

HUDSON AREA SCHOOLS
Report on Financial Statements
(With required supplementary and other supplemental information)

Year Ended June 30, 2018

**Hudson Area Schools
Financial Report
For the Fiscal Year Ended
June 30, 2018**

Table of Contents

Independent Auditor’s Report	1 - 3
Management’s Discussion and Analysis	4 – 13
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Balance Sheet – Governmental Funds	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities	19
Fiduciary Fund	
Statement of Fiduciary Net Position	20
Notes to Financial Statements	21 – 56
Required Supplementary Information:	57
Budgetary Comparison Schedule – General Fund	58
Schedule of Hudson Area School’s Pension Contributions to Michigan Public Schools Employees Retirement Plan	59
Schedule Hudson Area School’s Proportionate Share of the Net Pension Liability - Michigan Public Schools Employees Retirement Plan	60

**Hudson Area Schools
Financial Report
For the Fiscal Year Ended
June 30, 2018**

Table of Contents

Schedule of Hudson Areas Schools' OPEB Contribution to Michigan Public Schools Employees Retirement Plan	61
Schedule Hudson Areas Schools' Proportionate Share of the Net OPEB Liability - Michigan Public Schools Employees Retirement Plan	62
Notes to Required Supplementary Information	63
Other Supplemental Information:	64
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 <i>Government Auditing Standards</i>	65 - 66
Schedule of Findings and Responses	67 -69
Nonmajor Governmental Fund Types	
Combining Balance Sheet	70
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	71
Special Revenue Fund	
Balance Sheet	72
Statement of Revenues, Expenditures and Changes in Fund Balances	73
Debt Funds	
Combining Balance Sheet	74
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	75
Schedule of Cash Receipts, Disbursements and Liabilities – Agency Fund	76

DARNELL & MEYERING, P.C.

Certified Public Accountants

CLINTON MEYERING, C.P.A.
RANDALL H. DARNELL, C.P.A.
DALE A. VESTRAND, C.P.A.
ANTHONY S. PANSON, C.P.A.

20500 EUREKA ROAD • SUITE 300
TAYLOR, MICHIGAN 48180
(734) 246-9240
FAX (734) 246-8635

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Hudson Area Schools
Hudson, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hudson Area Schools (the School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Schools 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 the 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.

Emphasis of Matter

As described in Note 1 to the basic financial statements, effective July 1, 2017, the School District adopted the provision of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The School District's unrestricted net position has been restated as of July 1, 2017 as a result of this change in accounting principle. Our opinion is not modified with respect to this matter.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison, the schedules of the School District's share of the net pension liability and pension contributions, the schedules of the School District's share of the net postemployment benefit other than pensions (OPEB) liability and OPEB contributions and the notes to required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hudson Area Schools basic financial statements. The other supplemental information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates 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 non-major fund financial statements 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 October 19, 2018, on our consideration of Hudson Area Schools internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of Hudson Area Schools internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hudson Area Schools internal control over financial reporting and compliance.

Darnell & Meyering, P.C.

DARNELL & MEYERING, P.C.

Taylor, Michigan
October 19, 2018

**HUDSON AREA SCHOOL DISTRICT - HUDSON, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Our discussion and analysis of Hudson Area School District's (the School District) financial performance provides an overview of the School District's financial activities in the fiscal year ended June 30, 2018. The Hudson Area School District implemented GASB requirements in the June 30, 2018 audit as required by the Governmental Accounting Standards Board (GASB). Please read it in conjunction with the School District's financial statements, which immediately follow this section.

The management's discussion and analysis is provided at the beginning of the audit and organized so that the reader can understand the current position of the Hudson Area School District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the School District's revenues by program for the General Fund, Debt Service Fund, Capital Projects Fund, and Special Revenue Fund.

USING THIS ANNUAL REPORT

The School District's Annual Report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The *Government Wide Financial Statements*, which include the **Statement of Net Position** and the **Statement of Activities** provide information about the district as a whole and present a longer-term view of the School District's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The *Fund Financial Statements* provide detailed information about the School District's most significant funds, not the School District as a whole.

Reporting the School District as a whole

These two statements report the School District's Net Position—the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources as reported in the **Statement of Net Position** – as one way to measure the School District's financial health or financial position. The **Statement of Net Position**, for the first time, combines and consolidates governmental fund's current financial resources with capital assets and long-term obligations, regardless if they are currently available or not. In comparison to "other assets", capital assets are those assets that are tangible, valued over a specified amount, and usually have a long life. They are depreciated over a useful life. More detail on capital assets and their recorded useful lives is found in the footnote section of the audit. Long-term obligations (liabilities) are those that are longer than one year. Some liabilities are classified as "short-term" for the portion due in a year, and "long-term" for the portion due in the future years (such as leases payable, compensated absences, and debt obligations). "Other liabilities" are considered to be obligations due within a year. Over time, increases or decreases in the School District's Net Position – as reported in the **Statement of Activities** – is one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the School District's operating results.

**HUDSON AREA SCHOOL DISTRICT - HUDSON, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

However, the School District's goal is to provide services to our students, not to generate a profit as commercial entities do. There are other factors to consider such as quality of education and school safety to assess the overall health of the School District.

The **Statement of Net Position** and **Statement of Activities** report the governmental activities and business-type activities. These statements for the Hudson Area School District will include only governmental activities, which encompass all of the School District's services including instruction, supporting services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District most significant funds

The School District's fund financial statements provide detailed information about the School District's most significant funds, not the School District as a whole. The fund statements are similar to financial presentations in the past, but the new focus is on the School District's major funds rather than fund types. The two Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. Some funds are required by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (such as **Food Service**) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other monies (such as **Debt Funds**). The School District's major fund is the **General Fund**.

Most of the School District's services are reported in governmental funds. Governmental fund reporting focuses on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called "modified accrual" accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's operations and services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between *governmental activities* (reported in the **Statement of Net Position** and the **Statement of Activities**) and *governmental funds* in reconciliation on pages 17 and 19.

Fund types include the General Fund, Special Revenue Fund, Debt Retirement Fund, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the School District. Its revenues are derived from property taxes, state and federal distributions and grants and other intergovernmental revenues. The Debt Fund is used to record the funding and payment of principal and interest on Bonded Debt. The Special Revenue Fund is used to record the funding and expenditures of monies specified for a specific purpose (Food Service). The Fiduciary Funds account for assets held by the School District in a trustee capacity or as an agent for various student groups and related activities.

**HUDSON AREA SCHOOL DISTRICT - HUDSON, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The School District as a Whole

The School District's net position was (\$11,957,443) at the end of June 30, 2018 and (\$12,593,400) as restated as of June 30, 2017, representing a net increase of \$635,957. Of the total amount (\$16,334,017) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those funds for day-to-day operations. Our analysis below focuses on the **Net Position** (Table 1) and **Change in Net Position** (Table 2) of the School District's governmental activities.

As required by the Government Accounting Standards Board (GASB), the School District adopted GASB Statements No. 75. This standard required the inclusion of the School District's proportionate share of the Michigan Public School Employees' Post-employment Benefits Other Than Pension Plan (OPEB) Plan obligations within the School District's financial statements, effective July 1, 2017. The effect of the adoption was to decrease July 1, 2017 beginning net position by \$5,311, 392 and to include the obligation, and related deferred outflows of resources, in the June 30, 2018 financial statements. All governments participating in the OPEB plan were required to adopt this new standard.

**HUDSON AREA SCHOOL DISTRICT - HUDSON, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Net Position (Table 1)		
	2018	2017
Assets:		
Current assets	\$ 3,442,330	\$ 2,967,697
Noncurrent assets	9,686,466	9,776,587
Total assets	13,128,796	12,744,284
Deferred Outflows of Resources		
Deferred outflow related to pension	4,328,784	2,720,836
Deferred outflow related to OPEB	329,570	234,263
	4,658,354	2,955,099
Total assets and deferred outflows of resources	17,787,150	15,699,383
Liabilities:		
Current liabilities	1,909,408	1,899,210
Noncurrent liabilities	26,094,958	25,910,641
Total liabilities	28,004,366	27,809,851
Deferred Inflows of Resources		
Deferred inflows related to pension	1,561,642	482,932
Deferred inflows related to OPEB	178,585	-
	1,740,227	482,932
Total liabilities and deferred inflows of resources	29,744,593	28,292,783
Net position:		
Net investment in capital assets	3,841,466	3,316,587
Restricted for School Lunch program	223,954	195,898
Restricted for Debt Service	311,154	167,953
Unrestricted	(16,334,017)	(16,273,838)
Total net position (deficit)	\$ (11,957,443)	\$ (12,593,400)

**HUDSON AREA SCHOOL DISTRICT - HUDSON, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The Statement of Activities presented later in the government-wide financial statement, provides greater detail on the School District's annual activity. The Statement of Activities (Table 2) shown below details the cost of the School District's governmental activities and how those activities were financed.

