

New Hampshire statutes require that the School District treasurer have custody of all money belonging to the School District and pay out the same only upon orders of the School Board. The treasurer shall deposit all such monies in participation units in the public deposit investment pool established pursuant to NH RSA 383:22 or in solvent banks in the state. Funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

1-E Restricted Assets

Restricted assets occur when statutory limitation is placed on the use of the assets as they are earmarked for a specific purpose and are unavailable for general use.

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

1-F 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-G Capital Assets

Capital assets are defined by the School District as assets with an initial individual cost of \$10,000 or more per individual item for all classes except infrastructure assets, which have a capitalization threshold of \$100,000 per item, for all assets with an estimated useful life greater than one year. Capital assets include property, plant, and equipment, infrastructure assets (e.g. roads, sidewalks, drainage, and similar items) and are reported in governmental activities.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by the fund's measurement focus. General capital assets are assets of the School District as a whole. When purchased, such assets are recorded as expenditures in a governmental fund and capitalized as assets in the government-wide Statement of Net Position. When cost of general capital assets cannot be determined from available records, estimated historical cost is used.

Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend lives are not capitalized.

In the government-wide financial statements, the cost of property sold or retired, together with the related accumulated depreciation, is removed and any resulting gain or loss is included in income.

Capital assets of the School District are depreciated or amortized using the straight-line method over the following estimated useful lives:

| | <u>Years</u> |
|-------------------------------------|--------------|
| Land improvements | 30 |
| Buildings and building improvements | 20-50 |
| Machinery and equipment | 5-15 |

1-H Interfund Activities

Interfund activities are reported as follows:

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

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

1-I Accounts Payable

Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers as of June 30, 2018.

1-J Deferred Outflows/Inflows of Resources

Deferred outflows of resources, a separate financial statement element, represents a consumption of net position or fund balance that applies to a future period(s) and thus will not be recognized as an outflow of resources (expenses) until then.

Deferred inflows of resources, a separate financial statement element, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

1-K Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the 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 bond premium. In the fund financial statements, governmental fund types report bond premiums, and bond issuance costs during the current period. The face amount of the debt issued is reported as other financing sources. Premium received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

1-L Compensated Absences

The School District's policy allows certain employees to earn varying amounts of vacation, sick pay, and retirement severance 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, retirement severance, 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-M Other Postemployment Benefits (OPEB)

The School District maintains two separate other postemployment benefit plans, as follows:

New Hampshire Retirement System Plan - For the purposes of measuring the total other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Hampshire Retirement System OPEB Plan (the plan) and additions to/deductions from the plan's fiduciary net position has been determined on the same basis as they are reported by the New Hampshire Retirement System. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Single Employer Plan - For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information has been determined based on the School District's actuarial report. For this purpose, benefit payments are recognized when and payable in accordance with benefit terms.

1-N 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 are prepared by New Hampshire Retirement System, and are audited by the plan's independent auditors.

1-O Net Position/Fund Balances

Government-wide statements – Equity is classified as net position and displayed in three components:

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.

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

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

Fund Balance Classifications – GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides more clearly defined fund balance categories to make sure the nature and extend of the constraints placed on a government's fund balances more transparent.

The following classifications describe the relative strength of the spending constraints:

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.

When multiple net position/fund balance classifications are available for use, it is the government's policy to utilize the most restricted balances first, then the next most restricted balance as needed. When components of unrestricted fund balance are used, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

1-P Use of Estimates

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. These estimates include assessing the collectability of accounts receivable, and the useful lives and impairment of tangible and intangible assets, among others. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

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

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

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

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. In the fiscal year 2018, \$1,457,592 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 and other financing sources: | |
| Per Exhibit D-1 (budgetary basis) | \$ 29,631,063 |
| Adjustment: | |
| Basis difference: | |
| GASB Statement No. 54: | |
| Interest earnings related to the blended expendable trust funds | 12,679 |
| Net effect of transfers between blended funds | (53,951) |
| Per Exhibit C-3 (GAAP basis) | <u>\$ 29,589,791</u> |
| Expenditures: | |
| Per Exhibit D-1 (budgetary basis) | \$ 29,506,263 |
| Adjustments: | |
| Basis difference: | |
| Encumbrances, beginning | 310,293 |
| Encumbrances, ending | (546,179) |
| GASB Statement No. 54: | |
| Expenditures of blending funds | 3,182 |
| Per Exhibit C-3 (GAAP basis) | <u>\$ 29,273,559</u> |

2-C Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. Beginning net position for governmental activities was restated to retroactively report the change in valuation of the beginning total OPEB liability and deferred outflows and inflows of resources, as follows:

| | Local OPEB | State OPEB | Total OPEB |
|---|-----------------------|-----------------------|-----------------------|
| Change in total OPEB liability under current standards, July 1 | \$ (1,985,966) | \$ (2,319,087) | \$ (4,305,053) |
| Initial balance of deferred outflows of resources | 308,702 | 291,187 | 599,889 |
| Initial balance of deferred inflows of resources | (2,349) | - | (2,349) |
| Cumulative restatement related to GASB No. 75 implementation, (see Note 14) | <u>\$ (1,679,613)</u> | <u>\$ (2,027,900)</u> | <u>\$ (3,707,513)</u> |

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

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 collateral. As of year-end, the carrying amount of the School District's deposits was \$2,962,297 and the bank balances totaled \$3,508,289.

Cash and cash equivalents reconciliation:

| | |
|--|--------------------|
| Cash per Statement of Net Position (Exhibit A) | \$2,717,137 |
| Cash per Statement of Net Position - Fiduciary Funds (Exhibit E-1) | 245,160 |
| Total cash and cash equivalents | <u>\$2,962,297</u> |

NOTE 4 – RESTRICTED ASSETS

Certain School District cash totaling \$75,519 in the general fund is restricted for the unspent interest income earned on bond proceeds from high school renovation/construction project. Further action will need to be determined as how the money will be spent.

