

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

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# PLODZIK & SANDERSON

*Professional Association/Accountants & Auditors*

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## ***INDEPENDENT AUDITOR'S REPORT***

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the Hudson School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of the Hudson School District, as of June 30, 2016, and the respective changes in financial position, and the respective budgetary comparison for the general and grants funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

**Required Supplementary Information** - Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Funding Progress for Other Postemployment Benefit Plan, the Schedule of the School District's Proportionate Share of Net Pension Liability, and the Schedule of School District Contributions 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

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

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 schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

***Report on Other Legal and Regulatory Requirements***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2017, 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. Platt, CPA*

January 23, 2017

PLODZIK & SANDERSON  
Professional Association

## **Management's Discussion and Analysis For the Period Ending June 30, 2016**

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, 2016. 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 \$(14,558,182) to \$(13,076,357), an increase of \$1,481,825 between FY 2015 and FY 2016.

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 \$22,872,969 to \$22,153,790 between FY 2015 and FY 2016. This represents a decrease of \$719,179 or 3.1%.
- During FY 2016, the District's governmental funds expenditures were \$48,728,923. The total generated in taxes and other revenues for governmental funds was \$49,175,764. At the close of FY 2016 the Hudson School District's governmental funds reported combined ending fund balances of \$2,445,502, an increase of \$446,841 in comparison with the prior year. In accordance with New Hampshire State Law, the general fund unassigned fund balance of \$558,074 for FY 2016 was used as a direct offset of taxes in FY 2017.
- The Hudson School District's total debt for FY 2016 was \$4,421,800 a decrease of \$1,097,793 (20%). 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**

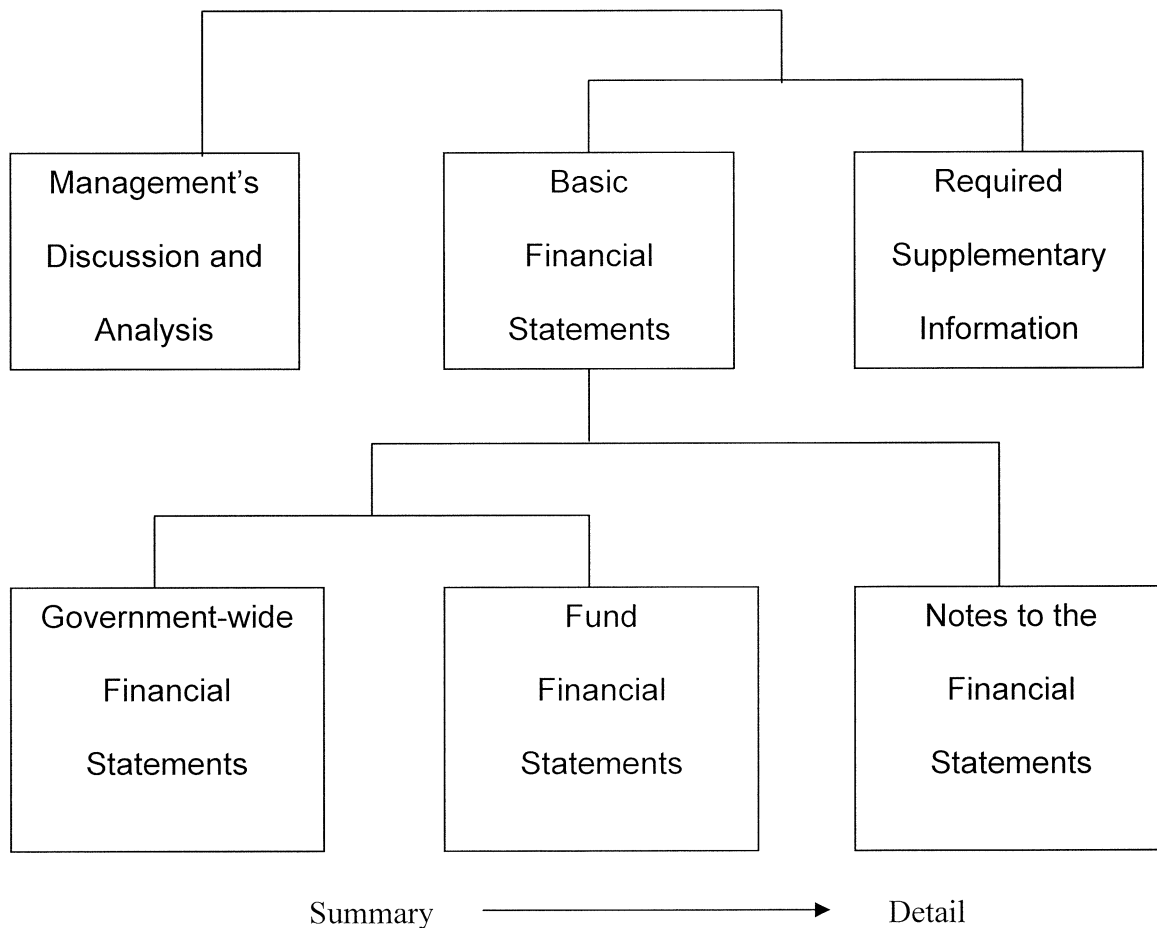
This discussion and analysis are intended to serve as an introduction to the Hudson School District's basic financial statements. The District's basic financial statements consist of four components:

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

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, and financial reporting for pensions.

