

HUDSON CITY SCHOOL DISTRICT  
FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Year Ended June 30, 2012

HUDSON CITY SCHOOL DISTRICT

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Education of the  
Hudson City School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the fiduciary funds of the Hudson City School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 fiduciary funds of the Hudson City School District as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2012 on our consideration of the Hudson City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information and the schedule of funding progress of other postemployment benefits be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hudson City School District's basic financial statements as a whole. The other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplementary information required by the New York State Education Department. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Claverack, New York  
November 8, 2012

**HUDSON CITY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (MD&A)**  
**June 30, 2012**

**INTRODUCTION**

The Hudson City School District offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. Please review it in conjunction with the District's financial statements and the accompanying notes to the financial statements.

**FINANCIAL HIGHLIGHTS**

- Net assets decreased from (\$9,057,493) to (\$14,744,835) from last year primarily due to GASB #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.
- As of the close of this fiscal year, the District's governmental funds reported combined fund balances of \$1,774,978, an increase of \$1,551,545 in comparison with the prior year.
- On May 18, 2010, the voters approved a \$6,190,000 capital project consisting of roof replacements at Hudson High School, M.C. Smith School and the John L. Edwards School. The District continued work on the project during the year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This Management’s Discussion and Analysis narrative (required supplemental information) is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements are comprised of three components:

1. Districtwide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

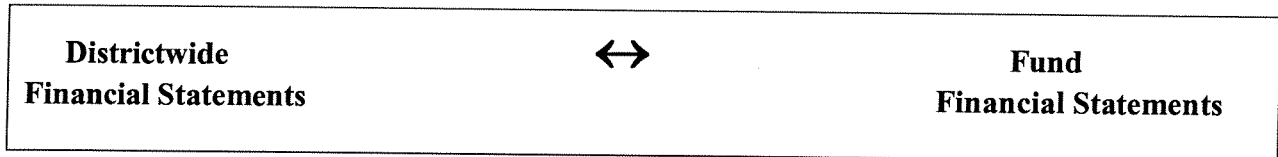
In addition to these statements, this report also includes other supplemental information.

Our auditor has provided assurance in the independent auditor’s report that the Basic Financial Statements are fairly stated. A different degree of assurance is being provided by the auditor regarding the supplemental information identified below. A user of this report should read the independent auditor’s report carefully to ascertain the level of assurance being provided for each part in the financial statements.

**Financial Statements**

**Required Supplemental Information (Part A)**  
**Management’s Discussion & Analysis (MD&A)**

**Basic Financial Statements**



**Notes to the Basic Financial Statements**

**Supplemental Information**

**General Fund Budget & Fund Balance Information**

**Capital Project Funds Schedule of Project Expenditures**

**General Fund Budget to Actual Schedule**

## DISTRICTWIDE FINANCIAL STATEMENTS

The district wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. certain federal/state grants earned but not yet received, unused vacation/sick leave, and proceeds from Revenue Anticipation Notes and related interest).

All of the District's services are reported in the districtwide financial statements as *governmental activities*, including general support, instruction, pupil transportation, community services, and school lunch. Property taxes, state/federal aid, and investment earnings finance most of these activities. Additionally, all capital and debt financing activities are reported here.

## DISTRICTWIDE FINANCIAL ANALYSIS

### Hudson City School District's Net Assets June 30, 2012 and 2011

	Governmental Activities		Variance Increase (Decrease)
	2012	2011	
Current Assets	\$ 6,039,192	\$ 7,989,197	\$ (1,950,005)
Capital Assets	59,961,284	59,965,295	(4,011)
Total Assets	<u>66,000,476</u>	<u>67,954,492</u>	<u>(1,954,016)</u>
Current Liabilities	6,215,804	9,365,316	(3,149,512)
Noncurrent Liabilities	74,529,507	67,646,669	6,882,838
Total Liabilities	<u>80,745,311</u>	<u>77,011,985</u>	<u>3,733,326</u>
Net Assets:			
Investment in capital assets, net of related debt	12,807,972	13,198,014	(390,042)
Restricted	436,007	705,778	(269,771)
Unrestricted (deficit)	(27,988,814)	(22,961,285)	(5,027,529)
Total Net Assets	<u>\$ (14,744,835)</u>	<u>\$ (9,057,493)</u>	<u>\$ (5,687,342)</u>

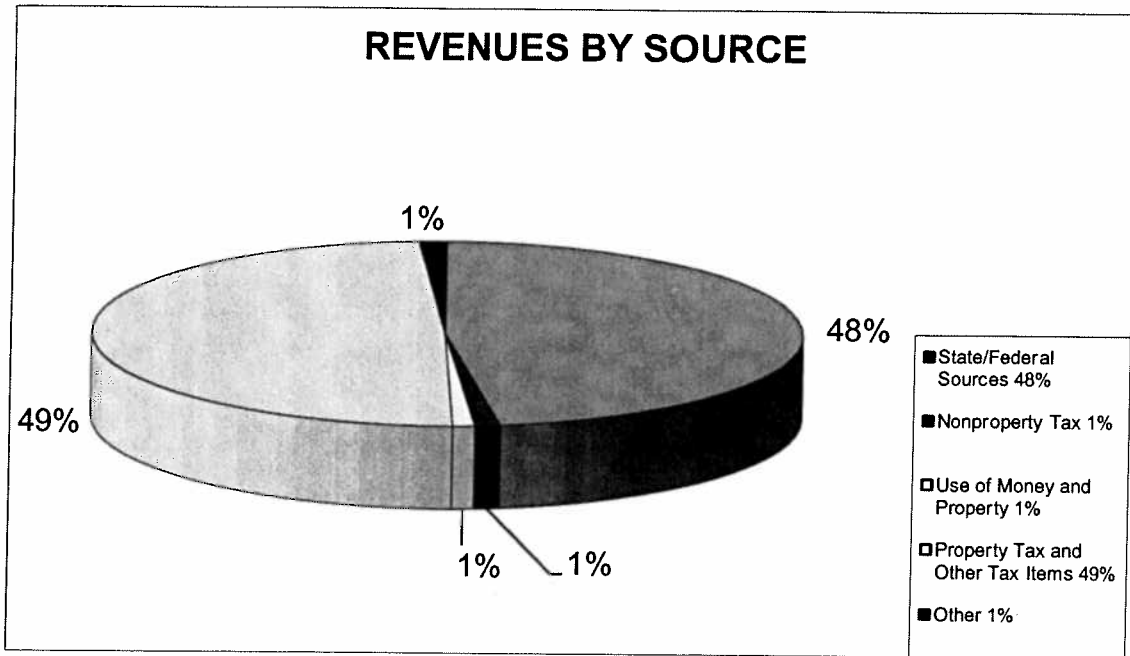
**Hudson City School District's  
Changes in Net Assets  
For the Years Ended June 30, 2012 and 2011**

	Governmental Activities		Variance Increase (Decrease)
	2012	2011	
<b>Revenues:</b>			
Program Revenues:			
Charges for Services	\$ 440,040	\$ 351,294	\$ 88,746
Operating Grants and Contributions	4,333,812	6,256,430	(1,922,618)
Total Program Revenues	<u>\$ 4,773,852</u>	<u>\$ 6,607,724</u>	<u>\$ (1,833,872)</u>
General Revenues:			
Real Property Taxes	\$ 17,406,982	\$ 15,730,978	\$ 1,676,004
Other Tax Items	2,175,329	2,169,853	5,476
Nonproperty taxes	464,635	679,375	(214,740)
Use of Money and Property	411,583	545,334	(133,751)
Sale of Property and Compensation for Loss	49,153	6,185	42,968
Miscellaneous	334,475	400,522	(66,047)
State Sources	18,794,777	20,787,420	(1,992,643)
Federal Sources	91,247	49,700	41,547
Premium on Obligations	117,591	11,392	106,199
Total General Revenues	<u>39,845,772</u>	<u>40,380,759</u>	<u>(534,987)</u>
<b>Expenses:</b>			
Instruction	33,401,007	34,278,984	(877,977)
Support Services:			
General Support	6,184,275	6,562,553	(378,278)
Pupil Transportation	1,969,995	2,195,608	(225,613)
Community Service	38,001	64,036	(26,035)
Debt Service-Interest	2,225,572	2,316,099	(90,527)
Depreciation-Unallocated	1,762,686	916,381	846,305
Amortization-Unallocated	13,405	-	13,405
School Lunch	(61,827)	(14,783)	(47,044)
Total Expenses	<u>45,533,114</u>	<u>46,318,878</u>	<u>(785,764)</u>
Change in Net Assets	<u>\$ (5,687,342)</u>	<u>\$ (5,938,119)</u>	<u>\$ 250,777</u>