NOTE 5 – RECEIVABLES

Receivables at June 30, 2018, consisted of accounts and intergovernmental amounts arising from grants, school lunch program, Medicaid, and expendable trust funds held by the Trustees of Trust Funds for the Town of Pelham. 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 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 consisted of the following:

| | Balance, beginning (as restated) | Additions | Balance, ending |
|--|--|-------------------|----------------------|
| At cost: | | | |
| Not being depreciated: | | | |
| Land | \$ 699,000 | \$ - | \$ 699,000 |
| Being depreciated: | | | |
| Land improvements | 1,873,405 | - | 1,873,405 |
| Buildings and building improvements | 38,248,281 | 706,614 | 38,954,895 |
| Machinery and equipment | 794,886 | 316,411 | 1,111,297 |
| Total capital assets being depreciated | <u>40,916,572</u> | <u>1,023,025</u> | <u>41,939,597</u> |
| Total capital assets | <u>41,615,572</u> | <u>1,023,025</u> | <u>42,638,597</u> |
| Less accumulated depreciation: | | | |
| Land improvements | (376,539) | (66,268) | (442,807) |
| Buildings and building improvements | (4,098,260) | (618,737) | (4,716,997) |
| Machinery and equipment | (259,056) | (150,682) | (409,738) |
| Total accumulated depreciation | <u>(4,733,855)</u> | <u>(835,687)</u> | <u>(5,569,542)</u> |
| Net book value, capital assets being depreciated | <u>36,182,717</u> | <u>187,338</u> | <u>36,370,055</u> |
| Net book value, all capital assets | <u>\$ 36,881,717</u> | <u>\$ 187,338</u> | <u>\$ 37,069,055</u> |

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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:

| | |
|------------------------------------|-------------------|
| Instruction | \$ 735,451 |
| Support services: | |
| Operation and maintenance of plant | 78,471 |
| Other support | 14,040 |
| Noninstructional services | 7,725 |
| Total depreciation expense | <u>\$ 835,687</u> |

NOTE 7 – INTERFUND BALANCES AND TRANSFERS

Interfund receivable and payable balances consisting of overdrafts in pooled cash at June 30, 2018 are as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------|--------------|-------------------|
| General | Grants | \$ 180,683 |
| Nonmajor | General | 2,146 |
| | | <u>\$ 182,829</u> |

The interfund transfer in the amount of \$75,219 during the year ended June 30, 2018 was made to close-out the capital project fund and report restricted interest earned in the general fund.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (2) use unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 8 – CAPITAL LEASE OBLIGATIONS

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

| | Standard Interest Rate | Present Value of Remaining Payments as of June 30, 2018 |
|---------------------------------|------------------------------|--|
| Capital lease obligations: | | |
| Modular building | 2.67% | \$ 253,677 |
| Lenovo computers | 5.53% | 66,358 |
| Total capital lease obligations | | <u>\$ 320,035</u> |

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

| | Governmental Activities |
|--------------------------------------|----------------------------|
| Buildings and building improvements: | |
| Modular building | \$ 1,063,410 |
| Less: accumulated depreciation | (154,903) |
| Total capital lease equipment | <u>\$ 908,507</u> |

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The annual requirements to amortize the capital leases payable as of June 30, 2018, including interest payments, are as follows:

| Fiscal Year Ending June 30, | Governmental Activities |
|-------------------------------------|----------------------------|
| 2019 | \$ 287,120 |
| 2020 | 44,610 |
| Total requirements | 331,730 |
| Less: interest | (11,695) |
| Present value of remaining payments | <u>\$ 320,035</u> |

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

NOTE 9 – LONG-TERM LIABILITIES

Changes in the School District's long-term liabilities consisted of the following for the year ended June 30, 2018:

| | Balance July 1, 2017 (as restated) | Additions | Reductions | Balance June 30, 2018 | Due Within One Year |
|---|---|-------------------|-----------------------|-----------------------------|------------------------|
| Bond payable: | | | | | |
| General obligation bond | \$ 18,665,000 | \$ - | \$ (1,040,000) | \$ 17,625,000 | \$ 1,040,000 |
| Premium | 1,721,164 | - | (95,620) | 1,625,544 | 95,620 |
| Total bond payable | 20,386,164 | - | (1,135,620) | 19,250,544 | 1,135,620 |
| Capital leases | 587,592 | - | (267,557) | 320,035 | 276,585 |
| Compensated absences | 730,103 | 154,064 | (50,046) | 834,121 | 151,525 |
| Net other postemployment benefits liability | 4,267,320 | 355,924 | (72,750) | 4,550,494 | - |
| Net pension liability | 20,115,897 | - | (1,159,634) | 18,956,263 | - |
| Total long-term liabilities | <u>\$ 46,087,076</u> | <u>\$ 509,988</u> | <u>\$ (2,685,607)</u> | <u>\$ 43,911,457</u> | <u>\$ 1,563,730</u> |

The long-term bond is comprised of the following:

| | Original Amount | Issue Date | Maturity Date | Interest Rate | Outstanding at June 30, 2018 |
|--------------------------------------|--------------------|------------|------------------|------------------|------------------------------------|
| General obligation bond payable: | | | | | |
| High School renovations/construction | \$ 20,745,000 | 2015 | 2035 | 3.2% | <u>\$ 17,625,000</u> |

