

MADISON SCHOOL DISTRICT

Madison, New Hampshire

FINANCIAL STATEMENTS

June 30, 2016

MADISON SCHOOL DISTRICT

Table of Contents June 30, 2016

Independent Auditor's Report	4-5
Management's Discussion and Analysis	7-21
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Position	23
Statement of Activities	24
Fund Financial Statements:	
Balance Sheet - Governmental Funds	25
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	26
Statement of Revenues, Expenditures and Changes in Fund Balances	
Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	28
Fiduciary Funds:	
Statement of Fiduciary Net Position	29
Notes to Basic Financial Statements	31-52
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	54
Schedule of Funding Progress for Other Postemployment Benefits	55
Schedule of the District's Proportionate Share of NHRS Net Pension Liability	56
Schedule of District Contributions	57
Notes to Required Supplementary Information	59-61
Other Supplementary Information	
Combining Balance Sheet - Nonmajor Governmental Funds	63
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	
Nonmajor Governmental Funds	64

INDEPENDENT AUDITOR'S REPORT

GRZELAK AND COMPANY, P.C.

Certified Public Accountants

Members – American Institute of CPA’s (AICPA)
Member – AICPA Government Audit Quality Center (GAQC)
Member – AICPA Private Company Practice Section (PCPS)
Members – New Hampshire Society of CPA’s

P.O. Box 8
Laconia, New Hampshire 03247-0008
Tel (603) 524-6734
GCO-Audit@gcocpas.com

INDEPENDENT AUDITOR'S REPORT

To the School Board
Madison School District
Madison, New Hampshire

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

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison School District, as of June 30, 2016, 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, budgetary comparison information, schedule of funding progress for other postemployment benefits, schedule of the district's proportionate share of net pension liability, and schedule of district contributions on pages 7 through 21 and 54 through 61 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 Madison School District's basic financial statements. The combining nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Grzelak and Co., P.C.

GRZELAK & COMPANY, P.C., CPA'S

Laconia, New Hampshire

January 13, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Madison School District
For the Year Ended June 30, 2016**

The Superintendent of Schools and the Finance Officer, as "management" of the Madison School District (the "District"), a local education authority located in the County of Carroll, New Hampshire, submits this section of the District's annual financial report in order to present our discussion and analysis of the District's financial performance during the year ended June 30, 2016.

Our discussion and analysis is in accordance with the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position decreased by \$174,886 or 20% between June 30, 2015 and 2016.
- The District's total combined net position amounted to \$709,643 at June 30, 2016. Net position consisted of: \$3,027,304 net investment in capital assets; \$201,827 restricted for capital reserves; and an unrestricted deficit of \$(2,519,488).
- The District's long-term liabilities consisted of compensated absences, other post-employment benefits, and net pension liability in the amount of \$2,482,885 as of June 30, 2016.
- During the year, the District's expenses were \$174,886 more than the \$6,167,104 in revenues generated from charges for services, operating grants and contributions, capital grants and contributions and general revenues (consisting of the school district assessment and local, state and federal grants and contributions not restricted to specific purposes).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Madison School District
For the Year Ended June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS

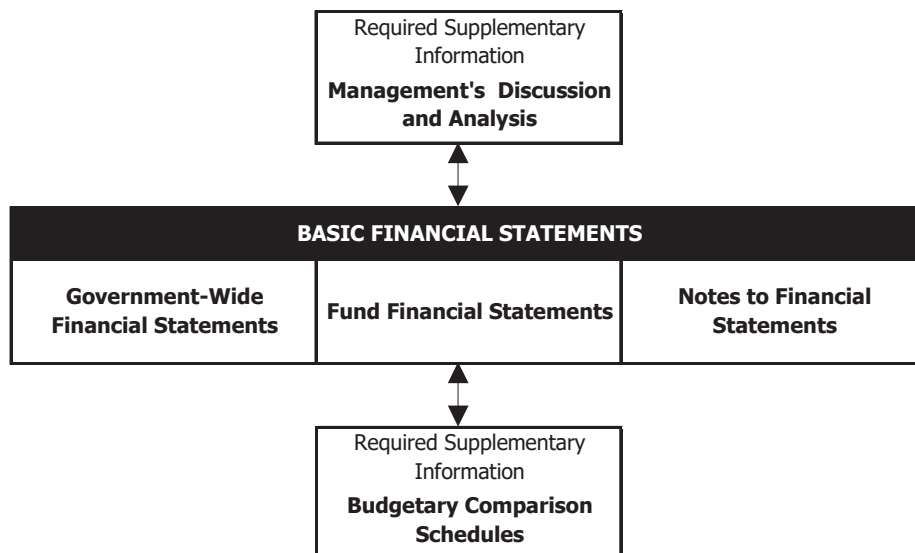
This discussion and analysis is intended to serve as an introduction to the District's annual report, which consists of a series of basic financial statements, notes and related financial or compliance information. The District's financial statements are comprised of six primary sections or components: (1) basic government-wide financial statements, (2) basic fund financial statements, (3) notes to basic financial statements, (4) required supplementary information, (5) notes to required supplementary information, and (6) other supplementary information, primarily combining nonmajor fund schedules, if applicable.

The basic financial statements include two kinds of statements that present different views of the District based upon measurement focus and basis of accounting.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements. The governmental funds statements tell how the District's services were financed in the short term as well as what remains for future spending. Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Exhibit A-1 shows how the required parts of this annual report are arranged and related to one another.

Exhibit A-1



MANAGEMENT'S DISCUSSION AND ANALYSIS

**Madison School District
For the Year Ended June 30, 2016**

Exhibit A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain.

Exhibit A-2

	Government-Wide	Fund Statements	
		Governmental	Fiduciary
SCOPE	Entire government (except fiduciary funds)	All activities of the District that are not proprietary or fiduciary	Instances in which the District is the trustee or agent for someone else's resources
REQUIRED FINANCIAL STATEMENTS	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
ACCOUNTING BASIS	Accrual	Modified Accrual	Accrual
MEASUREMENT FOCUS	Economic Resources	Current Financial Resources	Economic Resources
TYPE OF INFORMATION ASSETS AND DEFERRED OUTFLOWS, AND LIABILITIES AND DEFERRED INFLOWS	All assets and deferred outflows, and liabilities and deferred inflows, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and deferred outflows, and liabilities and deferred inflows, both short-term and long-term; the Agency funds do not currently have capital assets although they can
TYPE OF INFORMATION REVENUES, EXPENSES, AND EXPENDITURES	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Madison School District
For the Year Ended June 30, 2016

District Wide Financial Statements:

The first two basic statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status and report net position and changes in them. Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources and is one way to measure the District's financial health, or financial position.

- Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating, respectively.
- In order to assess the overall health of the District other nonfinancial factors should also be considered, such as changes in the District's general revenues (principally the school district assessment which is derived by local and statewide property taxes and general state aid), and federal and state intergovernmental revenues (grant programs); the condition of the District's buildings and other depreciable property (likelihood of emergency repairs or maintenance); current and long-term student population information; and other items subject to significant financial or budgetary uncertainty (out-of-District special education enrollment and the related high cost potential of the mandated services).

The government-wide financial statements of the District are included in the Governmental Activities category. Most of the District's basic services are included here, such as instruction, support services (including general and executive administration), and food services. General revenues, including the school district assessment, state aid, and federal and state grant programs, food service sales and federal reimbursements finance most of these activities.

Fund Financial Statements:

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes. State law, regulation or bond covenant requires some funds, while others are established to comply with the requirements of grantors. The District has two kinds of funds:

Governmental Funds - Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationships (or differences) between them.

Fiduciary Funds - The District is responsible for other assets that, because of an agency arrangement, can be used only for the intended purposes. These funds are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Madison School District
For the Year Ended June 30, 2016

CONDENSED FINANCIAL INFORMATION AND ANALYSIS OF THE DISTRICT AS A WHOLE Net Position

Exhibit B-1 shows the composition of the District's total combined net position, which decreased between June 30, 2015 and 2016 by \$174,886 or 20% to \$709,643.