### **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, deferred outflows of resources, liabilities and deferred inflows of resources. 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, deferred outflows of resources, total liabilities, and deferred inflows of resources. 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 well as the four other governmental 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 22 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>2016</u>	<u>2015</u> <u>(As restated)</u>	<u>%</u> <u>Change</u> <u>2015-2016</u>
Current and Other Assets	\$ 4,059,941	\$ 4,414,084	-8.02%
Capital Assets	<u>22,153,790</u>	<u>22,872,969</u>	<u>-3.14%</u>
Total Assets	26,213,731	27,287,053	-3.93%
Deferred Outflows of Resources	2,669,281	2,455,516	8.71%
Long-Term Liabilities Outstanding	37,720,416	37,935,481	-0.57%
Other Liabilities	<u>1,661,495</u>	<u>2,475,522</u>	<u>-32.88%</u>
Total Liabilities	39,381,911	40,411,003	-2.55%
Deferred Inflows of Resources	2,577,458	3,889,748	-33.74%
Net Investment in Capital Assets	17,731,990	17,353,376	2.75%
Restricted Net Position	98,082	0	100.00%
Unrestricted Net Position	<u>(30,906,429)</u>	<u>(31,911,558)</u>	<u>-3.15%</u>
Total Net Position	<u>\$ (13,076,357)</u>	<u>\$ (14,558,182)</u>	<u>10.18%</u>

Net position of the District's governmental activities increased 10.2% or \$1,481,825 as of June 30, 2016. Although the Hudson School District's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

The District received \$49,175,764 from all sources of revenue. Fifty-nine percent (\$29,111,116) of the District's revenue came from local taxes. Thirty-two percent (\$15,762,621) came from the state education tax and the state adequacy grant. Approximately five percent (\$2,444,408) came from various state and federal grants. The balance (\$1,857,619) was derived from other local revenues.

**Figure 2**

**Hudson School District's Change in Net Position**

Summary of Changes in Net Position  
Governmental Activities

	2015 <u>Amount</u>	2016 <u>Amount</u>	\$ <u>Difference</u>	% <u>Difference</u>
<b>Revenues:</b>				
<b>Program Revenue:</b>				
Charges for Services	\$ 980,001	\$ 907,832	\$ (72,169)	-7.36%
Operating Grants and Contributions	2,512,972	2,566,155	53,183	2.12%
Capital Grants and Contributions	384,231	390,238	6,007	1.56%
<b>General Revenue:</b>				
School District Assessment	27,672,029	29,111,116	1,439,087	5.20%
Unrestricted Grants	15,437,551	15,250,636	(186,915)	-1.21%
Miscellaneous & Interest	1,743,649	949,787	(793,862)	-45.53%
Total Revenues	<u>48,730,433</u>	<u>49,175,764</u>	<u>445,331</u>	<u>0.91%</u>
<b>Expenses:</b>				
Instruction	\$ 30,694,284	\$ 29,444,261	(1,250,023)	-4.07%
Support Services:				
Student	4,166,117	4,250,666	84,549	2.03%
Instructional Staff	1,368,258	1,601,015	232,757	17.01%
General Administration	119,956	132,074	12,118	10.10%
Executive Administration	692,134	776,092	83,958	12.13%
School Administration	2,700,327	2,720,925	20,598	0.76%
Business	797,541	818,839	21,298	2.67%
Operation and Maintenance of Plant	4,598,060	4,613,724	15,664	0.34%
Student Transportation	1,857,277	1,755,784	(101,493)	-5.46%
Other	35,064	56,070	21,006	59.91%
Noninstructional Services	1,243,516	1,360,038	116,522	9.37%
Interest on Long-Term Debt	172,005	142,992	(29,013)	-16.87%
Facilities Acquisition and Construction	73,121	21,459	(51,662)	100.00%
Total Expenses	<u>48,517,660</u>	<u>47,693,939</u>	<u>(823,721)</u>	<u>-1.70%</u>
Change in Net Position	212,773	1,481,825	1,269,052	596.43%
Net Position, beginning, as restated	<u>(14,770,955)</u>	<u>(14,558,182)</u>	<u>212,773</u>	<u>-1.44%</u>
Net Position, ending	<u>\$ (14,558,182)</u>	<u>\$ (13,076,357)</u>	<u>\$ 1,481,825</u>	<u>10.18%</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, 2016, the governmental funds of the Hudson School District reported a combined fund balance of \$2,445,502. 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 FY2016 End Financial Report as presented to the Hudson School Board in 2016 by the Business Administrator.

#### Estimated Fund Balance per Report:

Revenue Surplus:	92,673
Unexpended Balance of appropriations	622,868
2015-16 Budget Surplus	<u>715,541</u>
Less: Decrease in Nonspendable Fund Balance	42,533
Increase in Committed Fund Balance	(200,000)

**Audited Unassigned Fund Balance (to Offset Tax Rate):** 558,074

Unanticipated Revenue is comprised of the following:

#### Unanticipated/(Deficit) of Revenue Budget

##### Other local sources:

Tuition	(42,720)
Investment earnings	(1,267)
Indirect Costs	(3,334)
Student Activities	(2,266)
Miscellaneous	19,030

##### State sources:

Adequacy Aid	3,561
Vocational Aid	(22,316)
Catastrophic Aid	105,502
Other State Aid	2,729

##### Federal sources:

Medicaid	15,123
ROTC	4,321
Other	<u>14,310</u>

**Total Revenue** 92,673

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, 2016, totals \$22,153,790 (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>2016</u>	June 30, <u>2015</u>	% Change <u>2015-2016</u>
Land	\$ 329,201	\$ 329,201	0.00%
Work in Progress		51,763	-100.00%
Buildings & Improvements	20,966,271	21,760,230	-3.65%
Machinery, Vehicles & Equipment	849,065	719,224	18.05%
Intangible Assets	9,253	12,551	-26.28%
Total	<u>\$ 22,153,790</u>	<u>\$ 22,872,969</u>	<u>-3.14%</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 6 of the Notes to the Basic Financial Statements of the audit.

**Long-term Debt.** As of June 30, 2016, the Hudson School District had total bonded debt outstanding of \$4,421,800.

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

**Figure 4**

	June 30, <u>2015</u>	June 30, <u>2016</u>	Change <u>2015-2016</u>
General Obligation Bond Payable			
2000 School Buildings	\$ 4,590,000	\$ 3,770,000	-17.86%
Capital Lease			
Building Improve/Capital Lease	851,147	589,044	-30.79%
Unamortized Bond Premiums	<u>78,446</u>	<u>62,756</u>	<u>-20.00%</u>
Total	<u>\$ 5,519,593</u>	<u>\$ 4,421,800</u>	<u>-19.89%</u>

At the of FY 2016 the District had \$4,421,800 in General Obligation bonds and leases outstanding, a decrease of 19.9% under last year as shown in Figure 4 above. The Hudson School District's total debt decreased by \$1,097,793 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 \$2,641,720,555. The legal debt limit for the Hudson School District is \$184,920,439. The District has \$4,421,800 in outstanding debt as of June 30, 2016.