Table 2		
Changes in Hudson Area School's Net Position		
	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Operating and grants contribution	\$ 3,290,729	\$ 2,392,401
Charges for services	327,258	378,561
General revenues:		
Property taxes	1,772,120	1,437,481
State aid - unrestricted	7,042,718	6,413,176
Investment income	4,062	2,190
Contributions private sources	34,461	6,867
Other	186,558	143,962
Loss on disposal of assets	(8,541)	-
Total revenues	<u>12,649,365</u>	<u>10,774,638</u>
Expenses:		
Instruction	6,957,556	6,539,477
Support services	3,541,544	3,294,096
Community services	1,559	2,495
Food services	524,845	523,200
Athletics	240,480	252,785
Interest expense on long term debt	194,839	208,418
Capital outlay	10,381	18,552
Other	34,710	26,283
Unallocated depreciation	507,494	495,732
Total expenses	<u>12,013,408</u>	<u>11,361,038</u>
Change in net position	<u>\$ 635,957</u>	<u>\$ (586,400)</u>

**HUDSON AREA SCHOOL DISTRICT - HUDSON, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Financial Analysis of the School District's Funds

The financial performance of the district as a whole is reflected in its governmental funds as well.

GENERAL FUND

Factors affecting Revenue

State Aid funding -The State of Michigan provides a \$7,631 per pupil foundation allowance that provides a substantial portion of our district's revenue, 61 percent. In addition, we also receive various grants from the state. This means that the financial stability of the School District rests primarily with the economic health of the State of Michigan. State aid payments are made with the first payment of the school year beginning in October, and the last payment being made in August. Therefore, at the end of the School District's fiscal year end, there is adjustment made that includes 2 months of state aid payments into revenue that has not yet been made.

Factors affecting Expenses

- *Salaries and Benefits* - A significant portion of the School District's expenses are related to compensation, 81% in 2017-18.
- *Instructional purchases* - Another part of each year's budgetary expenditures includes textbooks and supplemental learning materials, supplies, and purchased services.
- *Operation and Maintenance* - Each year's budgetary expenditures also include the general operation and maintenance of our school buildings.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the School District amends its budget during the school year. In fact, all Michigan school districts must complete a second full budget after the state's official student membership count date (the first Wednesday in October), because only then are they knowledgeable of their Foundation Grant's income level. These revisions are made in order to deal with the unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

**HUDSON AREA SCHOOL DISTRICT - HUDSON, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Original Budget versus Final Budget

- *Revenues*-Original estimated budgets for revenues were \$10,231,959 versus the final budget of \$11,848,013. Major components of revenue and their original budget versus final are discussed below.
 - Increase in 39 FTE's from projected.
 - Increase in special education reimbursements due to increase in FTEs.
 - Received two state grants that were flowed thru Lenawee Intermediate School District (LISD).
 - Received PPT reimbursements.
 - Received 3 grants that were made available in October 2017.
 - Received \$800,000 state grant.

- *Expenditures* – The original budget for expenditures was \$10,149,063 versus the final budget of \$11,753,373. Major components of expenditure and their original budget versus final budget are discussed below.
 - Additional staff hired for 4 unknown/unplanned long term sub positions.
 - Received \$800,000 state grant to spend for CTE model.
 - Increase in Title 2 professional development expenses.
 - Increase in salary and benefits due to 1 full time Director of Development and 1 bus driver.
 - Purchased of additional bus.
 - Payments to other district due to students who needed special education that other district provides.

Final Budget versus Actual

- The majority (about 73%) of *Local Revenues* are property taxes received from seven townships including Pittsford, Wheatland, Wright, Dover, Hudson, Medina, and Rollin and from the City of Hudson.

- *State Revenues* were budgeted at \$9,479,535 versus actual of \$9,189,591. This was a decrease of \$289,944.

- *Federal Revenues* were budgeted at \$390,703 versus actual of \$301,748. This was a decrease of \$88,955.

- *Expenses*- Final estimated budgets for expenses were \$11,753,373 versus an actual final amount of \$11,125,927. The overall variation from final budget to actual was \$627,446 favorable variance.

**HUDSON AREA SCHOOL DISTRICT - HUDSON, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SPECIAL REVENUE FUND

- *School Lunch Fund*-The School Lunch Fund receives its revenues from the sale of goods, State reimbursement and federal grants.

DEBT SERVICE FUND

This fund is directly funded through taxes. For fiscal year 2017-18 the collection of property taxes for the retirement of principal and interest relating to the 2003 refunding bond and the 2012 building and site bond debt was \$909,971. Principal and interest requirements for the 2017-18 retirement was \$768,462.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets-At June 30, 2018, the School District had \$9,686,466 invested in capital assets, net of accumulated depreciation. The School District had bonded debt outstanding of \$5,845,000. As these items also relate to capital assets, the amount *Net investment in capital assets* is \$3,841,466. Assets, net of accumulated depreciation will probably continue to decrease because the School District at this time has no intention of purchasing many capital assets. Those already on the books will continue to depreciate.

The District's capital assets are as follows:

Table 3 Hudson Area School's Capital Assets				
	Cost	Accumulated Depreciation	2018 Net Book Value	2017 Net Book Value
Land	\$ 220,858	\$ -	\$ 220,858	\$ 220,858
Land Improvements	1,668,049	720,710	947,339	1,020,803
Building and Improvements	12,092,723	4,864,585	7,228,138	7,474,430
Machinery, Equipment & Furniture	1,537,468	670,157	867,311	649,562
Buses and vehicles	1,300,356	897,999	402,357	410,934
Software	80,874	60,411	20,463	-
Total	\$ 16,900,328	\$ 7,213,862	\$ 9,686,466	\$ 9,776,587

**HUDSON AREA SCHOOL DISTRICT - HUDSON, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Long-term debt Activity

At year-end, the School District had outstanding long-term debt obligations in the amount of \$6,060,150 (more detailed information about the School District's long-term liabilities is presented in Note 6 of the financial statements.)

Table 4		
Hudson Area School's Outstanding Long-Term Debt		
	2018	2017
2003 Refunding Bond	\$ 150,000	\$ 225,000
2012 Building and Site Bond	5,450,000	5,955,000
2014 Building and Technology Bond	245,000	280,000
Compensated absences	215,150	227,997
Total	\$ 6,060,150	\$ 6,687,997

Economic Factors and Next Year's Budget

The State of Michigan provides a \$7,631 per pupil foundation allowance that provides a substantial portion of the district's revenue. In addition, the district receives various grants from the State. This means that the financial stability of the district comes primarily with the economic health of the State of Michigan. State aid payments are made with the first payment of the school year beginning in October, and the final payment is made in August. At the end of the district's fiscal year, there is an adjustment made that includes two months of state aid payments not received in the fiscal year in which the corresponding expenses occur.

State aid payments are not made throughout the entire year, this makes it necessary for the district to borrow money to cover monthly expenses. The funds are repaid in August.

The school district participates in the School of Choice program within Lenawee and contiguous counties. While the district loses students to School of Choice, students are also enrolled under this program. As of the 2017-2018 school year the district saw a slight increase in the number of students it receives.

The school district has seen a steady growth in enrollment over the past five years. Each newly enrolled student increases the district's revenue. Student enrollment has increased due to several factors. The district has been graduating smaller senior classes and enrolling larger kindergarten classes. There have also been students enrolling almost at every level of the district. Typically these are families that have moved into the district or have enrolled by school of choice. The school district has expanded an alternative education program. The expansion of the program has caused a substantial increase in the number of students attending.

**HUDSON AREA SCHOOL DISTRICT - HUDSON, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Students have also come to the district for special programming such as The Center for Science and Industry. This is a middle school and high school program that provides education and training in engineering and related fields. This program has generated additional State revenue. The State of Michigan awarded the program \$200,000 for the 2016-2017 school year and \$800,000 for the 2017-2018 school year. The program receives \$250,000 annually through CTE funding and the program generates revenue through its adult programming.

Contacting the District's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, please contact:

Business Office Hudson Area Schools 781 N Maple Grove Ave, Hudson, MI 49247.

