

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

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# PLODZIK & SANDERSON

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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, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of the Hudson School District, as of June 30, 2018, and the respective changes in financial position and, the respective budgetary comparison for the general and grants funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

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

## ***Other Matters***

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

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

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

**Other Information** – Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2019 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, 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.



January 7, 2019

PLODZIK & SANDERSON  
Professional Association

## **Management's Discussion and Analysis For the Period Ending June 30, 2018**

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, 2018. 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 beginning total combined net position was reported at \$(13,778,926) and was restated to \$(19,520,853) to record the cumulative restatement related to GASB No. 75 implementation to \$(20,449,685), an increase of \$928,832 between FY 2017 and FY 2018.

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. In addition, the School District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during fiscal year 2018. The beginning net position for governmental activities was restated by \$4,059,818 for the OPEB provided by NHRS and \$271,909 for the District's local OPEB plan to retroactively report the increase/decrease in the net OPEB liability as of July 1, 2017. OPEB expense for fiscal year 2017 and deferred outflows of resources at June 30, 2017 were not restated because the information needed to restate those amounts was not available.

- The Hudson School District's capital assets decreased from \$22,346,915 to \$21,768,927 between FY 2017 and FY 2018. This represents a decrease of \$577,988 or .0258%.
- During FY 2018, the District's governmental funds expenditures were \$52,872,476. The total generated in taxes and other revenues for governmental funds was \$52,167,114. At the close of FY 2018 the Hudson School District's governmental funds reported combined ending fund balances of \$1,852,456 a decrease of \$705,362 in comparison with the prior year. In accordance with New Hampshire State Law, the general fund unassigned fund balance of \$258,542 for FY 2018 was used as a direct offset of taxes in FY 2019.
- The Hudson School District's total debt for FY 2018 was \$2,235,299 a decrease of \$1,092,508 (33%). 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

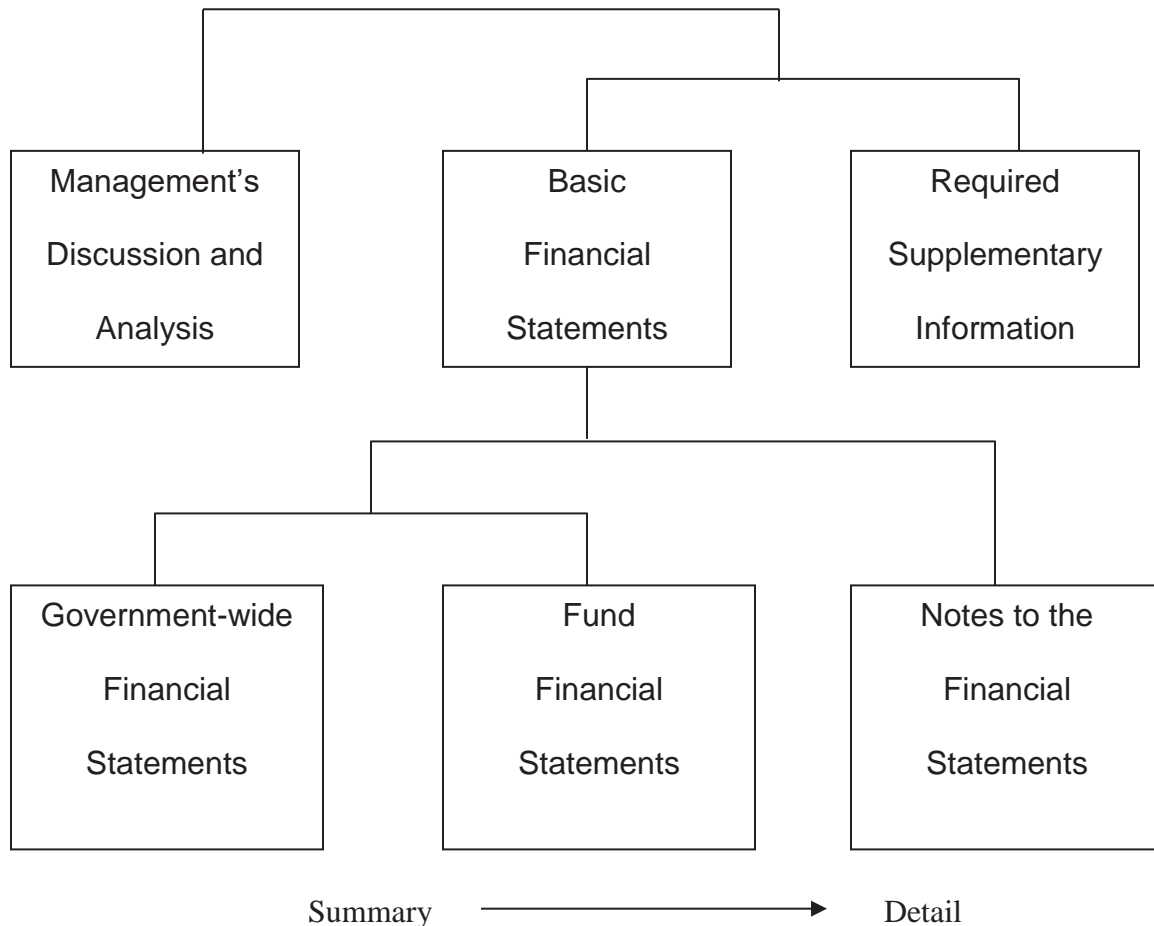
This discussion and analysis is intended to serve as an introduction to the Hudson School District's basic financial statements. The District's basic financial statements consist of four components:

- 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 the government's assets, deferred outflows of resource liabilities and deferred inflows of resources. All 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.

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. 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 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 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 four columns: 1) the original budget as adopted by the board 2) the final budget as amended by the board; 3) the actual resources and charges to appropriations; and 4) 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, Alvirne Farm and the Vocational Center funds.

- Fiduciary Funds – The District is the fiduciary for certain funds such as the Student Activity Funds. The District is responsible for ensuring that the assets reported in these

funds are used for their intended purposes. All of the District's fiduciary balances are reported in a separate statement of Fiduciary Net Position. These are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements begin on page 23 of the annual audit report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information. This is where the schedule of the school districts proportionate share of Net Pension Liability, schedule of school district contributions, pensions, schedule of the school districts' proportionate share of net other postemployment benefits liability, schedule of school district contributions, other postemployment benefits and the schedule of changes in school districts' total other postemployment benefits liability and related ratios benefit are presented. Required supplementary information can be found in the annual financial report.

## The Hudson School District's Net Position

|                                   | <u>2018</u>                   | As Restated<br><u>2017</u>    | %<br>Change<br><u>2017-2018</u> |
|-----------------------------------|-------------------------------|-------------------------------|---------------------------------|
| Current and Other Assets          | \$ 3,917,533                  | \$ 4,493,362                  | -12.82%                         |
| Capital Assets                    | <u>21,768,927</u>             | <u>22,346,915</u>             | <u>-2.59%</u>                   |
| Total Assets                      | 25,686,460                    | 26,840,277                    | -4.30%                          |
| Deferred Outflows of Resources    | 8,870,492                     | 10,650,754                    | -16.71%                         |
| Long-Term Liabilities Outstanding | 50,196,926                    | 53,651,552                    | -6.44%                          |
| Other Liabilities                 | <u>2,853,670</u>              | <u>1,968,103</u>              | <u>45.00%</u>                   |
| Total Liabilities                 | 53,050,596                    | 55,619,655                    | 4.62%                           |
| Deferred Inflows of Resources     | 1,686,897                     | 1,392,229                     | 21.17%                          |
| Net Investment in Capital Assets  | 19,533,628                    | 19,019,108                    | 2.71%                           |
| Restricted Net Position           | 80,478                        | 65,624                        | 22.64%                          |
| Unrestricted Net Position         | <u>(40,063,791)</u>           | <u>(38,605,585)</u>           | <u>3.78%</u>                    |
| Total Net Position                | <u><u>\$ (20,449,685)</u></u> | <u><u>\$ (19,520,853)</u></u> | <u><u>4.76%</u></u>             |

Net position of the District's governmental activities increased 4.76% or \$928,832 as of June 30, 2018. 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 \$52,167,114 from all sources of revenue. Sixty-three percent (\$32,865,628) of the District's revenue came from local taxes. Twenty-seven percent (\$14,225,659) came from the state education tax and the state adequacy grant. Approximately seven percent (\$3,471,069) came from various state and federal grants. The balance (\$1,604,758) was derived from other local revenues.

