

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

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

TABLE OF CONTENTS

	<u>PAGES</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3 - 12
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
A Statement of Net Position	13
B Statement of Activities	14
Fund Financial Statements	
<i>Governmental Funds</i>	
C-1 Balance Sheet	15
C-2 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	16
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balances.....	17
C-4 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
<i>Budgetary Comparison Information</i>	
D-1 Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund	19
D-2 Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (GAAP Basis) – Grants Fund.....	20
<i>Fiduciary Funds</i>	
E-1 Statement of Net Position	21
E-2 Statement of Changes in Net Position	22
NOTES TO THE BASIC FINANCIAL STATEMENTS.....	23 - 35
REQUIRED SUPPLEMENTARY INFORMATION	
F Schedule of Funding Progress for Other Postemployment Benefit Plan	36
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION	37
COMBINING AND INDIVIDUAL FUND SCHEDULES	
Governmental Funds	
<i>Major General Fund</i>	
1 Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis).....	38
2 Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)	39
3 Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)	40
<i>Nonmajor Governmental Funds</i>	
4 Combining Balance Sheet	41
5 Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances.....	42
Fiduciary Funds	
<i>Agency Funds</i>	
6 Student Activities Funds – Combining Schedule of Changes in Student Activities Funds.....	43

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

TABLE OF CONTENTS

	<u>PAGES</u>
SINGLE AUDIT ACT SCHEDULES AND INDEPENDENT AUDITOR'S REPORTS	
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.....	44
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	45 - 46
I Schedule of Findings and Questioned Costs.....	47
II Schedule of Expenditures of Federal Awards.....	48 - 49
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	50



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX- 603-224-1380

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the Hudson School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and aggregate remaining fund information of the Hudson School District as of June 30, 2014, and the respective changes in financial position, and the respective budgetary comparison for the general fund and grants fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information - Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3 through 12) and the Schedule of Funding Progress for Other Postemployment Benefit Plan (page 36) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers them to

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

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 Hudson School District's basic financial statements. The combining and individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2015 on our consideration of the Hudson School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hudson School District's internal control over financial reporting and compliance.

January 13, 2015

Sheryl A. Piatt, CPA

PLODZIK & SANDERSON
Professional Association

Management's Discussion and Analysis For the Period Ending June 30, 2014

As management of the Hudson School District, we offer readers of the Hudson School District's financial statements this narrative overview and analysis of the financial activities of the Hudson School District for the fiscal year ending June 30, 2014. We encourage you to read and review the information presented here in conjunction with additional information that we have furnished in the District's annual audited financial statements, which accompany this report.

Financial Highlights

- The Hudson School District's total combined net position increased from \$15,944,640 to \$16,868,999 an increase of \$924,359 or 6.0% between FY 2013 and FY 2014.
- The Hudson School District's capital assets decreased from \$24,120,875 to \$23,247,602 between FY 2013 and FY 2014. This represents a decrease of \$873,273 or 3.6%.
- During FY 2014, the District's governmental funds expenditures were \$46,726,973. The total generated in taxes and other revenues for governmental funds was \$47,304,914. At the close of FY 2014, the Hudson School District's governmental funds reported combined ending fund balances of \$2,557,492, an increase of \$577,941 in comparison with the prior year. In accordance with New Hampshire State Law, the general fund unassigned fund balance of \$963,199 for FY 2014 was used as a direct offset of taxes in FY 2015.
- The Hudson School District's total debt for FY 2014 was \$6,627,363 a decrease of \$1,108,865 (14%). The reduction was due to the lowering of the total outstanding balance on bonds for the Hills Garrison Elementary School and the Hudson Memorial School.

Overview of the Financial Statements

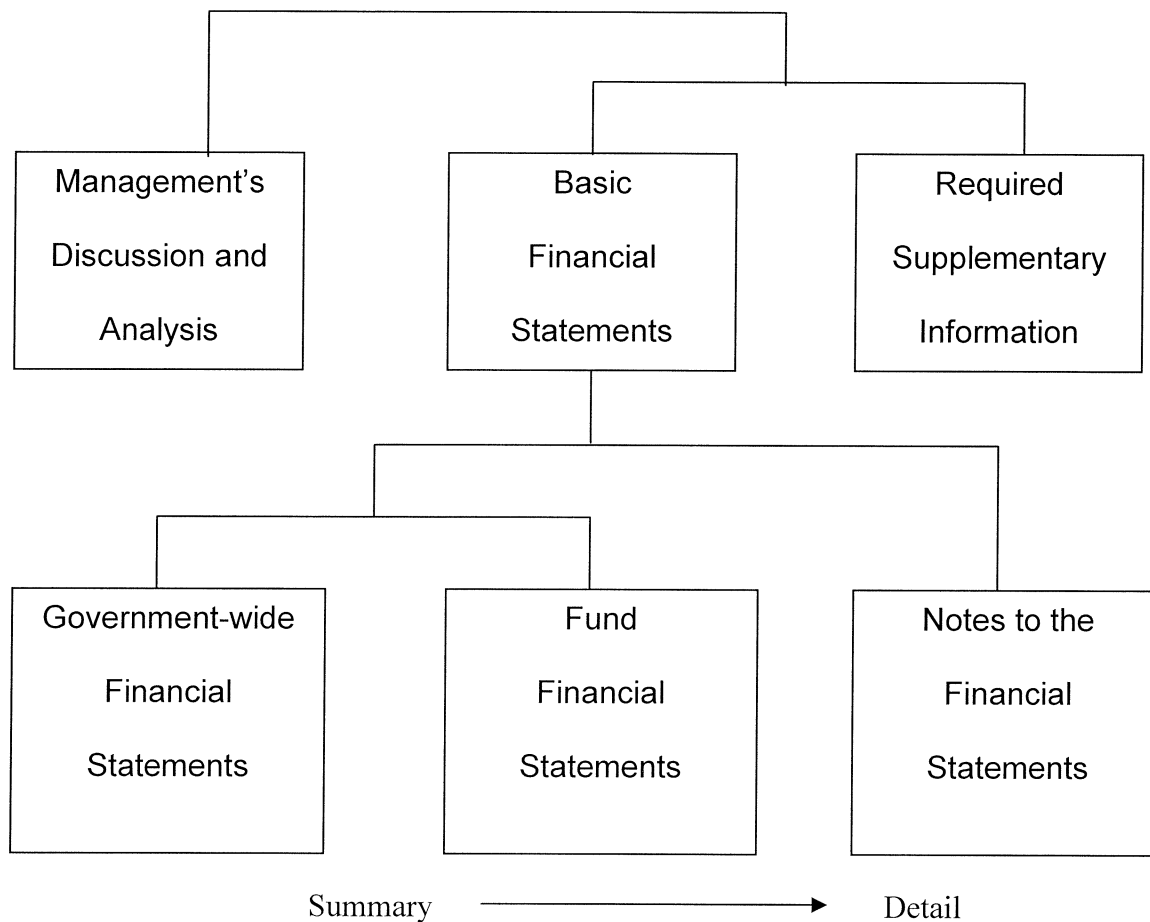
This discussion and analysis are intended to serve as an introduction to the Hudson School District's basic financial statements. The District's basic financial statements consist of three components:

- 1) government-wide financial statements,
- 2) fund financial statements, and
- 3) notes to the financial statements.