The annual requirements to amortize the general obligation bond outstanding as of June 30, 2018, including interest payments, are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|----------------------|---------------------|----------------------|
| 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 | 1,040,000 | 589,035 | 1,629,035 |
| 2023 | 1,040,000 | 535,995 | 1,575,995 |
| 2024-2028 | 5,180,000 | 1,974,390 | 7,154,390 |
| 2029-2033 | 5,175,000 | 954,788 | 6,129,788 |
| 2034-2035 | 2,070,000 | 84,870 | 2,154,870 |
| Totals | <u>\$ 17,625,000</u> | <u>\$ 6,224,423</u> | <u>\$ 23,849,423</u> |

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

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NOTE 10 – 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 publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

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 2018, the School District contributed 15.70% for teachers and 11.08% for other employees. The contribution requirement for the fiscal year 2018 was \$1,412,060 which was paid in full.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the School District reported a liability of \$18,956,263 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the School District's proportion was 0.38544715% which was an increase of 0.00715779% from its proportion measured as of June 30, 2016.

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For the year ended June 30, 2018, the School District recognized pension expense of \$2,200,081. At June 30, 2018, 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 |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 42,982 | \$ 241,259 |
| Net difference between projected and actual investment earnings on pension plan investments | - | 241,418 |
| Changes in assumptions | 1,903,459 | - |
| Changes in proportion | 483,486 | - |
| Contributions subsequent to the measurement date | 1,751,669 | - |
| Total | <u>\$ 4,181,596</u> | <u>\$ 482,677</u> |

The \$1,751,669 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, 2019. 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, | |
|--------------------------------|--------------------|
| 2018 | \$ 538,206 |
| 2019 | 963,013 |
| 2020 | 693,582 |
| 2021 | (247,551) |
| Totals | <u>\$1,947,250</u> |

Actuarial Assumptions – The collective total pension liability was determined by an actuarial performed as of June 30, 2016, rolled forward to June 30, 2017, using the following assumptions:

| | |
|----------------------------|---|
| Inflation: | 2.5% |
| Salary increases: | 5.6% average, including inflation |
| Investment rate of return: | 7.25% net of pension plan investment expense, including inflation |

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on last experience study.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

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.

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Following is a table presenting target allocations and long-term rates of return for 2017:

| Asset Class | Target Allocation | Weighted average long-term expected real rate of return |
|----------------------------------|-------------------|---|
| | | 2017 |
| Large Cap Equities | 22.50% | 4.25% |
| Small/Mid Cap Equities | 7.50% | 4.50% |
| Total domestic equities | 30.00% | |
| Int'l Equities (unhedged) | 13.00% | 4.50% |
| Emerging Int'l Equities | 7.00% | 6.25% |
| Total international equity | 20.00% | |
| Core Bonds | 5.00% | 0.75% |
| Short Duration | 2.00% | (0.25%) |
| Global Multi-Sector Fixed Income | 11.00% | 2.11 |
| Absolute Return Fixed Income | 7.00% | 1.26% |
| Total fixed income | 25.00% | |
| Private equity | 5.00% | 6.25% |
| Private debt | 5.00% | 4.75% |
| Opportunistic | 5.00% | 2.84% |
| Total alternative investments | 15.00% | |
| Real estate | 10.00% | 3.25% |
| Total | 100.00% | |

Discount Rate – The discount rate used to measure the collective total pension liability was 7.25%. 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 7.25% 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 (6.25%) or 1-percentage point higher (8.25%) than the current rate:

| Actuarial Valuation Date | 1% Decrease 6.25% | Current Single Rate Assumption 7.25% | 1% Increase 8.25% |
|--------------------------------|----------------------|--|----------------------|
| June 30, 2017 | \$ 24,973,925 | \$ 18,956,263 | \$ 14,025,027 |

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 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

New Hampshire Retirement System (NHRS)

Plan Description – The New Hampshire Retirement System (NHRS or the System) administers a cost-sharing multiple-employer other postemployment benefit plan medical subsidy healthcare plan (OPEB Plan). For additional system information, please refer to the 2017 Comprehensive Annual Financial Report, which can be found on the system's website at www.nhrs.org.

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Benefits Provided – Benefit amounts and eligibility requirements for the OPEB Plan are set by State law (RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b), and members are designated in statute by type. The four membership types are Group II, Police Officers and Firefighters; Group I, Teachers; Group I, Political Subdivision Employees; and Group I, State Employees. The OPEB Plan provides a medical insurance subsidy to qualified retired members. The medical insurance subsidy is a payment made by NHRS to the former employer or its insurance administrator toward the cost of health insurance for a qualified retiree, his/her qualified spouse, and his/her certified dependent children with a disability who are living in the household and being cared for by the retiree. If the health insurance premium amount is less than the medical subsidy amount, then only the health insurance premium amount will be paid. If the health insurance premium amount exceeds the medical subsidy amount, then the retiree or other qualified person is responsible for paying any portion that the employer does not pay.

Group I benefits are based on creditable service, age and retirement date. Group II benefits are based on hire date, age and creditable service. The OPEB plan is closed to new entrants.

Maximum medical subsidy rates paid during fiscal years 2017 and 2016 were as follows:

For qualified retirees not eligible for Medicare, the amounts were \$375.56 for a single-person plan and \$751.12 for a two-person plan.

For those qualified retirees eligible for Medicare, the amounts were \$236.84 for a single-person plan and \$473.68 for a two-person plan.

