

HUDSON COMMUNITY SCHOOL DISTRICT
HUDSON, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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HUDSON COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2003 Election)		
Allen P. Schneider	President	2004
Maureen Hanson	Vice President	2004
Joel Iseminger	Board Member	2003
Douglas Hemesath	Board Member	2005
Julie Marsch	Board Member	2005
<u>Board of Education</u>		
(After September 2003 Election)		
Allen P. Schneider	President	2004
Maureen Hanson	Vice President	2004
Douglas Hemesath	Board Member	2005
Julie Marsch	Board Member	2005
Carrie Brown	Board Member	2006
<u>School Officials</u>		
David Pappone	Superintendent	2007
Lois Scally	District Secretary	2004
Max Boyd	District Treasurer	2004
Steven Weidner	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Hudson Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Hudson Community School District, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Hudson Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 14 to the financial statements, during the year ended June 30, 2004, Hudson Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosure; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 20, 2004 on our consideration of Hudson Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 54 through 56 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hudson Community School District's basic financial statements. The financial statements for the three years ended June 30, 2003 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. These financial statements were audited in accordance with the standards referred to in the second paragraph of this report. The supplementary information included in Schedules 1 through 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
August 20, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hudson Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

Financial Highlights

- General Fund revenues increased from \$6,002,403 in fiscal 2003 to \$6,012,959 in fiscal 2004, while General Fund expenditures increased from \$5,717,394 in fiscal 2003 to \$6,020,595 in fiscal 2004. This contributed to a decrease in the District's General Fund balance from \$502,035 in fiscal 2003 to \$483,022 in fiscal 2004, a 3.8 percent decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2004. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$43,168 in fiscal year 2003 to \$17,059 in fiscal year 2004.

Overview of the Financial Statements

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Hudson Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Hudson Community School District's operations in more detail than the

government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Hudson Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