The basic financial statements present two different views of the District through the use of district-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Hudson School District.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The basic financial statement includes two kinds of statements that present different views of the District.

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the District's overall financial status.

The remaining statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the District's government. These statements provide more detail than the government-wide statements.

Management Discussion and Analysis

Hudson School District

The governmental funds statements tell how general government 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 in question belong.

The next section of the basic financial statements is the **Notes to the Financial Statements**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **Required Supplementary Information** is provided that further explains and supports the information about the District's other postemployment benefit liability.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances, similar in format to a financial statement of a private-sector business. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when the cash is received or paid. The government-wide statements provide short and long-term information about the District's financial status as a whole.

The two government-wide statements report the District's net position and how they have changed. Net position is the difference between the District's total assets and total liabilities. Measuring net position is one way to measure the District's financial position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's tax base.

The government-wide financial statements are on Exhibits A and B of the annual financial report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the District's most significant funds – not the District as a whole. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives.

- Some funds are required by State law.
- The School Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

Management Discussion and Analysis

Hudson School District

The Hudson School District uses two kinds of funds:

- Governmental funds –Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements.
- Most of the District’s basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the District’s programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Hudson School District adopts an annual budget for its General and Grants Funds, as required by the New Hampshire Statutes. The budget is a legally adopted document that incorporates input from the citizens of the District, the management of the schools and SAU 81, and the decisions of the Hudson School Board about which services to provide and how to pay for them. It also authorizes the District to obtain funds from identified sources to finance these current period activities. The budgetary statements provided for the General and Grants Funds demonstrate how well the District complied with the budget adopted and whether or not the District succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statements use the budgetary basis of accounting and are presented using the same format, language, and classifications as the legal budget document. The statement shows three columns: 1) the original and final budget as adopted by the board; 2) the actual resources and charges to appropriations; and 3) the difference or variance between the adopted budget and the actual resources and charges. The other governmental funds are comprised of special revenue funds, which consist of food service, Alvirne Trustees, and the Alvirne Farm and Vocational Center funds.

- Fiduciary Funds – The District is the fiduciary for certain funds such as the Student Activity Funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District’s fiduciary balances are reported in a separate statement of Fiduciary Net Position. These are excluded from the District’s government-wide financial statements because the District cannot use these assets to finance its operations.

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. The notes to the basic financial statements begin on page 14 of the annual audit report.

Management Discussion and Analysis
Hudson School District

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information. This is where the schedule of funding progress for other postemployment benefit plan is presented. Required supplementary information can be found in the annual financial report.

The Hudson School District's Net Position

Figure 2

	Governmental Activities		% Change
	2013	2014	2013-2014
Current and Other assets	3,290,252	4,560,199	38.5%
Capital Assets	24,120,875	23,247,602	(3.6)%
Total assets	27,411,127	27,807,801	1.4%
Long-term liabilities outstanding	10,070,387	8,863,736	(12)%
Other liabilities	1,391,733	2,075,066	49%
Total liabilities	11,462,120	10,938,802	(4.6)%
Deferred inflows of resources	4,367	0	(100)%
Net Position:			
Net investment in capital assets	16,384,647	16,620,239	1.4%
Unrestricted	(440,007)	248,760	(156.54)%
Total net position	15,944,640	16,868,999	6%

Net position of the District's governmental activities increased 6% or \$924,359 as of June 30, 2014. Although the Hudson School District's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

The District received \$47,304,914 from all sources of revenue. Fifty-six percent (\$26,543,140) of the District's revenue came from local taxes. Thirty-three percent (\$15,445,636) came from the state education tax and the state adequacy grant. Approximately seven percent (\$3,351,618) came from various state and federal grants. The balance (\$1,964,520) was derived from other local revenues.

Figure 3

Hudson School District's Change in Net Position

	2013	2014	\$	%
	Amount	Amount	Difference	Difference
<u>Revenues:</u>				
Program Revenues:				
Charges for Services	950,133	984,884	34,751	3.66%
Operating Grants	3,375,355	2,742,350	-633,005	-18.75%
Capital grants and contributions	373,207	378,559	5,352	1.43%
General Revenues				
School District Assessments	25,362,603	26,543,140	1,180,537	4.65%
Unrestricted Grants	15,303,578	15,676,345	372,767	2.44%
Miscellaneous & Interest	825,621	979,636	154,015	18.65%
Total Revenues	46,190,497	47,304,914	1,114,417	2.41%
<u>Expenditures</u>				
Program Expenses:				
Instruction	28,816,876	29,315,745	498,869	1.73%
Support Services:				
Student	3,801,130	3,910,949	109,819	2.89%
Instructional Staff	1,180,540	1,158,146	-22,394	-1.90%
General administration	93,003	141,498	48,495	52.14%
Executive administration	697,067	677,149	-19,918	-2.86%
School Administration	2,749,128	2,763,974	14,846	0.54%
Business	786,517	775,177	-11,340	-1.44%
Operation and maint.of plant	4,196,225	4,456,638	260,413	6.21%
Student Transportation	1,689,886	1,709,370	19,484	1.15%
Other	97,678	39,899	-57,779	-59.15%
Non-instructional services	1,235,249	1,230,058	-5,191	-0.42%
Interest on long-term debt	236,534	201,952	-34,582	-14.62%
Facilities acquisition and construction	5,993	0	-5,993	-100.00%
Total governmental activities	45,585,826	46,380,555	794,729	1.74%
Change in net position	604,671	924,359	319,688	52.87%
Net Position, July 1	15,339,969	15,944,640	604,671	3.94%
Net Position, June 30	15,944,640	16,868,999	924,359	5.80%

Management Discussion and Analysis
Hudson School District

Financial Analysis of the District's Funds

As noted earlier, the Hudson School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Hudson School District's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Hudson School District's financing requirements.

On June 30, 2014, the governmental funds of the Hudson School District reported a combined fund balance of \$2,557,492. Included in the total fund balance are fund balances in the General Fund and Special Revenue Funds. The Special Revenue Funds include Food Service, Grants, and other Governmental Funds.

General Fund Budgetary Highlights:

The following are highlights from the FY2014 End Financial Report as presented to the Hudson School Board in 2014 by the Business Administrator.