Contributions – The OPEB Plan is funded by allocating to the 401(h) subtrust the lesser of: 25% of all employer contributions made in accordance with RSA 100-A:16 or the percentage of employer contributions determined by the actuary to be the minimum rate necessary to maintain the benefits provided under RSA 100-A:53-b, RSA 100-A:53-c, and RSA 100-A:53-d. For fiscal year 2017, the minimum rates determined by the actuary to maintain benefits were the lesser of the two options and were used to determine the employer contributions due to the 401(h) subtrust. The State Legislature has the authority to establish, amend and discontinue the contribution requirements of the OPEB Plan. Administrative costs are allocated to the OPEB Plan based on fund balances. For fiscal year 2018, the School District contributed 1.66% for teachers and 0.30% for other employees. The contribution requirement for the fiscal year 2018 was \$291,187 which was paid in full.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB – At June 30, 2018, the School District reported a liability of \$2,246,337 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on a projection of the School District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating towns and school districts, actuarially determined. At June 30, 2017, the School District's proportion was 0.49128834% which was an increase of 0.01224233% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized OPEB expense of \$207,716. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | GASB 75 - NHRS | |
|--|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Net difference between projected and actual investment earnings on OPEB plan investments | \$ - | \$ 7,088 |
| Changes in proportion | 17,810 | - |
| Contributions subsequent to the measurement date | 168,654 | - |
| Total | <u>\$ 186,464</u> | <u>\$ 7,088</u> |

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The \$168,654 reported as deferred outflows of resources related to OPEB results from the School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ending June 30, | |
|--------------------------------|------------------|
| 2018 | \$ 16,038 |
| 2019 | (1,772) |
| 2020 | (1,772) |
| 2021 | (1,772) |
| Totals | <u>\$ 10,722</u> |

Actuarial Assumptions – The total OPEB liability in this report is based on an actuarial valuation performed as of June 30, 2016 and a measurement date of June 30, 2017. The total OPEB liability was determined using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

| | |
|----------------------------|---|
| Price inflation: | 2.5 % per year |
| Wage inflation: | 3.25 % per year |
| Salary increases: | 5.6 % average, including inflation |
| Investment rate of return: | 7.25 % net of OPEB plan investment expense, including inflation |
| Health care trend rate: | Not applicable, given that the benefits are fixed stipends |

Mortality rates were based on the RP-2014 healthy annuitant and employee generational mortality tables for males and females with credibility adjustments, adjusted for fully generational mortality improvements using Scale MP-2015, based on last experience study.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

Long-term Rates of Return – The long-term expected rate of return on OPEB 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 2017:

| Asset Class | Target Allocation | Weighted average long-term expected real rate of return 2017 |
|----------------------------------|----------------------|--|
| Large Cap Equities | 22.50% | 4.25% |
| Small/Mid Cap Equities | 7.50% | 4.50% |
| Total domestic equities | 30.00% | |
| Int'l Equities (unhedged) | 13.00% | 4.50% |
| Emerging Int'l Equities | 7.00% | 6.25% |
| Total international equity | 20.00% | |
| Core Bonds | 5.00% | 0.75% |
| Short Duration | 2.00% | (0.25%) |
| Global Multi-Sector Fixed Income | 11.00% | 2.11% |
| Absolute Return Fixed Income | 7.00% | 1.26% |
| Total fixed income | 25.00% | |
| Private equity | 5.00% | 6.25% |
| Private debt | 5.00% | 4.75% |
| Opportunistic | 5.00% | 2.84% |
| Total alternative investments | 15.00% | |
| Real estate | 10.00% | 3.25% |
| Total | 100.00% | |

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Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2017 was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made under the current statute RSA 100-A:16 and that plan member contributions will be made under RSA 100-A:16. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the collective total OPEB liability.

Sensitivity of the School District's Proportionate Share of the OPEB Liability to Changes in the Discount Rate – The following table presents the School District's proportionate share of the OPEB liability calculated using the discount rate of 7.25% as well as what the School District's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

| Actuarial Valuation Date | 1% Decrease 6.25% | Current Single Rate Assumption 7.25% | 1% Increase 8.25% |
|--------------------------------|----------------------|--|----------------------|
| June 30, 2017 | \$ 2,444,683 | \$ 2,246,337 | \$ 2,074,486 |

Sensitivity of the School District's Proportionate Share of the OPEB Liability to Changes in the Healthcare Trend Rate – GASB No. 75 requires the sensitivity of the Net OPEB Liability to the healthcare cost trend assumption. Since the medical subsidy benefits are a fixed stipend, there is no sensitivity to change in the healthcare cost trend assumption.

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

Retiree Health Benefit Program

Plan Description – GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, requires governments to account for other postemployment benefits (OPEB) on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially determined expense on the Statement of Activities when a future retiree earns their postemployment benefits, rather than when they use their post-employment benefit. The post-employment benefit liability is recognized on the Statement of Net Position over time.

Benefits Provided – The School District provides postemployment healthcare benefits for certain eligible retirees. The School District provides medical benefits to its eligible retirees. The benefits are provided through HealthTrust.

Employees Covered by Benefit Terms – At July 1, 2016 the following employees were covered by the benefit terms:

| | |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefit payments | 83 |
| Inactive employees entitled to but not yet receiving benefit payments | 10 |
| Active employees | 176 |
| Total participants covered by OPEB plan | <u>269</u> |

Total OPEB Liability – The School District's total OPEB liability of \$2,304,157 was measured as of June 30, 2018, and was determined by an actuarial valuation of that date.

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Actuarial Assumptions and Other Inputs – The total OPEB liability of \$2,304,157 in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|--------------------------------|-------|
| Discount Rate: | 3.87% |
| Healthcare Cost Trend Rates: | |
| Current Year Trend | 9.00% |
| Second Year Trend | 8.50% |
| Decrement | 0.50% |
| Ultimate Trend | 5.00% |
| Year Ultimate Trend is Reached | 2027+ |
| Payroll Growth | 3.25% |

The discount rate was based on the index provided by *Bond Buyer 20-Bond General Obligation Index* based on the 20-year AA municipal bond rate as of July 1, 2016.