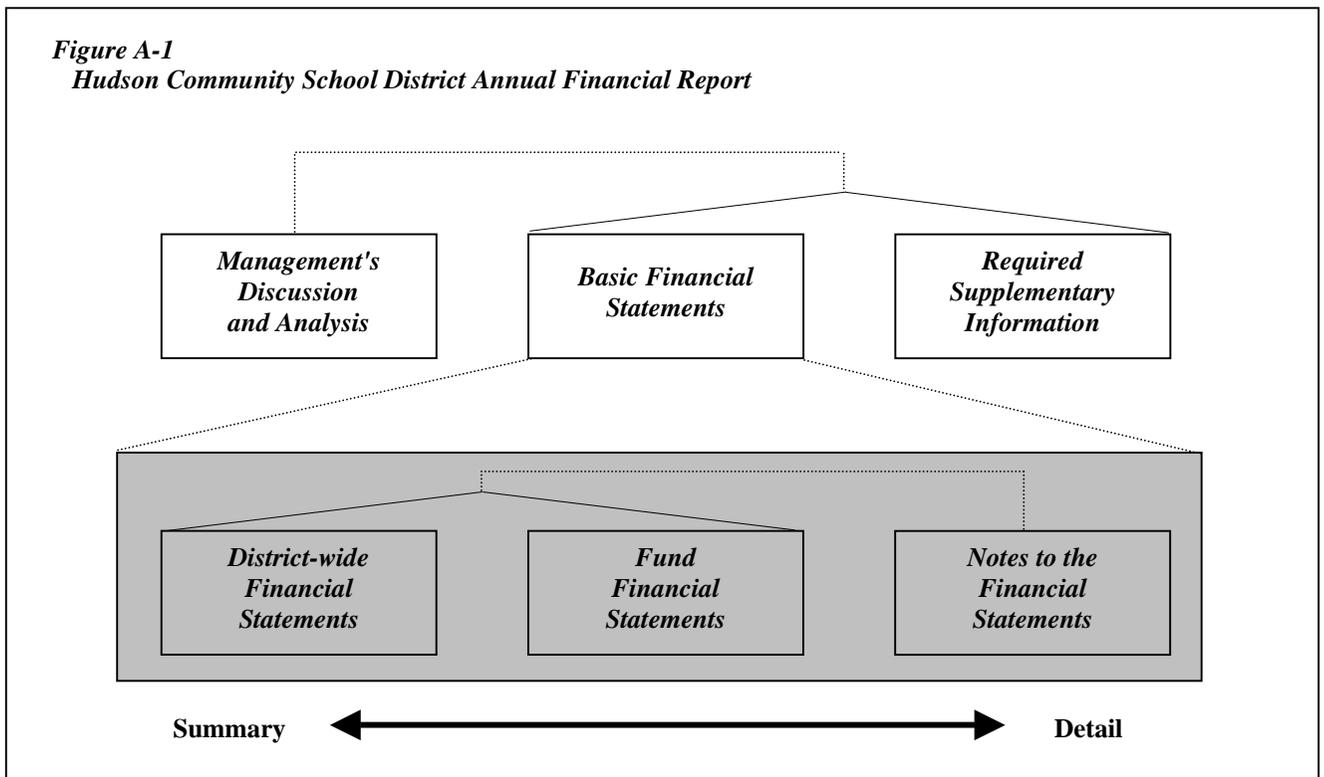


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2				
Major Features of the District-Wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

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

- The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
 - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund, and two Internal Service Funds, the Health Fund, which partially covers the health insurance plan, and the Dental Fund, which covers the dental plan.
- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.
 - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities	Business Type Activities	Total District
Current and other assets	5,362,829	-2,061	5,360,768
Capital assets	<u>7,539,362</u>	<u>41,510</u>	<u>7,580,872</u>
Total assets	<u>12,902,191</u>	<u>39,449</u>	<u>12,941,640</u>
Long-term liabilities	4,412,223	0	4,412,223
Other liabilities	<u>3,648,728</u>	<u>10,845</u>	<u>3,659,573</u>
Total liabilities	<u>8,060,951</u>	<u>10,845</u>	<u>8,071,796</u>
Net assets:			
Invested in capital assets, net of related debt	3,546,991	41,510	3,588,501
Restricted	513,975	0	513,975
Unrestricted	<u>780,274</u>	<u>-12,906</u>	<u>767,368</u>
Total net assets	<u>4,841,240</u>	<u>28,604</u>	<u>4,869,844</u>

The District's combined net assets at June 30, 2004 are listed in Figure A-3. This is the District's first report under GASB 34 and district records do not provide for a comparison to the prior year. The District's combined net assets will be compared to prior year figures in the District's FY05 report.

Restricted net assets represent resources that are subject to external restriction, constitutional provisions or enabling legislation on how they can be used.

Unrestricted net assets represent the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements. The District used carryover fund balance to meet a portion of its financial obligations during the year.

Figure A-4 shows the change in net assets for the year ended June 30, 2004.

	Governmental Activities	Business Type Activities	Total District
Revenues:			
Program Revenues:			
Charges for service	1,096,198	219,113	1,315,311
Operating grants, contributions and restricted interest	673,893	76,693	750,586
Capital grants, contributions and restricted interest			
General revenues:			
Property tax	1,786,239	0	1,786,239
Local option sales and service tax	650,585	0	650,585
Income surtax	216,973	0	216,973
Unrestricted state grants	2,831,896	0	2,831,896
Unrestricted investment earnings	22,528	338	22,866
Other	36,781	570	37,351
Total revenues	<u>7,315,093</u>	<u>296,714</u>	<u>7,611,807</u>
Program expenses:			
Governmental activities:			
Instruction	4,270,980	0	4,270,980
Support services	1,846,372	0	1,846,372
Non-instructional program	40	319,522	319,562
Other expenses	<u>855,889</u>	<u>0</u>	<u>855,889</u>
Total expenses	<u>6,973,281</u>	<u>319,522</u>	<u>7,292,803</u>
Change in net assets	<u>341,812</u>	<u>-22,808</u>	<u>319,004</u>

Governmental Activities

Revenues for governmental activities were \$7,315,093 and expenses were \$6,973,281. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues but did use some carryover fund balance in the General Fund.