Estimated Fund Balance per Report:

Revenue Surplus:	\$ 402,463
Unexpended Balance of appropriations:	<u>691,266</u>
2013-14 Budget Surplus	<u>1,093,729</u>
Less: Increase in Nonspendable Fund Balance	(80,530)
Decrease in Committed Fund Balance	100,000
Additional unassigned fund balance used to Reduce School District Assessment	<u>(150,000)</u>
Audited Unassigned Fund Balance (to Offset Tax Rate):	\$ 963,199

Unanticipated Revenue is comprised of the following:

Unanticipated/(Deficit) of Revenue Budget

Other local sources:

Tuition	73,775
Investment earnings	(1,306)
Indirect Costs	(101)
Student Activities	(2,108)
Miscellaneous	88,125

State sources:

Vocational Aid	100,189
Catastrophic Aid	58,711

Federal sources:

Medicaid	130,695
ROTC	(5,517)

Other financing sources:

Transfers In	<u>(40,000)</u>
--------------	-----------------

Total Revenue	<u><u>402,463</u></u>
----------------------	------------------------------

Management Discussion and Analysis
Hudson School District

The District's full internal year end financial report is on file in the office of the Finance Director for public review.

Capital Asset and Debt Administration

Capital assets: The Hudson School District's investment in capital assets for its governmental activities as of June 30, 2014, totals \$23,247,602 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, athletic fields and facilities, and vehicles.

Figure 4
Hudson School District Capital Assets
(Net of depreciation)

	Governmental Activities		Total % Change
	2013	2014	2013-14
Land	329,201	329,201	0.00%
Buildings and Systems	23,112,998	22,301,319	-3.51%
Machinery, Vehicles & Equipment	659,525	601,231	-8.84%
Intangible assets	19,151	15,851	-17.23%
Total	<u>24,120,875</u>	<u>23,247,602</u>	<u>-3.62%</u>

Additional information on the School District's capital assets can be found in Exhibit C-2 of the Basic Financial Statements contained in the annual financial report, and in Note 5 of the Notes to the Basic Financial Statements of the audit.

Long-term Debt. As of June 30, 2014, the Hudson School District had total bonded debt outstanding of \$6,627,363.

**Hudson School District's Outstanding Debt
General Obligation**

Figure 5

	Governmental Activities		% Change 2013-14
	2013	2014	
General Obligation Bonds Payable			
2000 School Buildings	6,310,000	5,440,000	-13.79%
Building Improve/Capital Lease	1,316,402	1,093,227	-16.95%
Unamortized bond premiums	109,826	94,136	-14.29%
Total	7,736,228	6,627,363	-14.33%

At the of FY 2014 the District had \$6,627,363 in General Obligation bonds and leases outstanding, a decrease of 14.3% under last year as shown in Figure 5 above. The Hudson School District's total debt decreased by \$1,108,865 during the past fiscal year. The decrease was a result of a decrease on the outstanding school bonds.

New Hampshire general statutes limit the amount of general obligation debt that a school district can issue to 7 percent of the total assessed value of taxable property located within that town's boundaries. The total assessed valuation for Hudson, NH is \$2,540,585,108. The legal debt limit for the Hudson School District is \$177,840,958. The District has \$6,627,363 in outstanding debt as of June 30, 2014.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the District.

- According to the New Hampshire Economic and Labor Market Information Bureau, the Northeast Urban consumer price index for all consumers (not seasonally adjusted) for June, 2014 was, 253.555 up 1.9% for the year, with no change for the corresponding month the previous year. During the same time period, the national CPI increased from 233.504 TO 238.25, an increase of 2.0%.
- Student enrollment continues to decrease. The enrollment in June, 2014 was 3,977 including 197 kindergarten students. The District began kindergarten with the start of the 2010 school year. It is projected that although enrollment for kindergarten will stay consistent, enrollment for grades one through twelve will gradually decrease during the next two years, with the District losing approximately 93 students over this two year period.

Management Discussion and Analysis
Hudson School District

- Health insurance rates continue to increase but less than neighboring districts. The number of employees selecting district health coverage also continues to increase. The increase in health coverage is increasing at a rate higher than salaries.

Requests for Information

This report is designed to provide an overview of the District's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information regarding the District's annual financial report should be directed to the Business Administrator, 20 Library Street, Hudson, NH 03051.

BASIC FINANCIAL STATEMENTS

EXHIBIT A
HUDSON SCHOOL DISTRICT
Statement of Net Position
June 30, 2014

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 2,965,383
Accounts receivable	366,353
Intergovernmental receivable	1,104,009
Prepaid items	124,454
Capital assets, not being depreciated	329,201
Capital assets, net of accumulated depreciation	22,918,401
Total assets	<u>27,807,801</u>
LIABILITIES	
Accounts payable	358,762
Accrued salaries and benefits	1,588,840
Intergovernmental payable	41,138
Unearned revenue	13,967
Accrued interest payable	72,359
Noncurrent obligations:	
Due within one year	1,221,514
Due in more than one year	7,642,222
Total liabilities	<u>10,938,802</u>
NET POSITION	
Net investment in capital assets	16,620,239
Unrestricted	248,760
Total net position	<u><u>\$ 16,868,999</u></u>

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

EXHIBIT B
HUDSON SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2014

	Expenses	Program Revenues			Net (Expense) Revenue and Change In Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Instruction	\$ 29,315,745	\$ 190,167	\$ 2,305,549	\$ 378,559	\$ (26,441,470)
Support services:					
Student	3,910,949	-	-	-	(3,910,949)
Instructional staff	1,158,146	-	-	-	(1,158,146)
General administration	141,498	-	-	-	(141,498)
Executive administration	677,149	-	-	-	(677,149)
School administration	2,763,974	-	-	-	(2,763,974)
Business	775,177	-	-	-	(775,177)
Operation and maintenance of plant	4,456,638	-	-	-	(4,456,638)
Student transportation	1,709,370	-	-	-	(1,709,370)
Other	39,899	-	-	-	(39,899)
Noninstructional services	1,230,058	794,717	436,801	-	1,460
Interest on long-term debt	201,952	-	-	-	(201,952)
Total governmental activities	<u>\$ 46,380,555</u>	<u>\$ 984,884</u>	<u>\$ 2,742,350</u>	<u>\$ 378,559</u>	<u>(42,274,762)</u>
General revenues:					
School district assessment					26,543,140
Grants and contributions not restricted to specific programs					15,676,345
Miscellaneous					979,636
Total general revenues					<u>43,199,121</u>
Change in net position					924,359
Net position, beginning					15,944,640
Net position, ending					<u>\$ 16,868,999</u>

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

EXHIBIT C-1
HUDSON SCHOOL DISTRICT
Governmental Funds
Balance Sheet
June 30, 2014