Mortality rates were based on the RP-2000 Combined Health Participant Table Projected 10 years using Projection Scale AA.

Changes in the Total OPEB Liability -

| | |
|---|---------------------|
| | June 30, 2018 |
| Total OPEB liability beginning of year, as restated | \$ 1,948,233 |
| Changes for the year: | |
| Service cost | 120,793 |
| Interest | 71,538 |
| Assumption changes | (2,349) |
| Differences between actual and expected experience | 308,702 |
| Benefit payments | (142,760) |
| Total OPEB liability end of year | <u>\$ 2,304,157</u> |

Sensitivity of the School District's OPEB Liability to Changes in the Discount Rate – The June 30, 2018 actuarial valuation was prepared using a discount rate of 3.87%. If the discount rate were 1% higher than what was used the OPEB liability would decrease to \$2,136,426 or by 7.3%. If the discount rate were 1% lower than what was used the OPEB liability would increase to \$2,479,488 or by 7.6%.

| | Discount Rate | | |
|----------------------|---------------------|---------------------|---------------------|
| | 1% Decrease | Baseline 3.87% | 1% Increase |
| Total OPEB Liability | <u>\$ 2,479,488</u> | <u>\$ 2,304,157</u> | <u>\$ 2,136,426</u> |

Sensitivity of the School District's OPEB Liability to Changes in the Healthcare Cost Trend Rates – The June 30, 2018 actuarial valuation was prepared using an initial trend rate of 9.00%. If the trend rate were 1% higher than what was used the OPEB liability would increase to \$2,589,690 or by 12.4%. If the trend rate were 1% lower than what was used the OPEB liability would decrease to \$2,062,132 or by 10.5%.

| | Healthcare Cost Trend Rates | | |
|----------------------|-----------------------------|---------------------|---------------------|
| | 1% Decrease | Baseline 9.0% | 1% Increase |
| Total OPEB Liability | <u>\$ 2,062,132</u> | <u>\$ 2,304,157</u> | <u>\$ 2,589,690</u> |

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the School District recognized OPEB expense of \$272,314. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 274,402 | \$ - |
| Changes in assumptions | - | 2,088 |
| Total | <u>\$ 274,402</u> | <u>\$ 2,088</u> |

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Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ending June 30, | |
|--------------------------------|-------------------|
| 2019 | \$ 34,039 |
| 2020 | 34,039 |
| 2021 | 34,039 |
| 2022 | 34,039 |
| 2023 | 34,039 |
| Thereafter | 102,119 |
| Totals | <u>\$ 272,314</u> |

NOTE 12 – ENCUMBRANCES

Encumbrances outstanding in the general fund at June 30, 2018 are as follows:

| | |
|---|------------------|
| Current: | |
| Instruction: | |
| Regular programs | \$ 64,195 |
| Special programs | 21,643 |
| Vocational programs | 21,695 |
| Total instruction | <u>107,533</u> |
| Support services: | |
| Student | 2,814 |
| Instructional staff | 4,130 |
| General administration | 763 |
| Business | 5,850 |
| Operation and maintenance of plant | 334,975 |
| Other | 12,364 |
| Total support services | <u>360,896</u> |
| Facilities acquisition and construction | <u>77,750</u> |
| Total encumbrances | <u>\$546,179</u> |

NOTE 13 – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net position reported on the government-wide Statement of Net Position at June 30, 2018 include the following:

| | |
|--|---------------------|
| Net investment in capital assets: | |
| Net property, buildings, and equipment value | \$ 37,069,055 |
| Less: | |
| General obligation bond payable | (17,625,000) |
| Unamortized bond premiums | (1,625,544) |
| Capital leases payable | (320,035) |
| Total net investment in capital assets | <u>17,498,476</u> |
| Restricted for: | |
| Food service | 222,719 |
| Capital project interest | 75,519 |
| Total restricted net position | <u>298,238</u> |
| Unrestricted | <u>(17,941,812)</u> |
| Total net position | <u>\$ (145,098)</u> |

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

NOTE 14 – GOVERNMENTAL FUND BALANCES

Governmental fund balances at June 30, 2018 consist of the following:

| | | |
|--|-----------|---------------------|
| Restricted: | | |
| Major fund: | | |
| General: | | |
| Interest income related to capital project | \$ 75,519 | |
| Nonmajor funds: | | |
| Food service | 222,719 | |
| Total restricted fund balance | | \$ 298,238 |
| Committed: | | |
| Major fund: | | |
| General: | | |
| Expendable trust | | 491,219 |
| Assigned: | | |
| Major fund: | | |
| General: | | |
| Encumbrances | | 546,179 |
| Unassigned: | | |
| Major fund: | | |
| General | 1,506,872 | |
| Total governmental fund balances | | <u>\$ 2,842,508</u> |

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

Net position and fund balance at July 1, 2017 were restated for the following:

| | Government-wide Statements | General Fund |
|---|-------------------------------|---------------------|
| To restate capital assets and accumulated depreciation for assets not previously recorded | \$ 2,714,201 | \$ - |
| To restate for the cumulative changes related to implementation of GASB Statement No. 75, see Note 2-C | (3,707,513) | - |
| To record expendable trust fund not previously recorded | 6,856 | 6,856 |
| Net position/fund balance, as previously reported | 86,362 | 2,296,701 |
| Net position/fund balance, as restated | <u>\$ (900,094)</u> | <u>\$ 2,303,557</u> |

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 2018, the School District was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from July 1, 2017 to June 30, 2018 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 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.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