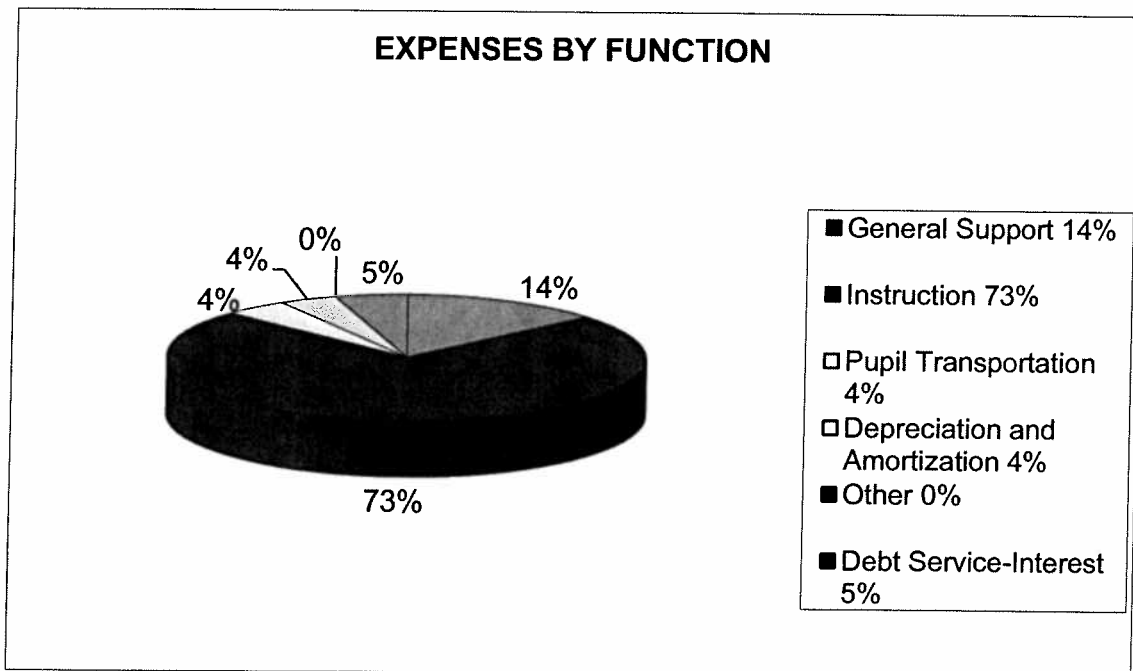


The following charts provide the percentage of breakdown of all revenues by source and all expenses by function for the entire District:

**Districtwide Revenues by Source  
For the Year Ended June 30, 2012**



**Districtwide Expenses by Function  
For the Year Ended June 30, 2012**



## FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds.

A fund is a grouping of related accounts, and is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants). All of the funds of the District can be divided into two categories; governmental funds, and fiduciary funds.

- **Governmental funds:** All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds, and the balances left at year-end that are available for spending. They are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources available to be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the districtwide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- **Fiduciary funds:** The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the districtwide financial statements because it cannot use these assets to finance its operations.

## FUND FINANCIAL ANALYSIS (DISTRICT'S FUNDS)

The District's governmental funds (as presented on the balance sheet) reported a combined Fund Balance of \$1,774,978, which is above last year's total of \$223,433. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2012 and 2011.

	<u>Fund Balance 2012</u>	<u>Fund Balance 2011</u>	<u>Variance Increase (Decrease)</u>
General	\$ 551,368	\$ 941,136	\$ (389,768)
School Lunch	119,142	57,204	61,938
Federal	8	8	-
Capital	668,453	(1,065,769)	1,734,222
Debt Service	436,007	290,854	145,153
Totals	<u>\$ 1,774,978</u>	<u>\$ 223,433</u>	<u>\$ 1,551,545</u>

**General Fund**

The tables that follow assist in illustrating the financial activities and balance of the general fund.

<b><u>Revenues:</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>Variance Increase (Decrease)</u></b>
Taxes and Other Tax Items	\$ 19,651,091	\$ 17,802,823	\$ 1,848,268
Nonproperty Taxes	464,635	679,375	(214,740)
Use of Money and Property	407,584	540,361	(132,777)
State/Federal Sources	18,886,024	20,214,895	(1,328,871)
Other	537,675	481,498	56,177
Totals	<u>\$ 39,947,009</u>	<u>\$ 39,718,952</u>	<u>\$ 228,057</u>

<b><u>Expenses:</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>Variance Increase (Decrease)</u></b>
General Support	\$ 4,234,841	\$ 4,467,346	\$ (232,505)
Instruction	18,802,089	18,948,115	(146,026)
Pupil Transportation	1,919,166	2,140,888	(221,722)
Community Service	20,699	28,277	(7,578)
Employee Benefits	10,474,676	9,923,770	550,906
Debt Service	4,807,473	4,618,957	188,516
Other	77,833	85,823	(7,990)
Total Expenses	<u>\$ 40,336,777</u>	<u>\$ 40,213,176</u>	<u>\$ 123,601</u>

**GENERAL FUND BUDGET INFORMATION**

The District's budget is prepared in accordance with New York State law and is based on the modified accrual basis of accounting, utilizing cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

**CAPITAL ASSETS**

The District's capital assets (net of accumulated depreciation) as of June 30, 2012 are as follows:

<u>Asset Description</u>	<u>Amount</u>
Land	\$ 49,537
Construction in Progress	2,949,701
Buildings and Improvements	55,829,260
Machinery and Equipment	<u>1,079,165</u>
Total	<u>\$59,907,663</u>

The total decrease in the District's capital assets (net of accumulated depreciation) for the current fiscal year was \$57,632. The most significant changes to capital assets are attributable to the costs of the capital projects less depreciation expense of the capital assets.

**DEBT**

The District had debt outstanding including serial bonds and a capital lease in the amounts of \$47,821,765 as of June 30, 2012, a decrease over the previous year of \$2,131,855. The debt outstanding for the year ended June 30, 2012 is summarized as follows:

<u>Debt Description</u>	<u>Outstanding Balance</u>
Bonds	\$ 46,070,000
Capital Lease	<u>1,751,765</u>
Totals	<u>\$ 47,821,765</u>

The District has refunding bonds outstanding, the proceeds of which are in escrow to fund other previously existing debt. The refunding was done to lower the interest payments that are paid in the future.

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on a percentage of the total full value of real property. At June 30, 2012 the District's general obligation debt was less than its total debt limit. The District has a bond rating of A.

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future. One challenge facing the District is the state's economy and its effect on state aid funding levels. With the downfall of the economy, the state has experienced a significant loss of revenue. As the state continues to experience revenue shortfalls, these shortfalls will be passed onto school districts with aid cuts. The District expects to continue to experience declines or stagnation in state aid.

In June of 2011, the New York State Legislature passed the Property Tax Cap Chapter 97 of the Laws of 2011, which began with the 2012 – 2013 school year budget. This law will be in effect through at least the 2016 – 2017 school year. The legislation provides a calculation for a tax levy limit, which caps the amount of revenues the District can raise through the levy of taxes. In the circumstance of a defeat of an original budget with a tax levy increase calculated in accordance with the legislation and a resubmitted/revised budget defeat, the Board of Education is mandated by this legislation to adopt a budget that levies a tax no greater than that of the prior year; a zero percent tax levy increase. This would prove to be a serious strain on the ability of the District to meet its obligations and has the potential to eliminate all of the District's fund balance. The legislation also poses a serious public relations challenge to the District due to the public perception of the law; it was publicized as a "2% property tax cap" and many members of the public may interpret this as a law which caps their individual tax bills at 2%, so it is up to the District to combat the misconceptions of the law.

The District currently has various Payment in Lieu of Taxes (PILOT) agreements with companies in the community. One of those companies is Hudson Valley Care Centers, Inc. The company was granted tax exempt status due to their classification as a Non-Profit Organization. This resulted in a loss of revenue in the 2012-2013 school year of \$98,624.34, and they will no longer be responsible for paying any amounts in the future. The District will continue to look for ways to consult with companies and development agencies in the future to broker agreements that will be beneficial for all parties involved, rather than beneficial for just the company doing business within our district.

The contracts with the all of the bargaining units within the District are currently expired. The Hudson Teachers Association (HTA) began negotiations and has entered into a Memorandum of Agreement with the District. This agreement will cost the District approximately \$93,000 over a three year period. The District is currently entering the negotiating process with the Hudson City School District Administrators, and is open to negotiation with all remaining bargaining units. The District expects the negotiation process to be a contentious one with various demands and requests being presented by each unit. The District will make its best effort to accommodate these demands based on the realities it faces while looking forward to the projected financial condition of future years. Enrollment in the District has been steadily declining over the last few years, which is a potential burden for the District regarding state aid in the future. There are various state aid formulas which are driven by enrollment and due to the decline the District could face even greater decreasing state aid revenues.