	General	Grants	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,402,964	\$ -	\$ 562,419	\$ 2,965,383
Accounts receivable	363,673	-	2,680	366,353
Intergovernmental receivable	685,592	386,155	32,262	1,104,009
Interfund receivable	383,960	-	-	383,960
Prepaid items	124,454	-	-	124,454
Total assets	<u>\$ 3,960,643</u>	<u>\$ 386,155</u>	<u>\$ 597,361</u>	<u>\$ 4,944,159</u>
LIABILITIES				
Accounts payable	\$ 328,253	\$ 313	\$ 30,196	\$ 358,762
Accrued salaries and benefits	1,582,850	-	5,990	1,588,840
Intergovernmental payable	41,138	-	-	41,138
Interfund payable	-	382,675	1,285	383,960
Unearned revenue	10,800	3,167	-	13,967
Total liabilities	<u>1,963,041</u>	<u>386,155</u>	<u>37,471</u>	<u>2,386,667</u>
FUND BALANCES				
Nonspendable	124,454	-	-	124,454
Restricted	-	-	254,209	254,209
Committed	735,592	-	305,681	1,041,273
Assigned	174,357	-	-	174,357
Unassigned	963,199	-	-	963,199
Total fund balances	<u>1,997,602</u>	<u>-</u>	<u>559,890</u>	<u>2,557,492</u>
Total liabilities and fund balances	<u>\$ 3,960,643</u>	<u>\$ 386,155</u>	<u>\$ 597,361</u>	<u>\$ 4,944,159</u>

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

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

Total fund balances of governmental funds (Exhibit C-1)		\$ 2,557,492
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	\$ 46,016,971	
Less accumulated depreciation	<u>(22,769,369)</u>	
		23,247,602
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (383,960)	
Payables	<u>383,960</u>	
		-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(72,359)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bonds	\$ (5,534,136)	
Capital leases	(1,093,227)	
Compensated absences	<u>(2,236,373)</u>	
		<u>(8,863,736)</u>
Net Position of governmental activities (Exhibit A)		<u><u>\$ 16,868,999</u></u>

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

EXHIBIT C-3
HUDSON SCHOOL DISTRICT
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2014

	General	Grants	Other Governmental Funds	Total Governmental Funds
REVENUES				
School district assessment	\$ 26,543,140	\$ -	\$ -	\$ 26,543,140
Other local	762,879	-	1,201,641	1,964,520
State	16,320,093	52,204	18,233	16,390,530
Federal	450,178	1,537,978	418,568	2,406,724
Total revenues	44,076,290	1,590,182	1,638,442	47,304,914
EXPENDITURES				
Current:				
Instruction	26,685,010	1,460,780	321,879	28,467,669
Support services:				
Student	3,871,617	13,923	-	3,885,540
Instructional staff	1,046,410	75,580	25,759	1,147,749
General administration	141,498	-	-	141,498
Executive administration	675,329	-	-	675,329
School administration	2,766,361	-	-	2,766,361
Business	773,669	-	-	773,669
Operation and maintenance of plant	4,568,243	-	-	4,568,243
Student transportation	1,709,370	-	-	1,709,370
Other	-	39,899	-	39,899
Noninstructional services	-	-	1,227,789	1,227,789
Debt service:				
Principal	1,093,175	-	-	1,093,175
Interest	230,682	-	-	230,682
Total expenditures	43,561,364	1,590,182	1,575,427	46,726,973
Net change in fund balances	514,926	-	63,015	577,941
Fund balances, beginning	1,482,676	-	496,875	1,979,551
Fund balances, ending	\$ 1,997,602	\$ -	\$ 559,890	\$ 2,557,492

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

EXHIBIT C-4
HUDSON SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2014

Net change in fund balances of total governmental funds (Exhibit C-3)		\$ 577,941
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. In the Statement of Activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capitalized capital outlay in the current period.		
Capitalized capital outlay	\$ 237,902	
Depreciation expense	<u>(1,111,175)</u>	
		(873,273)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Principal repayment of bond	\$ 870,000	
Amortization of bond premium	15,690	
Principal repayment of capital leases	<u>223,175</u>	
		1,108,865
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	\$ 13,040	
Decrease in compensated absences payable	145,870	
Increase in compensated absences payable	<u>(48,084)</u>	
		<u>110,826</u>
Change in net position of governmental activities (Exhibit B)		<u><u>\$ 924,359</u></u>

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

EXHIBIT D-1
HUDSON SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts			Variance
	Original	Final	Actual	Positive (Negative)
REVENUES				
School district assessment	\$ 26,543,140	\$ 26,543,140	\$ 26,543,140	\$ -
Other local	339,000	601,143	759,528	158,385
State	16,161,193	16,161,193	16,320,093	158,900
Federal	325,000	325,000	450,178	125,178
Total revenues	43,368,333	43,630,476	44,072,939	442,463
EXPENDITURES				
Current:				
Instruction	27,011,291	27,187,007	26,649,310	537,697
Support services:				
Student	3,757,105	3,784,777	3,871,617	(86,840)
Instructional staff	1,135,449	1,143,841	1,086,586	57,255
General administration	138,959	138,959	141,498	(2,539)
Executive administration	707,730	712,643	676,566	36,077
School administration	2,819,293	2,838,285	2,768,472	69,813
Business	831,675	838,380	775,089	63,291
Operation and maintenance of plant	4,381,487	4,401,240	4,437,936	(36,696)
Student transportation	1,762,577	1,762,577	1,709,370	53,207
Debt service:				
Principal	1,093,926	1,093,926	1,093,175	751
Interest	229,932	229,932	230,682	(750)
Total expenditures	43,869,424	44,131,567	43,440,301	691,266
Excess (deficiency) of revenues over (under) expenditures	(501,091)	(501,091)	632,638	1,133,729
OTHER FINANCING SOURCES				
Transfers in	40,000	40,000	-	(40,000)
Net change in fund balance	\$ (461,091)	\$ (461,091)	632,638	\$ 1,093,729
Increase in nonspendable fund balance			(80,530)	
Decrease in committed fund balance			100,000	
Unassigned fund balance, beginning			311,091	
Unassigned fund balance, ending			\$ 963,199	

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

EXHIBIT D-2
HUDSON SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (GAAP Basis)
Grants Fund
For the Fiscal Year Ended June 30, 2014

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
State	\$ -	\$ 52,204	\$ 52,204
Federal	1,731,213	1,537,978	(193,235)
Total revenues	1,731,213	1,590,182	(141,031)
EXPENDITURES			
Current:			
Instruction	1,731,213	1,460,780	270,433
Support services:			
Student	-	13,923	(13,923)
Instructional staff	-	75,580	(75,580)
Other	-	39,899	(39,899)
Total expenditures	1,731,213	1,590,182	141,031
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
HUDSON SCHOOL DISTRICT
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2014