**Hudson Area Schools
Statement of Net Position
June 30, 2018**

	Governmental Activities
Assets	
Current Assets:	
Cash and equivalents	\$ 1,217,018
Receivables:	
Accounts receivable	48,446
Due from other governmental units	2,173,273
Prepaid expenditures	-
Inventory	3,593
Total Current Assets	3,442,330
Noncurrent Assets:	
Capital assets	16,900,328
Less accumulated depreciation	(7,213,862)
Total Noncurrent Assets	9,686,466
Total Assets	13,128,796
Deferred outflows of resources	
Deferred outflows related to pension	4,328,784
Deferred outflows related to OPEB	329,570
Total Deferred Outflows of Resources	4,658,354
Total Assets and Deferred Outflows of Resources	17,787,150
Liabilities	
Current Liabilities:	
Accounts payable	60,322
Accrued expenditures	396,892
Accrued interest	30,509
Accrued salary	536,417
State Aid Note Payable	226,906
Unearned revenue	23,362
Current portion of long term obligations	635,000
Total Current Liabilities	1,909,408
Noncurrent Liabilities:	
Noncurrent portion of long term obligations	5,210,000
Noncurrent portion of compensated absences	215,150
Net Pension Liability	15,412,159
Net OPEB Liability	5,257,649
Total Noncurrent Liabilities	26,094,958
Total Liabilities	28,004,366
Deferred inflows of resources	
Deferred inflows related to pension	1,561,642
Deferred inflows related to OPEB	178,585
Total Deferred Inflows of Resources	1,740,227
Total liabilities and deferred inflows of resources	29,744,593
Net Position (Deficit):	
Net investment in capital assets	3,841,466
Restricted for school lunch program	223,954
Restricted for debt service	311,154
Unrestricted	(16,334,017)
Total Net Position (Deficit)	\$ (11,957,443)

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

**Hudson Area Schools
Statement of Activities
Year Ended June 30, 2018**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities Net (expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	
Governmental activities:				
Instruction	\$ 6,957,556	\$ 58,499	\$ 2,497,555	\$ (4,401,502)
Support services	3,541,544	15,613	375,380	(3,150,551)
Community services	1,559	-	1,559	-
Food services	524,845	123,772	416,235	15,162
Athletics	240,480	129,374	-	(111,106)
Interest expense on long term debt	194,839	-	-	(194,839)
Capital outlay	10,381	-	-	(10,381)
Other	34,710	-	-	(34,710)
Unallocated depreciation	507,494	-	-	(507,494)
Total governmental activities	\$ 12,013,408	\$ 327,258	\$ 3,290,729	(8,395,421)
General revenues:				
Property taxes, levied for general purposes				862,149
Property taxes, levied for debt service				909,971
Investment earnings				4,062
State of Michigan school aid unrestricted				7,042,718
Contributions private sources				34,461
Miscellaneous				186,558
Special items:				
Loss on disposal of assets				(8,541)
Total general revenues				9,031,378
Change in net position				635,957
Net position, beginning of year, as previously reported				(7,282,008)
Prior period adjustment				(5,311,392)
Net position, beginning of year, as restated				(12,593,400)
Net position, end of year (deficit)				\$ (11,957,443)

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

**Hudson Area Schools
Balance Sheet
Governmental Funds
June 30, 2018**

	<u>General Fund</u>	<u>Other Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
Assets			
Assets:			
Cash and equivalents	\$ 612,216	\$ 604,802	\$ 1,217,018
Receivables			
Accounts	45,093	3,353	48,446
Other governmental units	2,173,273	-	2,173,273
Due from other fund	32,757	7,489	40,246
Inventory	-	3,593	3,593
Total Assets	<u><u>\$ 2,863,339</u></u>	<u><u>\$ 619,237</u></u>	<u><u>\$ 3,482,576</u></u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 50,846	\$ 9,476	\$ 60,322
Accrued expenditures	393,038	3,854	396,892
Accrued salary	535,660	757	536,417
Due to other funds	7,489	32,757	40,246
Unearned revenue	20,179	3,183	23,362
State aid loan payable	226,906	-	226,906
Total Liabilities	<u><u>1,234,118</u></u>	<u><u>50,027</u></u>	<u><u>1,284,145</u></u>
Deferred Inflows of Resources:			
Unavailable revenue	57,989	-	57,989
Total Deferred Inflows of Resources	<u><u>57,989</u></u>	<u><u>-</u></u>	<u><u>57,989</u></u>
Fund Balances:			
Nonspendable inventory	-	3,593	3,593
Restricted for:			
School lunch program	-	223,954	223,954
Debt service	-	341,663	341,663
Unassigned reported in general fund	1,571,232	-	1,571,232
Total Fund Balances	<u><u>1,571,232</u></u>	<u><u>569,210</u></u>	<u><u>2,140,442</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 2,863,339</u></u>	<u><u>\$ 619,237</u></u>	<u><u>\$ 3,482,576</u></u>

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

Hudson Area Schools
Reconciliation of the Balance Sheet
of Governmental Funds to the Statement of Net Position
June 30, 2018

Total governmental fund balances		\$ 2,140,442
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of capital assets is:	\$ 16,900,328	
Accumulated depreciation is:	<u>(7,213,862)</u>	9,686,466
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Long term obligations		
Bonds payable		(5,845,000)
Compensated absences		(215,150)
Interest payable on long term debt		(30,509)
Net pension liability		(15,412,159)
Net OPEB liability		(5,257,649)
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflow of resources related to pension (see Note 7)		4,328,784
Deferred inflow of resources related to pension (see Note 7)		(1,561,642)
Deferred outflow of resources related to OPEB (see Note 8)		329,570
Deferred inflow of resources related to OPEB (see Note 8)		(178,585)
Receivables collected after 60 days are considered unavailable in the governmental funds.		57,989
Net position of governmental activities (deficit)		<u><u>\$ (11,957,443)</u></u>

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

Hudson Area Schools
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2018

	General Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Revenues:			
Local sources			
Property taxes	\$ 862,149	\$ 909,971	\$ 1,772,120
Investment earnings	1,323	2,739	4,062
Food service	-	123,772	123,772
Athletics	129,374	-	129,374
Contributions	35,355	-	35,355
Other	154,107	46,381	200,488
Total local sources	<u>1,182,308</u>	<u>1,082,863</u>	<u>2,265,171</u>
Intermediate sources	776,846	-	776,846
State sources	9,189,591	32,160	9,221,751
Federal sources	301,748	387,121	688,869
Total revenues	<u>11,450,493</u>	<u>1,502,144</u>	<u>12,952,637</u>
Expenditures:			
Current:			
Instruction	7,242,520	-	7,242,520
Support	3,607,634	-	3,607,634
Community service	1,559	-	1,559
Food service activities	-	521,526	521,526
Athletic activities	240,480	-	240,480
Capital Outlay:	-	10,381	10,381
Payments to others:	33,734	-	33,734
Debt service:			
Dues and fees	-	950	950
Total expenditures	<u>11,125,927</u>	<u>532,857</u>	<u>11,658,784</u>
Excess (deficiency) of revenues over expenditures:	<u>324,566</u>	<u>969,287</u>	<u>1,293,853</u>
Other financing sources (uses):			
Redemption of principal	(35,000)	(580,000)	(615,000)
Interest payment	(8,735)	(188,462)	(197,197)
Indirect cost transfer	31,926	(31,926)	-
Total other financing sources (uses):	<u>(11,809)</u>	<u>(800,388)</u>	<u>(812,197)</u>
Net change in fund balance	312,757	168,899	481,656
Fund balances:			
Beginning of year	1,258,475	400,311	1,658,786
End of year	<u>\$ 1,571,232</u>	<u>\$ 569,210</u>	<u>\$ 2,140,442</u>

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

Hudson Area Schools
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance of Governmental Fund
To the Statement of Activities
Year Ended June 30, 2018

Net change in fund balance total governmental fund increase \$ 481,656

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, these costs are allocated over their estimated useful lives as depreciation.

Capital outlay	425,914
Depreciation expense	(507,494)

In the statement of activities, a gain or loss is recognized based on the net book value of the asset.

Loss on disposition of asset	(8,541)
------------------------------	---------

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).

Principal repayment on long-term obligations from bonds payable	580,000
Principal repayment on long-term obligations from technology bond payable	35,000

Accrued interest on long-term debt is recorded in the statement of activities when incurred, it is not recorded in the governmental funds until it is paid.

