

HUDSON SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

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PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, major fund, and aggregate remaining fund information of the Hudson School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hudson School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and aggregate remaining fund information of the Hudson School District as of June 30, 2015, and the respective changes in financial position, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1-N to the financial statements, in 2015, the School District changes its method of accounting for pension reporting with the adoption of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

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

Other Matters

Required Supplementary Information - Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information (pages 3 through 14), the Schedule of Funding Progress for Other Postemployment Benefit Plan (page 40), the Schedule of the School District's Proportionate Share of Net Pension Liability (page 41), and the Schedule of School District Contributions (page 42) 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 it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information - Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hudson School District's basic financial statements. The combining and individual fund financial statements, 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 statements 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 statements 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 21, 2016, 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 the Hudson School District's internal control over financial reporting and compliance.

Sheryl A. Piatt, CPA

January 21, 2016

PLODZIK & SANDERSON
Professional Association

Management's Discussion and Analysis For the Period Ending June 30, 2015

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, 2015. 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 \$(14,770,955) to \$(14,558,182) an increase of \$212,773 between FY 2014 and FY 2015.

Note: The School District's negative net position is due to the following: As of June 30, 2015, the School District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires the School District to report their proportionate share of the New Hampshire Retirement System's net pension liability based upon their plan contributions for the year. The New Hampshire Retirement System has a statutory funding schedule whose goal is to reach 100% plan funding by June 30, 2039.

- The Hudson School District's capital assets decreased from \$23,247,602 to \$22,872,969 between FY 2014 and FY 2015. This represents a decrease of \$374,633 or 1.6%.
- During FY 2015, the District's governmental funds expenditures were \$49,289,264. The total generated in taxes and other revenues for governmental funds was \$48,730,433. At the close of FY 2015, the Hudson School District's governmental funds reported combined ending fund balances of \$1,998,661, a decrease of \$558,831 in comparison with the prior year. In accordance with New Hampshire State Law, the general fund undesignated fund balance of \$361,862 for FY 2015 was used as a direct offset of taxes in FY 2016.
- The Hudson School District's total debt for FY 2015 was \$5,519,593 a decrease of \$1,107,770 (17%). 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:

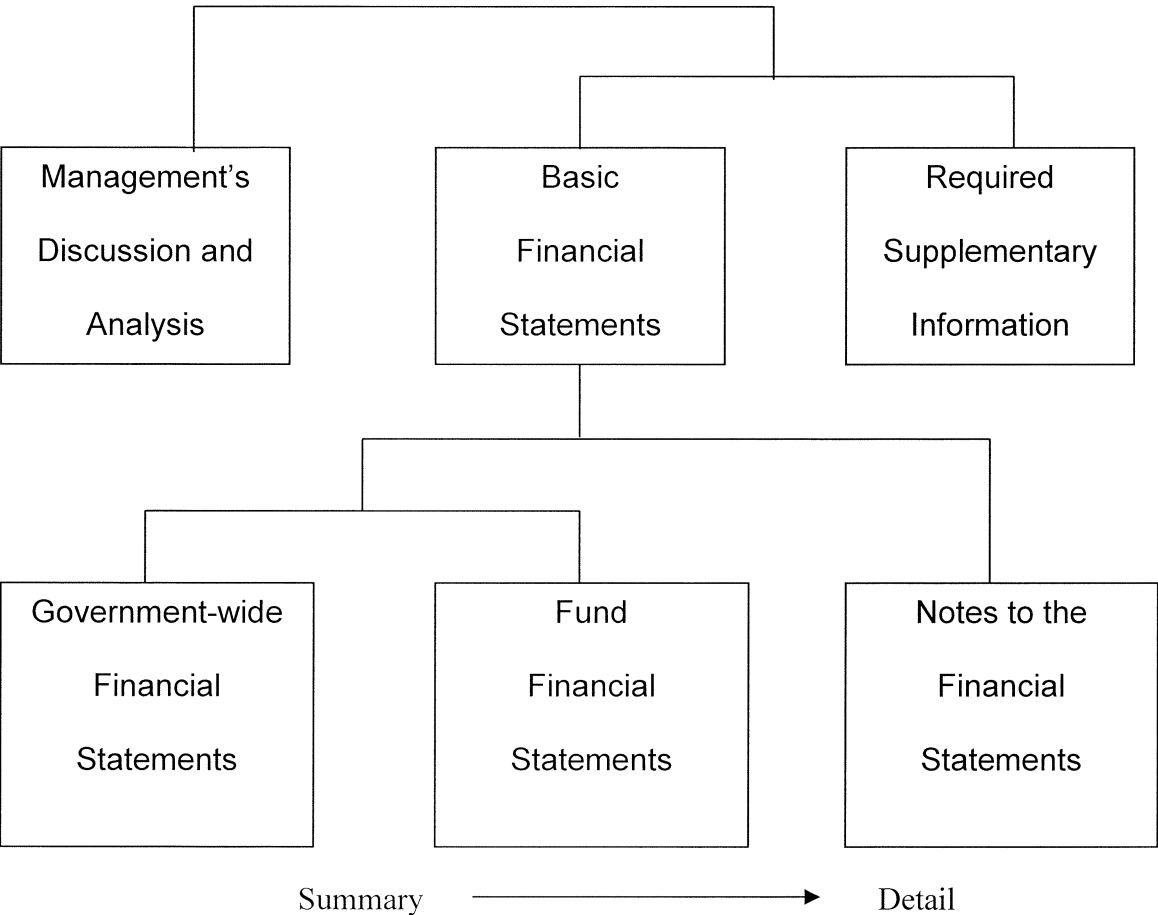
- 1) government-wide financial statements,
- 2) fund financial statements, and
- 3) notes to the financial statements.

Management Discussion and Analysis
Hudson School District

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.

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 assets 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.

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 23 of the annual audit report.

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

	<u>2015</u>	<u>2014</u> <u>(As restated)</u>	<u>%</u> <u>Change</u> <u>2014-2015</u>
Current and Other Assets	4,414,084	4,560,199	-3.20%
Capital Assets	<u>22,872,969</u>	<u>23,247,602</u>	<u>-1.60%</u>
Total Assets	27,287,053	27,807,801	-1.90%
Deferred Outflows of Resources	2,455,516	2,467,059	-0.50%
Long-Term Liabilities Outstanding	37,935,481	42,970,749	9.40%
Other Liabilities	<u>2,475,522</u>	<u>2,075,066</u>	<u>-19.30%</u>
Total Liabilities	40,411,003	45,045,815	8.10%
Deferred Inflows of Resources	3,889,748	0	-256.80%
Net Investment in Capital Assets	17,353,376	16,620,239	4.40%
Unrestricted Net Position (Deficit)	<u>(31,911,558)</u>	<u>(31,391,194)</u>	<u>-1.70%</u>
Total Net Position	<u>(14,558,182)</u>	<u>(14,770,955)</u>	<u>1.40%</u>

Net position of the District's governmental activities increased 1.4% or \$212,773 as of June 30, 2015. 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.