With the onset of the 2013 – 2014 budget development process, school districts will be forced to review existing educational program offerings, and review all services offered to determine if there are operational efficiencies that can be implemented. Areas such as special education and transportation have been focal points in the past in terms of cost cutting and the District recognizes the burden that is placed in these areas because of some of the unfunded mandates originating from a State level. The District is in the process of updating the long range financial plan to ensure that fund balance management is followed.

Current challenges include maintaining and upgrading the existing facilities. Future projects will create additional financial pressure on the entire community as a result of both short-term expenditure growth, and longer-term expenditure growth as the result of the additions and renovations to facilities that will result over time.

The cost of employee benefits continues to be a major budgetary factor for all school districts. The continued rapid growth in the cost of health insurance combined with the rising costs of funding the Teachers' Retirement System and Employees' Retirement System are projected to have significant budgetary, if not detrimental, impacts in the near to intermediate future for school districts throughout New York State.

In conclusion, the Hudson City School District has committed itself to financial planning, and fiscal accountability. The district will continue the essential long range financial plan, and will continue to strive to add to its fund balance to prepare for and to meet the challenges of the future.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

It is the intent of this report to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following:

Hudson City School District  
215 Harry Howard Avenue  
Hudson, New York 12534

HUDSON CITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2012

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**ASSETS**

**Current Assets:**

Unrestricted cash	\$ 2,006,426
Taxes receivable	1,077,260
Accounts receivables, net	220,261
State and federal aid receivable	2,436,818
Due from fiduciary funds	73
Due from other governments	276,010
Inventories	22,344
Total Current Assets	6,039,192

**Noncurrent Assets:**

Capital assets, net	59,907,663
Other assets, net	53,621
Total Noncurrent Assets	59,961,284

<b>Total Assets</b>	<b>66,000,476</b>
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**LIABILITIES**

**Current Liabilities:**

Accounts payable	1,282,465
Accrued liabilities	58,812
Due to teachers' retirement system	1,763,888
Due to employees' retirement system	196,459
Deferred revenues	213,457
Bonds payable	2,500,000
Capital lease	200,723
Total Current Liabilities	6,215,804

**Long-Term Obligations:**

Bonds payable	43,570,000
Capital lease	1,551,042
Due to employees' retirement system	231,601
Due to teachers' retirement system	415,814
Other postemployment benefits payable	27,487,934
Compensated absences	1,273,116
Total Long-Term Obligations	74,529,507

<b>Total Liabilities</b>	<b>80,745,311</b>
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**NET ASSETS**

Investment in capital assets, net of related debt	12,807,972
Restricted	436,007
Unrestricted (deficit)	(27,988,814)
<b>Total Net Assets</b>	<b>\$ (14,744,835)</b>

See auditor's report. See notes to financial statements.

HUDSON CITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
For Year Ended June 30, 2012

		Program Revenues			
Expenses	Expenses Allocation	Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets	
<b>FUNCTIONS/PROGRAMS</b>					
General support	\$ 4,234,841	\$ 1,949,434	\$ -	\$ -	\$ (6,184,275)
Instruction	22,316,631	14,657,476	144,394	3,428,706	(33,401,007)
Pupil transportation	1,973,501	50,829	-	54,335	(1,969,995)
Community service	20,699	17,302	-	-	(38,001)
Employee benefits	16,867,675	(16,867,675)	-	-	-
Debt service-interest	2,225,572	-	-	-	(2,225,572)
Depreciation-unallocated	1,762,686	-	-	-	(1,762,686)
Amortization	13,405	-	-	-	(13,405)
School lunch program	891,956	192,634	295,646	850,771	61,827
<b>Total Functions and Programs</b>	<b>\$ 50,306,966</b>	<b>\$ -</b>	<b>\$ 440,040</b>	<b>\$ 4,333,812</b>	<b>(45,533,114)</b>
<b>GENERAL REVENUES</b>					
Real property taxes					17,406,982
Other tax items					2,175,329
Nonproperty taxes					464,635
Use of money and property					411,583
Sale of property and compensation for loss					49,153
Miscellaneous					334,475
State sources					18,794,777
Federal sources					91,247
Premium on obligations					117,591
<b>Total General Revenues</b>					<b>39,845,772</b>
<b>Change in Net Assets</b>					<b>(5,687,342)</b>
<b>Total Net Assets - Beginning of year</b>					<b>(9,057,493)</b>
<b>Total Net Assets - End of year</b>					<b>\$ (14,744,835)</b>

See auditor's report. See notes to financial statements.



HUDSON CITY SCHOOL DISTRICT  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF  
NET ASSETS  
June 30, 2012

	Total Governmental Funds	Long-term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
<b>ASSETS</b>				
Unrestricted cash	\$ 2,006,426	\$ -	\$ -	\$ 2,006,426
Taxes receivable	1,077,260	-	-	1,077,260
Accounts receivable, net	220,261	-	-	220,261
State and federal aid receivable	2,436,818	-	-	2,436,818
Due from other funds	2,054,033	-	(2,054,033)	-
Due from fiduciary funds	-	-	73	73
Due from other governments	276,010	-	-	276,010
Inventories	22,344	-	-	22,344
Capital assets, (net)	-	59,907,663	-	59,907,663
Other assets, (net)	-	53,621	-	53,621
	<b>Total Assets</b>	<b>\$ 59,961,284</b>	<b>\$ (2,053,960)</b>	<b>\$ 66,000,476</b>
	<b>\$ 8,093,152</b>	<b>\$ 59,961,284</b>	<b>\$ (2,053,960)</b>	<b>\$ 66,000,476</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,282,465	\$ -	\$ -	\$ 1,282,465
Accrued liabilities	-	58,812	-	58,812
Bonds payable	-	46,070,000	-	46,070,000
Other debt	-	1,751,765	-	1,751,765
Due to other funds	2,053,960	-	(2,053,960)	-
Due to teachers' retirement system	1,763,888	415,814	-	2,179,702
Due to employees' retirement system	196,459	231,601	-	428,060
Other postemployment benefits payable	-	27,487,934	-	27,487,934
Compensated absences	-	1,273,116	-	1,273,116
Deferred revenues	1,021,402	-	(807,945)	213,457
	<b>Total Liabilities</b>	<b>77,289,042</b>	<b>(2,861,905)</b>	<b>80,745,311</b>
	<b>6,318,174</b>	<b>77,289,042</b>	<b>(2,861,905)</b>	<b>80,745,311</b>
<b>FUND EQUITY\NET ASSETS</b>				
<b>Total Fund Equity\Net Assets</b>	<b>1,774,978</b>	<b>(17,327,758)</b>	<b>807,945</b>	<b>(14,744,835)</b>
	<b>1,774,978</b>	<b>(17,327,758)</b>	<b>807,945</b>	<b>(14,744,835)</b>
<b>Total Liabilities, Equity and Other Credits</b>	<b>\$ 8,093,152</b>	<b>\$ 59,961,284</b>	<b>\$ (2,053,960)</b>	<b>\$ 66,000,476</b>
	<b>\$ 8,093,152</b>	<b>\$ 59,961,284</b>	<b>\$ (2,053,960)</b>	<b>\$ 66,000,476</b>

See auditor's report. See notes to financial statements.

HUDSON CITY SCHOOL DISTRICT  
RECONCILIATION OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND  
EQUITY TO THE STATEMENT OF ACTIVITIES  
For Year Ended June 30, 2012