**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, 2016 was, 255.532 up from 253.626 the prior year, with minimal change for the corresponding month the previous year. During the same time period, the national CPI increased from 238.638 to 241.038, an increase of 1%.
- Student enrollment continues to decrease. The enrollment in April, 2016 was 3,564 including 169 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, 2016*

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,746,065
Accounts receivable	49,236
Intergovernmental receivable	1,206,507
Prepaid items	58,133
Capital assets, not being depreciated	329,201
Capital assets, net of accumulated depreciation	21,824,589
Total assets	<u>26,213,731</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred amounts related to pensions	<u>2,669,281</u>
<b>LIABILITIES</b>	
Accounts payable	411,405
Accrued salaries and benefits	1,172,819
Intergovernmental payable	30,215
Accrued interest payable	47,056
Noncurrent obligations:	
Due within one year	1,093,993
Due in more than one year	36,626,423
Total liabilities	<u>39,381,911</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred amounts related to pensions	<u>2,577,458</u>
<b>NET POSITION</b>	
Net investment in capital assets	17,731,990
Restricted	98,082
Unrestricted	<u>(30,906,429)</u>
Total net position	<u><u>\$ (13,076,357)</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, 2016**

		Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change In Net Position
Governmental activities:					
Instruction	\$ 29,444,261	\$ 142,280	\$ 1,940,992	\$ -	\$ (27,360,989)
Support services:					
Student	4,250,666	-	107,391	-	(4,143,275)
Instructional staff	1,601,015	-	10,411	-	(1,590,604)
General administration	132,074	-	-	-	(132,074)
Executive administration	776,092	-	-	-	(776,092)
School administration	2,720,925	-	-	-	(2,720,925)
Business	818,839	-	-	-	(818,839)
Operation and maintenance of plant	4,613,724	-	300	390,238	(4,223,186)
Student transportation	1,755,784	-	-	-	(1,755,784)
Other	56,070	-	31,666	-	(24,404)
Noninstructional services	1,360,038	765,552	475,395	-	(119,091)
Interest on long-term debt	142,992	-	-	-	(142,992)
Facilities acquisition and construction	21,459	-	-	-	(21,459)
Total governmental activities	<u>\$ 47,693,939</u>	<u>\$ 907,832</u>	<u>\$ 2,566,155</u>	<u>\$ 390,238</u>	<u>(43,829,714)</u>
General revenues:					
School district assessment					29,111,116
Grants and contributions not restricted to specific programs					15,250,636
Miscellaneous					949,787
Total general revenues					<u>45,311,539</u>
Change in net position					1,481,825
Net position, beginning					(14,558,182)
Net position, ending					<u>\$ (13,076,357)</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, 2016**

	General	Grants	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,313,284	\$ -	\$ 432,781	\$ 2,746,065
Accounts receivable	24,293	-	24,943	49,236
Intergovernmental receivable	804,707	401,800	-	1,206,507
Interfund receivable	402,141	-	-	402,141
Prepaid items	58,133	-	-	58,133
Total assets	<u>\$ 3,602,558</u>	<u>\$ 401,800</u>	<u>\$ 457,724</u>	<u>\$ 4,462,082</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 374,624	\$ 5,775	\$ 31,006	\$ 411,405
Accrued salaries and benefits	1,170,029	-	2,790	1,172,819
Intergovernmental payable	30,215	-	-	30,215
Interfund payable	-	396,025	6,116	402,141
Total liabilities	<u>1,574,868</u>	<u>401,800</u>	<u>39,912</u>	<u>2,016,580</u>
<b>FUND BALANCES (DEFICIT)</b>				
Nonspendable	58,133	-	-	58,133
Restricted	-	-	98,082	98,082
Committed	846,927	-	320,564	1,167,491
Assigned	564,556	-	-	564,556
Unassigned (deficit)	558,074	-	(834)	557,240
Total fund balances	<u>2,027,690</u>	<u>-</u>	<u>417,812</u>	<u>2,445,502</u>
Total liabilities and fund balances	<u>\$ 3,602,558</u>	<u>\$ 401,800</u>	<u>\$ 457,724</u>	<u>\$ 4,462,082</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, 2016*

Total fund balances of governmental funds (Exhibit C-1)		\$ 2,445,502
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	\$ 47,297,670	
Less accumulated depreciation	<u>(25,143,880)</u>	
		22,153,790
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (402,141)	
Payables	<u>402,141</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	\$ 2,669,281	
Deferred inflows of resources related to pensions	<u>(2,577,458)</u>	
		91,823
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(47,056)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bonds	\$ 3,770,000	
Unamortized bond premium	62,756	
Capital lease	589,044	
Compensated absences	2,140,995	
Other postemployment benefits	2,158,119	
Net pension liability	<u>28,999,502</u>	
		<u>(37,720,416)</u>
Net position of governmental activities (Exhibit A)		<u><u>\$ (13,076,357)</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, 2016**

	General	Grants	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
School district assessment	\$ 29,111,116	\$ -	\$ -	\$ 29,111,116
Other local	602,918	584	1,254,701	1,858,203
State	15,743,558	-	19,063	15,762,621
Federal	468,754	1,518,738	456,332	2,443,824
Total revenues	45,926,346	1,519,322	1,730,096	49,175,764
<b>EXPENDITURES</b>				
Current:				
Instruction	27,223,590	1,369,554	270,971	28,864,115
Support services:				
Student	4,162,704	107,391	-	4,270,095
Instructional staff	1,651,681	10,411	45,147	1,707,239
General administration	132,074	-	-	132,074
Executive administration	784,431	-	-	784,431
School administration	2,854,508	-	-	2,854,508
Business	830,445	-	-	830,445
Operation and maintenance of plant	4,667,410	300	81,000	4,748,710
Student transportation	1,755,784	-	-	1,755,784
Other	24,404	31,666	-	56,070
Noninstructional services	-	-	1,436,985	1,436,985
Debt service:				
Principal	1,082,103	-	-	1,082,103
Interest	171,725	-	-	171,725
Facilities acquisition and construction	-	-	34,639	34,639
Total expenditures	45,340,859	1,519,322	1,868,742	48,728,923
Net change in fund balances	585,487	-	(138,646)	446,841
Fund balances, beginning	1,442,203	-	556,458	1,998,661
Fund balances, ending	\$ 2,027,690	\$ -	\$ 417,812	\$ 2,445,502