Management Discussion and Analysis
Hudson School District

The District received \$48,730,433 from all sources of revenue. Fifty-seven percent (\$27,672,029) of the District's revenue came from local taxes. Thirty-one percent (\$15,112,928) came from the state education tax and the state adequacy grant. Approximately seven percent (\$3,221,826) came from various state and federal grants. The balance (\$2,723,650) was derived from other local revenues.

Figure 2

Hudson School District's Change in Net Position

Summary of Changes in Net Position
Governmental Activities

	<u>2014</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>\$</u> <u>Difference</u>	<u>%</u> <u>Difference</u>
Revenues:				
Program Revenue:				
Charges for Services	\$ 984,884	\$ 980,001	\$ 4,883	0.50%
Operating Grants and Contributions	2,742,350	2,512,972	229,378	8.36%
Capital Grants and Contributions	378,559	384,231	(5,672)	-1.50%
General Revenue:				
School District Assessment	26,543,140	27,672,029	(1,128,889)	-4.25%
Unrestricted Grants	15,676,345	15,437,551	238,794	1.52%
Miscellaneous & Interest	979,636	1,743,649	(764,013)	-77.99%
Total Revenues	<u>47,304,914</u>	<u>48,730,433</u>	<u>(1,425,519)</u>	<u>-3.01%</u>
Expenses:				
Instruction	\$ 29,315,745	\$ 30,694,284	\$ (1,378,539)	-4.70%
Support Services:				
Student	3,910,949	4,166,117	(255,168)	-6.52%
Instructional Staff	1,158,146	1,368,258	(210,112)	-18.14%
General Administration	141,498	119,956	21,542	15.22%
Executive Administration	677,149	692,134	(14,985)	-2.21%
School Administration	2,763,974	2,700,327	63,647	2.30%
Business	775,177	797,541	(22,364)	-2.89%
Operation and Maintenance of Plant	4,456,638	4,598,060	(141,422)	-3.17%
Student Transportation	1,709,370	1,857,277	(147,907)	-8.65%
Other	39,899	35,064	4,835	12.12%
Noninstructional Services	1,230,058	1,243,516	(13,458)	-1.09%
Interest on Long-Term Debt	201,952	172,005	29,947	14.83%
Facilities Acquisition and Construction	-	73,121	(73,121)	100.00%
Total Expenses	<u>46,380,555</u>	<u>48,517,660</u>	<u>(2,137,105)</u>	<u>-4.61%</u>
Change in Net Position	924,359	212,773	711,586	76.98%
Net Position, beginning, as restated	<u>(15,695,314)</u>	<u>(14,770,955)</u>	<u>(924,359)</u>	<u>5.89%</u>
Net Position, ending	<u>\$ (14,770,955)</u>	<u>\$ (14,558,182)</u>	<u>\$ (212,773)</u>	<u>1.44%</u>

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, 2015, the governmental funds of the Hudson School District reported a combined fund balance of \$1,998,661. 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 FY2015 End Financial Report as presented to the Hudson School Board in 2015 by the Business Administrator.

Estimated Fund Balance per Report:

Revenue Surplus:	326,310
Unexpended Balance of appropriations:	<u>211,764</u>
2014-15 Budget Surplus	<u>538,074</u>
Less: Decrease in Nonspendable Fund Balance	23,788
Increase in Committed Fund Balance	<u>(200,000)</u>

Audited Unassigned Fund Balance (to Offset Tax Rate):	361,862
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Unanticipated Revenue is comprised of the following:

Unanticipated/(Deficit) of Revenue Budget

Other local sources:

Tuition	34,685
Investment earnings	2,369
Indirect Costs	63
Student Activities	2,550
Rentals	(7,462)
Miscellaneous	324,997

State sources:

Vocational Aid	(131,723)
Catastrophic Aid	74,623

Federal sources:

Medicaid	35,777
ROTC	(9,319)

Other financing sources:

Transfers In	<u>(250)</u>
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Total Revenue	<u><u>326,310</u></u>
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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, 2015, totals \$22,872,969 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, athletic fields and facilities, and vehicles.

Figure 3
Hudson School District Capital Assets
Governmental Activities
(Net of depreciation)

	June 30, <u>2015</u>	June 30, <u>2014</u>	Change <u>2014-2015</u>
Land	\$ 329,201	\$ 329,201	0.00%
Work in Progress	51,763	-	100.00%
Buildings & Improvements	21,760,230	22,301,319	-2.40%
Machinery, Vehicles & Equipment	719,224	601,231	19.60%
Intangible Assets	<u>12,551</u>	<u>15,851</u>	<u>-20.80%</u>
Total	<u>\$ 22,872,969</u>	<u>\$ 23,247,602</u>	<u>16.00%</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, 2015, the Hudson School District had total bonded debt outstanding of \$5,519,593.

Hudson School District's Outstanding Long-Term Debt
Governmental Activities

Figure 4

	June 30, <u>2014</u>	June 30, <u>2015</u>	% Change <u>2014-2015</u>
General Obligation Bond Payable			
2000 School Buildings	\$ 5,440,000	\$ 4,590,000	-15.60%
Capital Lease			
Building Improve/Capital Lease	1,093,227	851,147	-22.10%
Unamortized Bond Premiums	<u>94,136</u>	<u>78,446</u>	<u>-16.70%</u>
Total	<u><u>\$ 6,627,363</u></u>	<u><u>\$ 5,519,593</u></u>	<u><u>-54.40%</u></u>

At the of FY 2015 the District had \$5,519,593 in General Obligation bonds and leases outstanding, a decrease of 54.4% under last year as shown in Figure 4 above. The Hudson School District's total debt decreased by \$1,107,770 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 \$2,606,159,920. The legal debt limit for the Hudson School District is \$182,431,194. The District has \$5,519,593 in outstanding debt as of June 30, 2015.

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, 2015 was, 253.626 up from 253.555 the prior year, with no change for the corresponding month the previous year. During the same time period, the national CPI increased from 238.343 to 238.638, an increase of .1%.
- Student enrollment continues to decrease. The enrollment in April, 2015 was 3,732 including 144 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 future years.