	Total Governmental Funds	Long-term Revenue, Expenses	Capital Related Items	Long-term Debt Transactions	Statement of Activities Totals
<b>REVENUES</b>					
Real property taxes	\$ 17,474,386	\$ (67,404)	\$ -	\$ -	\$ 17,406,982
Other tax items	2,176,705	(1,376)	-	-	2,175,329
Nonproperty taxes	464,635	-	-	-	464,635
Charges for services	144,394	-	-	-	144,394
Use of money and property	411,583	-	-	-	411,583
Sale of property and compensation for loss	49,153	-	-	-	49,153
Miscellaneous	366,615	-	-	-	366,615
State sources	19,513,677	-	-	-	19,513,677
Federal sources	3,679,984	-	-	-	3,679,984
Sales - school lunch	289,681	-	-	-	289,681
<b>Total Revenues</b>	<u>44,570,813</u>	<u>(68,780)</u>	<u>-</u>	<u>-</u>	<u>44,502,033</u>
<b>EXPENDITURES</b>					
General support	4,234,841	-	-	-	4,234,841
Instruction	22,298,435	18,196	-	-	22,316,631
Pupil transportation	1,973,501	-	-	-	1,973,501
Community service	20,699	-	-	-	20,699
Employee benefits	10,667,310	6,200,365	-	-	16,867,675
Debt service-Principal	2,611,855	-	-	(2,611,855)	-
-Interest	2,246,182	(20,610)	-	-	2,225,572
School lunch-cost of sales	891,956	-	-	-	891,956
Amortization	-	13,405	-	-	13,405
Capital outlay	1,705,054	-	(1,705,054)	-	-
Depreciation	-	-	1,762,686	-	1,762,686
<b>Total Expenditures</b>	<u>46,649,833</u>	<u>6,211,356</u>	<u>57,632</u>	<u>(2,611,855)</u>	<u>50,306,966</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(2,079,020)</u>	<u>(6,280,136)</u>	<u>(57,632)</u>	<u>2,611,855</u>	<u>(5,804,933)</u>
<b>OTHER SOURCES AND USES</b>					
Premium on obligations	117,591	-	-	-	117,591
Bond anticipation notes redeemed	195,000	-	-	(195,000)	-
Proceeds from obligations	3,385,000	-	-	(3,385,000)	-
Proceeds from advanced refunding	2,290,000	-	-	(2,290,000)	-
Fiscal agent fees	(67,026)	-	-	67,026	-
Payment to escrow agent	(2,290,000)	-	-	2,290,000	-
Operating transfers in	229,290	(229,290)	-	-	-
Operating transfers (out)	(229,290)	229,290	-	-	-
<b>Total Other Sources (Uses)</b>	<u>3,630,565</u>	<u>-</u>	<u>-</u>	<u>(3,512,974)</u>	<u>117,591</u>
<b>Net Change for the Year (Deficit)</b>	<u>\$ 1,551,545</u>	<u>\$ (6,280,136)</u>	<u>\$ (57,632)</u>	<u>\$ (901,119)</u>	<u>\$ (5,687,342)</u>

See auditor's report. See notes to financial statements.

HUDSON CITY SCHOOL DISTRICT  
BALANCE SHEET- GOVERNMENTAL FUNDS

June 30, 2012

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>						
Unrestricted cash	\$ 1,013,439	\$ 102,477	\$ 79,022	\$ -	\$ 811,488	\$ 2,006,426
Taxes receivable	1,077,260	-	-	-	-	1,077,260
Accounts receivable, net	209,821	-	10,440	-	-	220,261
State and federal aid receivable	856,277	1,419,937	74,287	-	86,317	2,436,818
Due from other funds	1,423,026	-	-	436,007	195,000	2,054,033
Due from other governments	276,010	-	-	-	-	276,010
Inventories	-	-	22,344	-	-	22,344
<b>Total Assets</b>	<u>\$ 4,855,833</u>	<u>\$ 1,522,414</u>	<u>\$ 186,093</u>	<u>\$ 436,007</u>	<u>\$ 1,092,805</u>	<u>\$ 8,093,152</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 1,133,852	\$ 134,826	\$ 13,787	\$ -	\$ -	\$ 1,282,465
Due to teachers' retirement system	1,763,888	-	-	-	-	1,763,888
Due to employees' retirement system	196,459	-	-	-	-	196,459
Due to other funds	206,655	1,372,101	50,852	-	424,352	2,053,960
Deferred revenues	1,003,611	15,479	2,312	-	-	1,021,402
<b>Total Liabilities</b>	<u>4,304,465</u>	<u>1,522,406</u>	<u>66,951</u>	<u>-</u>	<u>424,352</u>	<u>6,318,174</u>
<b>FUND BALANCES</b>						
Non-spendable	-	-	22,344	-	-	22,344
Restricted	-	-	-	436,007	-	436,007
Assigned	11,001	8	96,798	-	668,453	776,260
Unassigned	540,367	-	-	-	-	540,367
<b>Total Fund Balances</b>	<u>551,368</u>	<u>8</u>	<u>119,142</u>	<u>436,007</u>	<u>668,453</u>	<u>1,774,978</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 4,855,833</u>	<u>\$ 1,522,414</u>	<u>\$ 186,093</u>	<u>\$ 436,007</u>	<u>\$ 1,092,805</u>	<u>\$ 8,093,152</u>

See auditor's report. See notes to financial statements.

HUDSON CITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY- GOVERNMENTAL  
 FUNDS  
 For Year Ended June 30, 2012

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>						
Real property taxes	\$ 17,474,386	\$ -	\$ -	\$ -	\$ -	\$ 17,474,386
Other tax items	2,176,705	-	-	-	-	2,176,705
Nonproperty taxes	464,635	-	-	-	-	464,635
Charges for services	144,394	-	-	-	-	144,394
Use of money and property	407,584	-	111	3,888	-	411,583
Sale of property and compensation for loss	49,153	-	-	-	-	49,153
Miscellaneous	333,935	26,175	5,965	-	540	366,615
State sources	18,794,777	693,304	25,596	-	-	19,513,677
Federal sources	91,247	2,763,562	825,175	-	-	3,679,984
Sales	-	-	289,681	-	-	289,681
<b>Total Revenues</b>	<u>39,936,816</u>	<u>3,483,041</u>	<u>1,146,528</u>	<u>3,888</u>	<u>540</u>	<u>44,570,813</u>
<b>EXPENDITURES</b>						
General support	4,234,841	-	-	-	-	4,234,841
Instruction	18,802,089	3,496,346	-	-	-	22,298,435
Pupil transportation	1,919,166	54,335	-	-	-	1,973,501
Community services	20,699	-	-	-	-	20,699
Employee benefits	10,474,676	-	192,634	-	-	10,667,310
Debt service						
Principal	2,611,855	-	-	-	-	2,611,855
Interest	2,195,618	-	-	50,564	-	2,246,182
Cost of sales	-	-	891,956	-	-	891,956
Capital outlay	-	-	-	-	1,705,054	1,705,054
<b>Total Expenditures</b>	<u>40,258,944</u>	<u>3,550,681</u>	<u>1,084,590</u>	<u>50,564</u>	<u>1,705,054</u>	<u>46,649,833</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(322,128)</u>	<u>(67,640)</u>	<u>61,938</u>	<u>(46,676)</u>	<u>(1,704,514)</u>	<u>(2,079,020)</u>
<b>OTHER SOURCES AND USES</b>						
Premium on obligations	-	-	-	117,591	-	117,591
Bond anticipation notes redeemed	-	-	-	-	195,000	195,000
Proceeds from obligations	-	-	-	-	3,385,000	3,385,000
Proceeds from advanced refunding	-	-	-	2,290,000	-	2,290,000
Fiscal agent fees	-	-	-	(67,026)	-	(67,026)
Payment to escrow agent	-	-	-	(2,290,000)	-	(2,290,000)
Operating transfers in	10,193	77,833	-	141,264	-	229,290
Operating transfers (out)	(77,833)	(10,193)	-	-	(141,264)	(229,290)
<b>Total Other Sources (Uses)</b>	<u>(67,640)</u>	<u>67,640</u>	<u>-</u>	<u>191,829</u>	<u>3,438,736</u>	<u>3,630,565</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other (Uses)</b>	<u>(389,768)</u>	<u>-</u>	<u>61,938</u>	<u>145,153</u>	<u>1,734,222</u>	<u>1,551,545</u>
<b>Fund Equity- (Deficit) Beginning of year</b>	<u>941,136</u>	<u>8</u>	<u>57,204</u>	<u>290,854</u>	<u>(1,065,769)</u>	<u>223,433</u>
<b>Fund Equity - End of year</b>	<u>\$ 551,368</u>	<u>\$ 8</u>	<u>\$ 119,142</u>	<u>\$ 436,007</u>	<u>\$ 668,453</u>	<u>\$ 1,774,978</u>

See auditor's report. See notes to financial statements.

HUDSON CITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS- FIDUCIARY FUNDS  
 June 30, 2012  
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	Agency
<b>ASSETS</b>	
Cash	\$ 166,384
<b>Total Assets</b>	<b>\$ 166,384</b>
 <b>LIABILITIES</b>	
Extraclassroom activity balances	\$ 88,783
Other liabilities	77,528
Due to governmental funds	73
<b>Total Liabilities</b>	<b>\$ 166,384</b>

See auditor's report. See notes to financial statements.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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**I. Summary of Significant Accounting Policies**

The financial statements of the Hudson City School District have been prepared in conformity with generally accepted accounting principles (GAAP). Those principles are as prescribed by the Governmental Accounting Standards Board (GASB) which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Significant accounting principles and policies utilized by the District are described below:

**A. Reporting Entity**

The Hudson City School District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education consisting of 7 members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, The Financial Reporting Entity, as amended by GASB Statement 39, Component Units. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the School District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief review of certain entities included in the School District's reporting entity:

The Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the Hudson City School District represent funds of the students of the School District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the School District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds are included in these financial statements. The District accounts for assets held as an agent for various student organizations in an agency fund.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**B. Joint Venture**

The Hudson City School District is one of 22 component school districts in the Rensselaer-Columbia-Greene Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities.

BOCES are organized under Section 1950 of the Education Law. A BOCES Board is considered a corporate body. All BOCES property is held by the BOCES Board as a corporation (Section 1950(6)). In addition, BOCES Boards are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section 119-n(a) of the General Municipal Law.