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, 2016*

Net change in fund balances of total governmental funds (Exhibit C-3)		\$ 446,841
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	\$ 540,339	
Depreciation expense	(1,207,755)	
Capital asset disposals	<u>(51,763)</u>	
		(719,179)
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	\$ 2,669,281	
Net pension expense	<u>(1,598,780)</u>	
		1,070,501
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	\$ 820,000	
Amortization of bond premium	15,690	
Principal repayment of capital lease	<u>262,103</u>	
		1,097,793
Some expenses reported in the Statement of Activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued interest expense	\$ 13,043	
Decrease in compensated absences payable	108,507	
Increase in other postemployment benefits payable	<u>(535,681)</u>	
		(414,131)
Change in net position of governmental activities (Exhibit B)		<u>\$ 1,481,825</u>

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

**EXHIBIT D-1**  
**HUDSON SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance*  
*Budget and Actual (Non-GAAP Budgetary Basis)*  
**General Fund**  
*For the Fiscal Year Ended June 30, 2016*

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
School district assessment	\$ 29,111,116	\$ 29,111,116	\$ 29,111,116	\$ -
Other local	376,320	634,047	603,490	(30,557)
State	15,654,082	15,654,082	15,743,558	89,476
Federal	435,000	435,000	468,754	33,754
Total revenues	<u>45,576,518</u>	<u>45,834,245</u>	<u>45,926,918</u>	<u>92,673</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	28,255,862	27,784,379	27,312,861	471,518
Support services:				
Student	4,150,281	4,366,338	4,151,535	214,803
Instructional staff	1,125,231	1,476,170	1,549,093	(72,923)
General administration	141,963	148,982	132,074	16,908
Executive administration	717,019	788,348	784,431	3,917
School administration	2,814,002	2,828,401	2,856,224	(27,823)
Business	855,306	854,088	848,970	5,118
Operation and maintenance of plant	4,557,946	4,747,369	4,901,060	(153,691)
Student transportation	2,066,942	1,923,790	1,758,759	165,031
Debt service:				
Principal	1,082,853	1,082,853	1,082,103	750
Interest	170,975	170,975	171,725	(750)
Total expenditures	<u>45,938,380</u>	<u>46,196,107</u>	<u>45,573,239</u>	<u>622,868</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(361,862)</u>	<u>(361,862)</u>	<u>353,679</u>	<u>715,541</u>
<b>OTHER FINANCING USES</b>				
Transfers out	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>
Net change in fund balance	<u>\$ (561,862)</u>	<u>\$ (561,862)</u>	153,679	<u>\$ 715,541</u>
Decrease in nonspendable fund balance			42,533	
Unassigned fund balance, beginning			361,862	
Unassigned fund balance, ending			<u>\$ 558,074</u>	

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

**EXHIBIT D-2**  
**HUDSON SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance*  
*Budget and Actual (GAAP Basis)*  
**Grants Fund**  
*For the Fiscal Year Ended June 30, 2016*

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Local	\$ -	\$ 584	\$ 584
Federal	1,587,372	1,518,738	(68,634)
Total revenues	1,587,372	1,519,322	(68,050)
<b>EXPENDITURES</b>			
Current:			
Instruction	1,421,081	1,369,554	51,527
Support services:			
Student	56,040	107,391	(51,351)
Instructional staff	72,400	10,411	61,989
Executive administration	3,519	-	3,519
Operation and maintenance of plant	300	300	-
Other	34,032	31,666	2,366
Total expenditures	1,587,372	1,519,322	68,050
Net change in fund balance	\$ -	-	\$ -
Fund balance, beginning		-	
Fund balance, ending		\$ -	

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



*EXHIBIT E*  
*HUDSON SCHOOL DISTRICT*  
*Fiduciary Funds*  
*Statement of Net Position*  
*June 30, 2016*

	<u>Agency</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 320,483</u>
<b>LIABILITIES</b>	
Due to student groups	<u>\$ 320,483</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, 2016**

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***DETAILED NOTES ON ALL FUNDS***

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***1-A Reporting Entity***

The 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 principles in the United States.

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

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

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

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

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the School District’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the School District are reported in 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, 2016**

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

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

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

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

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

Under the terms of grant agreements, the School District funds certain programs by specific grants, resources and/or general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net 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, certificates of 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.

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

***1-E 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-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 Long-term Obligations***

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

***1-J 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 the personnel policy.

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

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-K Defined Benefit Pension Plan***

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

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

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

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

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

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

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

**2-A Budgetary Information**

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the School District's operations. At its annual meeting, the School District adopts a budget for the current year for the general and grants fund, as well as the four 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 2016, \$561,862 of the beginning general fund unassigned fund balance was applied for this purpose.

**2-B Budgetary Reconciliation to GAAP Basis**

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

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

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

Revenues:	
Per Exhibit D-1 (budgetary basis)	\$ 45,926.918
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
Revenue of the blended funds	(572)
Per Exhibit C-3 (GAAP basis)	<u>\$ 45,926.346</u>
Expenditures and other financing uses:	
Per Exhibit D-1 (budgetary basis)	\$ 45,773.239
Adjustments:	
Basis difference:	
Encumbrances, beginning	332.176
Encumbrances, ending	(564.556)
GASB Statement No. 54:	
Eliminate transfers between blended funds	(200.000)
Per Exhibit C-3 (GAAP basis)	<u>\$ 45,340.859</u>

**2-C Deficit Fund Balance**

The Alvirne Trustees fund had a fund balance deficit of \$834 at June 30, 2016. This deficit is a result of expenditures incurred in which reimbursements will be received and recognized as revenue in subsequent periods.

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**DETAILED NOTES ON ALL FUNDS**

**NOTE 3 – CASH AND CASH EQUIVALENTS**

The School District's deposits and certificates of deposit 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 \$3,066,548 and the bank balances totaled \$5,212,409. Petty cash totaled \$650. The School District held \$1,001,576 in certificates of deposit at various banks at year-end.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 2,746,065
Cash per Statement of Net Position-Fiduciary Funds (Exhibit E)	320,483
Total cash and cash equivalents	<u>\$ 3,066,548</u>

**NOTE 4 – RECEIVABLES**

Receivables at June 30, 2016, 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.