- 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, 2015

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 3,250,299
Accounts receivable	126,441
Intergovernmental receivable	929,078
Prepaid items	108,266
Capital assets, not being depreciated	380,964
Capital assets, net of accumulated depreciation	22,492,005
Total assets	<u>27,287,053</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts related to pensions	<u>2,455,516</u>
LIABILITIES	
Accounts payable	233,225
Accrued salaries and benefits	2,129,317
Intergovernmental payable	49,714
Other	3,167
Accrued interest payable	60,099
Noncurrent obligations:	
Due within one year	1,097,793
Due in more than one year	8,293,740
Net pension liability	28,543,948
Total liabilities	<u>40,411,003</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts related to pensions	<u>3,889,748</u>
NET POSITION	
Net investment in capital assets	17,353,376
Unrestricted	(31,911,558)
Total net position	<u><u>\$ (14,558,182)</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, 2015

		Program Revenues			Net (Expense)
		Charges	Operating	Capital	Revenue and
	Expenses	for	Grants and	Grants and	Change In
		Services	Contributions	Contributions	Net Position
Governmental activities:					
Instruction	\$ 30,694,284	\$ 199,685	\$ 2,056,598	\$ 384,231	\$ (28,053,770)
Support services:					
Student	4,166,117	-	-	-	(4,166,117)
Instructional staff	1,368,258	-	-	-	(1,368,258)
General administration	119,956	-	-	-	(119,956)
Executive administration	692,134	-	-	-	(692,134)
School administration	2,700,327	-	-	-	(2,700,327)
Business	797,541	-	-	-	(797,541)
Operation and maintenance of plant	4,598,060	-	-	-	(4,598,060)
Student transportation	1,857,277	-	-	-	(1,857,277)
Other	35,064	-	-	-	(35,064)
Noninstructional services	1,243,516	780,316	456,374	-	(6,826)
Interest on long-term debt	172,005	-	-	-	(172,005)
Facilities acquisition and construction	73,121	-	-	-	(73,121)
Total governmental activities	<u>\$ 48,517,660</u>	<u>\$ 980,001</u>	<u>\$ 2,512,972</u>	<u>\$ 384,231</u>	<u>(44,640,456)</u>
General revenues:					
School district assessment					27,672,029
Grants and contributions not restricted to specific programs					15,437,551
Miscellaneous					1,743,649
Total general revenues					<u>44,853,229</u>
Change in net position					212,773
Net position, beginning, as restated (see Note 12)					(14,770,955)
Net position, ending					<u>\$ (14,558,182)</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, 2015

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,681,679	\$ 568,620	\$ 3,250,299
Accounts receivable	22,352	104,089	126,441
Intergovernmental receivable	677,016	252,062	929,078
Interfund receivable	258,737	-	258,737
Prepaid items	100,666	7,600	108,266
Total assets	<u>\$ 3,740,450</u>	<u>\$ 932,371</u>	<u>\$ 4,672,821</u>
LIABILITIES			
Accounts payable	\$ 123,048	\$ 110,177	\$ 233,225
Accrued salaries and benefits	2,125,485	3,832	2,129,317
Intergovernmental payable	49,714	-	49,714
Interfund payable	-	258,737	258,737
Other	-	3,167	3,167
Total liabilities	<u>2,298,247</u>	<u>375,913</u>	<u>2,674,160</u>
FUND BALANCES			
Nonspendable	100,666	7,600	108,266
Restricted	-	264,268	264,268
Committed	647,499	295,295	942,794
Assigned	332,176	-	332,176
Unassigned (deficit)	361,862	(10,705)	351,157
Total fund balances	<u>1,442,203</u>	<u>556,458</u>	<u>1,998,661</u>
Total liabilities and fund balances	<u>\$ 3,740,450</u>	<u>\$ 932,371</u>	<u>\$ 4,672,821</u>

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

EXHIBIT C-2
HUDSON SCHOOL DISTRICT
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2015

Total fund balances of governmental funds (Exhibit C-1)		\$ 1,998,661
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	\$ 46,809,094	
Less accumulated depreciation	<u>(23,936,125)</u>	
		22,872,969
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (258,737)	
Payables	<u>258,737</u>	
		-
Certain assets are not current financial resources in the governmental funds, but instead are reported in the Statement of Net Position.		
Deferred outflows of resources related to pensions		2,455,516
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(60,099)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bonds	\$ 4,590,000	
Unamortized bond premium	78,446	
Capital lease	851,147	
Compensated absences	2,249,502	
Other postemployment benefits	1,622,438	
Deferred inflows of resources related to pensions	3,889,748	
Net pension liability	<u>28,543,948</u>	
		<u>(41,825,229)</u>
Net position of governmental activities (Exhibit A)		<u><u>\$ (14,558,182)</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, 2015

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
School district assessment	\$ 27,672,029	\$ -	\$ 27,672,029
Other local	1,326,899	1,396,751	2,723,650
State	15,855,059	63,968	15,919,027
Federal	471,458	1,944,269	2,415,727
Total revenues	<u>45,325,445</u>	<u>3,404,988</u>	<u>48,730,433</u>
EXPENDITURES			
Current:			
Instruction	27,737,752	1,761,940	29,499,692
Support services:			
Student	4,140,790	88,822	4,229,612
Instructional staff	1,312,133	120,040	1,432,173
General administration	119,956	-	119,956
Executive administration	702,748	-	702,748
School administration	2,744,875	-	2,744,875
Business	810,880	-	810,880
Operation and maintenance of plant	4,862,648	43,240	4,905,888
Student transportation	1,857,277	-	1,857,277
Other	-	35,064	35,064
Noninstructional services	-	1,249,249	1,249,249
Debt service:			
Principal	1,092,080	-	1,092,080
Interest	199,955	-	199,955
Facilities acquisition and construction	299,750	110,065	409,815
Total expenditures	<u>45,880,844</u>	<u>3,408,420</u>	<u>49,289,264</u>
Net change in fund balances	(555,399)	(3,432)	(558,831)
Fund balances, beginning	1,997,602	559,890	2,557,492
Fund balances, ending	<u>\$ 1,442,203</u>	<u>\$ 556,458</u>	<u>\$ 1,998,661</u>

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, 2015

Net change in fund balances of total governmental funds (Exhibit C-3)		\$ (558,831)
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	\$ 792,123	
Depreciation expense	<u>(1,166,756)</u>	
		(374,633)
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expenses.		
Contributions subsequent to the measurement date	\$ 2,455,516	
Net pension expense	<u>(1,883,772)</u>	
		571,744
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 bonds	\$ 850,000	
Amortization of bond premium	15,690	
Principal repayment of capital lease	<u>242,080</u>	
		1,107,770
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	\$ 12,260	
Increase in compensated absences payable	(13,129)	
Increase in other postemployment benefits payable	<u>(532,408)</u>	
		<u>(533,277)</u>
Change in net position of governmental activities (Exhibit B)		<u><u>\$ 212,773</u></u>

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

EXHIBIT D
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, 2015

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
School district assessment	\$ 27,672,029	\$ 27,672,029	\$ 27,672,029	\$ -
Other local	527,290	958,040	1,315,242	357,202
State	15,912,159	15,912,159	15,855,059	(57,100)
Federal	445,000	445,000	471,458	26,458
Total revenues	44,556,478	44,987,228	45,313,788	326,560
EXPENDITURES				
Current:				
Instruction	28,019,085	27,843,030	27,701,287	141,743
Support services:				
Student	3,966,300	4,239,466	4,152,759	86,707
Instructional staff	1,181,313	1,339,339	1,489,257	(149,918)
General administration	141,957	142,397	119,956	22,441
Executive administration	693,952	708,330	701,511	6,819
School administration	2,859,297	2,800,592	2,751,048	49,544
Business	831,953	838,091	807,690	30,401
Operation and maintenance of plant	4,561,523	4,871,596	4,863,636	7,960
Student transportation	2,007,262	1,875,551	1,859,734	15,817
Debt service:				
Principal	1,092,830	1,092,080	1,092,080	-
Interest	199,205	199,955	199,955	-
Facilities acquisition and construction	300,000	300,000	299,750	250
Total expenditures	45,854,677	46,250,427	46,038,663	211,764
Excess (deficiency) of revenues over (under) expenditures	(1,298,199)	(1,263,199)	(724,875)	538,324
OTHER FINANCING SOURCES				
Transfers in	335,000	300,000	299,750	(250)
Transfers out	(50,000)	(50,000)	(50,000)	-
Total other financing sources (uses)	285,000	250,000	249,750	(250)
Net change in fund balance	\$ (1,013,199)	\$ (1,013,199)	(475,125)	\$ 538,074
Decrease in nonspendable fund balance			23,788	
Increase in committed fund balance			(150,000)	
Unassigned fund balance, beginning			963,199	
Unassigned fund balance, ending			\$ 361,862	