Accrued interest payable beginning of the year	32,867
Accrued interest payable end of the year	(30,509)

Compensated absences are reported on the accrual method in the statement of activities, and recorded as expenditure when financial resources are use in the governmental funds:

Compensated payable beginning of the year	227,997
Compensated payable end of the year	(215,150)

Revenue in support of pension contributions made subsequent to measurement date	(737,620)
---	-----------

Change in deferred outflows of pension resources	1,607,948
--	-----------

Change in deferred inflows of pension resources	(341,090)
---	-----------

Change in net proportionate share of net pension liability	(1,120,170)
--	-------------

Change in deferred outflows of OPEB resources	95,307
---	--------

Change in deferred inflows of OPEB resources	(178,585)
--	-----------

Change in net proportionate share of net OPEB liability	288,006
---	---------

Governmental funds report revenues when they are collected within 60 days after the year end.

Revenues are recorded in the statement of activities when earned.	421
---	-----

Change in net position of governmental activities increase \$ 635,957

Hudson Area Schools
Statement of Fiduciary Net Position
June 30, 2018

Agency Fund

Assets:

Cash and cash equivalents

\$ 187,016

Liabilities:

Due to student groups

\$ 187,016

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Hudson Area Schools (the “School District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District’s accounting policies are described below.

A. Reporting Entity

The School District is governed by the Board of Education (the “Board”) of Hudson Area Schools, which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the School District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the School District’s activities are classified as governmental activities.

Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the statement of net position. Amounts reported in the funds as receivable from or payable to fiduciary funds are included in the statement of net position as receivable from or payable to external parties, rather than as internal balances. Therefore, all internal balances are eliminated in the total primary government column.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, property taxes, certain revenue from the intermediate district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position are reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

The School District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate School District sources, interest income, and other revenues).

The School District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the School District as an entity and the change in the School District's net position resulting from the current year's activities.

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

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

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the School District’s expendable financial resources and the related current liabilities are accounted for through governmental funds. Effective July 1, 2010, the School District has implemented their Fund Balance Policy in Accordance with GASB Statement No. 54 as follows:

Purpose - The following policy has been adopted by the Board of Education in order to address the implications of Governmental Accounting Standards Board (“GASB”) Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the School District and jeopardize the continuation of necessary public services. This policy will ensure that the School District maintains adequate fund balances and reserves in order to:

- a. Provide sufficient cash flow for daily financial needs,
- b. Secure and maintain investment grade bond ratings,
- c. Offset significant economic downturns or revenues shortfalls and,
- d. Provide funds for unforeseen expenditures related to emergencies.

This policy and the procedures promulgated under it supersede all previous regulations regarding the School District’s fund balance and reserve policies.

Fund type definitions - The following definitions will be used in reporting activity in governmental funds across the School District. The School District may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

- General fund is used to account for all financial resources not accounted for and reported in another fund.

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

- Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.
- Capital projects funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.
- Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's purposes.

Fund balance reporting in governmental funds - Fund balance will be reported in governmental funds under the following categories:

Nonspendable fund balance

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

Classification – Nonspendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- The School District will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the government).
- The School District will maintain a fund balance equal to the value of inventory balances and prepaid items (to the extent that such balances are not offset with liabilities and actually result in fund balance).
- The School District will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained intact.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

- The School District will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale.

Restricted fund balance

Definition – includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers; or through enabling legislation.

Committed fund balance

Definition – includes amounts that can be used only for the specific purposes determined by a formal action of the School District’s highest level of decision-making authority (i.e., the Board of Education).

Authority to Commit – Commitments will only be used for specific purposes pursuant to a formal action of the Board of Education. A majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

Assigned fund balance

Definition – includes amounts intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Authority to Assign – The Board of Education delegates to the Superintendent or his/her/their designee the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

Unassigned fund balance

Definition – includes the residual classification for the School District’s general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Operational Guideline – The following guidelines address in the classification and use of fund balance in governmental funds:

Classifying fund balance amounts – Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

Encumbrance reporting – Encumbering amounts for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate.

Prioritization of fund balance use – When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the School District to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the School District that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

The School District reports the following major governmental fund:

The General Fund

Other Non-major Funds

The Special Revenue Fund

The Debt Service Funds and

Fiduciary Funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust Funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary Funds are not included in the government-wide statements.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency Funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

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. Revenue not meeting this definition is classified as deferred inflow of resources. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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, pensions and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid, and interest 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. All other revenue items are considered to be measurable and available only when cash is received by the School District.

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation
(Continued)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan.

The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the School Districts. For the year ended June 30, 2018, the foundation allowance was based on pupil membership counts taken in February and October of 2017.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2017 to August 2018. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year is recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

GASB 40, Deposit and Investment Risk Disclosures and *GASB 72 Fair Value Measurements*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.

The School District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 28, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2018, the School District levied the following amounts per \$1,000 of assessed valuation.

General Fund -Non Personal Residence	18
General Fund - Commercial	6
Debt fund - Both Non-homestead and Homestead	
2003 Debt Retirement	0.55
2012 Debt Retirement	4.88

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

3. Inventories and Prepaid Expenditures

Inventories are valued at cost (first-in, first-out). Inventories in the Special Revenue Fund consisting of expendable supplies held for consumption, are recorded as expenditures when consumed or used rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	10-45 years
Furniture and equipment	5 – 15 years
Land improvements	20 years
Transportation equipment	7 – 10 years

The School District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

5. Deferred Outflows/Inflows

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2018, the School District's statement of net position had deferred outflows of resources related to deferred pension plan expenses and deferred OPEB plan totaling \$4,328,784 and \$329,570, respectively.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. At June 30, 2018, the School District's statement of net position had deferred inflows of resources related to its pension plan, revenue in support of pension payments made subsequent to the measurement date and deferred inflows of resources related to its OPEB plan totaling \$824,022, \$737,620 and \$178,585 respectively. Furthermore, at June 30, 2018, the School District's balance sheet had deferred inflows of resources related to unavailable revenue totaling \$57,989.

6. Compensated absences

The liability for compensated absences reported in the government wide statement consists of earned and unused sick days. A liability for this amount is reported in the governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

7. Long term obligations

In the government-wide financial statements, long-term debt obligations are reported as liabilities on the statement of net position. Bond premiums and discounts, as well as deferred charges on refunding, are deferred and amortized over the life of the debt using the straight-line method over the term of related debt. The difference between the reacquisition price and the net carrying amount of the old debt are reported as a deferred outflow of resources or deferred inflow of resources. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance cost is reported as debt expenditures at the time they are incurred.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS), and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contribution as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

9. Fair Value Measurements

The School District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the Academy's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

9. Fair Value Measurements (continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The School District does not have any investments subject to the fair value measurement at June 30, 2018.

10. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

11. Postemployment Benefits Other Than Pensions

For purposes of measuring the net 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 Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. Adoption of New Accounting Standards

As of June 30, 2018, the School District adopted Governmental Accounting Standards Board (GASB) Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. Statement No. 75 requires governments providing postemployment benefits to recognize their unfunded OPEB benefit obligation as a liability for the first time. Statement No. 75 requires a government to recognize a beginning deferred outflow of resources for its OPEB contributions, if any, made subsequent to the measurement date of the beginning net OPEB liability. The statements also enhance accountability and transparency through revised note

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

D. Other Accounting Policies (Continued)

12. Adoption of New Accounting Standards (continued)

disclosures and required supplementary information. In accordance with this new pronouncement, the School District has reported a net OPEB liability of \$5,545,655 and a beginning deferred outflow of resources for OPEB contributions of \$234,263 made subsequent to the September 30, 2016 measurement date, as the effects of these changes in accounting principles to unrestricted net position (deficit) as of July 1, 2017. The effects of these changes are summarized below.

Net position at June 30, 2017 - As previously reported	\$ (7,282,008)
Net OPEB liabilities	(5,545,655)
Deferred outflows of resources for OPEB contributions	<u>234,263</u>
 Net position (deficit) at June 30, 2017 - As restated	 <u><u>\$ (12,593,400)</u></u>

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund.

The School District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY
(continued)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent and Business Manager are authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2018. The School District does not consider these amendments to be significant.

Expenditures Over Appropriation in Budgeted Fund

The School District had the following general fund budget function overdrafts for the year ended June 30, 2018 as follows:

Function	Amounts by which expenditures exceeded appropriations
Pupil	\$ 3,759
Business & fiscal services	11,376
Operation & maintenance	8,728
Central	1,553
Payments to other	4,245

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 - DEPOSITS

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the School District. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2018, \$675,728 of the School District's bank balance of \$925,728 (savings and checking accounts) that were uninsured and uncollateralized. The School District believes due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Due from governmental units June 30, 2018 consist of the following:

	General Fund
State Aid	\$ 1,560,109
Federal	304,685
Other Governmental Entity	308,479
Net Total Due from Governmental Units	\$ 2,173,273

No allowance for doubtful accounts is considered necessary.