A BOCES' budget is comprised of separate budgets for administrative, program, and capital costs. Each component school district's share of administrative and capital cost is determined by resident public school district enrollment as defined in Education Law, Section 1950(4)(b)(7). In addition, component districts pay tuition or a service fee for programs in which its students participate.

There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component school districts pay tuition or a service fee for programs in which their students participate. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of Section 1950 of the Education Law.

During the year ended June 30, 2012, the Hudson City School District was billed \$2,721,273 for BOCES administrative and program costs. The District's share of BOCES Aid amounted to \$552,772. Financial statements for the BOCES Aid are available from the BOCES administrative office.

**C. Basis of Presentation**

**1. Districtwide Statements**

The Districtwide Statement of Net Assets and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes,

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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I. **Summary of Significant Accounting Policies (Continued)**

C. **Basis of Presentation (Continued)**

1. **Districtwide Statements (Continued)**

State Aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The Statement of Activities presents a comparison between program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas.

2. **Fund Financial Statements**

The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The District reports the following funds:

a. **Major Governmental Funds**

- (1) **General Fund** - This is the District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.
- (2) **Special Aid Fund** - These funds account for the proceeds of specific revenue sources, such as federal and state grants, that are legally restricted to expenditures for specified purposes and other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

See auditor's report.



HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

**2. Fund Financial Statements (Continued)**

**a. Major Governmental Funds (Continued)**

- (3) **School Lunch Fund** – Used to account for transactions of the District’s lunch and breakfast programs.
- (4) **Debt Service Fund** – This fund accounts for the accumulation of resources and the payment of principal and interest on long-term obligations for governmental activities.
- (5) **Capital Projects Fund** – This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

**b. Fiduciary Funds**

Fiduciary activities are those in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the districtwide financial statements, because their resources do not belong to the District, and are not available to be used. There are two classes of fiduciary funds:

- (1) **Private Purpose Trust Funds** – These funds are used to account for trust arrangements in which principal and income benefits annual third party awards and scholarships for students. Established criteria govern the use of the funds and members of the District or representatives of the donors may serve on committees to determine who benefits.
- (2) **Agency Funds** – These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the District as agent for various student groups or extraclassroom activity funds and for payroll or employee withholding.

See auditor’s report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**D. Measurement Focus and Basis of Accounting**

The districtwide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**E. Cash and Investments**

The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and districts.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**F. Property Taxes**

Real property taxes are levied annually by the Board of Education no later than September 1, and become a lien on July 19. Taxes are collected during the period July 15 to October 31.

Uncollected real property taxes are subsequently enforced by the City of Hudson and the County of Columbia. An amount representing uncollected real property taxes is transmitted to the City and the County for enforcement and is paid by the City and the County to the District no later than the forthcoming April 1.

**G. Restricted Resources**

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy concerning which to apply first varies with the intended use, and with the associated legal requirements, many of which are described elsewhere in these Notes.

**H. Interfund Transactions**

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfer of expenditures and revenues to provide financing or other services.

In the districtwide statements, the amounts reported on the Statement of Net Assets for interfund receivables and payables represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all interfund receivables and payables between funds, with the exception of those due from or to the fiduciary funds.

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables may be netted on the accompanying governmental funds balance sheet when it is the District's practice to settle these amounts at a net balance based upon the right of legal offset.

Refer to Note IV for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. **Summary of Significant Accounting Policies (Continued)**

I. **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

J. **Receivables**

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

K. **Inventories and Prepaid Items**

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis or in the case of surplus food, at stated value which approximates market. Purchases of inventorial items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount. Prepaid items represent payments made by the District for which benefits extend beyond year end.

L. **Other Assets/Restricted Assets**

Certain proceeds from serial bonds and bond anticipation notes, as well as resources set aside for their repayment are classified as restricted assets in the districtwide financial statements and their use is limited by applicable bond covenants.

In the districtwide financial statements, bond issuance costs are capitalized and amortized over the life of the debt issue. In the funds statements these same costs are netted against bond proceeds and recognized in the period of issuance.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**M. Capital Assets**

Capital assets are reflected in the districtwide financial statements. Capital assets are reported at historical cost or estimated historical costs, based on appraisals conducted by independent third party professionals. Donated 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.

Capital assets, except land, are depreciated on a straight-line basis over their estimated useful lives. Capitalization thresholds and estimated useful lives of capital assets reported in the districtwide statements are as follows:

	Capitalization Threshold	Estimated Useful Life
Site Improvements	\$ 500	20
Buildings and Improvements	\$ 500	15-50
Furniture and Equipment	\$ 500	5-15
Vehicles	\$ 500	8

**N. Compensated Absences**

Compensated absences consist of unpaid accumulated annual sick leave, vacation, and sabbatical time.

Sick leave eligibility and accumulation is specified in negotiated labor contracts, and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave.

District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement 16, Accounting for Compensated Absences, the liability has been calculated using the vested/termination method. The compensated absences liability is calculated based on the pay rates in effect at year end. In the fund statements only the amount of matured liabilities is accrued within the General Fund based upon expendable and available resources. These amounts are expensed on a pay-as-you-go basis.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**O. Accrued Liabilities and Long-Term Obligations**

Payables, accrued liabilities and long-term obligations are reported in the districtwide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources.

Claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the funds financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Long-term obligations represent the District's future obligations or future economic outflows. The liabilities are reported as due in one year or due within more than one year in the Statement of Net Assets.

**P. Deferred Revenue**

Deferred revenues are reported on the combined balance sheet. Deferred revenues arise when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for deferred revenues is removed and revenues are recorded. Statute provides the authority for the District to levy taxes to be used to finance expenditures within the first 120 days of the succeeding fiscal year. Consequently, such amounts are recognized as revenues in the subsequent fiscal year rather than when measurable and available.

**Q. Postemployment Benefits**

In addition to providing pension benefits, the School District provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the School District's employees may become eligible for these benefits if they reach normal retirement age while working for the School District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post retirement benefits is shared between the School District and the retired employee. The School District recognizes the cost of providing health insurance by recording its share of insurance premiums (for retirees and their dependents) as an expenditure in the General Fund in the year paid.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**R. Short-Term Debt**

The School District may issue Revenue and Tax Anticipation Notes in anticipation of receipt of revenues. These notes are recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The revenue anticipation and tax anticipation notes represent a liability that will be extinguished by the use of expendable, available resources of the fund.

The District may issue budget notes up to an amount not to exceed 5% of the amount of the annual budget during any fiscal year for expenditures for which there is an insufficient or no provision made in the annual budget. The budget note must be repaid no later than the close of the second fiscal year succeeding the year in which the note was issued.

The School District may issue Bond Anticipation Notes in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as a current liability of the fund that will actually receive the proceeds from the issuance of bonds. State law requires that bond anticipation notes issued for capital purposes be converted to long-term financing within five years after the original issue date.

**S. Equity Classifications**

**1. Districtwide Statements**

In the districtwide statements there are three classes of net assets:

**Invested in capital assets, net related debt** – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets.

**Restricted net assets** – reports net assets when constraints placed on the assets are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

**Unrestricted net assets** – reports all other net assets that do not meet the definition of the above two classifications and are deemed to be available for general use by the District.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. **Summary of Significant Accounting Policies (Continued)**

S. **Equity Classifications (Continued)**

2. **Fund Statements**

In the fund basis statements, there are five classifications of fund balance:

**Non-spendable** – includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the School Lunch Fund of \$22,344.

**Restricted** – includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. All encumbrances of funds other than the General Fund are classified as restricted fund balance. The School District has established the following restricted fund balances:

1. **Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and commitments of expenditures are recorded for budgetary control purposes in order to reserve applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations. Open encumbrances are reported as restricted fund balance in all funds other than the General Fund, since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

See auditor's report.



HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. **Summary of Significant Accounting Policies (Continued)**

S. **Equity Classifications (Continued)**

2. **Fund Statements (Continued)**

Restricted fund balance includes the following:

Debt Service Fund	\$ 436,007
Total restricted funds	<u>\$ 436,007</u>

**Committed** – Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the School District’s highest level of decision making, the Board of Education. The School District has no committed fund balances as of June 30, 2012.

**Assigned** – Includes amounts that are constrained by the School District’s intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances of the General Fund are classified as **Assigned Fund Balance** in the General Fund. Encumbrances reported in the General Fund amounted to \$11,001.

**Unassigned** – Includes all other General Fund net assets that do not meet the definition of the above four classifications and are deemed to be available for general use by the School District.

NYS Real Property Tax Law 1318 limits the amount of unexpended surplus funds a School District can retain to no more than 4% of the School District’s budget for the General Fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the General Fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances are also excluded from the 4% limitation.