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

EXHIBIT E
HUDSON SCHOOL DISTRICT
Fiduciary Funds
Statement of Net Position
June 30, 2015

	<u>Agency</u>
ASSETS	
Cash and cash equivalents	<u>\$ 301,812</u>
LIABILITIES	
Due to student groups	<u>\$ 301,812</u>

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, 2015

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HUDSON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

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

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

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the School District’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the School District are reported in 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 assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measureable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the School District, are district assessments, intergovernmental revenues, and other local sources. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Fiduciary Fund Financial Statements – Fiduciary fund financial statements include a Statement of Net Position. The School District’s fiduciary funds are agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are accounted for on a spending or “economic resources” measurement focus and the accrual basis of accounting.

HUDSON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

Major Fund – The School District reports the following major governmental fund:

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.

Nonmajor Funds – The School District also reports five 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 assets available to finance the program. It is the School District's policy to first apply grant resources to such programs and then general revenues.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, deferred inflows/outflows, and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prioritization and Use of Available Resources – When both restricted and unrestricted resources are available for use, it is the School District's practice to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources are available for use in the general fund, it is the School District's 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, 2015

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 Deferred Outflows/Inflows of Resources

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

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

1-I 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-J Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts 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.

HUDSON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

1-K Claims and Judgments

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

1-L Net Position/Fund Balances

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

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

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

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

1-M Interfund Receivables and Payables

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

1-N Defined Benefit Pension Plan

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

HUDSON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

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

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

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

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. In the fiscal year 2015, \$1,013,199 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

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

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

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

Revenues and other financing sources:	
Per Exhibit D (budgetary basis)	\$ 45,613,538
Adjustments:	
Basis difference:	
GASB Statement No. 54:	
Revenue of the blended funds	11,657
Eliminate transfers between blended funds	(299,750)
Per Exhibit C-3 (GAAP basis)	<u>\$ 45,325,445</u>
	(Continued)

HUDSON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

Budgetary reconciliation to GAAP basis continued:

Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 46,088,663
Adjustments:	
Basis difference:	
Encumbrances, beginning	174,357
Encumbrances, ending	(332,176)
GASB Statement No. 54:	
Eliminate transfers between blended funds	(50,000)
Per Exhibit C-3 (GAAP basis)	<u>\$ 45,880,844</u>

2-C Deficit Fund Balance

The Alvirne Trustees fund had a fund balance deficit of \$3,105 at June 30, 2015. This deficit is a result of expenditures incurred in which reimbursements will be received and recognized as revenue in subsequent periods.

2-D Change in Accounting Principle

Effective July 1, 2014, the School District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The requirements of this Statement change the way the School District calculates and reports the costs and obligations associated with pensions. As a result of implementing GASB Statement No. 68 the School District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2014 by \$30,549,924 (see Note 12). The reduction accounts for the associated net pension liability, deferred inflows of resources, and deferred outflows of resources related to pensions.

Also, the School District adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – and amendment to GASB Statement No. 68*. This Statement addresses an issue in GASB 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.

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 \$3,552,111 and the bank balances totaled \$4,796,845. Petty cash totaled \$650.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 3,250,299
Cash per Statement of Net Position-Fiduciary Funds (Exhibit E)	301,812
Total cash and cash equivalents	<u>\$ 3,552,111</u>

NOTE 4 – RECEIVABLES

Receivables at June 30, 2015, consisted of accounts and intergovernmental amounts arising from grants, school lunch program, restricted grants, and funds held in the custody of the Town of Hudson Trustees of Trust Funds. Receivables are recorded on the School District's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

HUDSON SCHOOL DISTRICT
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NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 consisted of the following:

	Balance, beginning	Additions	Balance, ending
At cost:			
Not being depreciated:			
Land	\$ 329,201	\$ -	\$ 329,201
Work in progress	-	51,763	51,763
Total capital assets not being depreciated	<u>329,201</u>	<u>51,763</u>	<u>380,964</u>
Being depreciated:			
Buildings and building improvements	44,464,345	521,051	44,985,396
Machinery, equipment, and vehicles	1,186,768	219,309	1,406,077
Intangible assets	36,657	-	36,657
Total capital assets being depreciated	<u>45,687,770</u>	<u>740,360</u>	<u>46,428,130</u>
Total capital assets	<u>46,016,971</u>	<u>792,123</u>	<u>46,809,094</u>
Less accumulated depreciation:			
Buildings and building improvements	(22,163,026)	(1,062,140)	(23,225,166)
Machinery, equipment, and vehicles	(585,537)	(101,316)	(686,853)
Intangible assets	(20,806)	(3,300)	(24,106)
Total accumulated depreciation	<u>(22,769,369)</u>	<u>(1,166,756)</u>	<u>(23,936,125)</u>
Net book value, capital assets being depreciated	<u>22,918,401</u>	<u>(426,396)</u>	<u>22,492,005</u>
Net book value, all capital assets	<u>\$ 23,247,602</u>	<u>\$ (374,633)</u>	<u>\$ 22,872,969</u>

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	\$ 1,096,409
Support services:	
Instructional staff	9,792
Operation and maintenance of plant	37,993
Noninstructional services	22,562
Total depreciation expense	<u>\$ 1,166,756</u>

NOTE 6 – INTERFUND BALANCES

Interfund receivable and payable balances consisting of overdrafts in pooled cash and budgetary transfers at June 30, 2015, are as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor	<u>\$ 258,737</u>

NOTE 7 – CAPITAL LEASES

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

	Standard Interest Rate	Present Value of Remaining Payments as of June 30, 2015
Capital lease obligations:		
Building improvement	3.25%	<u>\$ 851,147</u>

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The annual requirements to amortize the capital lease payable as of June 30, 2015, including interest payments, are as follows:

Fiscal Year Ending June 30,	Governmental Activities
2016	\$ 297,172
2017	307,573
2018	318,338
Total requirements	923,083
Less: interest	71,936
Present value of remaining payments	<u>\$ 851,147</u>