Exhibit B-1 NET POSITION

	Governmental Activities		
	2015	2016	Change
Assets			
Current and other assets	\$ 634,922	\$ 408,583	\$ (226,339)
Noncurrent assets	3,047,246	3,027,304	(19,942)
Total assets	3,682,168	3,435,887	(246,281)
Deferred Outflows of Resources			
Deferred outflows of resources	135,120	150,762	15,642
Total deferred outflows of resources	135,120	150,762	15,642
Liabilities			
Current liabilities	63,729	59,551	(4,178)
Noncurrent liabilities	2,528,016	2,482,885	(45,131)
Total liabilities	2,591,745	2,542,436	(49,309)
Deferred Inflows of Resources			
Deferred inflows of resources	341,014	334,570	(6,444)
Total deferred inflows of resources	341,014	334,570	(6,444)
Net Position			
Net investment in capital assets	3,047,246	3,027,304	(19,942)
Restricted	243,758	201,827	(41,931)
Unrestricted	(2,406,475)	(2,519,488)	(113,013)
Total net position	\$ 884,529	\$ 709,643	\$ (174,886)

A portion of the net position is either invested in capital assets or restricted as to the purposes they can be used for.

- Restricted net position represents capital reserves and specific fund amounts that are not available for discretionary spending.

Unrestricted net position was a negative \$(2,519,488) at June 30, 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Madison School District
For the Year Ended June 30, 2016

Change in Net Position

The District's total revenues were \$6,167,104 while total expenses were \$6,341,990, resulting in a decrease in net position of \$174,886.

Exhibit B-2 shows that 66.01%, of the District's total revenues came from the local school district assessment, while 27.30% came from State of New Hampshire sources including state education taxes (collected by and received from the town). Operating grants and contributions provided 4.37% of total revenues, while 1.17% related to charges for services.

Exhibit B-2 SOURCES OF DISTRICT REVENUES

	2015		2016	
Program Revenues				
Charges for services	\$ 28,600	0.48%	\$ 72,077	1.17%
Operating grants and contributions	235,764	3.95%	269,520	4.37%
General Revenues				
School district assessment	3,931,784	65.83%	4,070,774	66.01%
Local sources	82,322	1.38%	58,605	0.95%
State of New Hampshire sources	1,682,243	28.17%	1,683,574	27.30%
Federal sources	11,480	0.19%	12,122	0.20%
Miscellaneous	123	0.00%	432	0.01%
	<u>\$ 5,972,316</u>	<u>100%</u>	<u>\$ 6,167,104</u>	<u>100%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Madison School District
For the Year Ended June 30, 2016**

Exhibit B-3 shows that 74.12% of the District's total expenses were for instruction, 22.39% were for support services and 2.13% of the districts total expenses were made on the food service program. Unallocated expenses represented 1.35% of total expenses.

Exhibit B-3 DISTRICT EXPENSES

	Governmental Activities			Change
	2015	2016	% of Total	
Functions / Programs				
Instruction	\$ 4,350,480	\$ 4,700,947	74.12%	\$ 350,467
Support services	1,238,944	1,420,185	22.39%	181,241
Food service program	123,018	135,168	2.13%	12,150
Unallocated				
Other uses	3,610	(67,217)	-1.06%	(70,827)
Depreciation	150,056	152,907	2.41%	2,851
	<u>\$ 5,866,108</u>	<u>\$ 6,341,990</u>	<u>100.00%</u>	<u>\$ 475,882</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Madison School District
For the Year Ended June 30, 2016**

Governmental Activities

Exhibit B-4 presents the net cost of the District's largest functions based upon the total expense, less charges for services and operating grants and contributions. The net cost reflects the amount funded by general revenues (local and statewide property taxes and general state aid).

Exhibit B-4 TOTAL AND NET COST OF SERVICES

	2015		2016	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Functions / Programs				
Instruction	\$ 4,350,480	\$ 4,157,339	\$ 4,700,947	\$ 4,464,967
Support services	1,238,944	1,238,944	1,420,185	1,420,185
Food service program	123,018	51,795	135,168	29,551
Unallocated				
Other uses	3,610	3,610	(67,217)	(67,217)
Depreciation	150,056	150,056	152,907	152,907
	<u>\$ 5,866,108</u>	<u>\$ 5,601,744</u>	<u>\$ 6,341,990</u>	<u>\$ 6,000,393</u>

The total cost of all governmental activities this year was \$6,341,990; the total net cost was \$6,000,393. The primary financing for these activities of the District was as follows:

District Assessment

- The amount that was paid by taxpayers through local property taxes was \$4,070,774.

Local Sources

- Interest on investments was earned in the amount of \$432.
- Other local sources in the amount of \$58,605.

State Sources

- State education tax was received in the amount of \$1,105,334.
- An adequacy grant was received in the amount of \$578,240.

Federal Sources

- Other federal funds were received in the amount of \$12,122.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Madison School District
For the Year Ended June 30, 2016

ANALYSIS OF BALANCES AND TRANSACTIONS OF THE DISTRICT'S INDIVIDUAL FUNDS

General Fund

The general fund balance decreased \$221,954 during the year from a surplus balance of \$570,986 at June 30, 2015 to a \$349,032 fund balance at June 30, 2016. The fund balance at June 30, 2016 was comprised of \$201,827 restricted for capital reserves, \$48,155 was assigned by the school board for encumbrances and emergency expenditures, and \$99,050 was unassigned. In accordance with RSA 198:4-b, the district may vote to retain unassigned general fund balance in an amount not to exceed 2.5 percent of the current fiscal year's net assessment.

Major Funds

Grants Fund

The grants fund is classified as a special revenue fund and is reported as a major fund in the basic financial statements. It is made up of federal and state projects, and is generally operated on a cost reimbursement basis.

Nonmajor Funds

Food Service Fund

The food service fund is classified as a special revenue fund and is aggregated in the category nonmajor funds in the basic financial statements. The food service fund received \$17,222 as an operating subsidy from the general fund during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Madison School District
For the Year Ended June 30, 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

For the year ended June 30, 2016 the District did not revise its statutory budgetary line items; rather, the District's budgetary control was managed on an aggregate total budget-to-actual basis; total estimated revenues and appropriations versus actual revenues and expenditures.

Final Versus Original Budget Comparison

In the total budget-to-actual basis the original budget was increased by \$54,500 for encumbrances carried forward from the prior year.

Actual Versus Final Budget Comparison

The amounts of actual inflows (resources) and outflows (charges to appropriations) varied from the final budget for the following significant items:

- Actual inflows, (resources), were more than the budgetary revenue estimates by \$341,228.
- Actual outflows, (expenditures or charges to appropriations), were more than the budgeted appropriations by \$92,480.
- None of the currently known reasons for the budgetary variations are expected to have a significant effect on future services or liquidity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Madison School District
For the Year Ended June 30, 2016**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had invested \$3,027,304 (\$5,277,964 at cost or estimated cost less accumulated depreciation of \$2,250,660) in a broad range of capital assets, including land and land improvements, buildings, vehicles, furniture and equipment, and technology equipment as summarized in Exhibit C-1.

This amount represents a net decrease of 0.65% from the prior year. This year major changes are also summarized in Exhibit C-1.

Exhibit C-1 NET CAPITAL ASSETS AND MAJOR ADDITIONS

Net Capital Assets	Governmental Activities		
	2015	2016	Change
Land and improvements	\$ 295,966	\$ 295,966	0.00%
Buildings	4,274,322	4,308,330	0.80%
Furniture and equipment	<u>736,946</u>	<u>673,668</u>	<u>-8.59%</u>
Capital assets, at cost	5,307,234	5,277,964	-0.55%
Accumulated Depreciation	<u>2,259,988</u>	<u>2,250,660</u>	-0.41%
Capital assets, net	<u>\$ 3,047,246</u>	<u>\$ 3,027,304</u>	<u>-0.65%</u>
Increase (Decrease) in Capital Assets, Net		<u>\$ (19,942)</u>	
Changes			
Buildings		\$ 34,008	
Furniture and equipment		98,957	
Depreciation expense		<u>(152,907)</u>	
		<u>\$ (19,942)</u>	

More detailed information about the District's capital assets is presented in the notes to the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Madison School District
For the Year Ended June 30, 2016**

Debt

At June 30, 2016, the District had \$2,482,885 of net long-term obligations (\$2,482,885 of total obligations less the current portion of \$0) as summarized in Exhibit C-2.

This amount represents a net decrease of 1.82% from the prior year.