PELHAM SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

NOTE 17 – CONTINGENT LIABILITIES

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

NOTE 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 December 5, 2018, the date the June 30, 2018 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 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, 2018

| | 2014 | 2015 | June 30, 2016 | 2017 | 2018 |
|---|---------------|---------------|------------------|---------------|---------------|
| School District's proportion of the net pension liability | 0.36% | 0.37% | 0.38% | 0.38% | 0.39% |
| School District's proportionate share of the net pension Liability | \$ 15,579,212 | \$ 14,061,131 | \$ 14,937,721 | \$ 20,115,897 | \$ 18,956,263 |
| School District's covered payroll | \$ 10,076,276 | \$ 10,418,741 | \$ 10,751,805 | \$ 10,819,430 | \$ 11,716,086 |
| School District's proportionate share of the net pension liability as a percentage of its covered payroll | 154.61% | 134.96% | 138.93% | 185.92% | 161.80% |
| Plan fiduciary net position as a percentage of the total pension liability | 66.32% | 59.81% | 65.47% | 58.30% | 62.66% |

The Notes to the Required Supplementary Information – Pension Liability is an integral part of this schedule.

EXHIBIT G
PELHAM SCHOOL DISTRICT
Schedule of School District Contributions - Pensions
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended June 30, 2018

| | June 30, | | | | |
|---|---------------|---------------|---------------|---------------|---------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Contractually required contribution | \$ 900,098 | \$ 1,215,306 | \$ 1,265,024 | \$ 1,354,575 | \$ 1,412,060 |
| Contributions in relation to the contractually required contributions | 900,098 | 1,215,306 | 1,265,024 | 1,354,575 | 1,412,060 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| School District's covered payroll | \$ 10,076,276 | \$ 10,418,741 | \$ 10,751,805 | \$ 10,819,430 | \$ 11,716,086 |
| Contributions as a percentage of covered payroll | 8.93% | 11.66% | 11.77% | 12.52% | 12.05% |

The Notes to the Required Supplementary Information – Pension Liability is an integral part of this schedule.

PELHAM SCHOOL DISTRICT
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION –
PENSION LIABILITY
FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

***Schedule of the School District's Proportionate Share of Net Pension Liability and
Schedule of School District Contributions – Pensions***

As required by GASB Statement No. 68, and as amended by GASB Statement No. 71, Exhibits F and G represent the actuarial determined costs associated with the School District's pension plan at June 30, 2018. These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2017:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage-of-Payroll, Closed |
| Remaining Amortization Period | 22 years beginning July 1, 2017 (30 years beginning July 1, 2009) |
| Asset Valuation Method | 5-year smooth market for funding purposes |
| Price Inflation | 2.5% per year |
| Wage Inflation | 3.25% per year |
| Salary Increases | 5.6% Average, including inflation |
| Municipal Bond Rate | 3.56% per year |
| Investment Rate of Return | 7.25% per year |
| Retirement Age | Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2015. |
| Mortality | RP-2014 Employee generational mortality table for males and females, adjusted for mortality improvements using Scale MP -2015, based in the last experience study. |

Other Information:

| | |
|-------|--|
| Notes | Contribution rates for Fiscal Year 2017 were determined based on the benefit changes adopted under House Bill No. 2 as amended by 011-2513-CofC. |
|-------|--|

EXHIBIT H
PELHAM SCHOOL DISTRICT
Schedule of the School District's Proportionate Share of the Net Other Postemployment Benefits Liability
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended June 30, 2018

| | June 30, | |
|--|---------------|---------------|
| | 2017 | 2018 |
| School District's proportion of the net OPEB liability | 0.48% | 0.49% |
| School District's proportionate share of the net OPEB liability | \$ 2,319,087 | \$ 2,246,337 |
| School District's covered payroll | \$ 10,819,430 | \$ 11,716,086 |
| School District's proportionate share of the net OPEB liability as a percentage of its covered payroll | 21.43% | 19.17% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 5.21% | 7.91% |

The Notes to the Required Supplementary Information – Other Postemployment Benefits Liability is an integral part of this schedule.

EXHIBIT I
PELHAM SCHOOL DISTRICT
Schedule of School District Contributions - Other Postemployment Benefits
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended June 30, 2018

| | June 30, | |
|--|---------------|---------------|
| | 2017 | 2018 |
| Contractually required contribution | \$ 278,355 | \$ 297,187 |
| Contributions in relation to the contractually required contribution | (278,355) | (297,187) |
| Contribution deficiency (excess) | \$ - | \$ - |
| School District's covered payroll | \$ 10,819,430 | \$ 11,716,086 |
| Contributions as a percentage of covered payroll | 2.57% | 2.49% |

The Notes to the Required Supplementary Information – Other Postemployment Benefits Liability is an integral part of this schedule.

EXHIBIT J
PELHAM SCHOOL DISTRICT
Schedule of Changes in the School District's Total Other Postemployment Benefits Liability and Related Ratios
For the Fiscal Year Ended June 30, 2018

| | June 30, 2018 |
|--|------------------|
| OPEB liability, beginning of year | \$ 1,948,233 |
| Changes for the year: | |
| Service cost | 120,793 |
| Interest | 71,538 |
| Assumption changes and differences between actual and expected experience | 306,353 |
| Benefit payments | (142,760) |
| OPEB liability, end of year | \$ 2,304,157 |
| Covered payroll | \$12,171,447 |
| Total OPEB liability as a percentage of covered payroll | 18.93% |

The Notes to the Required Supplementary Information – Other Postemployment Benefits Liability is an integral part of this schedule.