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

NOTE 8 – LONG-TERM LIABILITIES

Changes in the School District's long-term liabilities consisted of the following for the year ended June 30, 2015:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 5,440,000	\$ -	\$ (850,000)	\$ 4,590,000	\$ 820,000
Premium	94,136	-	(15,690)	78,446	15,690
Total bonds payable	5,534,136	-	(865,690)	4,668,446	835,690
Capital leases	1,093,227	-	(242,080)	851,147	262,103
Compensated absences	2,236,373	91,075	(77,946)	2,249,502	-
Net other postemployment benefits	1,090,030	532,408	-	1,622,438	-
Total long-term liabilities	<u>\$ 9,953,766</u>	<u>\$ 623,483</u>	<u>\$ (1,185,716)</u>	<u>\$ 9,391,533</u>	<u>\$ 1,097,793</u>

Long-term bonds are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate	Outstanding at June 30, 2015
General obligation bonds payable:					
School building	\$ 4,658,000	2010	2021	2.00-4.79%	\$ 2,585,000
School building	\$ 3,562,000	2010	2021	2.00-4.79%	2,005,000
					4,590,000
Unamortized bond premium					78,446
Total					<u>\$ 4,668,446</u>

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2015, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	730,000	46,113	776,113
2021	715,000	17,126	732,126
Totals	<u>\$ 4,590,000</u>	<u>\$ 477,862</u>	<u>\$ 5,067,862</u>

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

HUDSON SCHOOL DISTRICT
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NOTE 9 – ENCUMBRANCES

Encumbrances outstanding at June 30, 2015 are as follows:

Current:	
Instruction:	
Regular programs	\$ 3,565
Special programs	17,384
Vocational programs	1,880
Total instruction	<u>22,829</u>
Support services:	
Student	11,969
Instructional staff	218,974
School administration	8,284
Business	144
Operation and maintenance of plant	67,519
Transportation	<u>2,457</u>
Total support services	<u>309,347</u>
Total encumbrances	<u><u>\$ 332,176</u></u>

NOTE 10 – GOVERNMENTAL ACTIVITIES NET POSITION

The governmental activities net position at June 30, 2015 consisted of the following:

Net investment in capital assets:	
Net property, buildings, and equipment	\$ 22,872,969
Less:	
General obligation bonds payable	(4,590,000)
Unamortized bond premiums	(78,446)
Capital leases payable	<u>(851,147)</u>
Total net investment in capital assets	17,353,376
Unrestricted	<u>(31,911,558)</u>
Total net position	<u><u>\$ (14,558,182)</u></u>

As of July 1, 2014, the School District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* which requires the School District to report their proportionate share of the New Hampshire Retirement System's net pension liability based upon their plan contributions for the year as shown above.

None of the net position is restricted by enabling legislation.

HUDSON SCHOOL DISTRICT
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NOTE 11 – GOVERNMENTAL FUND BALANCES

Governmental fund balances (deficit) at June 30, 2015 consist of the following:

Nonspendable:		
Major fund:		
General:		
Prepaid items	\$ 100,666	
Nonmajor fund:		
Alvirne Trustees:		
Prepaid items	7,600	
	<u> </u>	\$ 108,266
Restricted:		
Nonmajor fund:		
Food service		264,268
Committed:		
Major fund:		
General:		
Expendable trust	\$ 447,499	
Voted appropriation - March 2015	200,000	
	<u>647,499</u>	
Nonmajor funds:		
Alvirne Farm	76,973	
Vocational center	218,322	
	<u>295,295</u>	
Total committed fund balance		942,794
Assigned:		
Major fund:		
General:		
Encumbrances		332,176
Unassigned:		
Major fund:		
General	\$ 361,862	
Nonmajor funds:		
Alvirne Trustees	(10,705)	
Total unassigned fund balance		<u>351,157</u>
Total governmental fund balances		<u><u>\$ 1,998,661</u></u>

NOTE 12 – PRIOR PERIOD ADJUSTMENTS

Net position at July 1, 2014 was restated for the following:

	Government-wide Statements
To record the net pension liability and deferred outflows of resources for implementation of GASB Statement No. 68	\$ (30,549,924)
To record beginning balance for change in methodology relating to other postemployment benefit liability	(1,090,030)
Net position, as previously reported	16,868,999
Net position, as restated	<u><u>\$ (14,770,955)</u></u>

HUDSON SCHOOL DISTRICT
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NOTE 13 – DEFINED BENEFIT PENSION PLAN

Plan Description: The New Hampshire Retirement System (NHRS or the System) is a public employee retirement system that administers one cost-sharing multiple-employer defined benefit pension plan (Pension Plan), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The Pension Plan was established in 1967 by RSA 100-A:2 and is qualified as a tax exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Pension Plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers with in the State are eligible and required to participate in the Pension Plan. The System issues a publically available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

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

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

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

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

Contributions: The System is financed by contributions from both the employees and the School District. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees are required to contribute 7% of earnable compensation. For fiscal year 2015, the School District contributed 14.16% for teachers and 10.77% for other employees. The contribution requirements for the fiscal years 2013, 2014, and 2015 were \$2,315,445, \$2,857,388, and \$2,839,722, respectively, which were paid in full in each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2015 the School District reported a liability of \$28,543,948 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating towns and school districts, actuarially determined. At June 30, 2014, the School District's proportion was .76044482% which was a decrease of .0067168% from its proportion measured as of June 30, 2013.

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For the year ended June 30, 2015, the School District recognized pension expense of \$1,883,772. At June 30, 2015 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ -	\$ 237,526
Net difference between projected and actual investment earnings on pension plan investments	-	3,652,222
Contributions subsequent to the measurement date	2,455,516	-
Total	<u>\$ 2,455,516</u>	<u>\$ 3,889,748</u>

The \$2,455,516 reported as deferred outflows of resources related to pensions results from the School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	
2016	\$ (964,607)
2017	(964,607)
2018	(964,607)
2019	(31,322)
Totals	<u>\$ (2,925,143)</u>

Actuarial Assumptions: The collective total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2013, using the following actuarial assumptions which, accordingly apply to both 2014 and 2013 measurements:

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

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2005 – June 30, 2010.

Long-term Rates of Return: The long-term expected rate of return on pension plan investment was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. Following is a table presenting target allocations and long-term rates of return for 2014 and 2013:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return	
		2014	2013
Large Cap Equities	22.50%	3.25%	3.75%
Small/Mid Cap Equities	7.50%	3.25%	4.00%
Total domestic equity	<u>30.00%</u>		
Int'l Equities (unhedged)	13.00%	4.25%	4.75%
Emerging Int'l Equities	7.00%	6.50%	6.75%
Total international equity	<u>20.00%</u>		

(Continued)

HUDSON SCHOOL DISTRICT
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Long-term rates of return continued:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return	
		2014	2013
Core Bonds	18.00%	(0.47)%	(0.96)%
High-Yield Bonds	1.50%	1.50%	2.00%
Global Bonds (unhedged)	5.00%	(1.75)%	(2.25)%
Emerging Market Debt (external)	0.50%	2.00%	1.00%
Total fixed income	25.00%		
Private equity	5.00%	5.75%	6.00%
Private debt	5.00%	5.00%	5.50%
Real estate	10.00%	3.25%	3.00%
Opportunistic	5.00%	2.50%	2.63%
Total alternative investments	25.00%		
Total	100.00%		

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

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

Actuarial Valuation Date	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
June 30, 2013	\$ 42,328,465	\$ 33,016,983	\$ 25,189,805
June 30, 2014	\$ 37,597,023	\$ 28,543,948	\$ 20,906,324

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

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported similar to pension plans. GASB Statement No. 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements.