Exhibit C-2 LONG-TERM LIABILITIES

	Governmental Activities		
Long-Term Liabilities	2015	2016	Change
Compensated absences	\$ 675,720	\$ 686,098	-1.51%
Other post-employment benefits	158,652	192,108	-17.42%
Net pension liability	1,693,644	1,604,679	5.54%
	2,528,016	2,482,885	-1.82%
Less current portion	-	-	100.00%
	\$ 2,528,016	\$ 2,482,885	-1.82%
Increase (Decrease), Net		\$ (45,131)	
 Significant Changes			
Change in compensated absences.		\$ 10,378	
Change in other post-employment benefits		33,456	
Change in net pension liability		(88,965)	
Change in current portion.		-	
		\$ (45,131)	

State law (RSA 33:4) limits the amount of general obligation debt that the District may incur at any one time to 7% of the locally assessed valuation as equalized by the Commissioner of the New Hampshire Department of Revenue Administration. At June 30, 2016, the District was significantly below its legal debt limit of approximately \$32,644,593.

More detailed information about the District's long-term liabilities is presented in the notes to the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Madison School District
For the Year Ended June 30, 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

District management and the School Board considered many factors when submitting the fiscal year 2016-2017 budget to the District voters. One of the major factors continues to be the impact of yearly changes in revenues under the State of New Hampshire's system of funding public education on the school district assessment to be assessed to the town. New Hampshire State Education tax revenues increased \$1,331 from \$1,682,243 in 2014-2015 to \$1,683,574 in 2015-2016.

The school district assessment increased \$138,990 from \$3,931,784 in 2014-2015 to \$4,070,774 in 2015-2016. This increase was primarily due to the increase in Conway School District tuition (see below).

The SAU assessment is allocated to the town of Madison under a formula calculation which is based upon taking one-half of the average daily membership in attendance (ADM-A) at the end of the previous school year and one-half of the most recently published equalized valuation, including utilities, of each District as of June 30th of the previous fiscal year. Madison's allocation for 2015-2016, along with the other two school district members in the SAU #13 joint venture, is depicted below:

Member School Districts	SAU Assessment	
	%	Amount
Freedom	25.58	\$160,572
Madison	35.09	\$220,273
Tamworth	<u>39.33</u>	<u>\$246,880</u>
	<u>100.00%</u>	<u>\$627,725</u>

TUITION AGREEMENT WITH CONWAY SCHOOL DISTRICT

The Madison School District has an agreement to send its' middle school and high school age students to the Conway School District. Madison tuition costs increased \$152,214 (or, 6.6%) from \$2,320,489 in 2014-2015 to \$2,472,703 in 2015-2016. This cost is more than 42% of total 2015-2016 Madison school district expenses.

HEALTH INSURANCE PREMIUM HOLIDAYS – CURRENT AND FUTURE IMPACT

The school district is a member of the New Hampshire School Health Care Coalition ("SchoolCare"). The method of returning surplus through "Rate Stabilization" was changed to a "Premium Holiday" in order to provide greater transparency and to share such returns with current health care premium contributors. In order to receive such premium holidays, the school district must be a participating member at the time of the effective date of the premium holiday by SchoolCare.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Madison School District
For the Year Ended June 30, 2016**

As a result of this change, for the fiscal year ending June 30, 2016, the school district received \$16,378.84 in December of 2015 as a credit to monthly health insurance premiums billed to the school district. This amount resulted in a decrease in the actual amount of health insurance expended for the fiscal year; health insurance was originally budgeted without anticipation of this premium holiday.

UNANTICIPATED OVEREXPENDITURES

Each and every year, great care is taken by the administration and the school board in the development of the proposed budget. Prior year expenditures are scrutinized and compared to the prior year budget; one-time expenditures from the prior budget are dropped from the proposed budget. Additional expected/anticipated expenditures for the upcoming year are included in the proposed general budget, including capital improvements. The proposed budget is reviewed, and revised as necessary, many times over the course of several months before the board-recommended budget is presented to the public for approval. In spite of all these efforts, there are times that unanticipated events occur after the budget is approved by the voters which may cause the over-expenditure of the approved budget. 2015-2016 was one of those years where the Madison School District was hit with four such events; these are described below:

- Special Education expenses were \$61,832.32 over budget due to unanticipated out of district placements and associated transportation costs. Fortunately, the Madison School District voters had previously established and built-up a Capital Reserve Fund (CRF) for the purposes of educating educationally disabled children. This over-budget expenditure was covered by transferring \$61,832.32 from the CRF to the General Fund.
- Madison School District maintains their own fleet of school busses for the purpose of transporting their students to and from school, and school-related events. While the buses are inspected and maintained on a regular schedule, and replacements are planned-for in a Capital Reserve Fund, one bus unexpectedly failed to pass the state department of transportation inspection late in the school year due to frame rot in one of the cross-members. With the approval of the New Hampshire Department of Education, this over-budget expenditure was covered by transferring \$18,320.00 from the 2.5% Emergency Set-Aside Fund to the General Fund for the payment of the first-year lease obligation, which is due at the signing of the 5-year lease.
- Regular education services were higher than anticipated due to a teaching position that was added after the budget was approved by the Madison School District voters.
- Transportation expenses were higher than anticipated due to making a part time bus driver full time after the budget was approved by the Madison School District voters. This was primarily due to the increased need for special education transportation services (see above).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Madison School District
For the Year Ended June 30, 2016

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives.

Questions regarding this report should be directed to Mr. Chuck Bates, Business Administrator, at (603) 323-5088, or by mail at:

SAU#13
Attn: Chuck Bates
881A Tamworth Road
Tamworth, NH 03886

BASIC FINANCIAL STATEMENTS

MADISON SCHOOL DISTRICT

Statement of Net Position June 30, 2016

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 112,949
Receivables, net	269,633
Due from other governments	26,001
Capital assets:	
Land, improvements, and construction in progress	295,966
Other capital assets, net of accumulated depreciation	<u>2,731,338</u>
Total assets	<u>3,435,887</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources	<u>150,762</u>
Total deferred outflows of resources	<u>150,762</u>
LIABILITIES	
Accounts payable	17,834
Due to other governments	314
Deferred revenue	41,403
Compensated absences	686,098
Postemployment benefit obligation	192,108
Net pension liability	<u>1,604,679</u>
Total liabilities	<u>2,542,436</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources	<u>334,570</u>
Total deferred inflows of resources	<u>334,570</u>
NET POSITION	
Net investment in capital assets	3,027,304
Restricted for:	
Capital reserves	201,827
Unrestricted	<u>(2,519,488)</u>
Total net position	<u>\$ 709,643</u>

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

MADISON SCHOOL DISTRICT

Statement of Activities Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Governmental Activities
Governmental activities:				
Instruction				
Regular instruction	\$ 3,687,835	\$ 6,456	\$ 3,030	\$ (3,678,349)
Special education instruction	860,609	-	226,494	(634,115)
Other instruction	152,503	-	-	(152,503)
Support services				
Student support services	277,425	-	-	(277,425)
Instructional staff services	106,911	-	-	(106,911)
General administration	32,078	-	-	(32,078)
Executive administration	220,269	-	-	(220,269)
School administrative services	184,291	-	-	(184,291)
Operation and maintenance	244,982	-	-	(244,982)
Student transportation	354,229	-	-	(354,229)
Food service program	135,168	65,621	39,996	(29,551)
Other uses / expenses	(67,217)	-	-	67,217
Depreciation (unallocated)	152,907	-	-	(152,907)
Total governmental activities	<u>6,341,990</u>	<u>72,077</u>	<u>269,520</u>	<u>(6,000,393)</u>
General revenues:				
				\$ 4,070,774
				School district assessment
				Grants and contributions not restricted to specific purposes:
				Local sources 58,605
				State of New Hampshire sources 1,683,574
				Federal sources 12,122
				Investment Income 432
				<u>Total general revenues 5,825,507</u>
				Change in net position (174,886)
				Net position - beginning <u>884,529</u>
				Net position - ending <u>\$ 709,643</u>