PELHAM SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION –
OTHER POSTEMPLOYMENT BENEFITS LIABILITY
FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

Schedule of the School District's Proportionate Share of Net Other Postemployment Benefits Liability and Schedule of School District Contributions – Other Postemployment Benefits

As required by GASB Statement No. 75, Exhibits H, I, and J represent the actuarial determined costs associated with the School District's other postemployment benefits at June 30, 2018. These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

There were no changes to benefit terms or assumptions in the current actuarial valuation report.

Methods and Assumptions:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage-of-Payroll, Closed |
| Remaining Amortization Period | Not applicable under statutory funding |
| Asset Valuation Method | 5-year smooth market: 20% corridor |
| Price Inflation | 2.5% per year |
| Wage Inflation | 3.25% per year |
| Salary Increases | 5.6% Average, including inflation |
| Municipal Bond Rate | 3.56% per year |
| Investment Rate of Return | 7.25% per year, net of OPEB plan investment expense, including inflation for determining solvency contributions |
| Retirement Age | Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2015. |
| Mortality | RP-2014 Healthy Annuitant and Employee generational mortality tables for males and females with credibility adjustments, adjusted for fully generational mortality improvements using Scale MP-2015, based on the last experience study. |

Schedule of Changes in School District's Total Other Postemployment Benefits Liability and Related Ratios

As required by GASB Statement No. 75, Exhibit J represents the actuarial determined costs associated with the School District's other postemployment benefits at June 30, 2018. The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

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, 2018

| | Estimated | Actual | Variance Positive (Negative) |
|--|---------------|---------------|------------------------------------|
| School district assessment: | | | |
| Current appropriation | \$ 20,880,721 | \$ 20,880,721 | \$ - |
| Other local sources: | | | |
| Tuition | 50,000 | 43,320 | (6,680) |
| Investment income | 300 | 503 | 203 |
| Miscellaneous | 15,000 | 26,236 | 11,236 |
| Total from other local sources | 65,300 | 70,059 | 4,759 |
| State sources: | | | |
| Adequacy aid (grant) | 4,186,079 | 4,192,104 | 6,025 |
| Adequacy aid (tax) | 3,641,954 | 3,641,954 | - |
| Catastrophic aid | 448,292 | 570,922 | 122,630 |
| Vocational aid | 15,871 | 15,009 | (862) |
| Other state aid | - | 7,184 | 7,184 |
| Total from state sources | 8,292,196 | 8,427,173 | 134,977 |
| Federal sources: | | | |
| Medicaid | 150,000 | 123,640 | (26,360) |
| Other financing sources: | | | |
| Transfers in | 39,258 | 129,470 | 90,212 |
| Total revenues and other financing sources | 29,427,475 | \$ 29,631,063 | \$ 203,588 |
| Fund balance used to reduce school district assessment | 1,457,592 | | |
| Total revenues and use of fund balance | \$ 30,885,067 | | |

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, 2018

| | Encumbered from Prior Year | Appropriations | Expenditures | Encumbered to Subsequent Year | Variance Positive (Negative) |
|--|----------------------------------|----------------------|----------------------|-------------------------------------|------------------------------------|
| Current: | | | | | |
| Instruction: | | | | | |
| Regular programs | \$ 48,587 | \$ 10,467,490 | \$ 10,074,818 | \$ 64,195 | \$ 377,064 |
| Special programs | 36,295 | 5,484,235 | 5,013,464 | 21,643 | 485,423 |
| Vocational programs | 18,766 | 130,000 | 50,150 | 21,695 | 76,921 |
| Other | - | 702,150 | 626,583 | - | 75,567 |
| Total instruction | <u>103,648</u> | <u>16,783,875</u> | <u>15,765,015</u> | <u>107,533</u> | <u>1,014,975</u> |
| Support services: | | | | | |
| Student | 3,970 | 2,206,075 | 2,179,782 | 2,814 | 27,449 |
| Instructional staff | 2,246 | 932,015 | 809,195 | 4,130 | 120,936 |
| General administration | 3,626 | 95,427 | 98,137 | 763 | 153 |
| Executive administration | - | 847,945 | 627,411 | - | 220,534 |
| School administration | 9,149 | 1,427,033 | 1,491,244 | - | (55,062) |
| Business | 4,331 | 375,954 | 392,378 | 5,850 | (17,943) |
| Operation and maintenance of plant | 68,054 | 2,344,542 | 2,348,662 | 334,975 | (271,041) |
| Student transportation | 97,476 | 1,840,257 | 1,798,507 | - | 139,226 |
| Other | 17,793 | 1,066,818 | 955,891 | 12,364 | 116,356 |
| Total support services | <u>206,645</u> | <u>11,136,066</u> | <u>10,701,207</u> | <u>360,896</u> | <u>280,608</u> |
| Debt service: | | | | | |
| Principal of long-term debt | - | 1,040,000 | 1,040,000 | - | - |
| Interest on long-term debt | - | 801,195 | 801,195 | - | - |
| Total debt service | <u>-</u> | <u>1,841,195</u> | <u>1,841,195</u> | <u>-</u> | <u>-</u> |
| Facilities acquisition and construction | - | 1,123,931 | 962,960 | 77,750 | 83,221 |
| Total appropriations, expenditures, and encumbrances | <u>\$ 310,293</u> | <u>\$ 30,885,067</u> | <u>\$ 29,270,377</u> | <u>\$ 546,179</u> | <u>\$ 1,378,804</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, 2018

| | | |
|--|------------------|----------------------------|
| Unassigned fund balance, beginning | | \$ 1,457,591 |
| Changes: | | |
| Fund balance used to reduce school district assessment | | (1,457,592) |
| 2017-2018 Budget summary: | | |
| Revenue surplus (Schedule 1) | \$ 203,588 | |
| Unexpended balance of appropriations (Schedule 2) | <u>1,378,804</u> | |
| 2017-2018 Budget surplus | | 1,582,392 |
| Increase in restricted fund balance | | <u>(75,519)</u> |
| Unassigned fund balance, ending | | <u><u>\$ 1,506,872</u></u> |