NOTE 5 - CAPITAL ASSETS

A summary of changes in the School District's capital assets follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 220,858	\$ -	\$ -	\$ 220,858
Subtotal	220,858	-	-	220,858
Capital assets being depreciated				
Land Improvements	1,668,049	-	-	1,668,049
Building and Improvements	12,127,358	18,356	52,991	12,092,723
Machinery, Equipment & Furniture	1,530,167	307,220	299,919	1,537,468
Buses and Vehicles	1,220,828	79,528	-	1,300,356
Software	60,064	20,810	-	80,874
Total Depreciable Assets	16,606,466	425,914	352,910	16,679,470
Less: Accumulated depreciation for:				
Land Improvements	647,246	73,464	-	720,710
Building and Improvements	4,652,928	256,107	44,450	4,864,585
Machinery, Equipment & Furniture	880,605	89,471	299,919	670,157
Buses and Vehicles	809,894	88,105	-	897,999
Software	60,064	347	-	60,411
Subtotal	7,050,737	507,494	344,369	7,213,862
Net Depreciable Capital Assets	9,555,729	(81,580)	8,541	9,465,608
Governmental Activities Capital Assets, net	\$ 9,776,587	\$ (81,580)	\$ 8,541	\$ 9,686,466

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation is computed by the straight line method for all classes of assets. Depreciation for the fiscal year ended June 30, 2018 amounted to \$507,494. The School District determined that it was impractical to allocate depreciation and amortization to the various governmental activities as the assets serve multiple functions.

NOTE 6 - LONG-TERM DEBT

The School District issues general obligation bonds to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment.

The following is a schedule of the governmental long term obligations for the School District for the year ended June 30, 2018:

	2012 School Building & Site Bond	2003 Refunding Bond	2014 School Building & Technology Bond	Compensated Absences	Total
Balance July 1, 2017	\$ 5,955,000	\$ 225,000	\$ 280,000	\$ 227,997	\$ 6,687,997
Additions	-	-	-	-	-
Deletions	505,000	75,000	35,000	12,847	627,847
Balance June 30, 2018	5,450,000	150,000	245,000	215,150	6,060,150
Less: Current Portion	525,000	75,000	35,000	-	635,000
Total due after one year	<u>\$ 4,925,000</u>	<u>\$ 75,000</u>	<u>\$ 210,000</u>	<u>\$ 215,150</u>	<u>\$ 5,425,150</u>

2012 School Building and Site Bond

On November 8, 2011 the qualified electors of Hudson Area Schools, Lenawee and Hillsdale Counties, Michigan voted in favor of bonding the issuer for the sum of not to exceed \$7,250,000, the proceeds to be used for the purpose of remodeling, furnishing, and refurnishing, equipping and re-equipping school facilities, in part for energy conservation and security purposes; acquiring, installing and equipping technology in school facilities; equipping, developing and improving physical education/athletic facilities and the high school/middle school running track; acquiring school buses; and developing and improving sites. Payment of this bond will be completed by the levying of general ad valorem taxes, which may be levied without limitation of rate or amount as provided by Article IX, Section 6 and Article IX, Section 16 of the Michigan constitution of 1963. A schedule of the bond payments (including interest) is as follows: These bonds are in compliance with Section 380.1212 of the District School Code.

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 - LONG-TERM DEBT (Continued)

A schedule of the 2012 school building and site bond issued is as follows:

Year Ending June 30	Interest Rate	Principal	Interest	Total Due
2019	3.000	\$ 525,000	\$ 168,462	\$ 693,462
2020	3.000	545,000	152,712	697,712
2021	3.000	575,000	136,362	711,362
2022	3.000	590,000	119,112	709,112
2023	3.000	610,000	101,412	711,412
2024-2027	3.000-3.328	2,605,000	213,836	2,818,836
		<u>\$ 5,450,000</u>	<u>\$ 891,896</u>	<u>\$ 6,341,896</u>

2003 Refunding Bond

On February 27, 2003, the School District issued \$4,710,000 in General Obligation Bonds with an average interest rate of 3.54% to advance refund \$4,095,000 of outstanding 1993 Building and Site Bonds and \$805,000 of outstanding 1995 Building and Site Bonds, with average interest rates of 5.00% and 5.97%, respectively.

The net proceeds of \$4,643,877 (after payment of \$93,115 in underwriting fees, and other insurance costs), together with \$482,500 from the 1993 and 1995 Debt Funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the callable 1993 and 1995 Building and Site Bonds. As a result, the callable 1993 and 1995 Building and Site Bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt. As of June 30, 2018, the amount of defeased debt outstanding for the 1993 Debt Fund and 1995 Building and Site Bonds amounted to \$0 and \$190,000, respectively. The net present value savings of the refunding is approximately \$381,000. These bonds are in compliance with Section 380.1212 of the District Revised School Code.

A schedule of the 2003 refunding bond issued is as follows:

Year Ending 30-Jun	Interest Rate	Principal	Interest	Total
2019	4.400	\$ 75,000	\$ 6,675	\$ 81,675
2020	4.500	75,000	3,375	78,375
Total		<u>\$ 150,000</u>	<u>\$ 10,050</u>	<u>\$ 160,050</u>

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 - LONG-TERM DEBT (Continued)

2014 School Building & Technology Bond

On October 1, 2015 the School District issued \$350,000 in General Obligation Bonds with an average interest rate of 2.75% for the purpose of remodeling, furnishing and refurbishing , and equipping and re-equipping school district buildings and facilities; and acquiring , installing and equipping instructional technology, including elated infrastructure improvements. These bonds are considered non-callable. The bonds are in compliance with Section 380.1212 of the School District Revised School Code.

A schedule of the 2014 school building and technology bond issued is as follows:

Year Ending June 30	Interest Rate	Principal	Interest	Total Due
2019	2.850	\$ 35,000	\$ 7,912	\$ 42,912
2020	3.150	40,000	6,915	46,915
2021	3.250	40,000	5,655	45,655
2022	3.350	40,000	4,355	44,355
2023	3.350	45,000	3,015	48,015
2024	3.350	45,000	1,507	46,507
		<u>\$ 245,000</u>	<u>\$ 29,359</u>	<u>\$ 274,359</u>

The debt service requirements of governmental activities at June 30, 2018 were as follows:

Fiscal Year Ending,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 635,000	\$ 183,049	\$ 818,049
2020	660,000	163,002	823,002
2021	615,000	142,017	757,017
2022	630,000	123,467	753,467
2023	655,000	104,427	759,427
2024-2027	2,650,000	215,344	2,865,344
Total	<u>\$ 5,845,000</u>	<u>\$ 931,306</u>	<u>\$ 6,776,306</u>

Interest expense for the year amounted to \$194,839.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended, Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members-eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. MPSERS also provides disability and survivor benefits to DB plan members.

A DB member plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Contribution

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to MPSERS are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20 year period for the 2016 fiscal year.

The School District's required and actual contributions to the plan for the year ended June 30, 2018 were \$1,833,782, which includes the School District contribution required for those members with a defined contribution benefit. The School District's required and actual contributions include an allocation of \$737,620 in revenue received from the State of Michigan, and remitted to MPSERS to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2018.

The schedule below summarizes pension contribution rates in effect for fiscal year 2017.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0 %	19.03 %
Member Investment Plan	3.0 - 7.0 %	19.03 %
Pension Plan	3.0 - 6/4 %	18.40 %
Defined Contribution	0.0 %	15.27 %

Required contributions from School District were \$1,394,974 for the year ended September 30, 2017.

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

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

At June 30, 2018, the School District's reported a liability of \$15,412,159 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2016. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, School District's proportion was .05947 percent, which was a decrease of .00219 percent from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018 the School District recognized total pension expense of \$2,034,160. At June 30, 2018 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferered Inflows of Resources
Difference between actual and expected experience	\$ 133,942	\$ 75,624
Changes of assumptions	1,688,524	-
Net difference between projected and actual earnings on pension plan investments	-	736,803
Changes in proportion and differences between School District contributions and proportionate share of contributions	1,013,879	11,595
School District contributions subsequent to the measurement date	1,492,439	-
Total	\$ 4,328,784	\$ 824,022

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Contributions subsequent to measurement date reported as deferred outflows of resources related to pensions resulting from employer 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 as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ending September 30

2018	\$ 717,425
2019	\$ 894,758
2020	\$ 373,255
2021	\$ 26,885

In addition, the School District had deferred inflows of revenues related to revenue in support of pension payments made subsequent to the measurement date totaling \$737,620 at June 30, 2018.