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ -	\$ 288,341
LIABILITIES		
Due to student groups	-	288,341
NET POSITION		
Held in trust for specific purposes	\$ -	\$ -

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

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

	Private Purpose Trust
	<hr/>
Deductions:	
Withdrawal	\$ 16,403
Net position, beginning	<hr/> 16,403
Net position, ending	<hr/> \$ - <hr/>

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

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

	<u>NOTE</u>
Summary of Significant Accounting Policies	1
Reporting Entity	1-A
Basis of Accounting, Measurement Focus, and Financial Statement Presentation	1-B
Cash and Cash Equivalents	1-C
Receivables	1-D
Interfund Balances	1-E
Prepaid Items	1-F
Capital Assets	1-G
Compensated Absences	1-H
Long-Term Obligations	1-I
Claims and Judgments	1-J
Net Position/Fund Balances	1-K
Interfund Receivables and Payables.....	1-L
Stewardship, Compliance, and Accountability	2
Budgetary Information.....	2-A
Budgetary Reconciliation to GAAP Basis	2-B

DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents	3
Receivables	4
Capital Assets.....	5
Interfund Balances	6
Capital Leases	7
Long-Term Liabilities	8
Encumbrances	9
Governmental Activities Net Position.....	10
Governmental Fund Balances	11
Employee Retirement Plan	12
Other Postemployment Benefits (OPEB).....	13
Risk Management.....	14
Contingent Liabilities.....	15
Implementation of New GASB Pronouncements.....	16
Subsequent Events.....	17

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A Reporting Entity

The Hudson School District, in Hudson, New Hampshire (the School District) is a municipal corporation governed by an elected 5-member School Board. The accounting policies of the School District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principals in the United States.

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

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

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements – The School District’s government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental activities for the School District. Fiduciary activities of the School District are not included in these statements.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the School District’s assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the School District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

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

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

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

Fiduciary Fund Financial Statements – Fiduciary fund financial statements include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. These funds account for resources held by the School District for the benefit of other parties, and include the private purpose trust funds and agency funds. Fiduciary funds are accounted for on a spending or “economic resources” measurement focus and the accrual basis of accounting. Funds previously reported as private purpose trust funds have been disbursed to the original donator in the current year, they are now privately held, and related assets will no longer be reported in the district’s financial statements.

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

Major Funds – The School District reports the following major governmental funds:

General Fund – all general revenues and other receipts that are not allocated by law or contracted agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other funds.

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

Nonmajor Funds – The School District also reports four 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.

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

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

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

Prioritization and Use of Available Resources – When both restricted and unrestricted resources are available for use, it is the School District's practice to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources are available for use in the general fund, it is the School District's policy to use unassigned resources first, then assigned, and then committed as needed. When unrestricted resources are available for use in any other governmental fund, it is the School District's policy to use committed resources first, then assigned, and then unassigned as needed.

1-C Cash and Cash Equivalents

The School District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist primarily of demand deposits and savings accounts. A cash pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and cash equivalents."

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

1-D Receivables

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

1-E Interfund Balances

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "interfund receivables and payables." Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

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

1-F Prepaid Items

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

1-G Capital Assets

General capital assets are those assets of a capital nature which the School District owns. All capital assets are capitalized at cost (or estimated at historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000 and more than one year of estimated useful life. Improvements to capital assets are capitalized; the costs of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset's life are expensed.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. All reported capital assets are depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings and building improvements	30
Machinery, equipment, and vehicles	7-15
Intangible assets	10

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

1-H Compensated Absences

The School District's policy allows certain employees to earn varying amounts of vacation 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 and salary-related payments are accrued as the leave is earned in the government-wide financial statements. The compensated absences liability is liquidated using funds to which the liability accrued as the accumulated leave is used.

1-I Long-Term Obligations

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

In the fund financial statements, governmental fund types report bond premiums 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.

1-J Claims and Judgments

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

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

1-K Net Position/Fund Balances

Net position in government-wide financial statements is classified as follows:

Net Investment in Capital Assets – This classification includes the School District’s capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

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

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraint placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) are legally or contractually required to be maintained intact.

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

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

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

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

In accordance with RSA 198:4-b, the School District voted to retain general fund unassigned fund balance of up to 2.5% of the net assessment.

1-L Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

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

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

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

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

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. In the fiscal year 2014, \$461,091 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

The School District employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis presents the actual results to provide a comparison with the budget. The major difference between the budgetary basis and GAAP basis is as follows:

Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities, but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and commitments (encumbrances) for goods or services not received at year-end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no liability exists.

The following reconciles the general fund budgetary basis to the GAAP basis:

Revenues:	
Per Exhibit D-1 (budgetary basis)	\$ 44,072,939
Adjustments:	
Basis difference:	
GASB Statement No. 54:	
Miscellaneous revenue of blended funds	3,351
Per Exhibit C-3 (GAAP basis)	<u>\$ 44,076,290</u>
Expenditures:	
Per Exhibit D-1 (budgetary basis)	\$ 43,440,301
Adjustments:	
Basis difference:	
Encumbrances, beginning	295,420
Encumbrances, ending	(174,357)
Per Exhibit C-3 (GAAP basis)	<u>\$ 43,561,364</u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

The School District's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held by the School District's agent in the School District's name. The FDIC currently insures the first \$250,000 of the School District's deposits at each financial institution, per case custodian. Deposit balances over \$250,000 are insured by the collateral. As of year-end, the carrying amount of the School District's deposits was \$3,253,724 and the balance balances totaled \$4,623,521. Petty cash totaled \$200.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 2,965,383
Cash per Statement of Fiduciary Net Position (Exhibit E-1)	288,341
Total cash and cash equivalents	<u>\$ 3,253,724</u>

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

NOTE 4 – RECEIVABLES

Receivables at June 30, 2014, consisted of accounts and intergovernmental amounts arising from grants, school lunch program, and other local sources. Receivables are recorded on the School District's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

NOTE 5 – CAPITAL ASSETS

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

	Balance, beginning	Additions	Balance, ending
At cost:			
Not being depreciated:			
Land	\$ 329,201	\$ -	\$ 329,201
Being depreciated:			
Buildings and building improvements	44,243,533	220,812	44,464,345
Machinery, equipment, and vehicles	1,169,678	17,090	1,186,768
Intangible assets	36,657	-	36,657
Total capital assets being depreciated	45,449,868	237,902	45,687,770
Total capital assets	45,779,069	237,902	46,016,971
Less accumulated depreciation:			
Buildings and building improvements	(21,130,535)	(1,032,491)	(22,163,026)
Machinery, equipment, and vehicles	(510,153)	(75,384)	(585,537)
Intangible assets	(17,506)	(3,300)	(20,806)
Total accumulated depreciation	(21,658,194)	(1,111,175)	(22,769,369)
Net book value, capital assets being depreciated	23,791,674	(873,273)	22,918,401
Net book value, all capital assets	\$ 24,120,875	\$ (873,273)	\$ 23,247,602