See auditor’s report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**S. Equity Classifications (Continued)**

**2. Fund Statements (Continued)**

Order of Use of Fund Balance:

The District's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the General Fund are classified as restricted fund balance. In the General Fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

**T. Budgetary Procedures and Budgetary Accounting**

**1. Budget Policies**

The budget policies are as follows:

- a. The School District's administration prepares a proposed budget for approval by the Board of Education for the General Fund.
- b. The voters of the District defeated the proposed appropriation budget; consequently, the Board of Education adopted a contingency budget, which included appropriations for teachers' salaries and other ordinary contingent expenses. The contingency budget total is capped at the lesser of 120% of the CPI or 4% over the prior year's budget. In addition, the administrative component of a contingency budget, exclusive of the capital component, may not comprise a greater percentage of the budget than the lesser of that percentage of the prior year's budget, or that percentage in the last defeated budget.
- c. Appropriations are adopted at the program level.
- d. Appropriations established by adoption of the budget constitute a limitation on expenditures (and encumbrances), which may be incurred. Appropriations lapse at the fiscal year end. Supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**T. Budgetary Procedures and Budgetary Accounting (Continued)**

2. Budget Basis of Accounting

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

The budget and actual comparison in the Schedule of Revenues and Expenditures-Budget and Actual, reflects budgeted and actual amounts for the General Fund which is a legally authorized (appropriated) budget.

Special Aid Fund and School Lunch Fund have not been included in the comparison because they do not have legally authorized budgets.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**II. Explanation of Certain Differences between Governmental Fund Statements and Districtwide Statements**

Due to differences in the measurement focus and basis of accounting used in the governmental fund statements and the districtwide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

1. Total Fund Balances of Governmental Funds vs. Net Assets of Governmental Activities:

Total fund balances of the District's governmental funds differ from "net assets" of governmental activities reported in the Statement of Net Assets. This difference primarily results from the additional long-term economic focus of the Statement of Net Assets versus the solely current financial resources focus of the governmental fund balance sheets.

2. Statement of Revenues, Expenditures, and Changes in Fund Balance vs. Statement of Activities:

Differences between the funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of three broad categories:

a. Long-term revenue differences:

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

b. Capital related differences:

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**II. Explanation of Certain Differences between Governmental Fund Statements and Districtwide Statements (Continued)**

2. Statement of Revenues, Expenditures, and Changes in Fund Balance vs. Statement of Activities (Continued):

c. Long-term debt transaction differences:

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

The costs of building and acquiring capital assets (land, buildings, and equipment) financed from governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually of their useful lives.

Original cost of capital assets	\$78,327,576
Accumulated depreciation	<u>18,419,913</u>
Capital assets, net	<u>\$59,907,663</u>

Long-term liabilities are reported in the Statement of Net Assets, but not in the governmental funds, because they are not due and payable in the current period. Balances at year end were:

	2012	2011
Bonds and notes payable	\$ 46,070,000	\$ 44,910,000
Other debt	\$ 1,751,765	\$ 1,943,620
Compensted absences payable	\$ 1,273,116	\$ 1,254,920
OPEB obligations	\$ 27,487,934	\$ 21,316,498
Due to employees' retirement system	\$ 231,601	\$ 64,068
Due to teachers' retirement system	\$ 415,814	\$ 554,418

When the purchase or construction of capital assets is financed through governmental funds, the resources expended for those assets are reported as expenditures in the years they are incurred. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation of \$1,762,686 was more than capital expenditures of \$1,705,054 in the current year.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**II. Explanation of Certain Differences between Governmental Fund Statements and Districtwide Statements (Continued)**

2. Statement of Revenues, Expenditures, and Changes in Fund Balance vs. Statement of Activities (Continued):

Repayment of bond principal of \$4,706,855 is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets, and does not affect the Statement of Activities.

Interest on long-term debt and short-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest reported in the Statement of Activities decreased by \$20,610.

**III. Cash and Investments**

**A. Deposits**

The Hudson City School District's investment policies are governed by State statutes. The Hudson City School District's monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are: obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Deposits and investments at year end were entirely covered by Federal Deposit Insurance or by collateral held by the School District's custodial bank in the School District's name.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**IV. Interfund Transaction**

Interfund balances at June 30, 2012 are as follows:

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General Fund	\$ 1,423,026	\$ 206,655	\$ 10,193	\$ 77,833
Special Aid Fund	-	1,372,101	77,833	10,193
School Lunch Fund	-	50,852	-	-
Capital Fund	195,000	424,352	-	141,264
Debt Service Fund	436,007	-	141,264	-
Total governmental activities	<u>2,054,033</u>	<u>2,053,960</u>	<u>\$ 229,290</u>	<u>\$ 229,290</u>
Fiduciary Agency Fund	<u>-</u>	<u>73</u>		
Totals	<u>\$ 2,054,033</u>	<u>\$ 2,054,033</u>		

Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the Statement of Net Assets.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**V. Capital Assets**

A summary of changes in general fixed assets follows:

	Balance 7/1/2011	Additions	Deletions	Balance 6/30/2012
<u>Capital assets-not depreciated:</u>				
Land	\$ 49,537	\$ -	\$ -	\$ 49,537
Construction in progress	2,623,276	326,425	-	2,949,701
Total capital assets-not depreciated:	<u>2,672,813</u>	<u>326,425</u>	<u>-</u>	<u>2,999,238</u>
<u>Other capital assets:</u>				
Buildings and improvements	71,083,132	1,378,629	-	72,461,761
Machinery and equipment	2,712,927	-	-	2,712,927
Vehicles	153,650	-	-	153,650
Total other capital assets:	<u>73,949,709</u>	<u>1,378,629</u>	<u>-</u>	<u>75,328,338</u>
<u>Less accumulated depreciation:</u>				
Buildings and improvements	15,070,285	1,562,216	-	16,632,501
Machinery and equipment	1,437,450	196,312	-	1,633,762
Vehicles	149,492	4,158	-	153,650
Total accumulated depreciation	<u>16,657,227</u>	<u>1,762,686</u>	<u>-</u>	<u>18,419,913</u>
Other capital assets, net	<u>57,292,482</u>	<u>(384,057)</u>	<u>-</u>	<u>56,908,425</u>
Total	<u>\$ 59,965,295</u>	<u>\$ (57,632)</u>	<u>\$ -</u>	<u>\$ 59,907,663</u>

Depreciation expense for the period was shown as unallocated in the Statement of Activities.

See auditor's report.



HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

VI. Pension Plans

1. General Information

The Hudson City School District participates in the New York State and Local Employees' Retirement System (ERS), and the New York State Teachers' Retirement System (TRS). These Systems are cost sharing multiple employer, public employee retirement systems. The Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

2. Plan Descriptions

a. **Teachers' Retirement System (TRS)**

As an employer, the school district makes contributions to the New York State Teachers' Retirement System (TRS), a cost sharing, multiple employer defined benefit pension plan administered by the New York State Teachers' Retirement Board. The System provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. The System issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

b. **Employees' Retirement System (ERS)**

The New York State and Local Employees' Retirement System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

3. Funding Policies

For the Teachers' Retirement System, plan members who joined the system before July 27, 1976 are not required to make contributions. Those joining after July 26, 1976 and before January 1, 2010 with less than ten years of membership are required to contribute 3% of their annual salary. Those joining on or after January 1, 2010 and before April 1, 2012 are required to contribute 3.5% of their annual salary for their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**VI. Pension Plans (Continued)**

3. Funding Policies (Continued)

Employers are required to contribute at an actuarially determined rate, currently 11.11% of the annual covered payroll for the fiscal year ended June 30, 2012. Rates applicable to the fiscal years ended June 30, 2011 and 2010 were respectively, 8.62%, and 6.19%.

For the New York State and Local Employees' Retirement System, Chapter 126 of the laws of 2000 provide for the cessation of the 3% employee contribution for those Tier 3 and 4 members who, as of October 1, 2001, have either 10 years of membership or credited service. Members who joined on or after January 1, 2010 and before April 1, 2012 are required to contribute 3% of their salary throughout active membership. From April 1, 2012 through March 31, 2013, members contribute 3% of their salary. Beginning April 1, 2013, the contribution rate will be based on the member's annual wage.

The required and actual contributions for the current year and two preceding years were:

<u>Year</u>	<u>ERS</u>	<u>TRS</u>
2012	\$515,222	\$1,529,225
2011	\$455,059	\$1,106,986
2010	\$327,640	\$1,261,609

The School District contributions made to the Systems were equal to 100% of the contribution required for each year.