**Figure 2****Hudson School District's Change in Net Position**

## Summary of Changes in Net Position

## Governmental Activities

|   | 2017                   | 2018                   | \$                 | %                 |
|---|------------------------|------------------------|--------------------|-------------------|
|   | <u>Amount</u>          | <u>Amount</u>          | <u>Difference</u>  | <u>Difference</u> |
| <b>Revenues:</b>                        |                        |                        |                    |                   |
| <b>Program Revenue:</b>                 |                        |                        |                    |                   |
| Charges for Services                    | \$ 881,565             | \$ 946,047             | \$ (64,482)        | -7.31%            |
| Operating Grants and Contributions      | 2,713,065              | 2,702,466              | 10,599             | 0.39%             |
| Capital Grants and Contributions        | 396,598                | 403,329                | (6,731)            | -1.70%            |
| <b>General Revenue:</b>                 |                        |                        |                    |                   |
| School District Assessment              | 31,493,213             | 32,865,628             | (1,372,415)        | -4.36%            |
| Unrestricted Grants                     | 14,926,843             | 14,590,933             | 335,910            | 2.25%             |
| Miscellaneous & Interest                | <u>718,388</u>         | <u>658,711</u>         | <u>59,677</u>      | <u>8.31%</u>      |
| Total Revenues                          | <u>51,129,672</u>      | <u>52,167,114</u>      | <u>(1,037,442)</u> | <u>-2.03%</u>     |
| <b>Expenses:</b>                        |                        |                        |                    |                   |
| Instruction                             | \$ 32,026,697          | \$ 32,453,387          | \$ (426,690)       | -1.33%            |
| Support Services:                       |                        |                        |                    |                   |
| Student                                 | 4,717,370              | 4,555,334              | 162,036            | 3.43%             |
| Instructional Staff                     | 1,504,909              | 1,697,322              | (192,413)          | -12.79%           |
| General Administration                  | 157,364                | 150,648                | 6,716              | 4.27%             |
| Executive Administration                | 761,998                | 713,236                | 48,762             | 6.40%             |
| School Administration                   | 2,993,019              | 3,148,850              | (155,831)          | -5.21%            |
| Business                                | 927,313                | 946,999                | (19,686)           | -2.12%            |
| Operation and Maintenance of Plant      | 5,135,893              | 5,335,650              | (199,757)          | -3.89%            |
| Student Transportation                  | 1,820,452              | 2,129,196              | (308,744)          | -16.96%           |
| Other                                   | 300,448                | 609,134                | (308,686)          | -102.74%          |
| Noninstructional Services               | 1,330,475              | 1,271,899              | 58,576             | 4.40%             |
| Interest on Long-Term Debt              | 110,833                | 84,291                 | 26,542             | 23.95%            |
| Facilities Acquisition and Construction | <u>45,470</u>          | <u>-</u>               | <u>45,470</u>      | <u>100.00%</u>    |
| Total Expenses                          | <u>51,832,241</u>      | <u>53,095,946</u>      | <u>(1,263,705)</u> | <u>-2.44%</u>     |
| Change in Net Position                  | (702,569)              | (928,832)              | 226,263            | -32.21%           |
| Change related to GASB No.75            | (5,741,927)            |                        |                    |                   |
| Net Position, beginning, as restated    | <u>(13,076,357)</u>    | <u>(19,520,853)</u>    | <u>6,444,496</u>   | <u>-49.28%</u>    |
| Net Position, ending                    | <u>\$ (19,520,853)</u> | <u>\$ (20,449,685)</u> | <u>\$ 928,832</u>  | <u>-4.76%</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, 2018, the governmental funds of the Hudson School District reported a combined fund balance of \$1,852,456. Included in the total fund balance are fund balances in the General Fund and Special Revenue Funds. The Special Revenue Funds include Grants and other Governmental Funds.

### General Fund Budgetary Highlights:

The following are highlights from the FY2018 End Financial Report as presented to the Hudson School Board in 2018 by the Business Administrator.

#### Estimated Fund Balance per Report:

|  |                |
|--|----------------|
| Revenue Surplus:   | 68,855         |
| Unexpended Balance of appropriations                         | <u>304,613</u> |
| 2017-18 Budget Surplus                                       | 373,468        |
| Less: Other financing sources                                | (17,234)       |
| Decrease in nonspendable fund balance                        | 2,310          |
| Increase in committed fund balance                           | (50,000)       |
| Prior fund balance used to reduce district assessment        | (50,000)       |
| Assessment   |                |
| <b>Audited Unassigned Fund Balance (to Offset Tax Rate):</b> | <b>258,542</b> |

Unanticipated Revenue is comprised of the following:

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

##### Other local sources:

|                     |        |
|---------------------|--------|
| Tuition             | 32,311 |
| Investment earnings | 16,263 |
| Indirect Costs      | 524    |
| Student Activities  | (544)  |
| Miscellaneous       | 31,617 |

##### State sources:

|                  |          |
|------------------|----------|
| Adequacy Aid     | 559      |
| Vocational Aid   | 47,697   |
| Catastrophic Aid | (17,006) |
| Other State Aid  | 54,513   |

##### Federal sources:

|          |                |
|----------|----------------|
| Medicaid | (90,859)       |
| ROTC     | <u>(6,220)</u> |

|                      |                             |
|----------------------|-----------------------------|
| <b>Total Revenue</b> | <b><u><u>68,855</u></u></b> |
|----------------------|-----------------------------|

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, 2018, totals \$21,768,927 (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,<br><u>2018</u> | June 30,<br><u>2017</u> | %<br>Change<br><u>2017-2018</u> |
|---------------------------------|-------------------------|-------------------------|---------------------------------|
| Land                            | \$ 329,201              | \$ 329,201              | 0.00%                           |
| Land Improvements               | \$ 632,908              | \$ -                    | 0.00%                           |
| Buildings & Improvements        | 19,856,103              | 20,949,819              | -5.22%                          |
| Machinery, Vehicles & Equipment | 945,905                 | 1,061,940               | -10.93%                         |
| Intangible Assets               | 4,810                   | 5,955                   | -19.23%                         |
| Total                           | <u>\$ 21,768,927</u>    | <u>\$ 22,346,915</u>    | <u>-2.59%</u>                   |

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

**Long-term Debt.** As of June 30, 2018, the Hudson School District had total bonded debt outstanding of \$2,235,299.

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

**Figure 4**

|                                 | June 30,<br><u>2017</u> | June 30,<br><u>2018</u> | %<br>Change<br><u>2017-2018</u> |
|---------------------------------|-------------------------|-------------------------|---------------------------------|
| General Obligation Bond Payable |                         |                         |                                 |
| 2000 School Buildings           | \$ 2,975,000            | \$ 2,200,000            | -26.05%                         |
| Building Improve/Capital Lease  | 305,741                 | -                       | -100.00%                        |
| Unamortized Bond Premiums       | 47,066                  | 35,299                  | -25.00%                         |
| Total                           | <u>\$ 3,327,807</u>     | <u>\$ 2,235,299</u>     | <u>-32.83%</u>                  |

At the end of FY 2018 the District had \$2,235,299 in General Obligation bonds outstanding, a decrease of 32.83% under last year as shown in Figure 4 above. The Hudson School District's total debt decreased by \$1,092,508 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 \$3,109,246,743. The legal debt limit for the Hudson School District is \$217,647,272. The District has \$2,235,299 in outstanding debt as of June 30, 2018.

**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 2018 was, 265,950 up from 259,335 the prior year, with minimal change for the corresponding month the previous year. During the same time, the national CPI increased from 244,955 to 251,989, an increase of 2.87%.
- Student enrollment continues to decrease. The enrollment in April 2018 was 3,426 including 155 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, 2018**

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>ASSETS</b>                                   |                                    |
| Cash and cash equivalents                       | \$ 2,616,781                       |
| Accounts receivable                             | 2,214                              |
| Intergovernmental receivable                    | 1,297,715                          |
| Prepaid items                                   | 823                                |
| Capital assets, not being depreciated           | 329,201                            |
| Capital assets, net of accumulated depreciation | <u>21,439,726</u>                  |
| Total assets                                    | <u>25,686,460</u>                  |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>           | <u>8,870,492</u>                   |
| <b>LIABILITIES</b>                              |                                    |
| Accounts payable                                | 474,106                            |
| Accrued salaries and benefits                   | 1,590,061                          |
| Other   | 910                                |
| Accrued interest payable                        | 21,826                             |
| Noncurrent obligations:                         |                                    |
| Due within one year                             | 766,767                            |
| Due in more than one year                       | <u>50,466,070</u>                  |
| Total liabilities                               | <u>53,319,740</u>                  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>            | <u>1,686,897</u>                   |
| <b>NET POSITION</b>                             |                                    |
| Net investment in capital assets                | 19,533,628                         |
| Restricted                                      | 80,478                             |
| Unrestricted                                    | <u>(40,063,791)</u>                |
| Total net position                              | <u><u>\$ (20,449,685)</u></u>      |

**EXHIBIT B**  
**HUDSON SCHOOL DISTRICT**  
*Statement of Activities*  
**For the Fiscal Year Ended June 30, 2018**

|  |                     | Program Revenues  |                    |                   | Net (Expense)                |
|--|---------------------|-------------------|--------------------|-------------------|------------------------------|
|  |                     | Charges           | Operating          | Capital           | Revenue and                  |
|  |                     | for               | Grants and         | Grants and        | Change In                    |
|  | Expenses            | Services          | Contributions      | Contributions     | Net Position                 |
| Governmental activities:                                     |                     |                   |                    |                   |                              |
| Instruction  | \$32,453,387        | \$ 182,311        | \$2,054,176        | \$ -              | \$(30,216,900)               |
| Support services:  |                     |                   |                    |                   |                              |
| Student  | 4,555,334           | -                 | 89,100             | -                 | (4,466,234)                  |
| Instructional staff  | 1,697,322           | -                 | 73,199             | -                 | (1,624,123)                  |
| General administration                                       | 150,648             | -                 | -                  | -                 | (150,648)                    |
| Executive administration                                     | 713,236             | -                 | -                  | -                 | (713,236)                    |
| School administration  | 3,148,850           | -                 | -                  | -                 | (3,148,850)                  |
| Business   | 946,999             | -                 | -                  | -                 | (946,999)                    |
| Operation and maintenance of plant                           | 5,335,650           | -                 | -                  | 403,329           | (4,932,321)                  |
| Student transportation                                       | 2,129,196           | -                 | -                  | -                 | (2,129,196)                  |
| Other  | 609,134             | -                 | 40,262             | -                 | (568,872)                    |
| Noninstructional services                                    | 1,271,899           | 763,736           | 445,729            | -                 | (62,434)                     |
| Interest on long-term debt                                   | 84,291              | -                 | -                  | -                 | (84,291)                     |
| Total governmental activities                                | <u>\$53,095,946</u> | <u>\$ 946,047</u> | <u>\$2,702,466</u> | <u>\$ 403,329</u> | <u>(49,044,104)</u>          |
| General revenues:  |                     |                   |                    |                   |                              |
| School district assessment                                   |                     |                   |                    |                   | 32,865,628                   |
| Grants and contributions not restricted to specific programs |                     |                   |                    |                   | 14,590,933                   |
| Miscellaneous  |                     |                   |                    |                   | 658,711                      |
| Total general revenues                                       |                     |                   |                    |                   | <u>48,115,272</u>            |
| Change in net position                                       |                     |                   |                    |                   | (928,832)                    |
| Net position, beginning, as restated (see Note 14)           |                     |                   |                    |                   | <u>(19,520,853)</u>          |
| Net position, ending   |                     |                   |                    |                   | <u><u>\$(20,449,685)</u></u> |