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The School District has only partially funded (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2015:

Annual required contribution/OPEB cost	\$ 575,133
Interest on net OPEB obligation	43,601
Adjustment to annual required contribution	(61,812)
Annual OPEB cost (expense)	<u>556,922</u>
Contributions made	<u>24,514</u>
Increase in net OPEB obligation	532,408
Net OPEB obligation - beginning of year, as restated	1,090,030
Net OPEB obligation - end of year	<u><u>\$ 1,622,438</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 fiscal year 2015 and the four preceding years were as follows:

Fiscal Year Ended	Annual OPEB Contribution Cost	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
June 30, 2011	\$ 390,550	\$ 79,482	20.35%	\$ 311,068
June 30, 2012	\$ 304,181	\$ 77,372	25.44%	\$ 537,877
June 30, 2013	\$ 409,640	\$ 85,934	20.98%	\$ 861,583
June 30, 2014	\$ 315,484	\$ 87,037	27.59%	\$ 1,090,030
June 30, 2015	\$ 556,922	\$ 24,514	4.40%	\$ 1,622,438

As of July 1, 2014, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$4,977,576, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,977,576. The covered payroll (annual payroll of active employees covered by the plan) was \$20,257,696 during fiscal year 2015, and the ratio of the UAAL to the covered payroll was 24.6%

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

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

In the July 1, 2014 actuarial valuation, the actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return per annum. The projected annual healthcare cost trend is 9% initially, reduced by decrements to an ultimate rate of 5.0% for years 2020 and later. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at June 30, 2015 was 30 years.

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The GASB standard on accounting for postretirement benefits other than pensions requires the following disclosures in the financial statements with regard to the retiree benefit liability:

Benefit Information

1. **Plan Types:** New Hampshire Revised Statutes Annotated (100-A:50 Medical Insurance Coverage) indicates the following with respect to medical insurance for retiring employees.
 - I. Every political subdivision of the state that provides for its active employees any group medical insurance or group health care plan, including but not limited to hospitalization, hospital medical care, surgical care, dental care, or other group medical or health care plan, shall permit its employees upon retirement to continue to participate in the same medical insurance or health care group or plan as its active employees. Retired employees shall be deemed to be part of the same group as active employees of the same employer for purposes of determining medical insurance premiums. Coverage for spouses, other family members and beneficiaries of retirees shall also be permitted to the extent that coverage is provided for the spouses, other family members and beneficiaries of active employees. Present retirees not covered shall be permitted to rejoin the active employee health insurance or health care group. Persons retired prior to July 1, 1988, shall be given the opportunity to rejoin the group during a 2-year period, beginning on July 1, 1989, and ending on July 1, 1991. Such persons shall continue to participate in the same coverage as active employees without any benefit waiting period.
 - II. Each political subdivision, as employer, may elect to pay the full cost of group medical insurance or health care coverage for its retirees, or may require each retiree to pay any part or all of the cost of the retiree's participation. Such election may be made separately for retirees from different job classifications.

Since the same premiums are charged to active employees and retirees, and the School District is unable to obtain age-adjusted premium information for the retirees, GASH 45 requires the School District to calculate age-adjusted premiums for the purpose of projecting future benefits for retirees. This report values the implicit rate subsidy, which is the amount by which the age-adjusted premium exceeds the actual premium.

2. **Benefits Provided:** The School District provides medical benefits to its eligible retirees, and the School District acquires health insurance through the School Care Health Benefit Plans of the New Hampshire Health Care Coalition (the "Coalition"). Benefits provided by Coalition are administered by CIGNA.
3. **Duration of Benefits:** The benefits valued in this plan end when the retiree and for the covered spouse reach age 65. This valuation does not account for the cost benefits to retirees or their spouses after age 65.
4. **Benefit Cost Sharing:** Retirees and their covered spouses are required to pay 100% of the premiums for elected coverage. See examples for the calculation of the per capita cost on page 15.
5. **Eligibility:** Employees must meet the following criteria to be eligible for access to the School District's medical benefits in retirement.

Retirement Eligibility Requirements:

- Hired prior to July 1, 2011:
 - (1) Age 60 regardless of years of Creditable Service, or
 - (2) Age 50 with at least 10 years of Creditable Service, or
 - (3) At any age if have at least 20 years of Creditable Service and sum of age and years of Creditable Service is at least 70.
- Hired on or after July 1, 2011:
 - (1) Age 65 regardless of years of Creditable Service, or
 - (2) Age 60 with at least 30 years of Creditable Service.

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6. **Surviving Spouse Benefit:** Surviving spouses continue to receive coverage after the death of the eligible retired employee but are required to pay 100% of the premiums.
7. **Annual Gross Premiums for Retirees:**

PLAN	2014-2015		2015-2016	
	Employee	Employee and Covered Dependent	Employee	Employee and Covered Dependent
HMO	9,858.00	19,716.00	10,092.00	20,184.00
POS	11,040.00	22,080.00	11,304.00	22,608.00
OAP	9,120.00	18,240.00	9,336.00	18,672.00

NOTE 15 – RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2015, the School District was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pool, currently operating as common risk management and insurance program for member School Districts and cities.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from July 1 to June 30, 2015 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, 2015 was \$139,563 for workers' compensation and \$115,679 for property/liability. The workers' compensation section of the self-insurance membership agreement permits Primex³ to make additional assessments to members should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex³ foresees no likelihood of any additional assessment for this or any prior year.

NOTE 16 – CONTINGENT LIABILITIES

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

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

NOTE 17 – USDA FOOD COMMODITIES

The food service program received \$84,879 in nonmonetary assistance for the 2014-2015 fiscal year from the Department of Agriculture. This is reported at fair market value on the date received and has been reported as both a revenue and expenditure in the food service fund.

NOTE 18 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through January 21, 2016, the date the June 30, 2015 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, 2015

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%
July 1, 2014	\$ -	\$ 4,977,576	\$ 4,977,576	0.00%	\$ 20,257,696	24.60%

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

EXHIBIT G
HUDSON SCHOOL DISTRICT
Schedule of the School District's Proportionate Share of Net Pension Liability
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended June 30, 2015

<u>Fiscal Year</u>	<u>Valuation Date</u>	<u>District's Proportion of Net Pension Liability</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Covered Payroll</u>	<u>District Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2014	July 1, 2013	0.76716162%	\$ 33,016,983	\$ 21,414,546	154.18%	66.32%
June 30, 2015	July 1, 2014	0.76044482%	\$ 28,543,948	\$ 21,099,057	135.29%	59.81%

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

EXHIBIT H
HUDSON SCHOOL DISTRICT
Schedule of School District Contributions
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended June 30, 2015

Fiscal Year	Valuation Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2014	July 1, 2013	\$ 1,907,575	\$ 1,907,575	\$ -	\$ 21,414,546	8.91%
June 30, 2015	July 1, 2014	\$ 2,467,059	\$ 2,467,059	\$ -	\$ 21,099,057	11.69%

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, 2015

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, 2015, and the four preceding years.