**NOTE 5 – INTERFUND BALANCES**

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

Receivable Fund	Payable Fund	Amount
General	Grants	\$ 396,025
	Nonmajor	6,116
		<u>\$ 402,141</u>

**NOTE 6 – CAPITAL ASSETS**

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

	Balance, beginning	Additions	Retirements	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>380,964</u>	<u>-</u>	<u>(51,763)</u>	<u>329,201</u>
Being depreciated:				
Buildings and building improvements	44,985,396	292,682	-	45,278,078
Machinery, equipment, and vehicles	1,406,077	247,657	-	1,653,734
Intangible assets	36,657	-	-	36,657
Total capital assets being depreciated	<u>46,428,130</u>	<u>540,339</u>	<u>-</u>	<u>46,968,469</u>
Total capital assets	<u>46,809,094</u>	<u>540,339</u>	<u>(51,763)</u>	<u>47,297,670</u>

(continued)



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*Capital assets continued:*

	Balance, beginning	Additions	Retirements	Balance, ending
Less accumulated depreciation:				
Buildings and building improvements	(23,225,166)	(1,086,641)	-	(24,311,807)
Machinery, equipment, and vehicles	(686,853)	(117,816)	-	(804,669)
Intangible assets	(24,106)	(3,298)	-	(27,404)
Total accumulated depreciation	(23,936,125)	(1,207,755)	-	(25,143,880)
Net book value, capital assets being depreciated	22,492,005	(667,416)	-	21,824,589
Net book value, all capital assets	<u>\$ 22,872,969</u>	<u>\$ (667,416)</u>	<u>\$ (51,763)</u>	<u>\$ 22,153,790</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	\$ 1,134,927
Support services:	
Instructional staff	10,145
Operation and maintenance of plant	39,373
Noninstructional services	23,310
Total depreciation expense	<u>\$ 1,207,755</u>

**NOTE 7 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

Deferred outflows of resources of \$2,669,281 and deferred inflows of resources of \$2,577,458 reported in the governmental activities at June 30, 2016 relate to pensions, see Note 10.

**NOTE 8 – CAPITAL LEASE**

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

	Standard Interest Rate	Present Value of Remaining Payments as of June 30, 2016
Capital lease obligations:		
Building improvement	3.25%	<u>\$ 589,044</u>

The annual requirements to amortize the capital lease payable as of June 30, 2016, including interest payments, are as follows:

Fiscal Year Ending June 30,	Governmental Activities
2017	\$ 307,573
2018	318,338
Total requirements	625,911
Less: interest	36,867
Present value of remaining payments	<u>\$ 589,044</u>

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

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**NOTE 9 – LONG-TERM LIABILITIES**

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

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 4,590,000	\$ -	\$ (820,000)	\$ 3,770,000	\$ 795,000
Premium	78,446	-	(15,690)	62,756	15,690
Total bonds payable	4,668,446	-	(835,690)	3,832,756	810,690
Capital leases	851,147	-	(262,103)	589,044	283,303
Compensated absences	2,249,502	78,916	(187,423)	2,140,995	-
Net other postemployment benefits	1,622,438	535,681	-	2,158,119	-
Net pension liability	28,543,948	455,554	-	28,999,502	-
Total long-term liabilities	<u>\$ 37,935,481</u>	<u>\$ 1,070,151</u>	<u>\$ (1,285,216)</u>	<u>\$ 37,720,416</u>	<u>\$ 1,093,993</u>

Long-term bonds are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate	Outstanding at June 30, 2016
General obligation bonds payable:					
School building	\$ 4,658,000	2010	2021	2.00-4.79%	\$ 2,120,000
School building	\$ 3,562,000	2010	2021	2.00-4.79%	1,650,000
					3,770,000
Unamortized bond premium					62,756
Total					<u>\$ 3,832,756</u>

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2016, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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>\$ 3,770,000</u>	<u>\$ 341,955</u>	<u>\$ 4,111,955</u>

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

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

**NOTE 10 – DEFINED BENEFIT PENSION PLAN**

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

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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. At age 65, the yearly pension amount is recalculated at 1/66 or 1.515% of AFC multiplied by years of creditable service.

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

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

**Contributions:** The System is financed by contributions from both the employees and the School District. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees are required to contribute 7% of earnable compensation. For fiscal year 2016, the School District contributed 15.67% for teachers and 11.17% for other employees. The contribution requirements for the fiscal years 2014, 2015, and 2016 were \$2,857,388, \$2,839,722, and \$3,189,848, respectively, which were paid in full in each year.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:** At June 30, 2016 the School District reported a liability of \$28,999,502 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating towns and school districts, actuarially determined. At June 30, 2015, the School District's proportion was .73202836% which was an decrease of .02841646% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$1,598,780. At June 30, 2016 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ -	\$ 1,166,046
Difference between expected and actual experience	-	636,365
Net difference between projected and actual investment earnings on pension plan investments	-	775,047
Contributions subsequent to the measurement date	2,669,281	-
Total	<u>\$ 2,669,281</u>	<u>\$ 2,577,458</u>

The \$2,669,281 reported as deferred outflows of resources related to pensions results from the School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Fiscal Year Ending June 30,	
2016	\$ (832,911)
2017	(832,911)
2018	(832,911)
2019	66,254
2020	(144,978)
Totals	<u>\$ (2,577,457)</u>

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

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

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

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

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

Asset Class	Target Allocation	Weighted average long-term expected real rate of return <u>2015</u>
Large Cap Equities	22.50%	3.00%
Small/Mid Cap Equities	7.50%	3.00%
Total domestic equity	30.00%	
Int'l Equities (unhedged)	13.00%	4.00%
Emerging Int'l Equities	7.00%	6.00%
Total international equity	20.00%	
Core Bonds	4.50%	(0.70)%
Short Duration	2.50%	(1.00)%
Global Multi-Sector Fixed Income	11.00%	0.28%
Unconstrained Fixed Income	0.50%	0.16%
Total fixed income	25.00%	
Private equity	5.00%	5.50%
Private debt	5.00%	4.50%
Real estate	10.00%	3.50%
Opportunistic	5.00%	2.75%
Total alternative investments	25.00%	
Total	100.00%	