**EXHIBIT C-1**  
**HUDSON SCHOOL DISTRICT**  
*Governmental Funds*  
*Balance Sheet*  
*June 30, 2018*

|                                     | General             | Grants            | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|-------------------------------------|---------------------|-------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>                       |                     |                   |                                |                                |
| Cash and cash equivalents           | \$ 2,163,170        | \$ -              | \$ 453,611                     | \$ 2,616,781                   |
| Accounts receivable                 | 2,214               | -                 | -                              | 2,214                          |
| Intergovernmental receivable        | 919,495             | 354,625           | 23,595                         | 1,297,715                      |
| Interfund receivable                | 354,483             | -                 | -                              | 354,483                        |
| Prepaid items                       | 823                 | -                 | -                              | 823                            |
| Total assets                        | <u>\$ 3,440,185</u> | <u>\$ 354,625</u> | <u>\$ 477,206</u>              | <u>\$ 4,272,016</u>            |
| <b>LIABILITIES</b>                  |                     |                   |                                |                                |
| Accounts payable                    | \$ 439,020          | \$ -              | \$ 35,086                      | \$ 474,106                     |
| Accrued salaries and benefits       | 1,580,490           | -                 | 9,571                          | 1,590,061                      |
| Interfund payable                   | -                   | 353,715           | 768                            | 354,483                        |
| Other                               | -                   | 910               | -                              | 910                            |
| Total liabilities                   | <u>2,019,510</u>    | <u>354,625</u>    | <u>45,425</u>                  | <u>2,419,560</u>               |
| <b>FUND BALANCES (DEFICIT)</b>      |                     |                   |                                |                                |
| Nonspendable                        | 823                 | -                 | -                              | 823                            |
| Restricted                          | -                   | -                 | 80,478                         | 80,478                         |
| Committed                           | 800,370             | -                 | 352,137                        | 1,152,507                      |
| Assigned                            | 360,940             | -                 | -                              | 360,940                        |
| Unassigned (deficit)                | 258,542             | -                 | (834)                          | 257,708                        |
| Total fund balances                 | <u>1,420,675</u>    | <u>-</u>          | <u>431,781</u>                 | <u>1,852,456</u>               |
| Total liabilities and fund balances | <u>\$ 3,440,185</u> | <u>\$ 354,625</u> | <u>\$ 477,206</u>              | <u>\$ 4,272,016</u>            |

**EXHIBIT C-2**  
**HUDSON SCHOOL DISTRICT**  
**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position**  
**June 30, 2018**

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|  |                     |                        |
|--|---------------------|------------------------|
| Total fund balances of governmental funds (Exhibit C-1)  |                     | \$ 1,852,456           |
| 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   | \$ 49,440,658       |                        |
| Less accumulated depreciation  | <u>(27,671,731)</u> |                        |
|  |                     | 21,768,927             |
| Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.                           |                     |                        |
| Receivables  | \$ (354,483)        |                        |
| Payables   | <u>354,483</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   | \$ 8,870,492        |                        |
| Deferred inflows of resources  | <u>(1,686,897)</u>  |                        |
|  |                     | 7,183,595              |
| Interest on long-term debt is not accrued in governmental funds.   |                     |                        |
| Accrued interest payable   |                     | (21,826)               |
| Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.                           |                     |                        |
| Bonds  | \$ 2,200,000        |                        |
| Unamortized bond premium   | 35,299              |                        |
| Compensated absences   | 1,935,940           |                        |
| Other postemployment benefits  | 10,545,842          |                        |
| Net pension liability  | <u>36,515,756</u>   |                        |
|  |                     | <u>(51,232,837)</u>    |
| Net position of governmental activities (Exhibit A)  |                     | <u>\$ (20,449,685)</u> |

**EXHIBIT C-3**  
**HUDSON SCHOOL DISTRICT**  
**Governmental Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**For the Fiscal Year Ended June 30, 2018**

|   | General             | Grants           | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|------------------|--------------------------------|--------------------------------|
| <b>REVENUES</b>                         |                     |                  |                                |                                |
| School district assessment              | \$ 32,865,628       | \$ -             | \$ -                           | \$ 32,865,628                  |
| Other local                             | 520,726             | 750              | 1,084,032                      | 1,605,508                      |
| State                                   | 15,166,959          | 79,751           | 19,336                         | 15,266,046                     |
| Federal                                 | 357,921             | 1,645,618        | 426,393                        | 2,429,932                      |
| Total revenues                          | <u>48,911,234</u>   | <u>1,726,119</u> | <u>1,529,761</u>               | <u>52,167,114</u>              |
| <b>EXPENDITURES</b>                     |                     |                  |                                |                                |
| Current:                                |                     |                  |                                |                                |
| Instruction                             | 29,147,183          | 1,523,558        | 266,939                        | 30,937,680                     |
| Support services:                       |                     |                  |                                |                                |
| Student                                 | 4,385,465           | 89,100           | -                              | 4,474,565                      |
| Instructional staff                     | 1,581,371           | 73,199           | -                              | 1,654,570                      |
| General administration                  | 150,648             | -                | -                              | 150,648                        |
| Executive administration                | 692,869             | -                | -                              | 692,869                        |
| School administration                   | 3,105,636           | -                | -                              | 3,105,636                      |
| Business                                | 926,829             | -                | -                              | 926,829                        |
| Operation and maintenance of plant      | 5,602,673           | -                | -                              | 5,602,673                      |
| Student transportation                  | 2,129,196           | -                | -                              | 2,129,196                      |
| Other                                   | 571,454             | 40,262           | 14,987                         | 626,703                        |
| Noninstructional services               | -                   | -                | 1,225,899                      | 1,225,899                      |
| Debt service:                           |                     |                  |                                |                                |
| Principal                               | 1,080,741           | -                | -                              | 1,080,741                      |
| Interest                                | 106,791             | -                | -                              | 106,791                        |
| Facilities acquisition and construction | 157,676             | -                | -                              | 157,676                        |
| Total expenditures                      | <u>49,638,532</u>   | <u>1,726,119</u> | <u>1,507,825</u>               | <u>52,872,476</u>              |
| Net change in fund balances             | (727,298)           | -                | 21,936                         | (705,362)                      |
| Fund balances, beginning                | 2,147,973           | -                | 409,845                        | 2,557,818                      |
| Fund balances, ending                   | <u>\$ 1,420,675</u> | <u>\$ -</u>      | <u>\$ 431,781</u>              | <u>\$ 1,852,456</u>            |

**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, 2018**

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|  |                    |                  |                            |
|--|--------------------|------------------|----------------------------|
| Net change in fund balances of total governmental funds (Exhibit C-3)  |                    |                  | \$ (705,362)               |
| 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   | \$ 684,616         |                  |                            |
| Depreciation expense   | <u>(1,262,604)</u> |                  |                            |
|  |                    | (577,988)        |                            |
| 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   | \$ 775,000         |                  |                            |
| Amortization of bond premium   | 11,767             |                  |                            |
| Principal repayment of capital lease   | <u>305,741</u>     |                  |                            |
|  |                    | 1,092,508        |                            |
| 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   | \$ 10,733          |                  |                            |
| Net decrease in compensated absences payable   | 318,222            |                  |                            |
| Changes in pension balances relating to GASB Statement No. 68  | (311,544)          |                  |                            |
| Changes in OPEB balances relating to GASB Statement No. 75   | <u>(755,401)</u>   |                  |                            |
|  |                    | <u>(737,990)</u> |                            |
| Change in net position of governmental activities (Exhibit B)  |                    |                  | <u><u>\$ (928,832)</u></u> |

**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, 2018**

|  | Budgeted Amounts |               |               | Variance               |
|--|------------------|---------------|---------------|------------------------|
|  | Original         | Final         | Actual        | Positive<br>(Negative) |
| <b>REVENUES</b>  |                  |               |               |                        |
| School district assessment                                   | \$32,865,628     | \$ 32,865,628 | \$ 32,865,628 | \$ -                   |
| Other local  | 367,000          | 402,000       | 482,171       | 80,171                 |
| State  | 15,146,107       | 15,146,107    | 15,166,959    | 20,852                 |
| Federal  | 390,000          | 390,000       | 357,921       | (32,079)               |
| Total revenues   | 48,768,735       | 48,803,735    | 48,872,679    | 68,944                 |
| <b>EXPENDITURES</b>  |                  |               |               |                        |
| Current:   |                  |               |               |                        |
| Instruction  | 29,617,869       | 29,162,343    | 29,116,544    | 45,799                 |
| Support services:  |                  |               |               |                        |
| Student  | 4,624,591        | 4,505,785     | 4,380,357     | 125,428                |
| Instructional staff  | 1,491,056        | 1,566,377     | 1,514,115     | 52,262                 |
| General administration                                       | 134,863          | 139,468       | 146,798       | (7,330)                |
| Executive administration                                     | 763,672          | 705,770       | 691,161       | 14,609                 |
| School administration  | 2,936,869        | 3,115,603     | 3,105,312     | 10,291                 |
| Business   | 885,046          | 942,011       | 935,314       | 6,697                  |
| Operation and maintenance of plant                           | 5,335,781        | 5,661,657     | 5,621,595     | 40,062                 |
| Student transportation                                       | 2,229,480        | 2,087,928     | 2,085,232     | 2,696                  |
| Other  | 415,991          | 548,026       | 551,250       | (3,224)                |
| Debt service:  |                  |               |               |                        |
| Principal  | 1,081,490        | 1,080,740     | 1,080,741     | (1)                    |
| Interest   | 105,791          | 106,791       | 106,791       | -                      |
| Facilities acquisition and construction                      | 175,000          | 175,000       | 157,676       | 17,324                 |
| Total expenditures   | 49,797,499       | 49,797,499    | 49,492,886    | 304,613                |
| Excess (deficiency) of revenues<br>over (under) expenditures | (1,028,764)      | (993,764)     | (620,207)     | 373,557                |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                  |               |               |                        |
| Transfers in   | 210,000          | 175,000       | 157,676       | (17,324)               |
| Transfers out  | (50,000)         | (50,000)      | (50,000)      | -                      |
| Total other financing sources (uses)                         | 160,000          | 125,000       | 107,676       | (17,324)               |
| Net change in fund balance                                   | \$ (868,764)     | \$ (868,764)  | (512,531)     | \$ 356,233             |
| Decrease in nonspendable fund balance                        |                  |               | 2,310         |                        |
| Increase in committed fund balance                           |                  |               | (50,000)      |                        |
| Unassigned fund balance, beginning                           |                  |               | 818,763       |                        |
| Unassigned fund balance, ending                              |                  |               | \$ 258,542    |                        |