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.50%
Investment Rate of Return	
MIP and Basic Plans (Non-Hybrid):	7.50%
Pension Plus Plan (Hybrid)	7.00%

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Projected Salary Increases:	3.5% to 12.3% Including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of MPSERS. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by MPSERS for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (4.5188 for non-university employers 1.1222 for university employers).
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017, are summarized in the following table:

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Domestic Equity Pools	28.0%	5.6%
% Alternative Investment Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	-0.1%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	-0.9%
	100.0%	
Total	100.0%	

*Long term rate of return are net of administrative expenses and 2.3% inflation.

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this 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. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability, calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), 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 or 1-percentage-point higher:

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

1% Decrease (Non-Hybrid/Hybrid)* 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 8.5% / 8.0%
\$20,076,917	\$15,412,159	\$11,484,730

*Basic Plan and the Member Investment Plan (MIP) are non-hybrid plans.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2018, the School District reported a payable of approximately \$113,245 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

The Michigan Public School Employees’ Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended, Section 25 of this act establishes the board’s authority to promulgate or amend the provisions of the System. The board consists of twelve members-eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System’s health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees’ Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and

MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013, 90% for those Medicare eligible and enrolled in the insurance as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

Contributions

Employers are required by Public Act 300 of 1980, as amended to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability.

Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The School District’s required and actual contributions to the plan for the year ended June 30, 2018 were \$422,839.

The schedule below summarized OPEB contribution rates in effect for fiscal year 2017.

OPEB Contribution Rates

Benefit Structure	<u>Member</u>	<u>Employer</u>
Premium Subsidy	3.00 %	5.91 %
Personal Healthcare Fund (PHF)	0.00 %	5.69 %

Required contributions to the OPEB plan from the School District were \$462,234 for the year ended September 30, 2017.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the School District reported liability of \$ 5,257,649 for its proportionate share of all MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School Districts proportion of the net OPEB liability was determined by dividing each employer’s statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District’s proportion was .05937 percent, which was a decrease of .05478 percent from its proportion measured as of October 1, 2016.

For the year ending June 30, 2018, the School District recognized OPEB expense of \$351,483. At June 30, 2018 the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferered Inflows of Resources
Difference between actual and expected experience	\$ -	\$ 55,978
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	121,768
Changes in proportion and differences between School District contributions and proportionate share of contributions	-	839
School District contributions subsequent to the measurement date	<u>329,570</u>	<u>-</u>
Total	<u>\$ 329,570</u>	<u>\$ 178,585</u>

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer 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:

Deferred (Inflow) and Deferred Outflow
of Resources by Year
(To Be Recognized in Future OPEB Expenses)

2018	\$	(43,141)
2019	\$	(43,141)
2020	\$	(43,141)
2021	\$	(43,141)
2022	\$	(6,021)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.50%
Investment Rate of Return	7.50%

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

Projected Salary Increases:	3.50% to 12.30% Including wage inflation at 3.50%
Healthcare Cost Trent Rate:	7.50% Year 1 graded to 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.
Other Assumptions:	
Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (5.4744 for non-university employers or 1.4186 for university employers).
- Recognition period for assets in years is 5.000.

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan’s target asset allocation as of September 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Reat Rate of Return*
Domestic Equity Pools	28.0%	5.6%
% Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short term Investment Pools	2.0	(0.9)
Total	<u><u>100.0%</u></u>	

*Long-term rates of return are net of administrative expenses and 2.3% inflation.

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

Discount Rate

A discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this 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. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to be available 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 total OPEB liability.

Sensitivity of the School District’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the School District’s proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the School District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease	Current Discount Rate	1% Increase
6.50%	7.50%	8.50%
\$6,158,227	\$5,257,649	\$4,493,341

Sensitivity of the School District’s Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

The following presents the School District’s proportionate share of the net OEB liability calculated using assumed trend rates, as well as what the School District’s proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease	Current Healthcare Cost	1% Increase
6.50%	Trend Rate	8.50%
7.50%	7.50%	8.50%
\$4,452,522	\$5,257,649	\$6,171,815

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ors website at www.michigan.gov/orsschools.

NOTE 9 - INTERFUND BALANCES AND TRANSFERS

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. All balances at June 30, 2018 are expected to be repaid within the next fiscal year.

A schedule of interfund balances follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General Fund	\$ 32,757	General Fund	\$ 7,489
Nonmajor	7,489	Nonmajor	32,757
	\$ 40,246		\$ 40,246

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

A schedule of interfund transfers follows:

Fund	Transfers In	Fund	Transfers Out
General Fund	\$ 31,926	Nonmajor	\$ 31,926

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers’ disability compensation. The pools are considered public entity risk pools.

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 - RISK MANAGEMENT (Continued)

The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The School District cannot estimate losses from reported and unreported claims at June 30, 2018. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2018 or any of the prior three years.

NOTE 11 - CONTINGENCIES

The School District had no contingencies at June 30, 2018.

NOTE 12 - AT RISK

During the year, the School District received State categorical aid for at risk students, which amounted to \$442,618. The School District split all of these funds for at risk students.

NOTE 13 - SHORT-TERM DEBT - STATE AID NOTES

State School aid anticipation notes are issued under the provisions of Section 1225 of Act 451, Public Acts of Michigan, and Act 34 of Michigan for the purpose of providing money for school operations. The School District has pledged its state aid as collateral. In the event of unavailability or insufficiency of State school aid, the note is payable from taxes levied by the School District. The interest rate was 1.270% and the maturity date is August 20, 2018. The interest expense related to this note at June 30, 2018 is \$7,181.

Short-term debt activity for the fiscal year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
2016-2017	\$ 293,333	\$ -	\$ 293,333	\$ -
2017-2018	-	687,180	460,274	226,906
Totals	<u>\$ 293,333</u>	<u>\$ 687,180</u>	<u>\$ 753,607</u>	<u>\$ 226,906</u>

**HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 14 - NET POSITION RESTRICTED BY ENABLING LEGISLATION

The government-wide statement of net position reports \$535,108 of restricted net position at June 30, 2018, all of which is restricted by enabling legislation.

NOTE 15 – TAX ABATEMENTS

The City of Hudson uses the Industrial Facilities Tax Exemption (PA 198 of 1974) to enter into the tax abatement agreement with local businesses. As of June 30, 2018, the tax abated amounted to \$42,529 under this program.

NOTE 16 - SUBSEQUENT EVENTS

In August 2018, the Academy issued a Revenue Anticipation Note in the amount of \$800,000 to assist in the operation cash flows prior to the receipt of state aid payments for the 2018-2019 school year. The note is secured by the future receipt of state aid payments.

REQUIRED SUPPLEMENTARY INFORMATION

**Hudson Area Schools
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2018**

	Original Budget	Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
Revenues:				
Local sources	\$ 1,100,910	\$ 1,147,772	\$ 1,182,308	\$ 34,536
Intermediate sources	677,400	830,003	776,846	(53,157)
State sources	8,241,129	9,479,535	9,189,591	(289,944)
Federal sources	212,520	390,703	301,748	(88,955)
Total revenues	<u>10,231,959</u>	<u>11,848,013</u>	<u>11,450,493</u>	<u>(397,520)</u>
Expenditures:				
Current:				
Instruction:				
Basic programs	4,794,144	5,111,664	5,032,831	78,833
Added needs	1,534,555	2,406,323	2,000,662	405,661
Adult Continuing Education	157,295	212,223	209,027	3,196
Total instruction	<u>6,485,994</u>	<u>7,730,210</u>	<u>7,242,520</u>	<u>487,690</u>
Support services:				
Pupil	178,950	183,440	187,199	(3,759)
Instructional staff	107,764	158,758	107,673	51,085
General administration	374,756	527,094	519,543	7,551
School administration	797,262	828,619	812,456	16,163
Business and fiscal services	180,322	146,535	157,911	(11,376)
Operation & maintenance	974,373	972,109	980,837	(8,728)
Transportation	508,546	630,634	551,104	79,530
Central	155,841	146,878	148,431	(1,553)
Other	142,480	142,480	142,480	-
Athletics	238,064	252,660	240,480	12,180
Total support services	<u>3,658,358</u>	<u>3,989,207</u>	<u>3,848,114</u>	<u>141,093</u>
Expenditures (concluded):				
Community service:	4,711	4,467	1,559	2,908
Total community service	<u>4,711</u>	<u>4,467</u>	<u>1,559</u>	<u>2,908</u>
Payments to other	-	29,489	33,734	(4,245)
	<u>-</u>	<u>29,489</u>	<u>33,734</u>	<u>(4,245)</u>
Total expenditures	<u>10,149,063</u>	<u>11,753,373</u>	<u>11,125,927</u>	<u>627,446</u>
Excess (deficiency) of revenues over expenditures	<u>82,896</u>	<u>94,640</u>	<u>324,566</u>	<u>229,926</u>
Other financing sources (uses):				
Redemption of principal technology bond	(35,000)	(35,000)	(35,000)	-
Interest on technology bond	(8,735)	(8,735)	(8,735)	-
Indirect cost transfer	19,000	24,600	31,926	7,326
Total other financing sources (uses)	<u>(24,735)</u>	<u>(19,135)</u>	<u>(11,809)</u>	<u>7,326</u>
Net change in fund balance	58,161	75,505	312,757	237,252
Fund balance:				
Beginning of year	1,258,475	1,258,475	1,258,475	-
End of year	<u>\$ 1,316,636</u>	<u>\$ 1,333,980</u>	<u>\$ 1,571,232</u>	<u>\$ 237,252</u>