Schedule of the School District's Proportionate Share of Net Pension Liability & Schedule of School District Contributions

As required by GASB Statement No. 68, and as amended by GASB Statement No. 71, Exhibits G and H represent the actuarial determined costs associated with the School District's pension plan at June 30, 2015.

Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2014:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	25 years beginning July 1, 2014
Asset Valuation Method	5-year smooth market for funding purposes
Price Inflation	3.0% per year
Wage Inflation	3.75% per year
Salary Increases	5.8% Average, including inflation
Municipal Bond Rate	4.29% per year
Investment Rate of Return	7.75% per year
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2011 valuation pursuant to an experience study of the period 2005-2010.
Mortality	RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

Other Information:

Notes	Contribution rates for Fiscal Year 2014 were determined based on the benefit changes adopted under House Bill No. 2 as amended by 011-2513-CofC.
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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, 2015

	Estimated	Actual	Variance Positive (Negative)
School district assessment:			
Current appropriation	\$ 27,672,029	\$ 27,672,029	\$ -
Other local sources:			
Tuition	165,000	199,685	34,685
Investment income	6,000	8,369	2,369
Indirect costs	35,000	35,063	63
Student activities	10,500	13,050	2,550
Rentals	30,000	22,538	(7,462)
Miscellaneous	711,540	1,036,537	324,997
Total from other local sources	958,040	1,315,242	357,202
State sources:			
Adequacy aid (grant)	9,045,780	9,045,780	-
Adequacy aid (tax)	6,067,148	6,067,148	-
School building aid	384,231	384,231	-
Catastrophic aid	250,000	324,623	74,623
Vocational aid	165,000	33,277	(131,723)
Total from state sources	15,912,159	15,855,059	(57,100)
Federal sources:			
Medicaid	375,000	410,777	35,777
ROTC	70,000	60,681	(9,319)
Total from federal sources	445,000	471,458	26,458
Other financing sources:			
Transfers in	300,000	299,750	(250)
Total revenues and other financing sources	45,287,228	\$ 45,613,538	\$ 326,310
Fund balance used to reduce school district assessment	1,013,199		
Total revenues, other financing sources, and use of fund balance	\$ 46,300,427		

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, 2015

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
Instruction:					
Regular programs	\$ 49,853	\$ 17,874,314	\$ 17,956,371	\$ 3,565	\$ (35,769)
Special programs	9,305	7,720,436	7,565,605	17,384	146,752
Vocational programs	136	1,595,665	1,577,907	1,880	16,014
Other	-	652,615	637,869	-	14,746
Total instruction	<u>59,294</u>	<u>27,843,030</u>	<u>27,737,752</u>	<u>22,829</u>	<u>141,743</u>
Support services:					
Student	-	4,239,466	4,140,790	11,969	86,707
Instructional staff	41,850	1,339,339	1,312,133	218,974	(149,918)
General administration	-	142,397	119,956	-	22,441
Executive administration	1,237	708,330	702,748	-	6,819
School administration	2,111	2,800,592	2,744,875	8,284	49,544
Business	3,334	838,091	810,880	144	30,401
Operation and maintenance of plant	66,531	4,871,596	4,862,648	67,519	7,960
Student transportation	-	1,875,551	1,857,277	2,457	15,817
Total support services	<u>115,063</u>	<u>16,815,362</u>	<u>16,551,307</u>	<u>309,347</u>	<u>69,771</u>
Debt service:					
Principal of long-term debt	-	1,092,080	1,092,080	-	-
Interest on long-term debt	-	199,955	199,955	-	-
Total debt service	<u>-</u>	<u>1,292,035</u>	<u>1,292,035</u>	<u>-</u>	<u>-</u>
Facilities acquisition and construction	<u>-</u>	<u>300,000</u>	<u>299,750</u>	<u>-</u>	<u>250</u>
Other financing uses:					
Transfers out	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>-</u>
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 174,357</u>	<u>\$ 46,300,427</u>	<u>\$ 45,930,844</u>	<u>\$ 332,176</u>	<u>\$ 211,764</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, 2015

Unassigned fund balance, beginning		\$ 963,199
Changes:		
Fund balance used to reduce school district assessment		(1,013,199)
2014-2015 Budget summary:		
Revenue surplus (Schedule 1)	\$ 326,310	
Unexpended balance of appropriations (Schedule 2)	<u>211,764</u>	
2014-2015 Budget surplus		538,074
Decrease in nonspendable fund balance		23,788
Increase in committed fund balance		<u>(150,000)</u>
Unassigned fund balance, ending		<u><u>\$ 361,862</u></u>

SCHEDULE 4
HUDSON SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2015

	Special Revenue Funds					
	Food Service	Alvirne Farm	Vocational Center	Alvirne Trustees	Grants	Total
ASSETS						
Cash and cash equivalents	\$ 262,634	\$ 86,197	\$ 219,789	\$ -	\$ -	\$ 568,620
Accounts receivable	31,140	-	-	72,949	-	104,089
Intergovernmental receivable	-	-	-	-	252,062	252,062
Prepaid items	-	-	-	7,600	-	7,600
Total assets	<u>\$ 293,774</u>	<u>\$ 86,197</u>	<u>\$ 219,789</u>	<u>\$ 80,549</u>	<u>\$ 252,062</u>	<u>\$ 932,371</u>
LIABILITIES						
Accounts payable	\$ 26,859	\$ 8,039	\$ 1,467	\$ 72,949	\$ 863	\$ 110,177
Accrued salaries and benefits	2,647	1,185	-	-	-	3,832
Interfund payable	-	-	-	10,705	248,032	258,737
Other	-	-	-	-	3,167	3,167
Total liabilities	<u>29,506</u>	<u>9,224</u>	<u>1,467</u>	<u>83,654</u>	<u>252,062</u>	<u>375,913</u>
FUND BALANCES						
Nonspendable	-	-	-	7,600	-	7,600
Restricted	264,268	-	-	-	-	264,268
Committed	-	76,973	218,322	-	-	295,295
Unassigned (deficit)	-	-	-	(10,705)	-	(10,705)
Total fund balances (deficit)	<u>264,268</u>	<u>76,973</u>	<u>218,322</u>	<u>(3,105)</u>	<u>-</u>	<u>556,458</u>
Total liabilities and fund balances	<u>\$ 293,774</u>	<u>\$ 86,197</u>	<u>\$ 219,789</u>	<u>\$ 80,549</u>	<u>\$ 252,062</u>	<u>\$ 932,371</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, 2015