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	\$ 1,057,405
Support services:	
Instructional staff	11,947
Operation and maintenance of plant	22,464
Noninstructional services	19,359
Total depreciation expense	\$ 1,111,175

NOTE 6 – INTERFUND BALANCES

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

Receivable Fund	Payable Fund	Amount
General	Grants	\$ 382,675
	Nonmajor	1,285
		\$ 383,960

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

NOTE 7 – CAPITAL LEASES

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

	Standard Interest Rate	Present Value of Remaining Payments as of June 30, 2014
Capital lease obligations:		
Building improvement	3.25%	\$ 1,093,227

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

Fiscal Year Ending June 30,	Governmental Activities
2015	\$ 287,123
2016	297,172
2017	307,573
2018	318,338
Total requirements	1,210,206
Less: interest	116,979
Present value of remaining payments	\$ 1,093,227

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

NOTE 8 – LONG-TERM LIABILITIES

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

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 6,310,000	\$ -	\$ (870,000)	\$ 5,440,000	\$ 850,000
Premium	109,826	-	(15,690)	94,136	15,690
Total bonds payable	6,419,826	-	(885,690)	5,534,136	865,690
Capital leases	1,316,402	-	(223,175)	1,093,227	242,080
Compensated absences	2,334,159	48,084	(145,870)	2,236,373	113,744
Total long-term liabilities	\$ 10,070,387	\$ 48,084	\$ (1,254,735)	\$ 8,863,736	\$ 1,221,514

Long term bonds are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate	Outstanding at June 30, 2014
General obligation bonds payable:					
School building	\$ 4,658,000	2010	2021	2.00-4.79%	\$ 3,065,000
School building	\$ 3,562,000	2010	2021	2.00-4.79%	2,375,000
					5,440,000
Unamortized bond premium					94,136
Total					\$ 5,534,136

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

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2014, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	\$ 850,000	\$ 154,163	\$ 1,004,163
2016	820,000	135,907	955,907
2017	795,000	115,750	910,750
2018	775,000	93,194	868,194
2019	755,000	69,772	824,772
2020-2021	1,445,000	63,239	1,508,239
Totals	<u>\$ 5,440,000</u>	<u>\$ 632,025</u>	<u>\$ 6,072,025</u>

The premiums are being amortized on a straight-line basis over the life of the bonds.

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

NOTE 9 – ENCUMBRANCES

Encumbrances outstanding at June 30, 2014 are as follows:

Current:	
Instruction:	
Regular programs	\$ 49,853
Special programs	9,305
Vocational programs	136
Total instruction	<u>59,294</u>
Support services:	
Instructional staff	41,850
Executive administration	1,237
School administration	2,111
Business	3,334
Operation and maintenance of plant	66,531
Total support services	<u>115,063</u>
Total encumbrances	<u>\$ 174,357</u>

NOTE 10 – GOVERNMENTAL ACTIVITIES NET POSITION

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

Net investment in capital assets	
Net property, buildings, and equipment	\$ 23,247,602
Less:	
General obligation bonds payable	(5,440,000)
Unamortized bond premiums	(94,136)
Capital leases payable	(1,093,227)
Total net investment in capital assets	<u>16,620,239</u>
Unrestricted	248,760
Total net position	<u>\$ 16,868,999</u>

None of the net position is restricted by enabling legislation.

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

NOTE 11 – GOVERNMENTAL FUND BALANCES

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

Nonspendable:		
Major fund:		
General:		
Prepaid items		\$ 124,454
Restricted:		
Nonmajor funds:		
Food service	\$ 252,814	
Alvirne trustees	1,395	
Total restricted fund balance		254,209
Committed:		
Major fund:		
General:		
Expendable trust	\$ 685,592	
Voted appropriation - March 2014	50,000	
	<u>735,592</u>	
Nonmajor funds:		
Alvirne farm	60,804	
Vocational center	244,877	
	<u>305,681</u>	
Total committed fund balance		1,041,273
Assigned:		
Major fund:		
General:		
Encumbrances		174,357
Unassigned:		
Major fund:		
General		<u>963,199</u>
Total governmental fund balances		<u><u>\$ 2,557,492</u></u>

NOTE 12 – EMPLOYEE RETIREMENT PLAN

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

The System is financed by contributions from both the employees and the School District. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees are required to contribute 7% of earnable compensation. For fiscal year 2014, the School District contributed 14.16% for teachers and 10.77% for other employees. The contribution requirements for the fiscal years 2012, 2013, and 2014 were \$2,297,940, \$2,315,445, and \$2,857,388, respectively, which were paid in full in each year.

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to pension benefits described in the preceding note, the School District provides postemployment benefit options for health care to eligible retirees, terminated employees, and their dependents. The benefits are provided in accordance with the School District's agreements, or collective bargaining agreements, and the Consolidated Omnibus Budget Reconciliation Act of

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

1985 (COBRA). The criteria to determine eligibility include: years of service, employee age, and whether the employee has vested in the respective retirement plan. The School District funds the benefits on a pay-as-you-go basis. Eligible employees are required to pay set premiums for a portion of the cost with the School District subsidizing the remaining costs. Expenses for the postretirement health care benefits are recognized as eligible employee claims are paid.

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* as amended by GASB No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employee Plans* in December 2009. GASB Statement No. 45 requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported on the financial statements.

GASB Statement No. 45, as amended by GASB Statement No. 57, was implemented by the School District during the 2010-2011 fiscal year, and requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported similar to pension plans. GASB Statement No. 45 does not mandate the pre-funding of postemployment benefit liabilities. Nevertheless, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements.

The School District has fully funded (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2014:

Annual required contribution/OPEB cost	\$ 329,879
Contributions made	<u>329,879</u>
Increase in net OPEB obligation	-
Net OPEB obligation-beginning of year	-
Net OPEB obligation - end of year	<u><u>\$ -</u></u>

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

Fiscal Year Ended	Annual OPEB Contribution Cost	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
June 30, 2012	\$ 309,379	\$ 309,379	100.00%	\$ -
June 30, 2013	\$ 418,625	\$ 418,625	100.00%	\$ -
June 30, 2014	\$ 329,879	\$ 329,879	100.00%	\$ -

As of July 1, 2013, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$2,670,122, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,670,122. The covered payroll (annual payroll of active employees covered by the plan) was \$19,580,374 during fiscal year 2014, and the ratio of the UAAL to the covered payroll was 13.64%.

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting

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

purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5% investment rate of return per annum. The projected annual health care cost trend is 10% initially, reduced by decrements to an ultimate rate of 5% after four years. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at June 30, 2014 was 28 years.