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

MADISON SCHOOL DISTRICT

**Balance Sheet
Governmental Funds
June 30, 2016**

	<u>General Fund</u>	<u>Grants Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 112,949	\$ -	\$ -	\$ 112,949
Held by trustees	263,659	-	-	263,659
Receivables, net	5,974	-	-	5,974
Due from other governments	8,990	9,793	7,218	26,001
Due from other funds	-	32,146	-	32,146
Total assets	<u>\$ 391,572</u>	<u>\$ 41,939</u>	<u>\$ 7,218</u>	<u>\$ 440,729</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 17,356	\$ 222	\$ 256	\$ 17,834
Due to other governments	-	314	-	314
Due to other funds	25,184	-	6,962	32,146
Deferred revenue	-	41,403	-	41,403
Total liabilities	<u>42,540</u>	<u>41,939</u>	<u>7,218</u>	<u>91,697</u>
Fund balances:				
Nonspendable	-	-	-	-
Restricted	201,827	-	-	201,827
Committed	-	-	-	-
Assigned	48,155	-	-	48,155
Unassigned	99,050	-	-	99,050
Total fund balance	<u>349,032</u>	<u>-</u>	<u>-</u>	<u>349,032</u>
Total liabilities and fund balances	<u>\$ 391,572</u>	<u>\$ 41,939</u>	<u>\$ 7,218</u>	<u>\$ 440,729</u>

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

MADISON SCHOOL DISTRICT

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2016

Total Fund Balances - Governmental Funds \$ 349,032

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in the governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost	\$ 5,277,964	
Less accumulated depreciation	<u>(2,250,660)</u>	3,027,304

Long-term liabilities, including bonds payable, are not due in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Compensated absences	(686,098)	
OPEB obligation	(192,108)	
Net pension liability	<u>(1,604,679)</u>	(2,482,885)

Deferred inflows and outflows of resources are not current financial sources and uses and therefore are not reported in the governmental funds.

Deferred inflows of resources	(334,570)	
Deferred outflows of resources	<u>150,762</u>	<u>(183,808)</u>

Total Net Position - Governmental Activities \$ 709,643

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

MADISON SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds Year Ended June 30, 2016

	<u>General Fund</u>	<u>Grants Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
School district assessment	\$ 4,070,774	\$ -	\$ -	\$ 4,070,774
Local sources	44,182	20,879	65,621	130,682
State of New Hampshire sources	1,774,654	-	126	1,774,780
Federal sources	55,854	82,590	51,992	190,436
Investment income	432	-	-	432
Total revenues	<u>5,945,896</u>	<u>103,469</u>	<u>117,739</u>	<u>6,167,104</u>
Expenditures				
Current:				
Instruction	4,605,370	103,469	-	4,708,839
Support services	384,336	-	-	384,336
General administration	32,078	-	-	32,078
Executive administration	1,128,844	-	-	1,128,844
Food service program	-	-	135,168	135,168
Total expenditures	<u>6,150,628</u>	<u>103,469</u>	<u>135,168</u>	<u>6,389,265</u>
Excess (deficiency) of revenues over expenditures	(204,732)	-	(17,429)	(222,161)
Other Financing Sources (Uses)				
Transfers in	-	-	17,222	17,222
Transfers out	<u>(17,222)</u>	<u>-</u>	<u>-</u>	<u>(17,222)</u>
Net change in fund balances	(221,954)	-	(207)	(222,161)
Fund balances - beginning of year	<u>570,986</u>	<u>-</u>	<u>207</u>	<u>571,193</u>
Fund balances - end of year	<u>\$ 349,032</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 349,032</u>

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

MADISON SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2016

Total Net Change in Fund Balances - Governmental Funds \$ (222,161)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlays	\$ 132,965	
Depreciation expense	(152,907)	
Loss on disposal of assets	-	(19,942)

In the statement of activities, certain operating expenses are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used.

Compensated absences (increase) decrease	(10,378)	
OPEB obligation (increase) decrease	(33,456)	
Net pension liability	88,965	45,131

The change in deferred inflows and outflows from the *Schedule of Pension Amounts by Employer* related to the New Hampshire Retirement System Cost-Sharing Employer Defined Benefit Pension Plan are reported against pension expense in the governmental activities.

Deferred inflows (increase) decrease	6,444	
Deferred outflows increase (decrease)	15,642	22,086

Change in Net Position of Governmental Activities \$ (174,886)

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

MADISON SCHOOL DISTRICT

**Statement of Net Position
Fiduciary Funds
June 30, 2016**

	<u>Student Activities</u>	<u>Total Agency Funds</u>	<u>Total Fiduciary Funds</u>
Assets			
Cash and cash equivalents	\$ 11,902	\$ 11,902	\$ 11,902
Total assets	<u>11,902</u>	<u>11,902</u>	<u>11,902</u>
Liabilities			
Due to student groups	<u>11,902</u>	<u>11,902</u>	<u>11,902</u>
Total liabilities	<u>11,902</u>	<u>11,902</u>	<u>11,902</u>
Net Position			
Held in trust for private purposes	<u>-</u>		<u>-</u>
Total net position	<u>\$ -</u>		<u>\$ -</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Madison School District (the "District" or "Government") 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 responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict or contradict GASB pronouncements. The significant accounting policies established in GAAP and used by the District are discussed below.

A. THE REPORTING ENTITY

The District is a primary (special-purpose) local government governed by an elected board. As required by GAAP, these financial statements are required to present the District and its component units (if any).

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization; or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government. Fiscal independency is the ability to complete certain essential fiscal events without substantive approval by a primary government: (a) determine its budget without another government's having the authority to approve and modify that budget; (b) levy taxes or set rates or charges without approval by another government; and (c) issue bonded debt without approval by another government.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both government-wide and fund financial statements categorize primary activities as either governmental or business type. The District does not have any business type primary activities.

In the government-wide Statement of Net Position, the governmental activities column (a) is presented on a consolidated basis, (b) and 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 District's net position is reported in three parts – net investment in capital assets; restricted; and unrestricted. The 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 District's functions / programs. The functions / programs are also supported by general revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants reflect capital-specific grants. The net costs (by function) are normally covered by general revenue. The District does not allocate indirect costs.

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

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions. Funds are classified into three major categories: governmental, proprietary and fiduciary.

Fund financial statements focus on major funds of the primary government in contrast to the governmental and business type (if any) activities reported in the government-wide financial statements. Major funds represent the government's most important funds and are determined based on a minimum criteria set forth in GASBS No. 34 (numerical formula using total assets, liabilities, revenues, or expenditures/expenses of either fund category or activity combined). Major individual governmental funds are reported in separate columns in the fund financial statements with a combined column for all other nonmajor funds. The general fund is required to be reported as major fund. The following fund types are used by the District:

1. **Governmental Funds** – The focus of governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the District:

General Fund is the general operating fund of the District and is used to account for all resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (such as federal and state grants and the food service program) that are legally restricted to expenditures for specific purposes.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

2. **Fiduciary Funds** – The reporting focus of fiduciary funds is on net position and, for private purpose trust funds, changes in net position. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements. The following is a description of the fiduciary funds of the District:

Private Purpose Trust Funds are used to report trust arrangements under which the principal and interest benefits individuals, private organizations, or other governments. The assets are essentially held in trust for someone outside the reporting entity.

Agency Funds are used to report assets held in a custodial capacity for individuals or organizations outside of the reporting entity. The assets for these funds equal the liabilities and there is no operating activity to report.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Two different measurement focuses are used under the new financial reporting model, the flow of current financial resources and the flow of economic resources. The determination of when transactions are recognized is referred to as the basis of accounting. Like measurement focus, there are two different bases of accounting used; the accrual basis and the modified accrual basis.

Government-Wide Financial Statements

The government-wide financial statements use the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, generally, all revenues, expenses, gains, losses, assets, and liabilities should be recognized when the economic exchange takes place. The government-wide financial statements report all of the assets, liabilities, revenues, expenses, and gains and losses of the entire government. These financial statements do not report fund information. Instead they focus on two specific types of activities performed by the government, "governmental activities" and, when applicable, "business type activities". Governmental and proprietary fund types are included in the governmental and, when applicable, business type activities reported in the government-wide financial statements and therefore utilize the measurement focus and basis of accounting applicable to these statements. Fiduciary funds are not reported in the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and asset are recognized when they susceptible to accrual; i.e., both measurable and available. Measurable means the amount of the transaction can be determined. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, generally within sixty days after year-end. Expenditures and liabilities are recognized in the accounting period in which the fund liability is incurred and due, with certain modifications. Debt service and capital lease payments are recognized when the payment is due and compensated absences, claims and judgments, and special termination benefits are recognized to the extent that the liabilities are "normally expected to be liquidated with expendable available financial resources". Fiduciary fund financial statements use the economic resources measurement focus and the full accrual basis of accounting.

E. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

Cash and Cash Equivalents and Investments

The District has defined cash and cash equivalents to include cash on hand, demand deposits as well as short-term investments with a maturity date of within three months of the date acquired by the District.

Investments are stated at fair value (quoted market price or the best available estimate).

Interfund Activity

Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to at market or near market rates, are treated as revenues and expenditures / expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

MADISON SCHOOL DISTRICT

Notes to Basic Financial Statements June 30, 2016

Inventories

For fund financial statements, inventories are accounted for utilizing the purchase method. Under this method, inventories are recorded as expenditures when purchased. For government-wide financial statements, inventories are carried at cost using the first-in, first-out method.

Capital Assets

For government-wide financial statements, capital assets purchased or acquired, in accordance with the District's capitalization policy, are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the assets estimated useful lives.

ASSET	Capitalization Threshold	Estimated Useful Lives	Salvage Value %
Financed assets	All	20	20%
Land or building improvements	\$ 10,000	20-40	20% - 30%
Machinery, equipment and other	\$ 500	5-20	0%
Vehicles	All	8-10	0%

For fund financial statements, capital assets purchased for governmental operations are accounted for as capital expenditures of the governmental fund at the time of purchase.

Compensated Absences

The District accrued accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Long-term Obligations

All long-term debt is reported as liabilities in the government-wide financial statements. Long-term debt generally consists of bonds payable, capital leases and accrued compensated absences and special termination benefits. Governmental funds reported in the fund financial statements are concerned with current financial resources only and do not report long-term debt. Instead, debt proceeds are reported as other financing sources when received and payments of principal and interest are reported as expenditures when due.

Pensions

The District implemented Governmental Accounting Standards Board Statement No. 68 – *Accounting and Financial Reporting for Pensions*. As a result, the District is required to report its proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, pension expense, and information about the fiduciary net position of the New Hampshire Retirement System, (NHRS) a Cost-Sharing Multiple Employer Defined Benefit Pension Plan.

Governmental Fund Equity and Fund Balance Policy

The district implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement established new fund balance classifications and reporting requirements as follows:

Nonspendable – Are fund balances that cannot be spent because they are either; not in spendable form, such as inventories or prepaid amounts, or are legally or contractually required to be maintained intact, such as the principal of a permanent fund.

Restricted – Are amounts that can only be used for specific purposes because of enabling legislation or externally imposed constraints, such as grant requirements or laws or regulations.

Committed – Are amounts that can be used for specific purposes because of a formal action by the entities highest level of decision-making authority (School Board). This would include contractual obligations if existing resources have been committed. Formal action (School Board vote at a public meeting) to establish constraints should be taken before year-end, even if the amount might not be determined until the subsequent period.

Assigned – Are amounts intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body (School Board), or by and official whom authority has been given (Superintendent of Schools). Such assignments cannot exceed the available fund balance in any particular fund. This is the residual fund balance classification of all governmental funds except the general fund. Assigned fund balances should not be reported in the general fund if doing so causes the government to report a negative “unassigned” general fund balance.

Unassigned – Is the residual classification for the general fund. The general fund is the only governmental fund that can report a positive unassigned fund balance. Other governmental funds might have a negative unassigned fund balance as a result to overspending for specific purposes for which amounts had been restricted, committed, or assigned.

In instances where both restricted and unrestricted fund balances are available to fund expenditures, the restricted fund balances will be exhausted first, followed by the unrestricted classifications of, committed, assigned and unassigned fund balances.

The district has not adopted a policy regarding the maintenance of a minimum fund balance. State statute generally requires all unassigned fund balance to be used to reduce the district assessment for the following year.

Revenues

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the period in which the resources are measurable and available. Revenue resulting from non-exchange transactions, in which the District receives value without directly giving equal value in return, generally includes grants and donations and is recognized when applicable grantor requirements, including purpose, eligibility, timing, and matching have been met.

General revenues on the Statement of Activities include the school district assessment (levied by the appropriate local governments as property taxes) and aid from various State of New Hampshire sources that are not program revenues (charges for services, or related to operating or capital grant programs).

Use of Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Legal Debt Limit

Per state statute, the District may not incur debt at any one time in excess of 7% of the locally assessed valuation as last equalized by the Commissioner of the New Hampshire Department of Revenue Administration.

For the year ended June 30, 2016, the District had not exceeded its legal debt limit.

Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees and natural disasters. The District purchases, through an agent, coverage from an insurance company. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Claims, Judgments and Contingent Liabilities

Grant Programs

The District participates in numerous state, federal and private funded programs, which are governed by various laws, regulations, contracts and agreements of the grantor. Costs charged to these programs are subject to audit or review by the grantor; therefore, to the extent that the District has not complied with laws, regulations, contracts and agreements of the grantor, refunds of money for any disallowed claims, including amounts already collected, may constitute a contingent liability of the District. At June 30, 2016, the District believes that there are no significant contingent liabilities relating to compliance with the laws, regulations, contracts and agreements governing these programs; therefore, no provision has been recorded in the financial statements for such contingencies.

Litigation

The District is subject to various claims, and sometimes lawsuits, which arise in the normal course of operations. Management of the District believes that the outcome of these contingencies will not have a materially adverse effect on the financial statements and accordingly, no provision for loss has been recorded.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	\$ 112,949
Fiduciary funds:	
Cash and investments	11,902
	<u>\$ 124,851</u>

Deposits and investments as of June 30, 2016 consist of the following:

Cash on hand	\$ -
Deposits with financial institutions	124,851
Investments	-
	<u>\$ 124,851</u>

Credit Risk - Deposits

The District maintains deposits in accordance with RSA 197:23-a which states that the district treasurer shall deposit the moneys in participation units in the public deposit investment pool established pursuant to RSA 383:22, or in solvent banks in the state, except that funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the regional federal reserve bank collateral security for such deposits United States government obligations, United States government agency obligations, or obligations of the state of New Hampshire in value at least equal to the amount of the deposit in each case.

Credit Risk - Investments

The District maintains investments in accordance with RSA 197:23-a which states that whenever the treasurer has in custody an excess of funds which are not immediately needed for the purpose of expenditure, the treasurer shall, with the approval of the school board, invest the same in obligations of the United States government, in participation units in the public deposit investment pool established pursuant to RSA 383:22, in savings bank deposits of banks incorporated under the laws of the state of New Hampshire or in certificates of deposits and repurchase agreements of banks incorporated under the laws of the state of New Hampshire or in banks recognized by the state treasurer. Any person who directly or indirectly receives any such funds for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the district. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral. At least yearly, the school board shall review and adopt an investment policy for the investment of public funds in conformance with the provisions of applicable statutes.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk on deposits. As of June 30, 2016, the District's bank balance of \$236,892 was covered by FDIC insurance and collateralized by the local bank.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district did not have any investments as of June 30, 2016.

MADISON SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2016

NOTE 4 - INTERFUND BALANCES AND TRANSFERS

Balances

Individual interfund balances at June 30, 2016 consisted of the following:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
General fund	\$ -	\$ 25,184
Grants fund	32,146	-
Nonmajor Funds:		
Food service fund	-	6,962
	<u>\$ 32,146</u>	<u>\$ 32,146</u>

All of the interfund balances are the result of timing differences between grant expenditures and reimbursements from the granting agencies and payments made by the general fund on behalf of other funds.

Transfers

Individual interfund transfers for the year ended June 30, 2016 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General fund	\$ -	\$ 17,222
Nonmajor Funds:		
Food service fund	17,222	-
	<u>\$ 17,222</u>	<u>\$ 17,222</u>

The District makes routine transfers during the year between the general fund and other funds based upon statutory or budgetary authorization. There were no significant transfers made during the year that were not routine or were inconsistent with the activities of the fund making the transfer.