	Special Revenue Funds					
	Food Service	Alvirne Farm	Vocational Center	Alvirne Trustees	Grants	Total
Revenues:						
Local	\$ 804,329	\$ 102,151	\$ 120,108	\$ 370,163	\$ -	\$ 1,396,751
State	18,458	-	-	-	45,510	63,968
Federal	437,916	-	-	-	1,506,353	1,944,269
Total revenues	<u>1,260,703</u>	<u>102,151</u>	<u>120,108</u>	<u>370,163</u>	<u>1,551,863</u>	<u>3,404,988</u>
Expenditures:						
Current:						
Instruction	-	85,982	146,663	116,409	1,412,886	1,761,940
Support services:						
Student	-	-	-	-	88,822	88,822
Instructional staff	-	-	-	104,949	15,091	120,040
Operation and maintenance of plant	-	-	-	43,240	-	43,240
Other	-	-	-	-	35,064	35,064
Noninstructional services	1,249,249	-	-	-	-	1,249,249
Facilities acquisition and construction	-	-	-	110,065	-	110,065
Total expenditures	<u>1,249,249</u>	<u>85,982</u>	<u>146,663</u>	<u>374,663</u>	<u>1,551,863</u>	<u>3,408,420</u>
Net change in fund balances	11,454	16,169	(26,555)	(4,500)	-	(3,432)
Fund balances, beginning	252,814	60,804	244,877	1,395	-	559,890
Fund balances (deficit), ending	<u>\$ 264,268</u>	<u>\$ 76,973</u>	<u>\$ 218,322</u>	<u>\$ (3,105)</u>	<u>\$ -</u>	<u>\$ 556,458</u>

SCHEDULE 6
HUDSON SCHOOL DISTRICT
Student Activities Funds
Combining Schedule of Changes in Student Activities Funds
For the Fiscal Year Ended June 30, 2015

	Balance, beginning	Additions	Deductions	Balance, ending
Schools:				
Hills Garrison	\$ 13,694	\$ 49,626	\$ 48,244	\$ 15,076
Nottingham West	28,741	46,123	47,657	27,207
Hudson Memorial	61,906	291,806	307,169	46,543
Alvirne High	175,916	522,559	492,173	206,302
Early Learning Center	8,084	6,210	7,610	6,684
Totals	<u>\$ 288,341</u>	<u>\$ 916,324</u>	<u>\$ 902,853</u>	<u>\$ 301,812</u>

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



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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

To the Members of the School Board
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 *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Hudson School District, as of and for the year ended June 30, 2015, 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 21, 2016.

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 21, 2016



PLODZIK & SANDERSON

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

To the Members of the School Board
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 Compliance Supplement* that could have a direct and material effect on each of the Hudson School District's major federal programs for the year ended June 30, 2015. The Hudson School District's major federal programs are 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 each of the Hudson School District's major federal programs 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 each major federal program. However, our audit does not provide a legal determination of the Hudson School District's compliance.

Basis for Qualified Opinion on CFDA No. 84.367 Improving Teacher Quality State Grants

As described in the accompanying Schedule of Findings and Questioned Costs, the Hudson School District did not comply with a requirement regarding CFDA No. 84.367 Improving Teacher Quality State Grants as described in finding number 2015-001 for Allowable Costs/Cost Principles. Compliance with such requirement is necessary, in our opinion, for the Hudson School District to comply with the requirements applicable to that program.

Qualified Opinion on CFDA No. 84.367 Improving Teacher Quality State Grants

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 CFDA No. 84.367 Improving Teacher Quality State Grants for the year ended June 30, 2015.

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

Unmodified Opinion on the Other 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 other major federal program identified in the summary of auditor's results section in the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2015.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and question costs as item 2015-001 that we consider to be a significant deficiency.

The Hudson School District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Hudson School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Sheryl A. Platt, CPA

PLODZIK & SANDERSON
Professional Association

January 21, 2016

SCHEDULE I
HUDSON SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

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? X yes none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified for CFDA No. 84.010, Title I Grants to Local Educational Agencies and qualified for CFDA No. 84.367, Improving Teacher Quality State grants

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

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I Grants to Local Educational Agencies</u>
<u>84.367</u>	<u>Improving Teacher Quality State Grants</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

SCHEDULE I (continued)
HUDSON SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2015-001 **U.S. Department of Education passed through the State of New Hampshire Department of Education: CFDA No. 84.367: Improving Teacher Quality State Grants, NH DOE Project No. 54857, Fiscal Year 2015**

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

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

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

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

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

Condition: While testing payroll expenditures, it was noted that the two employees working on the project did not have any support for their wages other than a signed pay agreement with the School District.

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

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

Recommendation: We recommend that the School District make sure that all employees who work under a Federal grant complete appropriate documentation in accordance with Federal payroll requirements.

Management Response: The Hudson School District has revisited all Federal payroll requirements and all employees who work under a federal grant will complete time sheets in support of their wages.

SCHEDULE II
HUDSON SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

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	\$ 45,382
National School Lunch Program <i>(note 3)</i>	10.555	N/A	392,534
<i>CLUSTER TOTAL</i>			<u>437,916</u>
U.S. DEPARTMENT OF EDUCATION			
Passed Through the State of New Hampshire Department of Education			
Adult Education - Basic Grants to States	84.002	57314	<u>731</u>
Title I Grants to Local Educational Agencies:			
Title I - Helping Disadvantaged	84.010	40067	1,586
Title Ia - Priority/Focus Set Aside	84.010	40201	877
Title I - Helping Disadvantaged	84.010	50067	428,522
Title Ia - Priority/Focus Set Aside	84.010	50201	46,024
New Priority & Focus Title IA 1003(a)	84.010	50278	15,382
<i>PROGRAM TOTAL</i>			<u>492,391</u>
SPECIAL EDUCATION CLUSTER			
Special Education - Grants to States:			
IDEA - 2014	84.027	42620	207
IDEA - 2015	84.027	52595	805,316
Special Education - Preschool Grants:			
IDEA Preschool 2014	84.173	42620	49
IDEA Preschool 2015	84.173	52595	22,003
<i>CLUSTER TOTAL</i>			<u>827,575</u>
Career and Technical Education - Basic Grants to States:			
CTE	84.048	45020	16,089
CTE	84.048	55020	59,825
<i>PROGRAM TOTAL</i>			<u>75,914</u>
English Language Acquisition Grants: <i>(note 4)</i>			
Title III ESOL	84.365	40815	4,673
Title III ESOL	84.365	50815	6,328
<i>PROGRAM TOTAL</i>			<u>11,001</u>
Improving Teacher Quality State Grants:			
Title II - SWIFT	84.367	38857	2,620
Title II - No Child Left Behind	84.367	44857	53
Title II - No Child Left Behind	84.367	54857	96,069
<i>PROGRAM TOTAL</i>			<u>98,742</u>
DIRECT FUNDING			
U.S. DEPARTMENT OF DEFENSE			
Air Force JROTC	12.UNKNOWN	N/A	<u>60,681</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,004,951</u></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, 2015

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, 2015. 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. For the fiscal year ended June 30, 2015 the value of food donations received was \$84,879.

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	\$5,980