NOTE 14 – RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2014, the School District was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pool, currently operating as common risk management and insurance program for member School Districts and cities.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from July 1 to June 30, 2014 by Primex³, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated net contribution from the Hudson School District billed and paid for the year ended June 30, 2014 was \$129,225 for workers' compensation and \$108,896 for property/liability. In addition, the School District received a premium holiday of \$262,143 for a prior period which has been reported as miscellaneous revenue in the current period. 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.

NOTE 15 – CONTINGENT LIABILITIES

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

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

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

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

GASB Statement No. 66, Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62, issued March 2012. This Statement is intended to resolve conflicting accounting and financial report and guidance that emerged from two recent standards, Statement No. 54 and Statement No. 62. These standards conflicted with existing guidance in Statements No. 10, 13, and 48.

GASB Statement No. 67, Financial Reporting for Pension Plans, issued in June 2012. The guidance contained in this Statement will change how governments calculate and report the costs and obligations associated with pensions in important ways. They replace the requirements of Statements No. 27 and 50.

GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, issued in April 2013. The objective of this Statement is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued in June 2012, will be effective for the School District beginning with its fiscal year ending June 30, 2015. The guidance contained in this Statement will change how governments calculate and report the costs and obligations associated with pensions in important ways. This replaces the requirements of Statements No. 27 and 50.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued in January 2013, will be effective for the School District beginning with its fiscal year ending June 30, 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations that have been transferred or sold.

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

NOTE 17 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through January 13, 2015, the date the June 30, 2014 financial statements were available to be issued, and no events occurred that require recognition or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT F
HUDSON SCHOOL DISTRICT
Schedule of Funding Progress for Other Postemployment Benefit Plan
For the Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2010	\$ -	\$ 2,999,611	\$ 2,999,611	0.00%	\$ 18,286,957	16.40%
July 1, 2011	\$ -	\$ 2,595,774	\$ 2,595,774	0.00%	\$ 18,652,696	13.92%
July 1, 2012	\$ -	\$ 3,051,789	\$ 3,051,789	0.00%	\$ 19,196,445	15.90%
July 1, 2013	\$ -	\$ 2,670,122	\$ 2,670,122	0.00%	\$ 19,580,374	13.64%

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

HUDSON SCHOOL DISTRICT
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014

Schedule of Funding Progress for Other Postemployment Benefits (OPEB)

As required by GASB Statement No. 45, as amended in December 2009 by GASB Statement No. 57, Exhibit F represents the actuarial determined costs associated with the School District's other postemployment benefits at June 30, 2014, and the three preceding years.

COMBINING AND INDIVIDUAL FUND SCHEDULES

SCHEDULE 1
HUDSON SCHOOL DISTRICT
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2014

	Estimated	Actual	Variance Positive (Negative)
School district assessment:			
Current appropriation	\$ 26,543,140	\$ 26,543,140	\$ -
Other local sources:			
Tuition	106,000	179,775	73,775
Investment income	7,500	6,194	(1,306)
Impact fees	-	150,000	150,000
Indirect costs	-	39,899	39,899
Student activities	12,500	10,392	(2,108)
Rentals	-	29,475	29,475
Miscellaneous	475,143	343,793	(131,350)
Total from other local sources	601,143	759,528	158,385
State sources:			
Adequacy aid (grant)	9,327,818	9,327,818	-
Adequacy aid (tax)	6,117,818	6,117,818	-
School building aid	378,559	378,559	-
Catastrophic aid	171,998	230,709	58,711
Vocational aid	165,000	265,189	100,189
Total from state sources	16,161,193	16,320,093	158,900
Federal sources:			
Medicaid	250,000	380,695	130,695
ROTC	75,000	69,483	(5,517)
Total from federal sources	325,000	450,178	125,178
Other financing sources:			
Transfers in	40,000	-	(40,000)
Total revenues and other financing sources	43,670,476	\$ 44,072,939	\$ 402,463
Fund balance used to reduce school district assessment	461,091		
Total revenues, other financing sources, and use of fund balance	\$ 44,131,567		

SCHEDULE 2
HUDSON SCHOOL DISTRICT
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2014

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
Instruction:					
Regular programs	\$ 41,586	\$ 18,334,170	\$ 17,400,227	\$ 49,853	\$ 925,676
Special programs	51,058	6,609,107	7,141,270	9,305	(490,410)
Vocational programs	2,350	1,595,997	1,551,511	136	46,700
Other	-	647,733	592,002	-	55,731
Total instruction	<u>94,994</u>	<u>27,187,007</u>	<u>26,685,010</u>	<u>59,294</u>	<u>537,697</u>
Support services:					
Student	-	3,784,777	3,871,617	-	(86,840)
Instructional staff	1,674	1,143,841	1,046,410	41,850	57,255
General administration	-	138,959	141,498	-	(2,539)
Executive administration	-	712,643	675,329	1,237	36,077
School administration	-	2,838,285	2,766,361	2,111	69,813
Business	1,914	838,380	773,669	3,334	63,291
Operation and maintenance of plant	196,838	4,401,240	4,568,243	66,531	(36,696)
Student transportation	-	1,762,577	1,709,370	-	53,207
Total support services	<u>200,426</u>	<u>15,620,702</u>	<u>15,552,497</u>	<u>115,063</u>	<u>153,568</u>
Debt service:					
Principal of long-term debt	-	1,093,926	1,093,175	-	751
Interest on long-term debt	-	229,932	230,682	-	(750)
Total debt service	<u>-</u>	<u>1,323,858</u>	<u>1,323,857</u>	<u>-</u>	<u>1</u>
Total appropriations, expenditures, and encumbrances	<u>\$ 295,420</u>	<u>\$ 44,131,567</u>	<u>\$ 43,561,364</u>	<u>\$ 174,357</u>	<u>\$ 691,266</u>

SCHEDULE 3
HUDSON SCHOOL DISTRICT
Major General Fund
Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2014

Unassigned fund balance, beginning		\$ 311,091
Changes:		
Fund balance used to reduce school district assessment		(461,091)
2013-2014 Budget summary:		
Revenue surplus (Schedule 1)	\$ 402,463	
Unexpended balance of appropriations (Schedule 2)	691,266	
2013-2014 Budget surplus		1,093,729
Increase in nonspendable fund balance		(80,530)
Decrease in committed fund balance		100,000
Unassigned fund balance, ending		<u>\$ 963,199</u>