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

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

Actuarial Valuation Date	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
June 30, 2015	\$ 38,174,075	\$ 28,999,502	\$ 21,178,125
June 30, 2014	\$ 37,597,023	\$ 28,543,948	\$ 20,906,324
June 30, 2013	\$ 42,328,465	\$ 33,016,983	\$ 25,189,805

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

**NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

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

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

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

Annual required contribution/OPEB cost	\$ 581,709
Interest on net OPEB obligation	64,898
Adjustment to annual required contribution	(92,004)
Annual OPEB cost (expense)	554,603
Contributions made	18,922
Increase in net OPEB obligation	535,681
Net OPEB obligation - beginning of year	1,622,438
Net OPEB obligation - end of year	<u>\$ 2,158,119</u>

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

Fiscal Year Ended	Annual OPEB Contribution Cost	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
June 30, 2016	\$ 554,603	\$ 18,922	3.41%	\$ 2,158,119
June 30, 2015	\$ 556,922	\$ 24,514	4.40%	\$ 1,622,438
June 30, 2014	\$ 315,484	\$ 87,037	27.59%	\$ 1,090,030
June 30, 2013	\$ 409,640	\$ 85,934	20.98%	\$ 861,583
June 30, 2012	\$ 304,181	\$ 77,372	25.44%	\$ 537,877
June 30, 2011	\$ 390,550	\$ 79,482	20.35%	\$ 311,068

As of July 1, 2014, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$5,222,546, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,222,546. The covered payroll (annual payroll of active employees covered by the plan) was \$20,662,849 during fiscal year 2016, and the ratio of the UAAL to the covered payroll was 25.30%.

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 2018 and later. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at June 30, 2016 was 30 years.

**NOTE 12 – ENCUMBRANCES**

Encumbrances outstanding at June 30, 2016 are as follows:

Current:	
Instruction:	
Regular programs	\$ 8,348
Special programs	79,084
Vocational programs	24,668
Total instruction	<u>112,100</u>
	(Continued)

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*Encumbrances continued:*

Support services:	
Student	800
Instructional staff	116,386
School administration	10,000
Business	18,669
Operation and maintenance of plant	301,169
Transportation	5,432
Total support services	<u>452,456</u>
Total encumbrances	<u><u>\$ 564,556</u></u>

**NOTE 13 – GOVERNMENTAL ACTIVITIES NET POSITION**

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

Net investment in capital assets:	
Net property, buildings, and equipment	\$ 22,153,790
Less:	
General obligation bonds payable	(3,770,000)
Unamortized bond premiums	(62,756)
Capital leases payable	(589,044)
Total net investment in capital assets	<u>17,731,990</u>
Restricted for food service	98,082
Unrestricted	(30,906,429)
Total net position	<u><u>\$ (13,076,357)</u></u>

**NOTE 14 – GOVERNMENTAL FUND BALANCES**

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

<b>Nonspendable:</b>		
Major fund:		
General:		
Prepaid items	\$	58,133
<b>Restricted:</b>		
Nonmajor fund:		
Food service		98,082
<b>Committed:</b>		
Major fund:		
General:		
Expendable trust	\$	646,927
Voted appropriation - March 2016	<u>200,000</u>	
	<u>846,927</u>	
Nonmajor funds:		
Alvirne Farm	78,580	
Vocational center	<u>241,984</u>	
	<u>320,564</u>	
Total committed fund balance		1,167,491

*(Continued)*

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*Governmental fund balances continued:*

<b>Assigned:</b>		
Major fund:		
General:		
Encumbrances		564,556
<b>Unassigned:</b>		
Major fund:		
General	\$ 558,074	
Nonmajor funds:		
Alvirne Trustees	(834)	
Total unassigned fund balance		557,240
Total governmental fund balances		<u>\$ 2,445,502</u>

**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 (Primex<sup>3</sup>) Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pool, currently operating as common risk management and insurance program for member School Districts and cities.

The New Hampshire Public Risk Management Exchange (Primex<sup>3</sup>) Workers' Compensation and Property/Liability Programs is a are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from July 1 to June 30, 2016 by Primex<sup>3</sup>, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated net contribution from the Hudson School District billed and paid for the year ended June 30, 2016 was \$150,728 for workers' compensation and \$121,467 for property/liability. The workers' compensation section of the self-insurance membership agreement permits Primex<sup>3</sup> to make additional assessments to members should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex<sup>3</sup> foresees no likelihood of any additional assessment for this or any prior year.

**NOTE 16 – CONTINGENT LIABILITIES**

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

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

**NOTE 17 – 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 23, 2017, the date the June 30, 2016 financial statements were available to be issued, and no events occurred that require recognition or disclosure.



***REQUIRED SUPPLEMENTARY INFORMATION***

**EXHIBIT F**  
**HUDSON SCHOOL DISTRICT**  
*Schedule of Funding Progress for Other Postemployment Benefit Plan*  
*For the Fiscal Year Ended June 30, 2016*

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, 2014	\$ -	\$ 5,222,546	\$ 5,222,546	0.00%	\$ 20,662,849	25.30%
July 1, 2014	\$ -	\$ 4,977,576	\$ 4,977,576	0.00%	\$ 20,257,696	24.60%
July 1, 2013	\$ -	\$ 2,670,122	\$ 2,670,122	0.00%	\$ 19,580,374	13.64%
July 1, 2012	\$ -	\$ 3,051,789	\$ 3,051,789	0.00%	\$ 19,196,445	15.90%
July 1, 2011	\$ -	\$ 2,595,774	\$ 2,595,774	0.00%	\$ 18,652,696	13.92%
July 1, 2010	\$ -	\$ 2,999,611	\$ 2,999,611	0.00%	\$ 18,286,957	16.40%

The notes 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, 2016*

<u>Fiscal Year</u>	<u>Valuation Date</u>	<u>District's Proportion of Net Pension Liability</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Covered Payroll</u>	<u>District Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2016	June 30, 2015	0.73202836%	\$ 28,999,502	\$ 21,070,322	137.63%	65.47%
June 30, 2015	June 30, 2014	0.76044482%	\$ 28,543,948	\$ 21,099,057	135.29%	59.81%
June 30, 2014	June 30, 2013	0.76716162%	\$ 33,016,983	\$ 21,414,546	154.18%	66.32%

The notes 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, 2016*

Fiscal Year	Valuation Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2016	June 30, 2015	\$ 2,455,868	\$ 2,455,868	\$ -	\$ 21,070,322	11.66%
June 30, 2015	June 30, 2014	\$ 2,467,059	\$ 2,467,059	\$ -	\$ 21,099,057	11.69%
June 30, 2014	June 30, 2013	\$ 1,907,575	\$ 1,907,575	\$ -	\$ 21,414,546	8.91%

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

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

***Schedule of Funding Progress for Other Postemployment Benefits (OPEB)***

As required by GASB Statement No. 45, as amended in December 2009 by GASB Statement No. 57, Exhibit F represents the actuarial determined costs associated with the School District's other postemployment benefits at June 30, 2016, and the five preceding years.