**VII. Short-Term Debt Obligations**

Transactions in short-term debt for the year are summarized below:

	<u>Maturity</u>	<u>Interest Rate</u>	<u>Balance 7/1/2011</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance 6/30/12</u>
BAN	2011	1.50%	\$3,100,000	\$ -	\$3,100,000	\$ -
BAN	2012	1.50%	-	<u>3,100,000</u>	<u>3,100,000</u>	-
			<u>\$3,100,000</u>	<u>\$ 3,100,000</u>	<u>\$6,200,000</u>	<u>\$ -</u>

Interest on short-term debt for the year was composed of:

Interest paid	\$ 81,553
Less interest accrued in the prior year	(35,005)
Plus interest accrued in the current year	-
Total expense	<u>\$ 46,548</u>

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**VIII. Long-Term Debt Obligations**

Long-term liability balances and activity for the year are summarized below:

**1. Long-Term Debt Interest**

Interest paid	\$ 2,211,129
Less interest accrued in the prior year	( 44,417)
Plus interest accrued in the current year	<u>58,812</u>
Total expense	<u><u>\$ 2,225,524</u></u>

**2. Changes**

	Balance 7/1/2011	Additions	Deletions	Balance 6/30/2012	Due Within One Year
Serial Bonds	\$ 44,910,000	\$ 5,675,000	\$ 4,515,000	\$ 46,070,000	<u>\$ 2,500,000</u>
Other debt	1,943,620	-	191,855	1,751,765	<u>\$ 200,723</u>
Compensated Absences	1,254,920	18,196	-	1,273,116	
Due to Employees' Retirement System	64,068	209,420	41,887	231,601	
Due to Teachers' Retirement System	554,418	-	138,604	415,814	
OPEB Obligations	21,316,498	6,171,436	-	27,487,934	
Totals	<u>\$ 70,043,524</u>	<u>\$ 12,074,052</u>	<u>\$ 4,887,346</u>	<u>\$ 77,230,230</u>	

Additions and deletions to compensated absences are shown net since it is impractical to determine these amounts separately.

**Current-Year Defeasance of Debt**

In the current year, certain general obligation bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds and the trust account assets are not included in the financial statements.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**VIII. Long-Term Debt Obligations (Continued)**

**3. Maturity**

a. The following is a summary of the debt issued:

<u>Purpose</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding 6/30/2012</u>
Bonds:				
Advanced refunding	2012	2016	3-4%	\$ 2,270,000
Construction	2009	2024	2-5%	925,000
Construction	2009	2029	2-5.625%	31,380,000
Construction	2009	2023	2-4.75%	610,000
Construction	2009	2028	2-5%	7,500,000
Construction	2012	2026	1.4-4.43%	3,385,000
				<u>\$ 46,070,000</u>
Other:				
Capital Lease	2005	2019	4.57%	<u>\$ 1,751,765</u>

b. The following is a summary of maturing principal debt service requirements:

	<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Serial Bonds:	2013	\$ 2,500,000	\$ 2,155,442	\$ 4,655,442
	2014	2,580,000	2,072,162	4,652,162
	2015	2,665,000	1,985,092	4,650,092
	2016	2,750,000	1,889,877	4,639,877
	2017	2,240,000	1,781,602	4,021,602
	2018 and thereafter	33,335,000	11,841,534	45,176,534
	Total	<u>\$ 46,070,000</u>	<u>\$ 21,725,709</u>	<u>\$ 67,795,709</u>

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**IX. Other Debt**

The Hudson City School District, during 2003-2004, entered into an agreement to finance the cost of energy efficiency improvements over a fifteen year period. The unpaid balance at June 30, 2012 was \$1,751,765. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 2012.

Year Ending June 30,	General Long-Term Debt
2013	\$ 278,511
2014	278,511
2015	278,511
2016	278,511
2017	278,511
2018 -thereafter	696,279
Minimum Lease Payments - Capital Leases	2,088,834
Less: Amount representing interest of 4.75%	337,069
Present Value-Minimum Lease Payments	\$ 1,751,765

**X. Postemployment (Health Insurance) Benefits**

The District provides postemployment (health insurance, life insurance, etc.) coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the District's contractual agreements.

The District implemented GASB Statement #45, Accounting and Financial Reporting by employers for Postemployment Benefits Other than Pensions, in the school year ended June 30, 2009. This required the District to calculate and record a net other postemployment benefit obligation at year end. The net other postemployment benefit obligation is basically the cumulative difference between the actuarially required contribution and the actual contributions made.

The 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, 2012, the District recognized \$2,912,445 for its share of insurance premiums for currently enrolled retirees.

The District has obtained an actuarial valuation report as of July 1, 2011 which indicates that the total liability for other postemployment benefits is \$27,487,934, which is reflected in the Statement of Net Assets.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**X. Postemployment (Health Insurance) Benefits (Continued)**

The District currently pays for postemployment health care benefits on a pay-as-you-go basis. Once New York State Law allows for the establishment of a trust to fund and invest assets necessary to pay for the accumulated liability, the District will study the establishment of such a trust. These financial statements assume that pay-as-you-go funding will continue.

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially 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 amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. 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 to HP:

Annual required contribution	\$ 9,440,017
Interest on net OPEB obligation	852,660
Adjustment to annual required contribution	(1,208,796)
Annual OPEB cost (expense)	<u>9,083,881</u>
Contributions made	<u>2,912,445</u>
Increase in net OPEB obligation	6,171,436
Net OPEB obligation-beginning of year	<u>21,316,498</u>
Net OPEB obligation-end of year	<u><u>\$ 27,487,934</u></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:

<u>Fiscal</u> <u>Year Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2010	\$ 9,253,406	25.60%	\$13,586,755
6/30/2011	\$10,626,639	27.26%	\$21,316,498
6/30/2012	\$ 9,083,881	32.06%	\$27,487,934

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**X. Postemployment (Health Insurance) Benefits (Continued)**

**Funded Status and Funding Progress**

As of July 1, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$99,994,980, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$99,994,980. The covered payroll (annual payroll of active employees covered by the plan) was \$18,317,994 and the ratio of the UAAL to the covered payroll was 545.88%. Actuarial 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 in the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial 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 actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation, the Projected Unit Credit Cost method was used. The actuarial assumptions included a 4% 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, and an annual healthcare cost trend rate of 9.8% initially, reduced by decrements to an ultimate rate of 5% after 5 years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 30 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period, at June 30, 2012, was 26 years.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**XI. Commitments and Contingencies**

**A. Risk Financing and Related Insurance**

1. General Information

The Hudson City School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

2. Other Items

The School District has received grants, which are subject to audit by agencies of the State and Federal government. Such audits may result in disallowances and a request for a return of funds. Based on prior audits, the School District's administration believes disallowances, if any, will be immaterial.

3. Litigation

There are currently pending tax certiorari proceedings, the results of which could require the payments of future tax refunds by the School District if existing assessment rolls are modified based on the outcome of the litigation proceedings. However, the amount of these possible refunds cannot be determined at the present time.

**XII. Other Disclosures**

**A. Summary of Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets**

Total governmental fund balance	\$ 1,774,978
Capital assets, (net)	59,907,663
Other assets, (net)	53,621
Bonds payable	(46,070,000)
Capital lease	(1,751,765)
Compensated absences	(1,273,116)
Accrued interest payable	(58,812)
OPEB obligations	(27,487,934)
Due to employees' retirement system	(231,601)
Due to teachers' retirement system	(415,814)
Deferred revenue	807,945
Total net assets	<u>\$ (14,744,835)</u>

See auditor's report.



HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**XII. Other Disclosures (Continued)**

**B. Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Equity to the Statement of Activities**

Net changes in fund balance – total governmental funds	\$ 1,551,545
Capital outlays are expenditures in governmental funds, but are capitalized in the Statement of Net Assets	1,705,054
Amortization of issuance costs on advanced refunding of bonds	(13,405)
Depreciation is not recorded as an expenditure in the governmental funds, but is recorded in the Statement of Activities	(1,762,686)
Repayments of Long-term Debt are recorded as expenditures in the governmental funds, but are recorded as payments of liabilities in the Statement of Net Assets	4,901,855
Certain revenues in the Statement of Activities are not required to be recorded as revenues in the governmental funds	(68,780)
Interest is recognized as an expense in governmental funds when paid. For governmental activities, interest expense is recognized as it accrues. The decrease in accrued interest during 2011/12 results in less expense.	20,610
Proceeds from debt are recognized as revenue in the governmental funds, but not in the Statement of Activities	(5,870,000)
Issuance costs of advanced refunding bonds are expensed in the governmental funds, but they are amortized over the life of the bond issue in the Statement of Activities	67,026
Certain expenses in the Statement of Activities do not require the expenditure of current resources and are, therefore, not reported as expenditures in the governmental funds:	
Teachers' retirement system	138,604
Employees' retirement system	(167,533)
OPEB obligations	(6,171,436)
Compensated absences	<u>(18,196)</u>
Change in Net Assets – Governmental Activities	<u><u>\$(5,687,342)</u></u>

See auditor's report.