Hudson Area Schools
Required Supplemental Information
Schedule of Hudson Area Schools' Contribution to
Michigan Public Schools Employees Retirement Plan
Determined as of the Year Ended June 30

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,695,270	\$ 1,238,103	\$ 1,104,519	\$ 1,178,970
contribution	<u>1,695,270</u>	<u>1,238,103</u>	<u>1,104,519</u>	<u>1,178,970</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 5,398,099	\$ 5,201,498	\$ 3,226,228	\$ 4,648,937
Contribution as a percentage of covered-employee payroll	31.40%	23.80%	34.24%	25.36%

Hudson Area Schools
Required Supplemental Information
Schedule of Hudson Area Schools' Proportionate Share of the Net Pension Liability
Michigan Public Schools Employees Retirement Plan
Determined as of the Plan Year Ended September 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's proportion of the net pension liability	0.05947%	0.05728%	0.05646%	0.05091%
School District's proportionate share of the net pension liability	\$ 15,412,159	\$ 14,291,989	\$ 13,790,407	\$ 11,214,358
School District's covered-employee payroll	\$ 5,061,980	\$ 4,852,198	\$ 4,762,154	\$ 4,320,685
School District's proportionate share of net pension liability as a percentage of its covered-employee payroll	304.47%	294.55%	289.58%	259.55%
Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%

Hudson Area Schools
Required Supplemental Information
Schedule of Hudson Area Schools' OPEB Contribution to
Michigan Public Schools Employees Retirement Plan
Determined as of the Year Ended June 30

	2018
Statutorily required OPEB contributions	\$ 392,889
Contribution in relation to statutorily required OPEB contribution	392,889
Contribution deficiency (excess)	\$ -
School District's covered-employee payroll	\$ 5,398,099
Contribution as a percentage of covered-employee payroll	7.28%

Hudson Area Schools
Required Supplemental Information
Schedule of Hudson Area Schools' Proportionate Share of the Net OPEB Liability
Michigan Public Schools Employees Retirement Plan
Determined as of the Plan Year Ended September 30

	2017
School District's proportion of the net OPEB liability	0.05937%
School District's proportionate share of the net OPEB liability	\$ 5,257,649
School District's covered-employee payroll	\$ 5,061,980
School District's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	103.87%
Plan fiduciary net position as a percentage of total OPEB liability	36.39%

HUDSON AREA SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

NOTE 1: CHANGES OF BENEFIT TERMS

There were no changes of benefit terms in 2017 for pension and OPEB.

NOTE 2: CHANGES OF ASSUMPTIONS

There were no changes of benefit assumptions in 2017 for pension and OPEB.

OTHER SUPPLEMENTAL INFORMATION

DARNELL & MEYERING, P.C.

Certified Public Accountants

CLINTON MEYERING, C.P.A.
RANDALL H. DARNELL, C.P.A.
DALE A. VESTRAND, C.P.A.
ANTHONY S. PANSON, C.P.A.

20500 EUREKA ROAD • SUITE 300
TAYLOR, MICHIGAN 48180
(734) 246-9240
FAX (734) 246-8635

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

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 Board of Education
Hudson Area Schools
Hudson, Michigan

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hudson Area Schools (the 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 and have issued our report thereon dated October 19, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District'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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2018-001, 2018-002 and 2018-003 that we consider to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the School District's financial statements are free from 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*.

SCHOOL DISTRICT'S RESPONSES TO FINDINGS

The School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 School District'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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Darnell & Meyering, P.C.

DARNELL & MEYERING, P.C.

Taylor, MI
October 19, 2018

**Hudson Area Schools
Schedule of Findings and Responses
June 30, 2018**

Reference Number	Findings
2018-001	<p>Finding Type – Significant Deficiency</p> <p>Finding: Adequate segregation of duties for the District is necessary to minimize the likelihood that fraud or errors could occur and not be detected. The District has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities. The small size of the business office staff creates an inherent lack of segregation of duties. As a result of this condition, the District lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.</p> <p>Identification of repeat finding. This is a repeat finding from the immediate previous audit 2017-001</p> <p>Recommendations: We understand that in your environment of limited numbers of staff, the most desirable segregation of duties is not always feasible. Also the costs of administrative systems should not exceed their benefits. These recommendations were developed with these concepts in mind and should be considered in that light. We recommend that management and the Board of Education implement procedures as follows:</p> <ul style="list-style-type: none">• All reconciliations, journal entries and monthly reports (i.e. bank reconciliation, payroll reports) should be reviewed by a designated individual other than the preparer to ensure accuracy and completeness and to verify that reconciled items and journal entries have been properly handled. In addition, review of the reconciliations, journal entries and monthly reports should be evidence by appropriate signatures.

**Hudson Area Schools
Schedule of Findings and Responses
June 30, 2018**

Reference Number	Findings
2018-001	<p>Finding Type – Significant Deficiency (Continue)</p> <p>Individual Responsible for Corrective Action Plan: Dr. Michael Osborne (Superintendent)</p> <p>View of Responsible Officials and Planned Corrective Actions: We agree with the auditor’s recommendation. However, the District has evaluated the manner in which they segregate duties and has implemented certain measures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.</p>
2018-002	<p>Finding Type – Significant Deficiency</p> <p>Finding: Adequate design of internal control over the complete preparation of the financial statements. The District does not have personnel with level of knowledge to prepare the financial statements completely.</p> <p>Identification of repeat finding. This is a repeat finding from the immediate previous audit 2017-002</p> <p>Recommendations: We recommend that from information gleaned from various seminars attended, consider gathering information on footnotes that will fit the District’s needs, and apply appropriately. In addition, we recommend that the CFO continue to attend seminars that will enhance her knowledge in financial statement preparation.</p> <p>Individual Responsible for Corrective Action Plan: Jackie Bowen (CFO)</p> <p>View of Responsible Officials and Planned Corrective Actions: We agree with the auditor’s recommendation. The District has evaluated the manner in which they prepare the financial statements and footnotes to those financial statements and will attempt to follow the recommendation made.</p>

**Hudson Area Schools
Schedule of Findings and Responses
June 30, 2018**

Reference
Number

Findings

2018-003 **Finding Type** – Significant Deficiency

Finding: The Hudson Area School District has a Purchasing Policy that fully supports the guidelines as promulgated by the State of Michigan. During the 2017-2018 school year, the Policy was not adequately followed with respect to the items selected for review.

Recommendations: It is recommended that detailed procedures be written and fully communicated to all appropriate parties to ensure that purchasing activities are carried out in strict accordance with the District and State Policies.

Individual Responsible for Corrective Action Plan: Dr. Michael Osborne (Superintendent)

View of Responsible Officials and Planned Corrective Actions: We agree with the auditor’s recommendation. The District has evaluated the manner in which purchasing activities are carried out and will follow the recommendation made.