The 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.

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

- 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.
- 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

**Actuarial Methods and Assumptions**

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 cost methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

In July 1, 2014 the valuation, the Projected Unit Credit cost method was used. The assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The projected annual health care cost trend is 2.37% in the first year, decreased to 9.00% for the second year and then reduced by annual decrements of 1.00% to an ultimate rate of 5.00%. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at June 30, 2015 was 29 years.

The annual healthcare cost trend rates below were applied:

Year	Medical
06/30/2016	9.00%
06/30/2017	8.00%
06/30/2018	7.00%
06/30/2019	6.00%
06/30/2020	5.00%

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

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

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed

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

Remaining Amortization Period	25 years beginning July 1, 2015 ( 30 years beginning July 1, 2009)
Asset Valuation Method	5-year smooth market for funding purposes
Price Inflation	3.0% per year
Wage Inflation	3.75% per year
Salary Increases	5.8% Average, including inflation
Municipal Bond Rate	3.80% per year
Investment Rate of Return	7.75% per year
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2011 valuation pursuant to an experience study of the period 2005-2010.
Mortality	RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

**Other Information:**

Notes	Contribution rates for Fiscal Year 2015 were determined based on the benefit changes adopted under House Bill No. 2 as amended by 011-2513-CofC.
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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, 2016*

	Estimated	Actual	Variance Positive (Negative)
School district assessment:			
Current appropriation	\$ 29,111,116	\$ 29,111,116	\$ -
Other local sources:			
Tuition	185,000	142,280	(42,720)
Investment income	8,000	6,733	(1,267)
Indirect costs	35,000	31,666	(3,334)
Student activities	12,000	9,734	(2,266)
Miscellaneous	136,320	155,350	19,030
Insurance refunds/reimbursements	257,727	257,727	-
Total from other local sources	634,047	603,490	(30,557)
State sources:			
Adequacy aid (grant)	8,764,750	8,768,311	3,561
Adequacy aid (tax)	6,067,793	6,067,793	-
School building aid	390,238	390,238	-
Catastrophic aid	306,301	411,803	105,502
Vocational aid	125,000	102,684	(22,316)
Other state aid	-	2,729	2,729
Total from state sources	15,654,082	15,743,558	89,476
Federal sources:			
Medicaid	375,000	390,123	15,123
ROTC	60,000	64,321	4,321
Other	-	14,310	14,310
Total from federal sources	435,000	468,754	33,754
Total revenues	45,834,245	\$ 45,926,918	\$ 92,673
Fund balance used to reduce school district assessment	561,862		
Total revenues and use of fund balance	\$ 46,396,107		

**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, 2016*

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
Instruction:					
Regular programs	\$ 3,565	\$ 17,508,848	\$ 17,274,054	\$ 8,348	\$ 230,011
Special programs	17,384	7,958,544	7,671,519	79,084	225,325
Vocational programs	1,880	1,700,516	1,677,032	24,668	696
Other	-	616,471	600,985	-	15,486
Total instruction	<u>22,829</u>	<u>27,784,379</u>	<u>27,223,590</u>	<u>112,100</u>	<u>471,518</u>
Support services:					
Student	11,969	4,366,338	4,162,704	800	214,803
Instructional staff	218,974	1,476,170	1,651,681	116,386	(72,923)
General administration	-	148,982	132,074	-	16,908
Executive administration	-	788,348	784,431	-	3,917
School administration	8,284	2,828,401	2,854,508	10,000	(27,823)
Business	144	854,088	830,445	18,669	5,118
Operation and maintenance of plant	67,519	4,747,369	4,667,410	301,169	(153,691)
Student transportation	2,457	1,923,790	1,755,784	5,432	165,031
Other	-	24,414	24,404	-	10
Total support services	<u>309,347</u>	<u>17,157,900</u>	<u>16,863,441</u>	<u>452,456</u>	<u>151,350</u>
Debt service:					
Principal of long-term debt	-	1,082,853	1,082,103	-	750
Interest on long-term debt	-	170,975	171,725	-	(750)
Total debt service	<u>-</u>	<u>1,253,828</u>	<u>1,253,828</u>	<u>-</u>	<u>-</u>
Other financing uses:					
Transfers out	<u>-</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>-</u>
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 332,176</u>	<u>\$ 46,396,107</u>	<u>\$ 45,540,859</u>	<u>\$ 564,556</u>	<u>\$ 622,868</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, 2016*

Unassigned fund balance, beginning		\$ 361,862
Changes:		
Fund balance used to reduce school district assessment		(561,862)
2015-2016 Budget summary:		
Revenue surplus (Schedule 1)	\$ 92,673	
Unexpended balance of appropriations (Schedule 2)	<u>622,868</u>	
2015-2016 Budget surplus		715,541
Decrease in nonspendable fund balance		<u>42,533</u>
Unassigned fund balance, ending		<u><u>\$ 558,074</u></u>