HUDSON CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**XIII. Stewardship, Compliance and Accountability**

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year end are presented as reservations of fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time as the liability is incurred or the commitment is paid.

**XIV. Subsequent Events**

There were no significant subsequent events to report from the period July 1, 2012 to November 8, 2012.

See auditor's report.

HUDSON CITY SCHOOL DISTRICT  
SCHEDULE OF REVENUES COMPARED TO BUDGET- GENERAL FUND  
For Year Ended June 30, 2012

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Local Sources				
Real property tax items	\$ 17,427,555	\$ 17,427,555	\$ 17,474,386	\$ 46,831
Other tax items	2,262,867	2,262,867	2,176,705	(86,162)
Non-property taxes	650,000	650,000	464,635	(185,365)
Charges for services	115,000	115,000	144,394	29,394
Use of money and property	348,000	348,000	407,584	59,584
Sale of property and compensation for loss	-	-	49,153	49,153
Miscellaneous	251,000	251,000	333,935	82,935
<b>Total Local Sources</b>	<u>21,054,422</u>	<u>21,054,422</u>	<u>21,050,792</u>	<u>(3,630)</u>
State sources	19,194,758	19,194,758	18,794,777	(399,981)
Federal sources	100,000	100,000	91,247	(8,753)
<b>Total Revenues</b>	<u>40,349,180</u>	<u>40,349,180</u>	<u>39,936,816</u>	<u>(412,364)</u>
<b>Other Financing Sources</b>				
Operating transfers in	-	-	10,193	10,193
<b>Total Revenue and Other Financing Sources</b>	<u>40,349,180</u>	<u>40,349,180</u>	<u>39,947,009</u>	<u>\$ (402,171)</u>
<b>Appropriated Reserves</b>	300,000	300,000		
<b>Appropriated Fund Balance</b>	<u>500,000</u>	<u>500,000</u>		
<b>Total Revenues, Other Financing Sources, Appropriated Reserves and Fund Balance</b>	<u>\$ 41,149,180</u>	<u>\$ 41,149,180</u>		

See auditor's report.

HUDSON CITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES, OTHER USES AND ENCUMBRANCES  
COMPARED TO BUDGET- GENERAL FUND  
For Year Ended June 30, 2012

	Original Budget	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
<b>EXPENDITURES</b>					
<b>General Support</b>					
Board of education	\$ 29,303	\$ 29,303	\$ 26,639	\$ -	\$ 2,664
Central administration	206,284	203,490	201,123	-	2,367
Finance	449,957	436,797	429,155	-	7,642
Staff	128,966	144,917	142,743	-	2,174
Central services	3,104,916	2,852,836	2,827,498	-	25,338
Special items	501,411	607,683	607,683	-	-
<b>Total General Support</b>	<b>4,420,837</b>	<b>4,275,026</b>	<b>4,234,841</b>	<b>-</b>	<b>40,185</b>
<b>Instructional</b>					
Instruction, administration and improvement	1,558,992	1,554,201	1,375,127	-	179,074
Teaching - regular school	9,328,956	9,361,524	9,202,668	509	158,347
Programs for children with handicapping conditions	6,064,147	5,873,796	5,871,729	-	2,067
Occupational education	362,596	447,287	447,287	-	-
Teaching - special school	74,550	218,748	218,748	-	-
Instructional media	553,062	518,563	480,512	10,492	27,559
Pupil services	1,102,041	1,224,684	1,206,018	-	18,666
<b>Total Instructional</b>	<b>19,044,344</b>	<b>19,198,803</b>	<b>18,802,089</b>	<b>11,001</b>	<b>385,713</b>
Pupil Transportation	1,917,102	1,919,534	1,919,166	-	368
Community Services	31,800	20,720	20,699	-	21
Employee Benefits	11,049,531	10,771,055	10,474,676	-	296,379
<b>Debt Service</b>					
Principal	2,333,379	2,611,855	2,611,855	-	-
Interest	2,272,187	2,272,187	2,195,618	-	76,569
<b>Total Expenditures</b>	<b>41,069,180</b>	<b>41,069,180</b>	<b>40,258,944</b>	<b>11,001</b>	<b>799,235</b>
<b>OTHER FINANCING USES</b>					
Operating transfers out	80,000	80,000	77,833	-	2,167
<b>Total Expenditures and Other Financing Uses</b>	<b>\$ 41,149,180</b>	<b>\$ 41,149,180</b>	<b>40,336,777</b>	<b>\$ 11,001</b>	<b>\$ 801,402</b>
<b>Net change in fund balance</b>			(389,768)		
<b>Fund balance- Beginning</b>			941,136		
<b>Fund balance- Ending</b>			<u>\$ 551,368</u>		

See auditor's report.

HUDSON CITY SCHOOL DISTRICT  
 SCHEDULE OF FUNDING PROGRESS OF OTHER POSTEMPLOYMENT BENEFITS  
 For Year Ended June 30, 2012

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Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2011	\$ -	\$ 99,994,980	\$ 99,994,980	0%	\$18,317,994	545.88%
July 1, 2010	\$ -	\$ 107,747,782	\$107,747,782	0%	\$19,554,411	551.02%
July 1, 2009	\$ -	\$ 97,326,193	\$ 97,326,193	0%	\$20,389,906	477.33%

HUDSON CITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGE FROM ORIGINAL BUDGET TO REVISED BUDGET AND USE OF  
 UNRESERVED FUND BALANCE- GENERAL FUND  
 For Year Ended June 30, 2012  
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<b>Original Budget</b>	\$ 41,149,180
Additions:	-
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<b>Revised Budget</b>	<u><u>\$ 41,149,180</u></u>

**USE OF UNRESERVED FUND BALANCE**

Unreserved Fund Balance - As of the beginning of the year	\$ 638,315
Designated fund balance used for Levy of taxes	500,000
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Undesignated Fund Balance - As of the beginning of the year	<u><u>\$ 138,315</u></u>

HUDSON CITY SCHOOL DISTRICT  
 SCHEDULE OF PROJECT EXPENDITURES- CAPITAL PROJECTS FUND  
 For Year Ended June 30, 2012

PROJECT TITLE	Expenditures			Unexpended Balance	Proceeds of Obligations	Methods of Financing		Fund Balance June 30, 2012		
	Original Budget	Revised Budget	Prior Years			Current Year	Total		State Aid	Local Sources
7th/8th Grade Addition	\$ 36,500,000	\$ 36,650,000	\$ 35,238,661	\$ 1,378,629	\$ 36,617,290	\$ 32,710	\$ 1,320,650	\$ 9,254	\$ 36,654,904	\$ 37,614
Roof Projects	6,190,000	6,190,000	2,623,276	326,425	2,949,701	3,240,299	-	195,540	3,580,540	630,839
	<u>\$ 42,690,000</u>	<u>\$ 42,840,000</u>	<u>\$ 37,861,937</u>	<u>\$ 1,705,054</u>	<u>\$ 39,566,991</u>	<u>\$ 3,273,009</u>	<u>\$ 1,320,650</u>	<u>\$ 204,794</u>	<u>\$ 40,235,444</u>	<u>\$ 668,453</u>

HUDSON CITY SCHOOL DISTRICT  
 SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES COMPARED TO ST-3 DATA  
 For Year Ended June 30, 2012

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	<u>Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
<b>REVENUES</b>			
Real Property Taxes	A -1001	\$ 17,474,386	\$ 17,474,386
Non-Property Taxes	AT-1199	\$ 464,635	\$ 464,635
State Aid	AT-3999	\$ 18,794,777	\$ 18,794,777
Federal Aid	AT-4999	\$ 91,247	\$ 91,247
Total Revenues	AT-5999	\$ 39,947,009	\$ 39,947,009
<b>EXPENDITURES</b>			
General Support	AT-1999	\$ 4,234,841	\$ 4,234,841
Pupil Transportation	AT-5599	\$ 1,919,166	\$ 1,919,166
Debt Service - Principal	AT-9798.6	\$ 2,611,855	\$ 2,611,855
Debt Service - Interest	AT-9798.7	\$ 2,195,618	\$ 2,195,618
Total Expenditures	AT-9999	\$ 40,336,777	\$ 40,336,777

See auditor's report.



HUDSON CITY SCHOOL DISTRICT  
 SCHEDULE OF INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT  
 FOR THE YEAR ENDED JUNE 30, 2012

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Capital assets, net		\$ 59,907,663	
Add:	Unamortized bond issuance costs		53,621
Deduct:			
	Short-term capital lease payable	\$ 200,723	
	Long-term capital lease payable	1,551,042	
	Short-term portion of bonds payable	2,500,000	
	Long-term portion of bonds payable	43,570,000	
	Less: unspent bond proceeds	<u>(668,453)</u>	<u>47,153,312</u>
Investment in capital assets, net of related debt			<u><u>\$ 12,807,972</u></u>

See auditor's report.