MADISON SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2016

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES AND PAYABLES

Intergovernmental Receivables

Intergovernmental receivables at June 30, 2016 consisted of the following:

	<u>General Fund</u>	<u>Grants Fund</u>	<u>Food Service Fund</u>
Local Governments			
Town of Madison	\$ 263,659	\$ -	\$ -
Other	8,990	-	-
Federal / State Government			
Pass-through grants and other	-	9,793	7,218
	<u>\$ 272,649</u>	<u>\$ 9,793</u>	<u>\$ 7,218</u>

Receivables from the Town of Madison are capital reserve funds that result from a statutory requirement that local municipalities hold capital reserves in an agency capacity for the school district. The other fund receivables are the result of grant and lunch reimbursements not being received until after year-end.

Intergovernmental Payables

Intergovernmental payables at June 30, 2016 were as follows:

	<u>General Fund</u>	<u>Grants Fund</u>	<u>Nonmajor Governmental Funds</u>
Local Governments			
SAU #13	\$ -	\$ -	\$ -
Other	-	-	-
Federal / State Government			
Pass-through grants and other	-	314	-
	<u>\$ -</u>	<u>\$ 314</u>	<u>\$ -</u>

MADISON SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2016

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities (at cost)				
Capital assets not being depreciated:				
Land and improvements	\$ 235,400	\$ -	\$ -	\$ 235,400
	<u>235,400</u>	<u>-</u>	<u>-</u>	<u>235,400</u>
Capital assets being depreciated:				
Land improvements	60,566	-	-	60,566
Buildings and improvements	4,274,322	34,008	-	4,308,330
Furniture and equipment	736,946	98,957	162,235	673,668
	<u>5,071,834</u>	<u>132,965</u>	<u>162,235</u>	<u>5,042,564</u>
Less accumulated depreciation:				
Land improvements	60,565	-	-	60,565
Buildings and improvements	1,642,273	90,869	-	1,733,142
Furniture and equipment	557,150	62,038	162,235	456,953
Accumulated depreciation	<u>2,259,988</u>	<u>152,907</u>	<u>162,235</u>	<u>2,250,660</u>
Capital assets being depreciated, net	<u>2,811,846</u>	<u>(19,942)</u>	<u>-</u>	<u>2,791,904</u>
Governmental activities capital assets, Net of accumulated depreciation	<u>\$ 3,047,246</u>	<u>\$ (19,942)</u>	<u>\$ -</u>	<u>\$ 3,027,304</u>

Depreciation expense for the year ended June 30, 2016 (unallocated)

\$ 152,907

MADISON SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2016

NOTE 7 - LONG-TERM LIABILITIES

The District can issue general obligation debt instruments to provide funds for the acquisition and construction of major capital equipment, infrastructure and other facilities. General obligation debt instruments are "direct government obligations" and consequently are a pledge of the full faith and credit of the District. The District may enter into certain leases accounted for as capital leases. The leased assets are accounted for as capital assets and capital lease liabilities in the government-wide financial statements. In the governmental fund financial statements leases are recorded as an expenditure and other financing source in the year executed; annual lease payments are recorded as expenditures when paid. Other long-term obligations may include compensated absences and early retirement obligations.

A summary of long-term liabilities outstanding at June 30, 2016 is as follows:

	Compensated Absences	OPEB Obligations	Net Pension Liability	Total
Beginning balance	\$ 675,720	\$ 158,652	\$ 1,693,644	\$ 2,528,016
Additions	10,378	33,456	-	43,834
Reductions	-	-	(88,965)	(88,965)
Ending balance	<u>686,098</u>	<u>192,108</u>	<u>1,604,679</u>	<u>2,482,885</u>
Current portion	-	-	-	-
Noncurrent portion	<u>686,098</u>	<u>192,108</u>	<u>1,604,679</u>	<u>2,482,885</u>
	<u>\$ 686,098</u>	<u>\$ 192,108</u>	<u>\$ 1,604,679</u>	<u>\$ 2,482,885</u>

Long-term liabilities outstanding at June 30, 2016 consisted of the following:

<u>Other Long-Term Obligations</u>	<u>Issue Year</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Original Amount of Issue</u>	<u>Amount Outstanding 6/30/16</u>
Compensated absences					\$ 686,098
OPEB obligations					192,108
Net pension liability					<u>1,604,679</u>
					<u>2,482,885</u>

NOTE 8 - PENSION PLAN

The District participates in the New Hampshire Retirement System (the "System"), a cost-sharing multiple-employer defined benefit pension plan and trust established in 1967 by RSA 100-A:2 administered by a Board of Trustees. The plan is a contributory plan that provides service, disability, death and vested retirement benefits to members and their beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State Legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to New Hampshire Retirement System, 4 Chenell Drive, Concord, New Hampshire 03301.

The System is funded by contributions from both the employees and the District. Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature while the employer contribution rates are determined by the System Board of Trustees based on an actuarial valuation. Plan members are required to contribute 7.0% of their covered salary. The District's contribution rates for the year ended June 30, 2016 were 15.67% and 11.17% of covered payroll for teachers and other employees, respectively. The District's contributions to the System for the years ending June 30, 2016, 2015, and 2014 were \$181,358, \$156,932, and \$170,171, respectively, equal to the required contributions for each year.

NOTE 9 – PROPORTIONATE SHARE OF NET PENSION LIABILITY

The District implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense information about the fiduciary net position of the New Hampshire Retirement System Cost-Sharing Multiple Employer Defined Benefit Pension Plan (NHRS) and additions to/deductions from NHRS's fiduciary net position have been determined on the same basis as they are reported by NHRS.

General Information about the Pension Plan

Plan description. The New Hampshire Retirement System (NHRS) is a public employee retirement system that administers one cost-sharing multiple-employer defined benefit pension plan (Pension Plan), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25.

The Pension Plan was established in 1967 by RSA 100-A: 2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Pension Plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers with in the State are eligible and required to participate in the Pension Plan.

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

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

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

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

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

Contributions. By Statute, the Board of Trustees of the System is responsible for the certification of employer contribution rates, which are determined through the preparation of biennial valuation of the System's assets by the System's actuary using the entry age normal cost method.

The employer contributions used in the schedules of employer allocations as of and for the years ended June 30, 2015 and 2014 are a component of total employer contributions presented in the System's financial statements for the corresponding periods.

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

As of June 30, 2016, the District reported a liability of \$1,604,679 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating members, actuarially determined. At June 30, 2015, the District's proportion was 0.04050658 percent, which was a decrease of 0.00461411 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$40,486. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

MADISON SCHOOL DISTRICT

Notes to Basic Financial Statements June 30, 2016

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 35,213
Changes of assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	-	42,887
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	256,470
Employer contributions subsequent to the measurement date	150,762	-
Total	<u>\$ 150,762</u>	<u>\$ 334,570</u>

\$150,762 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Amount
2017	\$ (25,750)
2018	(25,750)
2019	(25,750)
2020	(25,750)
2021	-
Thereafter	-
Total	<u>\$ (103,000)</u>

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

Inflation	3.00%
Salary increases	3.75 - 5.8% average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

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

MADISON SCHOOL DISTRICT

Notes to Basic Financial Statements June 30, 2016

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2005–June 30, 2010.

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

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

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

MADISON SCHOOL DISTRICT

Notes to Basic Financial Statements June 30, 2016

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease to 6.75%	Current single rate assumption 7.75%	1% Increase to 8.75%
Employer's proportionate share of the net pension liability:			
June 30, 2016	\$ 2,112,351	\$ 1,604,679	\$ 1,171,885
June 30, 2015	\$ 2,230,804	\$ 1,693,644	\$ 1,240,468

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NHRS financial report.

Changes of assumptions. The change in assumptions about future economic or demographic factors or other inputs is amortized over the average of the expected remaining service life of active and inactive members, which is 5.3941 years in 2015. The first year of amortizations is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources.

MADISON SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2016

NOTE 10 - JOINT VENTURE

The District is a member of a joint venture, School Administrative Unit #13, (SAU). The District has an ongoing financial responsibility to fund the annual operations of the SAU along with the other members of the SAU. The SAU administers the operations of the member districts on a shared fee arrangement calculated under a cost allocation formula which is based on equalized property value and average daily enrollment of the member districts. The SAU does not accumulate financial resources and maintains minimal net position. The member districts and their respective financial responsibility to the SAU for the year ended June 30, 2016 are as follows:

Member School Districts	SAU ASSESSMENT	
	%	Amount
Freedom	25.58%	\$ 160,572
Madison	35.09%	220,269
Tamworth	39.33%	246,884
	<u>100.00%</u>	<u>\$ 627,725</u>

The financial statements of School Administrative Unit #13 are available for public review, by request, at the SAU Office on 881A Tamworth Road, Tamworth, NH 03886.