**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, 2018**

|                            | Original<br>and Final<br>Budget | Actual    | Variance<br>Positive<br>(Negative) |
|----------------------------|---------------------------------|-----------|------------------------------------|
| <b>REVENUES</b>            |                                 |           |                                    |
| Local                      | \$ -                            | \$ 750    | \$ 750                             |
| State                      | 79,751                          | 79,751    | -                                  |
| Federal                    | 1,807,214                       | 1,645,618 | (161,596)                          |
| Total revenues             | 1,886,965                       | 1,726,119 | (160,846)                          |
| <b>EXPENDITURES</b>        |                                 |           |                                    |
| Current:                   |                                 |           |                                    |
| Instruction                | 1,645,441                       | 1,523,558 | 121,883                            |
| Support services:          |                                 |           |                                    |
| Student                    | 105,376                         | 89,100    | 16,276                             |
| Instructional staff        | 91,238                          | 73,199    | 18,039                             |
| Other                      | 44,910                          | 40,262    | 4,648                              |
| Total expenditures         | 1,886,965                       | 1,726,119 | 160,846                            |
| Net change in fund balance | \$ -                            | -         | \$ -                               |
| Fund balance, beginning    |                                 | -         |                                    |
| Fund balance, ending       |                                 | \$ -      |                                    |

**EXHIBIT E**  
**HUDSON SCHOOL DISTRICT**  
**Fiduciary Funds**  
**Statement of Net Position**  
**June 30, 2018**

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|                           |                   |
|---------------------------|-------------------|
|                           | <u>Agency</u>     |
| <b>ASSETS</b>             |                   |
| Cash and cash equivalents | <u>\$ 291,975</u> |
| <b>LIABILITIES</b>        |                   |
| Due to student groups     | <u>\$ 291,975</u> |

|  | <u><b>NOTE</b></u> |
|--|--------------------|
| <b>Summary of Significant Accounting Policies .....</b>                            | <b>1</b>           |
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***DETAILED NOTES ON ALL FUNDS***

|  |           |
|--|-----------|
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## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Hudson School District, in Hudson, New Hampshire (the School District), have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

In 2018 the School District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which changed the way other postemployment benefit (OPEB) liabilities and related expenses are recorded. See Note 10 for further information on this pronouncement.

### ***1-A Reporting Entity***

The Hudson School District is a municipal corporation governed by an elected 5-member School Board. In evaluating how to define the School District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by the GASB. The School District has no component units to include in its reporting entity.

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

### ***1-B Government-wide and Fund Financial Statements***

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

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

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

**Fund Financial Statements** – separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds, and are presented in the other governmental column of the fund financial statements.

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

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

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

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

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

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

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

The School District reports the following major governmental funds:

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

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

***Nonmajor Funds*** – The School District also reports four nonmajor governmental funds.

***Fiduciary Fund Financial Statements*** – Fiduciary fund financial statements include a Statement of Net Position. These funds account for resources held by the School District for the benefit of other parties, and include the agency funds. Fiduciary funds are accounted for on a spending or “economic resources” measurement focus and the accrual basis of accounting.

### ***1-D Cash and Cash Equivalents***

The School District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist primarily of demand deposits 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-E Receivables***

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

### ***1-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***

Capital assets are defined by the School District as assets with an initial individual cost of \$5,000 or more and an estimated life in excess of one year. Capital assets include property, plant, and equipment, infrastructure assets (e.g. roads, sidewalks, drainage, and similar items) and are reported in governmental activities.

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

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

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

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

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

### ***1-H Interfund Activities***

Interfund activities are reported as follows:

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

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

### ***1-I Accounts Payable***

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

### ***1-J Deferred Outflows/Inflows of Resources***

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

*Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance that applies to a future period(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year.

### ***1-K Long-term Obligations***

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

### ***1-L 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 School District's personnel policy.

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

### ***1-M Postemployment Benefits Other Than Pensions (OPEB)***

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

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

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

### ***1-N Defined Benefit Pension Plan***

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

The schedules prepared by New Hampshire Retirement System, and audited by the plan's independent auditors, require management to make a number of estimates and assumptions related 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-O Net Position/Fund Balances***

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

**Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation/amortization, reduced by the outstanding balances of bonds or other debt attributable to the acquisition, construction, or improvement of those assets.

**Restricted Net Position** – Results when constraints placed on net position use are either externally imposed by a third party (statutory, bond covenant, or granting agency) or are imposed by law through constitutional provisions or enabling legislation. The School District typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future period.

**Unrestricted Net Position** – Consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

**Fund Balance Classifications** – GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides more clearly defined fund balance categories to make sure the nature and extent of the constraints placed on a government's fund balances are more transparent. The following classifications describe the relative strength of the spending constraints:

**Nonspendable** – 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** – 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** – 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** – 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** – The portion of fund balance that has not been restricted, committed, or assigned for a specific purpose.

### ***1-P Use of Estimates***

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

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

### ***2-A Budgetary Information***

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the School District's operations. At its annual meeting, the School District adopts a budget for the current year for the general and grants funds, as well as the 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 2018, \$818,764 of the beginning general fund unassigned fund balance was applied for this purpose. Additionally, \$50,000 was appropriated to fund the School District's capital reserve funds.



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

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

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

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

|   |                      |
|---|----------------------|
| Revenues and other financing sources:               |                      |
| Per Exhibit D-1 (budgetary basis)                   | \$ 49,030,355        |
| Adjustments:  |                      |
| Basis difference:                                   |                      |
| GASB Statement No. 54:                              |                      |
| Revenue of the blended fund                         | 38,555               |
| Eliminate transfers between the general and blended | (157,676)            |
| Per Exhibit C-3 (GAAP basis)                        | <u>\$ 48,911,234</u> |
| Expenditures and other financing uses:              |                      |
| Per Exhibit D-1 (budgetary basis)                   | \$ 49,542,886        |
| Adjustments:  |                      |
| Basis difference:                                   |                      |
| Encumbrances, beginning                             | 506,586              |
| Encumbrances, ending                                | (360,940)            |
| GASB Statement No. 54:                              |                      |
| Eliminate transfers between the general and blended | (50,000)             |
| Per Exhibit C-3 (GAAP basis)                        | <u>\$ 49,638,532</u> |

## **2-C Deficit Fund Balance**

The Alvirne Trustees fund had a fund balance deficit of \$834 at June 30, 2018. This deficit will be absorbed with local revenues expected to be received and recognized as revenue in subsequent periods.

## **2-D Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method, and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources are not reported. Beginning net position for governmental activities was restated to retroactively report the change in valuation of the beginning total OPEB liability, as follows:

|  | Local<br>OPEB         | State<br>OPEB         | Total<br>OPEB         |
|--|-----------------------|-----------------------|-----------------------|
| Change in total OPEB liability under current standards, July 1, 2017   | <u>\$ (3,546,771)</u> | <u>\$ (4,339,259)</u> | <u>\$ (7,886,030)</u> |
| Initial balance of deferred outflows of resources                      | <u>1,617,839</u>      | <u>526,264</u>        | <u>2,144,103</u>      |
| Cumulative restatement related to GASB No. 75 implementation, see Note | <u>\$ (1,928,932)</u> | <u>\$ (3,812,995)</u> | <u>\$ (5,741,927)</u> |

## **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 collateral. As of year-end, the carrying amount of the School District's deposits was \$2,908,756 and the bank balances totaled \$4,537,879. Petty cash totaled \$650. The School District held \$1,019,989 in certificates of deposit at various banks at year-end.

Cash and cash equivalents reconciliation:

|  |                    |
|--|--------------------|
| Cash per Statement of Net Position (Exhibit A)                 | \$2,616,781        |
| Cash per Statement of Net Position-Fiduciary Funds (Exhibit E) | 291,975            |
| Total cash and cash equivalents                                | <u>\$2,908,756</u> |

### **NOTE 4 – RECEIVABLES**

Receivables at June 30, 2018, consisted of accounts and intergovernmental amounts arising from grants, school lunch program, 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 – CAPITAL ASSETS**

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

|  | Balance,<br>beginning | Additions           | Balance,<br>ending   |
|--|-----------------------|---------------------|----------------------|
| At cost:   |                       |                     |                      |
| Not being depreciated:                           |                       |                     |                      |
| Land   | \$ 329,201            | \$ -                | \$ 329,201           |
| Being depreciated:                               |                       |                     |                      |
| Land improvements                                | 805,028               | -                   | 805,028              |
| Buildings and building improvements              | 45,577,396            | 660,239             | 46,237,635           |
| Machinery, equipment, and vehicles               | 2,007,760             | 24,377              | 2,032,137            |
| Intangible assets                                | 36,657                | -                   | 36,657               |
| Total capital assets being depreciated           | <u>48,426,841</u>     | <u>684,616</u>      | <u>49,111,457</u>    |
| Total capital assets                             | <u>48,756,042</u>     | <u>684,616</u>      | <u>49,440,658</u>    |
| Less accumulated depreciation:                   |                       |                     |                      |
| Land improvements                                | (134,188)             | (37,932)            | (172,120)            |
| Buildings and building improvements              | (25,298,417)          | (1,083,115)         | (26,381,532)         |
| Machinery, equipment, and vehicles               | (945,820)             | (140,412)           | (1,086,232)          |
| Intangible assets                                | (30,702)              | (1,145)             | (31,847)             |
| Total accumulated depreciation                   | <u>(26,409,127)</u>   | <u>(1,262,604)</u>  | <u>(27,671,731)</u>  |
| Net book value, capital assets being depreciated | <u>22,017,714</u>     | <u>(577,988)</u>    | <u>21,439,726</u>    |
| Net book value, all capital assets               | <u>\$ 22,346,915</u>  | <u>\$ (577,988)</u> | <u>\$ 21,768,927</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                        | \$ 1,186,469        |
| Support services:                  |                     |
| Instructional staff                | 10,606              |
| Operation and maintenance of plant | 41,161              |
| Noninstructional services          | 24,368              |
| Total depreciation expense         | <u>\$ 1,262,604</u> |