SCHEDULE 4
HUDSON SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2014

	Special Revenue Funds				
	Food Service	Alvirne Farm	Vocational Center	Alvirne Trustees	Total
ASSETS					
Cash and cash equivalents	\$ 250,782	\$ 63,599	\$ 248,038	\$ -	\$ 562,419
Accounts receivable	-	-	-	2,680	2,680
Intergovernmental receivable	32,262	-	-	-	32,262
Total assets	<u>\$ 283,044</u>	<u>\$ 63,599</u>	<u>\$ 248,038</u>	<u>\$ 2,680</u>	<u>\$ 597,361</u>
LIABILITIES					
Accounts payable	\$ 26,160	\$ 875	\$ 3,161	\$ -	\$ 30,196
Accrued salaries and benefits	4,070	1,920	-	-	5,990
Interfund payable	-	-	-	1,285	1,285
Total liabilities	<u>30,230</u>	<u>2,795</u>	<u>3,161</u>	<u>1,285</u>	<u>37,471</u>
FUND BALANCES					
Restricted	252,814	-	-	1,395	254,209
Committed	-	60,804	244,877	-	305,681
Total fund balances	<u>252,814</u>	<u>60,804</u>	<u>244,877</u>	<u>1,395</u>	<u>559,890</u>
Total liabilities and fund balances	<u>\$ 283,044</u>	<u>\$ 63,599</u>	<u>\$ 248,038</u>	<u>\$ 2,680</u>	<u>\$ 597,361</u>

SCHEDULE 5
HUDSON SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2014

	Special Revenue Funds				
	Food Service	Alvirne Farm	Vocational Center	Alvirne Trustees	Total
Revenues:					
Local	\$ 812,807	\$ 110,899	\$ 116,169	\$ 161,766	\$ 1,201,641
State	18,233	-	-	-	18,233
Federal	418,568	-	-	-	418,568
Total revenues	<u>1,249,608</u>	<u>110,899</u>	<u>116,169</u>	<u>161,766</u>	<u>1,638,442</u>
Expenditures:					
Current:					
Instruction	-	91,872	94,000	136,007	321,879
Support services:					
Instructional staff	-	-	-	25,759	25,759
Noninstructional services	1,227,789	-	-	-	1,227,789
Total expenditures	<u>1,227,789</u>	<u>91,872</u>	<u>94,000</u>	<u>161,766</u>	<u>1,575,427</u>
Net change in fund balances	21,819	19,027	22,169	-	63,015
Fund balances, beginning	230,995	41,777	222,708	1,395	496,875
Fund balances, ending	<u>\$ 252,814</u>	<u>\$ 60,804</u>	<u>\$ 244,877</u>	<u>\$ 1,395</u>	<u>\$ 559,890</u>

SCHEDULE 6
HUDSON SCHOOL DISTRICT
Student Activities Funds
Combining Schedule of Changes in Student Activities Funds
For the Fiscal Year Ended June 30, 2014

	Balance, beginning	Additions	Deductions	Balance, ending
Schools:				
Dr. H.O. Smith	\$ 4,918	\$ -	\$ 4,918	\$ -
Hills Garrison	11,898	42,904	41,108	13,694
Nottingham West	16,676	46,420	34,355	28,741
Library Street	2,633	-	2,633	-
Hudson Memorial	52,883	282,708	273,685	61,906
Alvirne High	162,550	452,587	439,221	175,916
Early Learning Center	-	13,894	5,810	8,084
Totals	<u>\$ 251,558</u>	<u>\$ 838,513</u>	<u>\$ 801,730</u>	<u>\$ 288,341</u>

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



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX-224-1380

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AND AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hudson School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Hudson School District's basic financial statements, and have issued our report thereon dated January 13, 2015.

Internal Control over Financial Reporting

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

PLODZIK & SANDERSON
Professional Association

January 13, 2015



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX-224-1380

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

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

Report on Compliance for Each Major Federal Program

We have audited the Hudson School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Hudson School District's major federal program for the year ended June 30, 2014. The Hudson School District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Hudson School District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hudson 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 Hudson School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Hudson School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the Hudson 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 Hudson School District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hudson School District's internal control over compliance.

Hudson School District

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

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

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

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



PLODZIK & SANDERSON
Professional Association

January 13, 2015

SCHEDULE I
HUDSON SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? X yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SCHEDULE II
HUDSON SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
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	\$ 42,284
National School Lunch Program <i>(note 3)</i>	10.555	N/A	376,284
<i>CLUSTER TOTAL</i>			<u>418,568</u>
U.S. DEPARTMENT OF EDUCATION			
Passed Through the State of New Hampshire Department of Education			
Title I Grants to Local Educational Agencies:			
Title I Helping Disadvantaged	84.010	30067	21,924
SINI/DINI - HGS	84.010	30341	1,188
Title I 1003(a) SINI/DINI	84.010	31561	9,985
Title I Helping Disadvantaged	84.010	40067	369,945
Title I Reallocation	84.010	40201	42,181
Title I SINI/DINI	84.010	40278	31,942
<i>PROGRAM TOTAL</i>			<u>477,165</u>
SPECIAL EDUCATION CLUSTER			
Special Education - Grants to States:			
IDEA - 2013	84.027	32562	294
IDEA - 2014	84.027	42620	769,183
Focus Monitoring 2nd Grant	84.027	42621	6,534
Special Education - Preschool Grants	84.173	42620	18,054
<i>CLUSTER TOTAL</i>			<u>794,065</u>
Career and Technical Education - Basic Grants to States:			
CTE	84.048	35020	9,432
Tech Prep Grant	84.048	35055	27,942
CTE	84.048	45020	61,125
Tech Prep Grant	84.048	45055	62,174
<i>PROGRAM TOTAL</i>			<u>160,673</u>
Improving Teacher Quality State Grants:			
Title II - No Child Left Behind - 2013	84.367	34857	128
Title IIa - SWIFT	84.367	38857	1,541
Title II - Part A	84.367	44857	93,162
Title IIA	84.367	45387	510
<i>PROGRAM TOTAL</i>			<u>95,341</u>

(continued)

SCHEDULE II (continued)
HUDSON SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
English Language Acquisition Grants: Title III ESOL (<i>note 4</i>)	84.365	40815	12,028
Passed Through the Derry Cooperative School District, New Hampshire			
Title III - English Language Acquisition	84.365	30001	2,911
<i>PROGRAM TOTAL</i>			<u>14,939</u>
DIRECT FUNDING			
U.S. DEPARTMENT OF DEFENSE			
Air Force JROTC	12.UNKNOWN	N/A	69,483
<i>Total Expenditures of Federal Awards</i>			<u>\$ 2,030,234</u>

The accompanying notes are an integral part of this schedule.

HUDSON SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "schedule") includes the federal grant activity of the Hudson School District under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Hudson School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Hudson School District.

Note 2. Summary of Significant Accounting Policies

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

Note 3. Food Donation

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

Note 4. Subrecipients

Of the federal expenditures presented in the schedule, the Hudson School District provided federal awards to subrecipients as follows:

<i>CFDA Number</i>	<i>Program Name</i>	<i>Amount Provided to Subrecipients</i>
84.365	English Language Acquisition Grants	\$4,209