NOTE 11 - TUITION AGREEMENT WITH CONWAY SCHOOL DISTRICT

The Madison School District has entered into an agreement to send its' middle (7th and 8th grade) and high school (9th through 12th grade) age students to the Conway School District. Madison shall send at least ninety percent (90%) of its pupils to Conway for schooling. Madison shall be responsible for the transportation expense in connection with the attendance. The agreement commenced on July 1, 2008 and shall continue for a minimum term of twenty (20) school years. Madison will be responsible for Student Charges, Capital Improvements and Facilities Maintenance Funding computed as follows: Student charges will be a fixed amount as determined in the agreement and will be allocated based on 35% of the town's equalized value and 65% of the town's average daily membership in attendance at the high school; Capital improvement charges consist of its share of the principal and interest of current fiscal year cost of said long-term debt less appropriate school building aid allocated based on the town's equalized value as a percentage of the total equalized value of all towns; a Facilities maintenance fund will be established and held by the Conway School District and will be funded by each district which shall pay its share of 3% of the actual construction cost divided by 20 and will be allocated based on the town's equalized value as a percentage of the total equalized value of all towns.

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (GASB 45)

Plan description and annual OPEB cost

New Hampshire law requires school districts to permit retired employees and their spouses to continue medical coverage after retirement if they pay the full premium rate charged for active employees. When the same premiums are charged to active employees and retirees, and the district is unable to obtain age adjusted premium information for the retirees, GASB 45 requires the district to calculate age-adjusted premiums for the purpose of projecting future benefits for retirees. This report values the implicit rate subsidy, which is the amount by which the age-adjusted premium exceeds the actual premium.

The district provides access medical benefits to its eligible retirees. The benefits are provided through fully insured plans that are sponsored by a state-wide health insurance consortium. Retirees are required to pay 100% of the premium cost for coverage. This valuation does not account for the cost of benefits to retirees or their spouses after age 65. Surviving beneficiaries continue to receive coverage after the death of the eligible retired employee but are required to pay 100% of the premium.

Eligibility: Employees that were hired prior to July 1, 2011 must meet one of the following eligibility criteria: (1) Attain age 60, regardless of years of service; or (2) Members with at least 10 years of Creditable Service may retire beginning at age 50; or (3) Members with at least 20 years of Creditable Service may retire before age 50 under the "Rule of 70". This rule stipulates that the employee's age plus service must add up to 70 or more. Employees on or after July 1, 2011 must be age 60 and have 30 years of service.

The district implemented GASB Statement 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions. This required the district to calculate and record a net other post-employment benefit obligation at year end. The district used the alternative measurement method to prepare this valuation permitted by Statement 45. The net other post-employment benefit obligation is basically the cumulative difference between the required contribution and the actual contributions made.

Currently, 1 retired employee(s) receive health benefits from the School District. The School District recognizes the cost of providing health insurance annually as expenditures in the General Fund of the funds financial statements as payments are made. For the year ended June 30, 2016, the School District recognized \$3,517 for its share of insurance premiums for currently enrolled retirees.

The School District has obtained a valuation report which indicates that the total liability for other post-employment benefits is \$435,554 (\$62,023 related to retirees and \$373,531 related to employees). The district 's annual other post-employment benefit (OPEB) cost (expense) for its plan is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years.

MADISON SCHOOL DISTRICT

Notes to Basic Financial Statements June 30, 2016

The following table shows the components of the district's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the district's net OPEB obligation:

	For the Year Ended June 30, 2016
Annual Required Contribution (ARC)	\$ 39,624
Interest on Net OPEB Obligation	6,346
Adjustments to ARC	(8,997)
Annual OPEB Cost (Expense)	\$ 36,973
Contributions	3,517
Change in net OPEB obligation	\$ 33,456
Net OPEB obligation - beginning of year	158,652
Net OPEB obligation - end of year	<u>\$ 192,108</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	\$ 36,973	9.5%	\$ 192,108

Funding Policy

The district offers benefits that require the retiree to pay 100% of the cost of premiums. The Underlying OPEB obligation for the district arises from an implied subsidy based on the fact that the benefits provided to the active and retired employees are identical. As a result, the active employees are subsidizing the cost of the benefits provided to the retired employees. The funding policy used by the district is based on the pay-as-you-go methodology with the exception that the funding for the cost of retiree benefits is recognized annually through the payment of the premiums for the active employees. This funding practice results in no Net OPEB Obligation being carried to the balance sheet for the retirees.

As of the most recent valuation date, the plan was 0% funded. The accrued liability for benefits was \$435,554 and the value of assets was \$0, resulting in an unfunded accrued liability (UAL) of \$435,554. The covered payroll (annual payroll of active employees covered by the plan) was \$1,437,709, and the ratio of the UAL to the covered payroll was 30.3%. Valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the most recent valuation, the Projected Unit Credit cost method was used, the assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date.

The annual healthcare cost trend rates below were applied:

<u>Year</u>	<u>Medical</u>
June 30, 2016	5.56%
June 30, 2017	9.00%
June 30, 2018	8.00%
June 30, 2019	7.00%
June 30, 2020	6.00%
June 30, 2021	5.00%

The remaining amortization period at June 30, 2016 was 29 years.

MADISON SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2016

NOTE 13 - FUND BALANCE COMPONENTS

The District's governmental fund balance components under GASB 54 are comprised of the following:

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Nonspendable:	\$ -	\$ -
Restricted:		
Capital reserves	201,827	201,827
Committed:	-	-
Assigned:		
Emergency spending	18,320	18,320
Encumbrances	29,835	29,835
Unassigned:	99,050	99,050
	<u>\$ 349,032</u>	<u>\$ 349,032</u>

REQUIRED SUPPLEMENTARY INFORMATION

MADISON SCHOOL DISTRICT

Budgetary Comparison Schedule - General Fund Year Ended June 30, 2016

	<u>Original</u>			
	<u>Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Budgetary Fund Balance - Beginning	\$ 111,532	\$ 166,032	\$ 327,435	\$ 161,403
Resources (inflows):				
School district assessment				
Local school tax	4,070,774	4,070,774	4,070,774	-
Local sources				
Tuition	-	-	6,456	6,456
Transportation fees	3,482	3,482	-	(3,482)
Earnings on investments	104	104	35	(69)
Other	31,332	31,332	37,726	6,394
State of New Hampshire sources				
Catastrophic aid	51,478	51,478	88,050	36,572
Other state sources	-	-	3,030	3,030
Adequacy grant	578,240	578,240	578,240	-
State education tax	1,105,334	1,105,334	1,105,334	-
Federal sources				
Medicaid distribution	69,551	69,551	55,854	(13,697)
Operating transfers in				
Received from capital reserves	-	-	144,621	144,621
Amounts available for appropriation	<u>6,021,827</u>	<u>6,076,327</u>	<u>6,417,555</u>	<u>341,228</u>
Charges to appropriations (outflows):				
Instruction				
Regular instruction	3,617,101	3,617,101	3,695,727	(78,626)
Special education instruction	749,842	749,842	860,609	(110,767)
Other instruction	50,103	50,103	49,034	1,069
Support services				
Student support services	280,022	280,022	277,425	2,597
Instructional staff services	108,466	108,466	106,911	1,555
General administration				
Other school board	44,995	44,995	32,078	12,917
Executive administration				
SAU management services	220,269	220,269	220,269	-
School administrative services	201,837	201,837	184,291	17,546
Operation and maintenance	329,958	329,958	287,455	42,503
Student transportation	361,135	415,635	436,829	(21,194)
Operating transfers out				
Special revenue funds	57,142	57,142	17,222	39,920
Transfer to capital reserve	102,500	102,500	102,500	-
Total charges to appropriations	<u>6,123,370</u>	<u>6,177,870</u>	<u>6,270,350</u>	<u>(92,480)</u>
Budgetary Fund Balance - Ending	<u>\$ (101,543)</u>	<u>\$ (101,543)</u>	<u>\$ 147,205</u>	<u>\$ 248,748</u>

See the accompanying notes to the required supplementary information.