**NOTE 6 – INTERFUND BALANCES**

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

| Receivable Fund | Payable Fund | Amount            |
|-----------------|--------------|-------------------|
| General         | Grants       | \$ 353,715        |
|                 | Nonmajor     | 768               |
|                 |              | <u>\$ 354,483</u> |

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

Deferred outflows of resources reported in the governmental fund are as follows:

|   | Governmental<br>Activities |
|---|----------------------------|
| Amounts related to pensions, see Note 9                       | \$ 7,467,001               |
| Amounts related to other postemployment benefits, see Note 10 | 1,403,491                  |
| Total deferred outflows of resources                          | <u>\$ 8,870,492</u>        |

Deferred inflows of resources reported in the governmental activities are as follows:

|  | Governmental<br>Activities |
|--|----------------------------|
| Amounts related to pensions, see Note 9                        | \$ 1,661,811               |
| Amounts related to other postemployment benefits, see Notes 10 | 25,086                     |
| Total deferred inflows of resources                            | <u>\$ 1,686,897</u>        |

**NOTE 8 – LONG-TERM LIABILITIES**

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

|                                   | Balance<br>July 1,<br>2017<br>(as restated) | Additions        | Reductions            | Balance<br>June 30,<br>2018 | Due Within<br>One Year |
|-----------------------------------|---|------------------|-----------------------|-----------------------------|------------------------|
| Bonds payable:                    |   |                  |                       |                             |                        |
| General obligation bonds          | \$ 2,975,000                                | \$ -             | \$ (775,000)          | \$ 2,200,000                | \$ 755,000             |
| Premium                           | 47,066                                      | -                | (11,767)              | 35,299                      | 11,767                 |
| Total bonds payable               | 3,022,066                                   | -                | (786,767)             | 2,235,299                   | 766,767                |
| Capital leases                    | 305,741                                     | -                | (305,741)             | -                           | -                      |
| Compensated absences              | 2,254,162                                   | 10,750           | (328,972)             | 1,935,940                   | -                      |
| Net other postemployment benefits | 10,263,278                                  | 282,564          | -                     | 10,545,842                  | -                      |
| Net pension liability             | 39,657,547                                  | -                | (3,141,791)           | 36,515,756                  | -                      |
| Total long-term liabilities       | <u>\$ 55,502,794</u>                        | <u>\$293,314</u> | <u>\$ (4,563,271)</u> | <u>\$ 51,232,837</u>        | <u>\$ 766,767</u>      |

Long-term bonds are comprised of the following:

|                                   | Original<br>Amount | Issue Date | Maturity<br>Date | Interest<br>Rate | Outstanding at<br>June 30,<br>2018 |
|-----------------------------------|--------------------|------------|------------------|------------------|------------------------------------|
| General obligation bonds payable: |                    |            |                  |                  |                                    |
| School building                   | \$ 4,658,000       | 2010       | 2021             | 2.00-4.79%       | \$ 1,235,000                       |
| School building                   | \$ 3,562,000       | 2010       | 2021             | 2.00-4.79%       | 965,000                            |
|                                   |                    |            |                  |                  | <u>2,200,000</u>                   |
| Unamortized bond premium          |                    |            |                  |                  | 35,299                             |
| Total                             |                    |            |                  |                  | <u>\$2,235,299</u>                 |

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

| Fiscal Year Ending<br>June 30, | Principal           | Interest          | Total               |
|--------------------------------|---------------------|-------------------|---------------------|
| 2019                           | \$ 755,000          | \$ 69,772         | \$ 824,772          |
| 2020                           | 730,000             | 46,113            | 776,113             |
| 2021                           | 715,000             | 17,126            | 732,126             |
| Totals                         | <u>\$ 2,200,000</u> | <u>\$ 133,011</u> | <u>\$ 2,333,011</u> |

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

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

#### **NOTE 9 – DEFINED BENEFIT PENSION PLAN**

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

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

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

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have nonvested status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the member attains 52.5 years of age by ¼ of 1% or age 60. Members of both groups may qualify for vested deferred allowances, disability allowances and death benefit allowances, subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

**Contributions** – The System is financed by contributions from both the employees and the School District. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees are required to contribute 7% of earnable compensation. For fiscal year 2018, the School District contributed 15.70% for teachers and 11.08% for other employees. The contribution requirement for the fiscal year 2018 was \$3,371,397, which was paid in full.

***Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions***

– At June 30, 2018, the School District reported a liability of \$36,515,756 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating towns and school districts, actuarially determined. At June 30, 2017, the School District's proportion was .74249308% which was a decrease of .00328662% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of \$3,682,943. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Changes in proportion   | \$ 346,143                           | \$ 732,023                          |
| Changes in assumptions  | 3,666,664                            | -                                   |
| Difference between expected and actual experience   | 82,797                               | 464,741                             |
| Net difference between projected and actual investment earnings on pension plan investments | -                                    | 465,047                             |
| Contributions subsequent to the measurement date  | 3,371,397                            | -                                   |
| Total   | <u>\$ 7,467,001</u>                  | <u>\$ 1,661,811</u>                 |

The \$3,371,397 reported as deferred outflows of resources related to pensions results from the School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal Year Ending<br>June 30, |                     |
|--------------------------------|---------------------|
| 2018                           | \$ 481,646          |
| 2019                           | 1,393,376           |
| 2020                           | 1,176,745           |
| 2021                           | (617,974)           |
| 2022                           | -                   |
| Totals                         | <u>\$ 2,433,793</u> |

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

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

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on last experience study. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

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

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

| Asset Class                      | Target Allocation | Weighted average long-term<br>expected real rate of return |
|----------------------------------|-------------------|--|
|                                  |                   | 2017   |
| Large Cap Equities               | 22.5%             | 4.25%  |
| Small/Mid Cap Equities           | 7.5%              | 4.50%  |
| Total domestic equity            | 30.0%             |  |
| Int'l Equities (unhedged)        | 13.0%             | 4.50%  |
| Emerging Int'l Equities          | 7.0%              | 6.25%  |
| Total international equity       | 20.0%             |  |
| Core Bonds                       | 5.0%              | 0.75%  |
| Short Duration                   | 2.0%              | (0.25%)  |
| Global Multi-Sector Fixed Income | 11.0%             | 2.11%  |
| Absolute Return Fixed Income     | 7.0%              | 1.26%  |
| Total fixed income               | 25.0%             |  |
| Private equity                   | 5.0%              | 6.25%  |
| Private debt                     | 5.0%              | 4.75%  |
| Opportunistic                    | 5.0%              | 2.84%  |
| Total alternative investments    | 15.0%             |  |
| Real estate                      | 10.0%             | 3.25%  |
| Total                            | 100.0%            |  |

**Discount Rate** – The discount rate used to measure the collective total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the Pension Plan's actuarial funding policy as required by RSA 100-A:16. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on Pension Plan investment was applied to all periods of projected benefit payments to determine the collective total pension liability.

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

| Actuarial<br>Valuation<br>Date | 1% Decrease<br>6.25% | Current Single<br>Rate Assumption |  | 1% Increase<br>8.25% |
|--------------------------------|----------------------|-----------------------------------|--|----------------------|
|                                |                      | 7.25%                             |  |                      |
| June 30, 2017                  | \$ 48,107,676        | \$ 36,515,756                     |  | \$ 27,016,637        |

**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 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

### **10-A New Hampshire Retirement System (NHRS)**

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

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

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

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

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

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

**Contributions** – The OPEB Plan is funded by allocating to the 401(h) subtrust the lesser of: 25% of all employer contributions made in accordance with RSA 100-A:16 or the percentage of employer contributions determined by the actuary to be the minimum rate necessary to maintain the benefits provided under RSA 100-A:53-b, RSA 100-A:53-c, and RSA 100-A:53-d. For fiscal year 2017, the minimum rates determined by the actuary to maintain benefits were the lesser of the two options and were used to determine the employer contributions due to the 401(h) subtrust. The State Legislature has the authority to establish, amend and discontinue the contribution requirements of the OPEB Plan. Administrative costs are allocated to the OPEB Plan based on fund balances. For fiscal year 2018, the School District contributed 1.66% for teachers and 0.30% for other employees. The contribution requirement for the fiscal year 2018 was \$312,141, which was paid in full.

**OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB** – At June 30, 2018, the School District reported a liability of \$4,059,818 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on a projection of the School District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating towns and school districts, actuarially determined. At June 30, 2017, the School District's proportion was .88790834% which was a decrease of .00843802% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized OPEB expense of \$271,909. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Changes in proportion  | \$ -                                 | \$ 12,275                           |
| Net difference between projected and actual investment earnings on OPEB plan investments | -                                    | 12,811                              |
| Contributions subsequent to the measurement date   | 312,141                              | -                                   |
| Total  | <u>\$ 312,141</u>                    | <u>\$ 25,086</u>                    |



The \$312,141 reported as deferred outflows of resources related to OPEB results from the School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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

|        | Fiscal Year Ending<br>June 30, |
|--------|--------------------------------|
| 2018   | \$ (15,478)                    |
| 2019   | (3,203)                        |
| 2020   | (3,203)                        |
| 2021   | (3,202)                        |
| Totals | <u>\$ (25,086)</u>             |

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

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

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

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

**Long-term Rates of Return** – The long-term expected rate of return on OPEB plan investment was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. Following is a table presenting target allocations and long-term rates of return for 2017:

| Asset Class                      | Target<br>Allocation | Weighted average long-term<br>expected real rate of return<br>2017 |
|----------------------------------|----------------------|--|
| Large Cap Equities               | 22.5%                | 4.25%  |
| Small/Mid Cap Equities           | 7.5%                 | 4.50%  |
| Total domestic equity            | 30.0%                |  |
| Int'l Equities (unhedged)        | 13.0%                | 4.50%  |
| Emerging Int'l Equities          | 7.0%                 | 6.25%  |
| Total international equity       | 20.0%                |  |
| Core Bonds                       | 5.0%                 | 0.75%  |
| Short Duration                   | 2.0%                 | (0.25%)  |
| Global Multi-Sector Fixed Income | 11.0%                | 2.11%  |
| Absolute Return Fixed Income     | 7.0%                 | 1.26%  |
| Total fixed income               | 25.0%                |  |
| Private equity                   | 5.0%                 | 6.25%  |
| Private debt                     | 5.0%                 | 4.75%  |
| Opportunistic                    | 5.0%                 | 2.84%  |
| Total alternative investments    | 15.0%                |  |
| Real estate                      | 10.0%                | 3.25%  |
| Total                            | 100.0%               |  |



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

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

| Actuarial<br>Valuation<br>Date | 1% Decrease<br>6.25% | Current Single<br>Rate Assumption<br>7.25% | 1% Increase<br>8.25% |
|--------------------------------|----------------------|--|----------------------|
| June 30, 2017                  | \$ 4,418,290         | \$ 4,059,818                               | \$ 3,749,230         |

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

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

## **10-B Retiree Health Benefit Program**

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

**Benefits Provided** – The School District provides postemployment healthcare benefits for certain eligible retirees. The School District provides medical benefits to its eligible retirees. The benefits are provided through the New Hampshire School Health Care Coalition.

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

|  |     |
|--|-----|
| Inactive employees or beneficiaries currently receiving benefit payments | 11  |
| Active employees   | 370 |
| Total participants covered by OPEB plan                                  | 381 |

**Total OPEB Liability** – The School District’s total OPEB liability of \$6,486,024 was measured as of July 1, 2017, and was determined by an actuarial valuation of July 1, 2016.

**Actuarial Assumptions and Other Inputs** – The total OPEB liability of \$6,216,880 in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

|                                |       |
|--------------------------------|-------|
| Discount Rate                  | 2.85% |
| Healthcare Cost Trend Rates:   |       |
| Current Year Trend             | 0.00% |
| Second Year Trend              | 9.50% |
| Decrement                      | 0.50% |
| Ultimate Trend                 | 5.00% |
| Year Ultimate Trend is Reached | 2027  |
| Salary Increases               | 2.00% |

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

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

**Changes in the Total OPEB Liability -**

|  | June 30, 2017       | June 30, 2018       |
|--|---------------------|---------------------|
| Total OPEB liability beginning of year, as restated  | \$ 5,924,019        | \$ 6,216,880        |
| Changes for the year:                                |                     |                     |
| Service cost   | 468,157             | 477,519             |
| Interest   | 166,208             | 174,645             |
| Assumption changes and difference between actual and | -                   | -                   |
| Difference between actual and expected experience    | (157,209)           | (205,046)           |
| Change in actuarial cost method                      | -                   | -                   |
| Benefit payments                                     | (184,295)           | (177,974)           |
| Total OPEB liability end of year                     | <u>\$ 6,216,880</u> | <u>\$ 6,486,024</u> |

**Sensitivity of the School District's OPEB Liability to Changes in the Discount Rate** – The July 1, 2016 actuarial valuation was prepared using a discount rate of 2.85%. If the discount rate were 1% higher than what was used the OPEB liability would decrease to \$6,066,690 or by (6.47%). If the discount rate were 1% lower than what was used the OPEB liability would increase to \$7,070,726 or by 7.82%.

|                      | Discount Rate       |                     |                     |
|----------------------|---------------------|---------------------|---------------------|
|                      | 1% Decrease         | Baseline 2.85%      | 1% Increase         |
| Total OPEB Liability | <u>\$ 7,070,726</u> | <u>\$ 6,486,024</u> | <u>\$ 6,066,690</u> |

**Sensitivity of the School District's OPEB Liability to Changes in the Healthcare Cost Trend Rates** – The July 1, 2016 actuarial valuation was prepared using an initial trend rate of 0.00%. If the trend rate were 1% higher than what was used the OPEB liability would increase to \$7,385,644 or by 7.82%. If the trend rate were 1% lower than what was used the OPEB liability would decrease to \$5,723,165 or by (11.81%).

|                      | Healthcare Cost Trend Rates |                     |                     |
|----------------------|-----------------------------|---------------------|---------------------|
|                      | 1% Decrease                 | Baseline 9.50%      | 1% Increase         |
| Total OPEB Liability | <u>\$ 5,723,165</u>         | <u>\$ 6,486,024</u> | <u>\$ 7,385,644</u> |

***OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB*** – For the year ended June 30, 2018, the School District recognized OPEB expense of \$1,004,841. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|   | Deferred<br>Outflows of<br>Resources |
|---|--------------------------------------|
| Difference between actual and expected experience | \$ 424,941                           |
| Changes in assumptions                            | 666,409                              |
| Total   | <u>1,091,350</u>                     |

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

| Fiscal Year Ending<br>June 30, |                     |
|--------------------------------|---------------------|
| 2019                           | \$ 270,602          |
| 2020                           | 270,602             |
| 2021                           | 270,602             |
| 2022                           | 279,544             |
| Totals                         | <u>\$ 1,091,350</u> |

#### ***NOTE 11 – ENCUMBRANCES***

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

|                                    |                  |
|------------------------------------|------------------|
| Current:                           |                  |
| Instruction:                       |                  |
| Regular programs                   | \$ 11,900        |
| Special programs                   | 37,582           |
| Vocational programs                | 2,100            |
| Total instruction                  | <u>51,582</u>    |
| Support services:                  |                  |
| Student                            | 5,113            |
| Instructional staff                | 8,464            |
| Business                           | 9,047            |
| Operation and maintenance of plant | 261,932          |
| Other                              | 24,802           |
| Total support services             | <u>309,358</u>   |
| Total encumbrances                 | <u>\$360,940</u> |

#### ***NOTE 12 – GOVERNMENTAL ACTIVITIES NET POSITION***

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

|  |                        |
|--|------------------------|
| Net investment in capital assets:      |                        |
| Net book value, all capital assets     | \$ 21,768,927          |
| Less:                                  |                        |
| General obligation bonds payable       | (2,200,000)            |
| Unamortized bond premiums              | (35,299)               |
| Total net investment in capital assets | <u>19,533,628</u>      |
| Restricted for food service            | 80,478                 |
| Unrestricted                           | (40,063,791)           |
| Total net position                     | <u>\$ (20,449,685)</u> |

### **NOTE 13 – GOVERNMENTAL FUND BALANCES**

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

|                                  |                |                            |
|----------------------------------|----------------|----------------------------|
| <b>Nonspendable:</b>             |                |                            |
| Major fund:                      |                |                            |
| General:                         |                |                            |
| Prepaid items                    |                | \$ 823                     |
| <b>Restricted:</b>               |                |                            |
| Nonmajor fund:                   |                |                            |
| Food service                     |                | 80,478                     |
| <b>Committed:</b>                |                |                            |
| Major fund:                      |                |                            |
| General:                         |                |                            |
| Expendable trust                 | \$ 700,370     |                            |
| Voted appropriation - March 2018 | 100,000        |                            |
|                                  | <u>800,370</u> |                            |
| Nonmajor funds:                  |                |                            |
| Alvirne Farm                     | 84,402         |                            |
| Vocational center                | 267,735        |                            |
|                                  | <u>352,137</u> |                            |
| Total committed fund balance     |                | 1,152,507                  |
| <b>Assigned:</b>                 |                |                            |
| Major fund:                      |                |                            |
| General:                         |                |                            |
| Encumbrances                     |                | 360,940                    |
| <b>Unassigned (deficit):</b>     |                |                            |
| Major fund:                      |                |                            |
| General                          | \$ 258,542     |                            |
| Nonmajor fund:                   |                |                            |
| Alvirne Trustees (deficit)       | (834)          |                            |
| Total unassigned fund balance    |                | <u>257,708</u>             |
| Total governmental fund balances |                | <u><u>\$ 1,852,456</u></u> |

### **NOTE 14 – PRIOR PERIOD ADJUSTMENTS**

Net position at July 1, 2017 was restated for the following:

|  |                              |
|--|------------------------------|
|  | Government-wid               |
|  | <u>Statements</u>            |
| To record the cumulative restatement related to GASB No. 75 implementation, see No | \$ (5,741,927)               |
| Net position, as previously reported   | <u>(13,778,926)</u>          |
| Net position, as restated  | <u><u>\$(19,520,853)</u></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 2018, the School District was a member of the New Hampshire Public Risk Management Exchange (Primex<sup>3</sup>) Workers' Compensation and Property/Liability Programs.

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, 2017 to June 30, 2018 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 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.

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

#### ***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 7, 2019, the date the June 30, 2018 financial statements were available to be issued, and no events occurred that require recognition or disclosure.