SCHEDULE 4
PELHAM SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018

| | Special Revenue Fund Food Service | Capital Project Fund High School | Total |
|-------------------------------------|---|--|-------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 229,083 | \$ - | \$ 229,083 |
| Intergovernmental receivable | 11,225 | - | 11,225 |
| Interfund receivable | 2,146 | - | 2,146 |
| Total assets | <u>\$ 242,454</u> | <u>\$ -</u> | <u>\$ 242,454</u> |
| LIABILITIES | | | |
| Accounts payable | <u>\$ 19,735</u> | <u>\$ -</u> | <u>\$ 19,735</u> |
| FUND BALANCES | | | |
| Restricted | <u>222,719</u> | <u>-</u> | <u>222,719</u> |
| Total liabilities and fund balances | <u>\$ 242,454</u> | <u>\$ -</u> | <u>\$ 242,454</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, 2018

| | Special Revenue Fund Food Service | Capital Project Fund High School | Total |
|--|---|--|-------------------|
| Revenues: | | | |
| Local | \$ 690,834 | \$ 309 | \$ 691,143 |
| State | 10,705 | - | 10,705 |
| Federal | 178,779 | - | 178,779 |
| Total revenues | <u>880,318</u> | <u>309</u> | <u>880,627</u> |
| Expenditures: | | | |
| Current: | | | |
| Noninstructional services | 854,587 | - | 854,587 |
| Facilities acquisition and construction | - | 148,364 | 148,364 |
| Total expenditures | <u>854,587</u> | <u>148,364</u> | <u>1,002,951</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>25,731</u> | <u>(148,055)</u> | <u>(122,324)</u> |
| Other financing uses: | | | |
| Transfers out | <u>-</u> | <u>(75,519)</u> | <u>(75,519)</u> |
| Net change in fund balances | 25,731 | (223,574) | (197,843) |
| Fund balances, beginning | 196,988 | 223,574 | 420,562 |
| Fund balances, ending | <u>\$ 222,719</u> | <u>\$ -</u> | <u>\$ 222,719</u> |

SCHEDULE 6
PELHAM SCHOOL DISTRICT
Student Activities Funds
Combining Schedule of Changes in Student Activities Funds
For the Fiscal Year Ended June 30, 2018

| | Balance, beginning | Additions | Deductions | Balance, ending |
|---------------------------------|-----------------------|-------------------|-------------------|--------------------|
| Schools: | | | | |
| Pelham High School | \$ 185,422 | \$ 199,369 | \$ 200,883 | \$ 183,908 |
| Pelham Memorial School | 28,087 | 79,682 | 82,404 | 25,365 |
| Pelham Elementary School | 28,644 | 21,360 | 20,800 | 29,204 |
| Athletics | 2,325 | 37,787 | 36,802 | 3,310 |
| High School Principal's Account | 5,022 | 6,607 | 8,256 | 3,373 |
| Totals | <u>\$ 249,500</u> | <u>\$ 344,805</u> | <u>\$ 349,145</u> | <u>\$ 245,160</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 aggregate remaining fund information of the Pelham School District, as of and for the year ended June 30, 2018, 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 December 5, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Sheryl A. Piatt, CPA

PLODZIK & SANDERSON

December 5, 2018



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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, 2018. 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, 2018.

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

Pelham School District

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

internal control over compliance. A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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

December 5, 2018

PLODZIK & SANDERSON
Professional Association

SCHEDULE I
PELHAM SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issues 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, 2018

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | 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 | \$ - | \$ 10,310 |
| National School Lunch Program <i>(note 4)</i> | 10.555 | N/A | - | 168,469 |
| <i>CLUSTER TOTAL</i> | | | - | 178,779 |
| 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 | 70110 | - | 1,649 |
| Title I | 84.010 | 80110 | - | 160,228 |
| <i>PROGRAM TOTAL</i> | | | - | 161,877 |
| SPECIAL EDUCATION CLUSTER | | | | |
| Special Education - Grants to States: | | | | |
| IDEA | 84.027 | 72501 | - | 30,434 |
| COIN | 84.027 | 72654 | - | 103,752 |
| IDEA | 84.027 | 82501 | - | 379,917 |
| Special Education - Preschool Grants: | | | | |
| Preschool | 84.173 | 72501 | - | 7,706 |
| Preschool | 84.173 | 82501 | - | 1,000 |
| <i>CLUSTER TOTAL</i> | | | - | 522,809 |
| Supporting Effective Instruction State Grant: | | | | |
| Title II | 84.367 | 74909 | - | 15,264 |
| Title II | 84.367 | 84909 | - | 24,179 |
| <i>PROGRAM TOTAL</i> | | | - | 39,443 |
| Student Support and Academic Enrichment Program: | | | | |
| Title IV - Robotics | 84.424 | 20189118 | - | 4,065 |
| Title IV - Personalized Learning | 84.424 | 20189143 | - | 2,500 |
| <i>PROGRAM TOTAL</i> | | | - | 6,565 |
| English Language State Acquisition Grants: | | | | |
| Passed Through the Hudson School District, New Hampshire | | | | |
| Title III | 84.365 | 70815 | - | 1,186 |
| Passed Through the Milford School District, New Hampshire | | | | |
| Title III | 84.365 | 80824 | - | 277 |
| <i>PROGRAM TOTAL</i> | | | - | 1,463 |
| Total Expenditures of Federal Awards | | | \$ - | \$ 910,936 |

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, 2018

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, 2018. 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 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, 2017 the value of food donations received was \$47,429.