MADISON SCHOOL DISTRICT

Schedule of Funding Progress for Other Postemployment Benefits Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrual Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Estimated Covered Payroll	UAAL as a Percentage of Covered Payroll (AAL)
July 1, 2013	\$ -	\$ 494,763	\$ 494,763	NA	\$ 1,462,803	33.8%
July 1, 2014	\$ -	\$ 532,560	\$ 532,560	NA	\$ 1,492,059	35.7%
July 1, 2015	\$ -	\$ 435,554	\$ 435,554	NA	\$ 1,437,709	30.3%

See the accompanying notes to the required supplementary information.

MADISON SCHOOL DISTRICT

Schedule of the District's Proportionate Share of NHRS Net Pension Liability Year Ended June 30, 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
District's proportion of the net pension liability (asset)	0.04863598%	0.04512069%	0.04050658%
District's proportionate share of the net pension liability (asset)	\$ 2,093,188	\$ 1,693,644	\$ 1,604,679
District's covered-employee payroll	\$ 1,355,440	\$ 1,246,188	\$ 1,154,088
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	154.43%	135.91%	139.04%
Plan fiduciary net position as a percentage of the total pension liability	59.81%	66.32%	65.47%

See the accompanying notes to the required supplementary information.

MADISON SCHOOL DISTRICT

Schedule of District Contributions Year Ended June 30, 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Statutorily required pension contribution	\$ 146,184	\$ 135,120	\$ 150,762
Contributions reported by the PLAN	<u>(146,382)</u>	<u>(135,120)</u>	<u>NA</u>
Contribution (deficiency) excess	<u>\$ (198)</u>	<u>\$ -</u>	<u>NA</u>
District's covered-employee payroll	\$ 1,246,188	\$ 1,154,088	\$ 1,214,155
Contributions as a percentage of covered-employee payroll	11.73%	11.71%	12.42%

See the accompanying notes to the required supplementary information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 - BUDGETARY INFORMATION

A. Original Budget

Governmental budgetary appropriations and estimated revenues are accounted for on a fund basis in accordance with state statutes, administrative rules and local laws, policies or procedures. The budgetary process results in a formally adopted District budget by voters at the annual District meeting. Subsequent regulatory reviews by departments of the State of New Hampshire are made of the budgetary process (warrant articles, required results of votes, etc.), adopted budget and the estimated revenues of the District. After final allocation of state aid programs to the District and approval of final estimated revenues (including the use of beginning unassigned general fund balance), a balanced District budget is achieved in accordance with State statute (the "original" budget). The original budget is the first complete, legally appropriated budget adjusted for appropriate changes occurring *before* the beginning of the year.

B. Budgetary Changes, Transfers, Encumbrances and Continuing Appropriations

Budgetary Changes

In accordance with RSA 198:20-b, appropriations may be made by the school board by applying for, accepting and expending unanticipated funds (money from a state, federal or other governmental unit or a private source) which become available during the year without further action by the District. Such money may be used only for legal purposes for which a school district may appropriate money; shall not require the expenditure of other school district funds except those funds lawfully appropriated for the same purpose; and shall be exempt from the provisions of RSA 32 relative to the limitation of expenditure of school district moneys. The statute requires the school board to hold a public hearing on the action to be taken and to comply with various public notice requirements.

Transfers

The school board may authorize budgetary transfers between allowable appropriations (programs, functions or categories); however, total expenditures may not exceed the total allowable appropriations budgeted (which consists of the original budget plus appropriations allowable under RSA 198:20-b, encumbrances carried forward from the prior year and continuing appropriations, if any).

Encumbrances and Continuing Appropriations

All annual appropriations lapse at year-end unless encumbered. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbrances are not expenditures and are reported as a reservation of fund balances in governmental funds and are carried forward to supplement appropriations of the subsequent year.

Certain appropriations that are not "annual appropriations" do not lapse at year-end. These continuing appropriations include those from special or unanticipated revenues, capital projects and specific items that are not required to have been completed at year-end. Continuing appropriations are reported as a reservation of fund balances in governmental funds and are carried forward to supplement appropriations of the subsequent year.

C. Final Budget

The final budget consists of the original budget adjusted for appropriate legal changes applicable to the year, including those occurring during and after the end of the year.

MADISON SCHOOL DISTRICT

Notes to Required Supplementary Information
June 30, 2016

NOTE 2 - EXPLANATION OF BUDGETARY TO GAAP DIFFERENCES

Basis and Timing Differences

The basis of accounting or the timing of transactions used or applied by the funds in the basic financial statements (fund financial statements) differs from the basis of accounting or timing of transactions used or applied by the funds for budgetary purposes. The following is an explanation of the differences between budgetary inflows and outflows and GAAP revenues and expenditures.

<u>Budgetary Fund</u>	<u>General Fund</u>
<u>Financial Statement Major Fund</u>	<u>General Fund</u>
Sources / Inflows of Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 6,417,555
Budgetary inflows that are not revenues for financial reporting purposes:	
Beginning fund (balance) deficit	(327,435)
Transfers from capital reserves	(144,621)
Revenues for financial reporting purposes that are not inflows for budgetary purposes:	
Earnings on capital reserve investments	<u>397</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 5,945,896</u>
Uses / Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 6,270,350
Budgetary outflows that are not expenditures for financial reporting purposes:	
Transfers to capital reserve funds	(102,500)
Transfers to other funds	<u>(17,222)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 6,150,628</u>

NOTE 3 – SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS

The district is required to prepare its financial statements in accordance with accounting principles generally accepted in the United States. Accordingly, the school district is required to disclose its obligations for post-employment benefits. In addition to pensions, these benefits include health insurance paid on behalf of retirees. Guidance for the disclosure required is contained in Governmental Accounting Standards Board Statement No. 45 - "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions" (GASB No. 45). As part of that disclosure the district is required to include as required supplementary information the Schedule of Funding Progress for the most recent actuarial valuation and the two preceding valuations.

NOTE 4 – GASB 68 REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES

In accordance with GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions*, the district is required to disclose historical data for each of the prior ten years within the following schedules:

- **Schedule of the District’s Proportionate Share of Net Pension Liability**
- **Schedule of District Contributions**

The information presented in the *Schedule of the District’s Proportionate Share of Net Pension Liability* is determined as of the measurement date of the collective net pension liability.

The information presented in the *Schedule of District Contributions* is determined as of the employer’s most recent fiscal year-end.

GASB Statement 68 was implemented during the year ended June 30, 2015, therefore, only the two prior year’s information is available for presentation. Subsequent year’s information will be added as it becomes available until the ten-year requirement is met.

OTHER SUPPLEMENTARY INFORMATION

MADISON SCHOOL DISTRICT

Combining Balance Sheet - Nonmajor Governmental Funds June 30, 2016

	Food Service Fund	Total Nonmajor Governmental Funds
Assets		
Cash and cash equivalents	\$ -	\$ -
Due from other governments	7,218	7,218
Due from other funds	-	-
Inventories	-	-
Total assets	<u>\$ 7,218</u>	<u>\$ 7,218</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ 256	\$ 256
Due to other funds	6,962	6,962
Deferred revenue	-	-
Total liabilities	<u>7,218</u>	<u>7,218</u>
Fund balances:		
Nonspendable	-	-
Restricted	-	-
Committed	-	-
Assigned	-	-
Unassigned	-	-
Total fund balances	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 7,218</u>	<u>\$ 7,218</u>

MADISON SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2016

	Food Service Fund	Total Nonmajor Governmental Funds
Revenues		
Local sources	\$ 65,621	\$ 65,621
State of New Hampshire sources	126	126
Federal sources	51,992	51,992
Operating transfers in	<u>17,222</u>	<u>17,222</u>
Total revenues and other financing sources	<u>134,961</u>	<u>134,961</u>
Expenditures		
Food service program	<u>135,168</u>	<u>135,168</u>
Total expenditures and other financing sources	<u>135,168</u>	<u>135,168</u>
Excess revenue and other financing sources over (under) expenditures and other financing uses	(207)	(207)
Fund balances - beginning of year	<u>207</u>	<u>207</u>
Fund balances - end of year	<u>\$ -</u>	<u>\$ -</u>