***REQUIRED SUPPLEMENTARY INFORMATION***

**EXHIBIT F**  
**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, 2018*

|   | 2014          | 2015          | June 30,<br>2016 | 2017         | 2018          |
|---|---------------|---------------|------------------|--------------|---------------|
| School District's proportion of the net pension liability   | 0.76716162%   | 0.76044482%   | 0.73202836%      | 0.74577970%  | 0.74249308%   |
| School District's proportionate share of the net pension liability  | \$ 33,016,983 | \$ 28,543,948 | \$ 28,999,502    | \$39,657,547 | \$ 36,515,756 |
| School District's covered payroll   | \$ 21,414,546 | \$ 21,099,057 | \$ 21,070,322    | \$22,076,550 | \$ 22,970,505 |
| School District's proportionate share of the net pension liability as a percentage of its covered payroll | 154.18%       | 135.29%       | 137.63%          | 179.64%      | 158.97%       |
| Plan fiduciary net position as a percentage of the total pension liability                                | 66.32%        | 59.81%        | 65.47%           | 58.30%       | 62.66%        |

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

|  | June 30,      |               |               |               |               |
|--|---------------|---------------|---------------|---------------|---------------|
|  | 2014          | 2015          | 2016          | 2017          | 2018          |
| Contractually required contribution                                      | \$ 1,907,575  | \$ 2,467,059  | \$ 2,455,868  | \$ 2,670,481  | \$ 2,720,074  |
| Contributions in relation to the contractually<br>required contributions | 1,907,575     | 2,467,059     | 2,455,868     | 2,670,481     | 2,720,074     |
| Contribution deficiency (excess)   | \$ -          | \$ -          | \$ -          | \$ -          | \$ -          |
| School District's covered payroll  | \$ 21,414,546 | \$ 21,099,057 | \$ 21,070,322 | \$ 22,076,550 | \$ 22,970,505 |
| Contributions as a percentage of covered payroll                         | 8.91%         | 11.69%        | 11.66%        | 12.10%        | 11.84%        |



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

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

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

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

**Other Information:**

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

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

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|  | June 30,      |               |
|--|---------------|---------------|
|  | 2017          | 2018          |
| School District's proportion of the net OPEB liability   | 0.89634636%   | 0.88790834%   |
| School District's proportionate share of the net OPEB liability (asset)  | \$ 4,339,259  | \$ 4,059,818  |
| School District's covered payroll  | \$ 22,076,550 | \$ 22,970,505 |
| School District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll | 19.66%        | 17.67%        |
| Plan fiduciary net position as a percentage of the total OPEB liability  | 5.21%         | 7.91%         |

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

|   | June 30,      |               |
|---|---------------|---------------|
|   | 2017          | 2018          |
| Contractually required contribution                                     | \$ 520,832    | \$ 526,264    |
| Contributions in relation to the contractually<br>required contribution | (520,832)     | (526,264)     |
| Contribution deficiency (excess)  | \$ -          | \$ -          |
| School District's covered payroll                                       | \$ 22,076,550 | \$ 22,970,505 |
| Contributions as a percentage of covered payroll                        | 2.36%         | 2.29%         |

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

|   | June 30,             |                      |
|---|----------------------|----------------------|
|   | 2017                 | 2018                 |
| OPEB liability, beginning of year                       | \$ 5,924,019         | \$ 6,216,880         |
| Changes for the year:                                   |                      |                      |
| Service cost  | 468,157              | 477,519              |
| Interest  | 166,208              | 174,645              |
| Assumption changes                                      |                      |                      |
| Differences between actual and expected experience      | (157,209)            | (205,046)            |
| Change in actuarial cost method                         | -                    | -                    |
| Benefit payments  | (184,295)            | (177,974)            |
| OPEB liability, end of year                             | <u>\$ 6,216,880</u>  | <u>\$ 6,486,024</u>  |
| Covered payroll   | <u>\$ 18,852,561</u> | <u>\$ 19,229,612</u> |
| Total OPEB liability as a percentage of covered payroll | 32.98%               | 33.73%               |

***Schedule of the School District's Proportionate Share of Net Other Postemployment Benefits Liability,  
Schedule of School District Contributions – Other Postemployment Benefits and Schedule of Changes in School  
District's Total Other Postemployment Benefits Liability and Related Ratios***

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

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

**Methods and Assumptions:**

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

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

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

***COMBINING AND INDIVIDUAL FUND SCHEDULES***

**SCHEDULE 1**  
**HUDSON SCHOOL DISTRICT**  
**Major General Fund**  
*Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)*  
**For the Fiscal Year Ended June 30, 2018**

|  | Estimated     | Actual        | Variance<br>Positive<br>(Negative) |
|--|---------------|---------------|------------------------------------|
| School district assessment:                                      |               |               |                                    |
| Current appropriation  | \$ 32,865,628 | \$ 32,865,628 | \$ -                               |
| Other local sources:   |               |               |                                    |
| Tuition  | 150,000       | 182,311       | 32,311                             |
| Investment income  | 7,000         | 23,263        | 16,263                             |
| Indirect costs   | 35,000        | 35,524        | 524                                |
| Student activities   | 10,000        | 9,456         | (544)                              |
| Miscellaneous  | 200,000       | 231,617       | 31,617                             |
| Total from other local sources                                   | 402,000       | 482,171       | 80,171                             |
| State sources:   |               |               |                                    |
| Adequacy aid (grant)   | 8,052,753     | 8,053,312     | 559                                |
| Adequacy aid (tax)   | 6,172,347     | 6,172,347     | -                                  |
| School building aid  | 403,329       | 403,329       | -                                  |
| Catastrophic aid   | 327,678       | 310,672       | (17,006)                           |
| Vocational aid   | 125,000       | 172,697       | 47,697                             |
| Other state aid  | 65,000        | 54,602        | (10,398)                           |
| Total from state sources   | 15,146,107    | 15,166,959    | 20,852                             |
| Federal sources:   |               |               |                                    |
| Medicaid   | 390,000       | 299,141       | (90,859)                           |
| ROTC   | -             | 58,780        | 58,780                             |
| Total from federal sources                                       | 390,000       | 357,921       | (32,079)                           |
| Other financing sources:   |               |               |                                    |
| Transfers in   | 175,000       | 157,676       | (17,324)                           |
| Total revenues and other financing sources                       | 48,978,735    | \$ 49,030,355 | \$ 51,620                          |
| Fund balance used to reduce school district assessment           | 818,764       |               |                                    |
| Voted appropriation from fund balance                            | 50,000        |               |                                    |
| Total revenues, other financing sources, and use of fund balance | \$ 49,847,499 |               |                                    |

**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, 2018*

|   | Encumbered<br>from Prior<br>Year | Appropriations | Expenditures | Encumbered<br>to Subsequent<br>Year | Variance<br>Positive<br>(Negative) |
|---|----------------------------------|----------------|--------------|-------------------------------------|------------------------------------|
| Current:  |                                  |                |              |                                     |                                    |
| Instruction:  |                                  |                |              |                                     |                                    |
| Regular programs  | \$ 39,698                        | \$18,958,465   | \$18,951,462 | \$ 11,900                           | \$ 34,801                          |
| Special programs  | 28,024                           | 7,642,068      | 7,605,376    | 37,582                              | 27,134                             |
| Vocational programs   | 6,655                            | 1,861,360      | 1,893,536    | 2,100                               | (27,621)                           |
| Other   | 7,844                            | 700,450        | 696,809      | -                                   | 11,485                             |
| Total instruction   | 82,221                           | 29,162,343     | 29,147,183   | 51,582                              | 45,799                             |
| Support services:   |                                  |                |              |                                     |                                    |
| Student   | 10,221                           | 4,505,785      | 4,385,465    | 5,113                               | 125,428                            |
| Instructional staff   | 75,720                           | 1,566,377      | 1,581,371    | 8,464                               | 52,262                             |
| General administration  | 3,850                            | 139,468        | 150,648      | -                                   | (7,330)                            |
| Executive administration  | 1,708                            | 705,770        | 692,869      | -                                   | 14,609                             |
| School administration   | 324                              | 3,115,603      | 3,105,636    | -                                   | 10,291                             |
| Business  | 562                              | 942,011        | 926,829      | 9,047                               | 6,697                              |
| Operation and maintenance of plant  | 243,010                          | 5,661,657      | 5,602,673    | 261,932                             | 40,062                             |
| Student transportation  | 43,964                           | 2,087,928      | 2,129,196    | -                                   | 2,696                              |
| Other   | 45,006                           | 548,026        | 571,454      | 24,802                              | (3,224)                            |
| Total support services  | 424,365                          | 19,272,625     | 19,146,141   | 309,358                             | 241,491                            |
| Debt service:   |                                  |                |              |                                     |                                    |
| Principal of long-term debt   | -                                | 1,080,740      | 1,080,741    | -                                   | (1)                                |
| Interest on long-term debt  | -                                | 106,791        | 106,791      | -                                   | -                                  |
| Total debt service  | -                                | 1,187,531      | 1,187,532    | -                                   | (1)                                |
| Facilities acquisition and construction                                       | -                                | 175,000        | 157,676      | -                                   | 17,324                             |
| Other financing uses:   |                                  |                |              |                                     |                                    |
| Transfers out   | -                                | 50,000         | 50,000       | -                                   | -                                  |
| Total appropriations, expenditures,<br>other financing uses, and encumbrances | \$ 506,586                       | \$49,847,499   | \$49,688,532 | \$ 360,940                          | \$304,613                          |



**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, 2018***

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|  |                |                          |
|--|----------------|--------------------------|
| Unassigned fund balance, beginning                     |                | \$ 818,763               |
| Changes:   |                |                          |
| Fund balance used to reduce school district assessment |                | (818,764)                |
| Voted appropriation from fund balance                  |                | (50,000)                 |
| 2017-2018 Budget summary:                              |                |                          |
| Revenue surplus (Schedule 1)                           | \$ 51,620      |                          |
| Unexpended balance of appropriations (Schedule 2)      | <u>304,613</u> |                          |
| 2017-2018 Budget surplus                               |                | 356,233                  |
| Decrease in nonspendable fund balance                  |                | 2,310                    |
| Increase in committed fund balance                     |                | <u>(50,000)</u>          |
| Unassigned fund balance, ending                        |                | <u><u>\$ 258,542</u></u> |