**Hudson Area Schools
Combining Balance Sheet
Nonmajor Governmental Fund
June 30, 2018**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
Assets			
Assets:			
Cash and equivalents	\$ 263,139	\$ 341,663	\$ 604,802
Receivables			
Accounts	3,353	-	3,353
Due from other fund	7,489	-	7,489
Inventory	3,593	-	3,593
Total Assets	<u><u>\$ 277,574</u></u>	<u><u>\$ 341,663</u></u>	<u><u>\$ 619,237</u></u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 9,476	\$ -	\$ 9,476
Accrued expenditures	3,854	-	3,854
Accrued salary	757	-	757
Due to other funds	32,757	-	32,757
Unearned revenue	3,183	-	3,183
Total Liabilities	<u>50,027</u>	<u>-</u>	<u>50,027</u>
Fund Balances:			
Nonspendable - inventory	3,593	-	3,593
Restricted			
School lunch program	223,954	-	223,954
Debt service	-	341,663	341,663
Total Fund Balances	<u>227,547</u>	<u>341,663</u>	<u>569,210</u>
Total Liabilities and Fund Balances	<u><u>\$ 277,574</u></u>	<u><u>\$ 341,663</u></u>	<u><u>\$ 619,237</u></u>

Hudson Area Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2018

	<u>Food Service Revenue</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:			
Local sources:			
Property taxes	\$ -	\$ 909,971	\$ 909,971
Investment earnings	2,455	284	2,739
Food sales	123,772	-	123,772
Other	46,381	-	46,381
	<u>172,608</u>	<u>910,255</u>	<u>1,082,863</u>
Total local sources			
State sources	32,160	-	32,160
Federal sources	387,121	-	387,121
	<u>591,889</u>	<u>910,255</u>	<u>1,502,144</u>
Total revenues			
Expenditures:			
Food service/activities	521,526	-	521,526
Capital outlay	10,381	-	10,381
Debt service			
Fees	-	950	950
Total expenditures	<u>531,907</u>	<u>950</u>	<u>532,857</u>
Excess (deficiency) of revenues over expenditures	<u>59,982</u>	<u>909,305</u>	<u>969,287</u>
Other Financing Sources (Uses):			
Principal repayment	-	(580,000)	(580,000)
Interest payment	-	(188,462)	(188,462)
Indirect cost transfer	(31,926)	-	(31,926)
Total other financing sources (uses)	<u>(31,926)</u>	<u>(768,462)</u>	<u>(800,388)</u>
Net change in fund balance	28,056	140,843	168,899
Fund balance:			
Beginning of year	<u>199,491</u>	<u>200,820</u>	<u>400,311</u>
End of year	<u>\$ 227,547</u>	<u>\$ 341,663</u>	<u>\$ 569,210</u>

**Hudson Area Schools
Balance Sheet
Special Revenue Fund - Food Service
June 30, 2018**

	2018
Assets	
Assets:	
Cash and equivalents	\$ 263,139
Receivables	
Accounts	3,353
Due from other fund	7,489
Inventory	3,593
Total Assets	\$ 277,574
 Liabilities and Fund Balances	
Liabilities:	
Accounts payable	\$ 9,476
Accrued expenditures	3,854
Accrued salary and benefits	757
Due to other funds	32,757
Unearned revenue	3,183
Total Liabilities	50,027
 Fund Balances:	
Nonspendable - inventory	3,593
Restricted for School lunch program	223,954
Total Fund Balances	227,547
 Total Liabilities and Fund Balances	\$ 277,574

Hudson Area Schools
Statement of Revenues, Expenditures and Changes in Fund Balance
Special Revenue - Food Service
Year Ended June 30, 2018

	2018
Revenues:	
Local sources:	
Food sales	\$ 123,772
Investment earnings	2,455
Other	46,381
Total local sources	172,608
State sources	32,160
Federal sources	387,121
Total revenues	591,889
Expenditures:	
Cost of goods sold - net	285,033
Salaries and wages	142,735
Employee benefits	77,926
Travel, workshops and conferences	852
Capital outlay	10,381
Miscellaneous	14,980
Total expenditures	531,907
Excess of revenues over expenditures	59,982
Other Financing Sources (Uses):	
Indirect cost transfer	(31,926)
Total other financing sources (uses)	(31,926)
Net change in fund balance	28,056
Fund balance:	
Beginning of year	199,491
End of year	\$ 227,547

**Hudson Area Schools
Combining Balance Sheet
Debt Funds
June 30, 2018**

	2012 School Building and Site	2003 Debt	Total Debt Funds
Assets			
Assets:			
Cash and equivalents	\$ 315,636	\$ 26,027	\$ 341,663
Total Assets	315,636	26,027	341,663
Liabilities and Fund Balances			
Fund Balances:			
Restricted for debt service	315,636	26,027	341,663
Total Fund Balances	315,636	26,027	341,663
Total Liabilities and Fund Balances	\$ 315,636	\$ 26,027	\$ 341,663

Hudson Area Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Debt Funds
Year Ended June 30, 2018

	2012 School Building and Site	2003 Debt	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Local sources:			
Property taxes	\$ 816,612	93,359	\$ 909,971
Investment earnings	274	10	284
Total revenues	<u>816,886</u>	<u>93,369</u>	<u>910,255</u>
Expenditures:			
Fees	<u>200</u>	<u>750</u>	<u>950</u>
Total expenditures	<u>200</u>	<u>750</u>	<u>950</u>
Excess (deficiency) of revenues over expenditures	<u>816,686</u>	<u>92,619</u>	<u>909,305</u>
Other Financing Sources (Uses):			
Principal repayment	(505,000)	(75,000)	(580,000)
Interest payment	<u>(178,562)</u>	<u>(9,900)</u>	<u>(188,462)</u>
Total other financing sources (uses)	<u>(683,562)</u>	<u>(84,900)</u>	<u>(768,462)</u>
Net change in fund balance	133,124	7,719	140,843
Fund balance:			
Beginning of year	182,512	18,308	200,820
End of year	<u>\$ 315,636</u>	<u>\$ 26,027</u>	<u>\$ 341,663</u>

Hudson Area Schools
Schedule of Cash Receipts, Disbursements and Liabilities
Agency Funds
Year Ended June 30, 2018

	<u>Liability Balance July 1, 2017</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Liability Balance June 30, 2018</u>
Assets				
Cash and cash equivalents	\$ 164,273	\$ 209,283	\$ 186,540	\$ 187,016
Total assets	<u>\$ 164,273</u>	<u>\$ 209,283</u>	<u>\$ 186,540</u>	<u>\$ 187,016</u>
Liabilities				
Due to student groups	\$ 164,273	\$ 209,283	\$ 186,540	\$ 187,016
Total liabilities	<u>\$ 164,273</u>	<u>\$ 209,283</u>	<u>\$ 186,540</u>	<u>\$ 187,016</u>

DARNELL & MEYERING, P.C.

Certified Public Accountants

CLINTON MEYERING, C.P.A.
RANDALL H. DARNELL, C.P.A.
DALE A. VESTRAND, C.P.A.
ANTHONY S. PANSON, C.P.A.

20500 EUREKA ROAD • SUITE 300
TAYLOR, MICHIGAN 48180
(734) 246-9240
FAX (734) 246-8635

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

October 19, 2018

Board of Education
Hudson Area Schools
Hudson, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hudson Area Schools (the School District) for the year ended June 30, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 27, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to management discussion analysis, budgetary comparison schedule of major fund, schedule of pension contributions, schedule of the School District's proportionate share of the net pension liability, schedule of other postemployment benefit (OPEB) contributions, and schedule of the School District's proportionate of the net OPEB liability, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we did not express an opinion or provide any assurance on the RSI.

We have been engaged to report on other supplementary information, as listed in the table of contents of the accompanying financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope, Timing of the Audit, and Other

We performed our audit according to the planned scope and timing previously communicated in our discussion with the Board of Education President and in our engagement letter about the audit scope and timing.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by School District are described in Note 1 to the financial statements. As discussed in Note 1 to the basic financial statements, effective July 1, 2017, the School District adopted the provisions of the Governmental Accounting Standards Board Statement No. 75. Accordingly, the accounting change has been retrospectively applied to July 1, 2017 as required by the Standard.

We noted no transactions entered into by School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the School District's financial statements relate to the School District's share of the MPSERS pension plan net pension liability and net OPEB liability recorded on the government-wide statements for the implementation of GASB 68 and GASB 75, respectively.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of net pension liability and net OPEB liability.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 19, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion & Analysis, Budgetary Comparison Schedule (General Fund), Schedule of Hudson Area Schools' Pension Contributions, Schedule of Hudson Area Schools' Proportionate Share of Net Pension Liability, Schedule of Hudson Area Schools OPEB contributions, Schedule of Hudson Area Schools' Proportionate Share of Net OPEB Liability and notes to required supplementary information which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the other supplemental information accompanying the financial statements that are not RSI, as shown in the table of contents, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of Board of Education and management of Hudson Area Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Darnell & Meyering, P.C.

Darnell & Meyering PC