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

	Special Revenue Funds				
	Food Service	Alvirne Farm	Vocational Center	Alvirne Trustees	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 108,378	\$ 82,419	\$ 241,984	\$ -	\$ 432,781
Accounts receivable	19,661	-	-	5,282	24,943
Total assets	<u>\$ 128,039</u>	<u>\$ 82,419</u>	<u>\$ 241,984</u>	<u>\$ 5,282</u>	<u>\$ 457,724</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 29,957	\$ 1,049	\$ -	\$ -	\$ 31,006
Accrued salaries and benefits	-	2,790	-	-	2,790
Interfund payable	-	-	-	6,116	6,116
Total liabilities	<u>29,957</u>	<u>3,839</u>	<u>-</u>	<u>6,116</u>	<u>39,912</u>
<b>FUND BALANCES (DEFICIT)</b>					
Restricted	98,082	-	-	-	98,082
Committed	-	78,580	241,984	-	320,564
Unassigned (deficit)	-	-	-	(834)	(834)
Total fund balances (deficit)	<u>98,082</u>	<u>78,580</u>	<u>241,984</u>	<u>(834)</u>	<u>417,812</u>
Total liabilities and fund balances	<u>\$ 128,039</u>	<u>\$ 82,419</u>	<u>\$ 241,984</u>	<u>\$ 5,282</u>	<u>\$ 457,724</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, 2016**

	Special Revenue Funds				
	Food Service	Alvirne Farm	Vocational Center	Alvirne Trustees	Total
Revenues:					
Local	\$ 795,404	\$ 93,531	\$ 106,896	\$ 258,870	\$ 1,254,701
State	19,063	-	-	-	19,063
Federal	456,332	-	-	-	456,332
Total revenues	1,270,799	93,531	106,896	258,870	1,730,096
Expenditures:					
Current:					
Instruction	-	91,924	83,234	95,813	270,971
Support services:					
Instructional staff	-	-	-	45,147	45,147
Operation and maintenance of plant	-	-	-	81,000	81,000
Noninstructional services	1,436,985	-	-	-	1,436,985
Facilities acquisition and construction	-	-	-	34,639	34,639
Total expenditures	1,436,985	91,924	83,234	256,599	1,868,742
Net change in fund balances	(166,186)	1,607	23,662	2,271	(138,646)
Fund balances (deficit), beginning	264,268	76,973	218,322	(3,105)	556,458
Fund balances (deficit), ending	\$ 98,082	\$ 78,580	\$ 241,984	\$ (834)	\$ 417,812

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

	Balance, beginning	Additions	Deductions	Balance, ending
Schools:				
Hills Garrison	\$ 15,076	\$ 45,690	\$ 46,097	\$ 14,669
Nottingham West	27,207	58,437	50,960	34,684
Hudson Memorial	46,543	262,082	254,459	54,166
Alvirne High	206,302	463,769	459,213	210,858
Early Learning Center	6,684	6,424	7,002	6,106
Totals	<u>\$ 301,812</u>	<u>\$ 836,402</u>	<u>\$ 817,731</u>	<u>\$ 320,483</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, each major fund, and the aggregate remaining fund information of the Hudson School District, as of and for the year ended June 30, 2016, 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 23, 2017.

#### ***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 23, 2017





## **PLODZIK & SANDERSON**

*Professional Association/Accountants & Auditors*

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

To the Members of the School Board  
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 the Hudson School District's major federal program for the year ended June 30, 2016. The Hudson School District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hudson School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Hudson School District's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, the Hudson School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

#### ***Report on Internal Control over Compliance***

Management of the Hudson School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hudson School District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hudson School District's internal control over compliance.

***Hudson School District***

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

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

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

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

*Sheryl A. Platt, CPA*

January 23, 2017

PLODZIK & SANDERSON  
Professional Association

**SCHEDULE I**  
**HUDSON SCHOOL DISTRICT**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2016**

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**Auditor  
Reference  
Number**

**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 timesheets in support of their wages.

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

**SCHEDULE II**  
**HUDSON SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

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

***Financial Statements***

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:  
Unmodified

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Internal control over financial reporting:

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

Noncompliance material to financial statements noted?                             yes          X   no

***Federal Awards***

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in  
accordance with 2 CFR 200.516(a)?                             yes          X   no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553 and 10.555</u>	<u>Child Nutrition Cluster</u>

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

Auditee qualified as low-risk auditee?                        X   yes               no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**NONE**

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

**NONE**

**SCHEDULE III**  
**HUDSON SCHOOL DISTRICT**  
*Schedule of Expenditures of Federal Awards*  
*For the Year Ended June 30, 2016*

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Passed Through the State of New Hampshire Department of Education				
CHILD NUTRITION CLUSTER				
School Breakfast Program	10.553	N/A	\$ -	\$ 48,861
National School Lunch Program (note 4)	10.555	N/A	-	407,471
CLUSTER TOTAL			-	456,332
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Passed Through the State of New Hampshire Department of Education				
Adult Education - Basic Grants to States:				
Adult High School	84.002	57314	-	3,874
Apprenticeship Grant	84.002	65151	-	49,100
Adult High School	84.002	67310	-	10,000
PROGRAM TOTAL			-	62,974
Title I Grants to Local Educational Agencies:				
Title I, Part A	84.010	60067	-	398,841
Title Ia - Priority/Focus Set Aside	84.010	60201	-	40,727
New Priority & Focus Title Ia 1003(a)	84.010	60278	-	14,960
PROGRAM TOTAL			-	454,528
SPECIAL EDUCATION CLUSTER				
Special Education - Grants to States:				
IDEA - 2014	84.027	52595	-	2,126
IDEA - 2015	84.027	62586	-	765,787
Special Education - Preschool Grants	84.173	62586	-	16,954
CLUSTER TOTAL			-	784,867
Career and Technical Education - Basic Grants to States:				
CTE	84.048	55020	-	28,738
CTE	84.048	65020	-	86,865
PROGRAM TOTAL			-	115,603
English Language Acquisition Grants:				
Title III ESOL	84.365	50815	945	1,798
Title III ESOL	84.365	60815	280	503
PROGRAM TOTAL			1,225	2,301
Improving Teacher Quality State Grants	84.367	64857	-	98,465
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>				
Passed Through the State of New Hampshire Department of Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4209-DR-NH	-	14,310
<b>DIRECT FUNDING</b>				
<b>U.S. DEPARTMENT OF DEFENSE</b>				
Air Force JROTC	12.UNKNOWN	N/A	-	64,321
<b>Total Expenditures of Federal Awards</b>			\$ 1,225	\$ 2,053,701

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, 2016**

***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, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the 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, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

***Note 3. Indirect Cost Rate***

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

***Note 4. Food Donation***

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities on the date received. For the fiscal year ended June 30, 2016 the value of food donations received was \$85,900.