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

|                                     | Special Revenue Funds |                  |                      |                     |                   |
|-------------------------------------|-----------------------|------------------|----------------------|---------------------|-------------------|
|                                     | Food<br>Service       | Alvirne<br>Farm  | Vocational<br>Center | Alvirne<br>Trustees | Total             |
| <b>ASSETS</b>                       |                       |                  |                      |                     |                   |
| Cash and cash equivalents           | \$ 94,118             | \$ 89,782        | \$ 269,711           | \$ -                | \$ 453,611        |
| Intergovernmental receivable        | 23,595                | -                | -                    | -                   | 23,595            |
| Total assets                        | <u>\$ 117,713</u>     | <u>\$ 89,782</u> | <u>\$ 269,711</u>    | <u>\$ -</u>         | <u>\$ 477,206</u> |
| <b>LIABILITIES</b>                  |                       |                  |                      |                     |                   |
| Accounts payable                    | \$ 32,934             | \$ 1,731         | \$ 355               | \$ 66               | \$ 35,086         |
| Accrued salaries and benefits       | 4,301                 | 3,649            | 1,621                | -                   | 9,571             |
| Interfund payable                   | -                     | -                | -                    | 768                 | 768               |
| Total liabilities                   | <u>37,235</u>         | <u>5,380</u>     | <u>1,976</u>         | <u>834</u>          | <u>45,425</u>     |
| <b>FUND BALANCES (DEFICIT)</b>      |                       |                  |                      |                     |                   |
| Restricted                          | 80,478                | -                | -                    | -                   | 80,478            |
| Committed                           | -                     | 84,402           | 267,735              | -                   | 352,137           |
| Unassigned (deficit)                | -                     | -                | -                    | (834)               | (834)             |
| Total fund balances (deficit)       | <u>80,478</u>         | <u>84,402</u>    | <u>267,735</u>       | <u>(834)</u>        | <u>431,781</u>    |
| Total liabilities and fund balances | <u>\$ 117,713</u>     | <u>\$ 89,782</u> | <u>\$ 269,711</u>    | <u>\$ -</u>         | <u>\$ 477,206</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, 2018**

|                                    | Special Revenue Funds |                 |                      |                     |              |
|------------------------------------|-----------------------|-----------------|----------------------|---------------------|--------------|
|                                    | Food<br>Service       | Alvirne<br>Farm | Vocational<br>Center | Alvirne<br>Trustees | Total        |
| <b>REVENUES</b>                    |                       |                 |                      |                     |              |
| Local                              | \$ 795,024            | \$ 89,450       | \$ 69,354            | \$ 130,204          | \$ 1,084,032 |
| State                              | 19,336                | -               | -                    | -                   | 19,336       |
| Federal                            | 426,393               | -               | -                    | -                   | 426,393      |
| Total revenues                     | 1,240,753             | 89,450          | 69,354               | 130,204             | 1,529,761    |
| <b>EXPENDITURES</b>                |                       |                 |                      |                     |              |
| Current:                           |                       |                 |                      |                     |              |
| Instruction                        | -                     | 89,007          | 62,715               | 115,217             | 266,939      |
| Support services:                  |                       |                 |                      |                     |              |
| Other                              | -                     | -               | -                    | 14,987              | 14,987       |
| Noninstructional services          | 1,225,899             | -               | -                    | -                   | 1,225,899    |
| Total expenditures                 | 1,225,899             | 89,007          | 62,715               | 130,204             | 1,507,825    |
| Net change in fund balances        | 14,854                | 443             | 6,639                | -                   | 21,936       |
| Fund balances (deficit), beginning | 65,624                | 83,959          | 261,096              | (834)               | 409,845      |
| Fund balances (deficit), ending    | \$ 80,478             | \$ 84,402       | \$ 267,735           | \$ (834)            | \$ 431,781   |

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

|                       | Balance,<br>beginning | Additions         | Deductions        | Balance,<br>ending |
|-----------------------|-----------------------|-------------------|-------------------|--------------------|
| Schools:              |                       |                   |                   |                    |
| Hills Garrison        | \$ 18,490             | \$ 41,242         | \$ 38,834         | \$ 20,898          |
| Nottingham West       | 38,667                | 44,894            | 52,107            | 31,454             |
| Hudson Memorial       | 56,853                | 261,876           | 249,753           | 68,976             |
| Alvirne High          | 187,090               | 385,032           | 408,609           | 163,513            |
| Early Learning Center | 7,964                 | 4,358             | 5,188             | 7,134              |
| Totals                | <u>\$ 309,064</u>     | <u>\$ 737,402</u> | <u>\$ 754,491</u> | <u>\$ 291,975</u>  |

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



# PLODZIK & SANDERSON

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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 aggregate remaining fund information of the Hudson School District, as of and for the year ended June 30, 2018, 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 7, 2019.

### ***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.

January 7, 2019

*Sheryl A. Platt, CPA*  
PLODZIK & SANDERSON  
Professional Association



# PLODZIK & SANDERSON

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

### ***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.

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

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

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

A handwritten signature in black ink that reads "Sheryl A. Platt, CPA". The signature is written in a cursive style.

PLODZIK & SANDERSON  
Professional Association

January 7, 2019



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

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

***Financial Statements***

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

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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:

| CFDA Number(s) | Name of Federal Program or Cluster           |
|----------------|--|
| 84.010         | Title I Grants to Local Educational Agencies |

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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 II**  
**HUDSON SCHOOL DISTRICT**  
*Schedule of Expenditures of Federal Awards*  
*For the Year Ended June 30, 2018*

| Federal Grantor/Pass-Through<br>Grantor/Program or Cluster Title     | Federal<br>CFDA<br>Number | Pass-Through<br>Entity<br>Identifying<br>Number | Passed<br>Through to<br>Subrecipients | Federal<br>Expenditures |
|--|---------------------------|---|---------------------------------------|-------------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                                |                           |   |                                       |                         |
| Passed Through the State of New Hampshire<br>Department of Education |                           |   |                                       |                         |
| <b>CHILD NUTRITION CLUSTER</b>                                       |                           |   |                                       |                         |
| School Breakfast Program   | 10.553                    | N/A   | \$ -                                  | \$ 46,224               |
| National School Lunch Program ( <i>note 4</i> )                      | 10.555                    | N/A   | -                                     | 380,127                 |
| Special Milk Program for Children                                    | 10.556                    | N/A   | -                                     | 42                      |
| <i>CLUSTER TOTAL</i>   |                           |   | -                                     | 426,393                 |
| <b>U.S. DEPARTMENT OF EDUCATION</b>                                  |                           |   |                                       |                         |
| Passed Through the State of New Hampshire<br>Department of Education |                           |   |                                       |                         |
| Title I Grants to Local Educational Agencies:                        |                           |   |                                       |                         |
| Title I, Part A  | 84.010                    | 70067   | -                                     | 4,599                   |
| Title Ia - Priority/Focus Set Aside                                  | 84.010                    | 70201   | -                                     | 250                     |
| New Priority & Focus Set Aside Title Ia 1003(a)                      | 84.010                    | 70278   | -                                     | 86                      |
| Title I Reallocation Summer  | 84.010                    | 71619   | -                                     | 11,767                  |
| Title I, Part A  | 84.010                    | 80067   | -                                     | 479,142                 |
| New Priority & Focus Set Aside Title Ia 1003(a)                      | 84.010                    | 20180278  | -                                     | 55,939                  |
| <i>PROGRAM TOTAL</i>   |                           |   | -                                     | 551,783                 |
| <b>SPECIAL EDUCATION CLUSTER</b>                                     |                           |   |                                       |                         |
| Special Education - Grants to States:                                |                           |   |                                       |                         |
| NHUDL Academy  | 84.027                    | 72514   | -                                     | 1,743                   |
| IDEA - 2017  | 84.027                    | 72565   | -                                     | 70,644                  |
| IDEA - 2018  | 84.027                    | 82519   | -                                     | 783,820                 |
| Special Education - Preschool Grants:                                |                           |   |                                       |                         |
| Preschool - 2017   | 84.173                    | 72565   | -                                     | 14,513                  |
| Preschool - 2018   | 84.173                    | 82519   | -                                     | 17,801                  |
| <i>CLUSTER TOTAL</i>   |                           |   | -                                     | 888,521                 |
| Career and Technical Education - Basic Grants to States:             |                           |   |                                       |                         |
| Perkins  | 84.048                    | 75020   | -                                     | 25,118                  |
| Perkins  | 84.048                    | 85037   | -                                     | 108,305                 |
| <i>PROGRAM TOTAL</i>   |                           |   | -                                     | 133,423                 |
| Supporting Effective Instruction State Grants                        | 84.367                    | 84857   | -                                     | 54,538                  |
| Student Support and Academic Enrichment Program                      | 84.424                    | 20189109  | -                                     | 5,159                   |
| English Language Acquisition Grants:                                 |                           |   |                                       |                         |
| Title III ESOL   | 84.365                    | 60815   | 217                                   | 4,127                   |
| Title III ESOL   | 84.365                    | 70815   | 3,418                                 | 7,617                   |
| Passed Through the Milford School District, New Hampshire            |                           |   |                                       |                         |
| Title III ESOL   | 84.365                    | 80824   | -                                     | 450                     |
| <i>PROGRAM TOTAL</i>   |                           |   | 3,635                                 | 12,194                  |
| <b>DIRECT FUNDING</b>  |                           |   |                                       |                         |
| <b>U.S. DEPARTMENT OF DEFENSE</b>                                    |                           |   |                                       |                         |
| Air Force JROTC  | 12.UNKNOWN                | N/A   | -                                     | 58,780                  |
| <b>Total Expenditures of Federal Awards</b>                          |                           |   | \$ 3,635                              | \$ 2,130,791            |

***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, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hudson School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Hudson School District.

***Note 2. Summary of Significant Accounting Policies***

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in 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, 2018 the value of food donations received was \$92,118.