Property tax and unrestricted state grants account for 60.7% of total revenue. The District's expenses primarily relate to instruction and support services, which account for 83.9% of the total expenses.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	4,270,980	2,829,875
Support Services	1,846,372	1,782,314
Non-instructional programs	40	40
Other expenses	<u>855,889</u>	<u>590,961</u>
Totals:	<u>6,973,281</u>	<u>5,203,190</u>

- The cost financed by users of the District's programs was \$1,096,198.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$673,893.
- The net cost of governmental activities was financed in part with \$1,786,239 in property tax, \$2,831,896 in state foundation aid and \$22,528 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$296,714 and expenses were \$319,522. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District increased the scope of services charged to the School Nutrition Fund including salary and benefits for high school lunch line computer operator. The district experienced an increase in benefit costs due to change of employment status for one employee who became eligible for health and dental benefits. Adjustments to staffing levels in the school kitchen were made during the year to decrease expenditures.

Financial Analysis of the District's Funds

As previously noted, the Hudson Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,436,427 compared to \$1,448,233 in fiscal year 2003. The General Fund balance for Fiscal Year 2004 was \$483,022 compared to \$502,035 for fiscal year 2003.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures, due to salary and benefit increases, requiring the District to use carryover fund balance to meet its financial obligations during the year.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Over the course of the year, the District amended its annual operating budget one time to reflect additional revenue and expenditures associated with the elementary building capital project activity. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison as presented in the required supplemental information section of this report.

Legal Budgetary Highlights

The District's total actual receipts were \$22,144 more than the total budgeted receipts, a variance of less than 1%. The District budget is an accurate representation of estimated revenue.

Total expenditures were \$383,490 less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at or near the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the District had invested \$7.6 million, net of accumulated depreciation of \$3,914,598, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year totaled \$262,979.

The original cost of the District's capital assets was \$11,495,470. Governmental funds account for \$11,321,025 leaving \$174,445 in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, net of Depreciation

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total District</u>
Land	116,782	0	116,782
Buildings	7,162,790	0	7,162,790
Improvements other than buildings	95,538	0	95,538
Furniture and equipme	<u>164,252</u>	<u>41,510</u>	<u>205,762</u>
Totals	<u>7,539,362</u>	<u>41,510</u>	<u>7,580,872</u>

Long-Term Liabilities

At June 30, 2004, the District had \$4,412,223 in general obligation and other long-term liabilities outstanding. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

Figure A-7
Outstanding Long-term Obligations

	<u>Total District 2004</u>
General obligation bonds	2,910,000
Local option sales and service tax revenue bonds	1,375,000
Capital loan notes	70,000
Early retirement	<u>57,223</u>
Totals:	<u>4,412,223</u>

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

The District boundaries to the north reach into the City of Cedar Falls. The Cedar Falls Industrial Park and other development are rapidly moving south. A significant number of resident students live in a mobile home park near this development. It is likely that at some future date the mobile home park may become more valuable as a commercial or industrial development site. The loss of a significant number of students negatively impacts district revenue.

The district has experienced declines in enrollment for the last two years. There is a group of investors working on the development of a housing development targeted at moderate cost homes. If the development becomes reality, the district would expect an increase in enrollment.

The District negotiated a two-year agreement with the Hudson Education Association during FY04 for the FY05 and FY06 contract years. Costs associated with this contract in excess of allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance. The District anticipates the future need to reduce staff in order to balance the budget in future years.

Contacting the District's Financial Management

This financial report is designed 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 money it receives. If you have questions about this report or need additional financial information, contact Lois Scally, District Secretary/Business Manager, Hudson Community School District, 136 S. Washington Street, Hudson, Iowa, 50643

Basic Financial Statements

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 2,145,383	\$ 346	\$ 2,145,729
Receivables:			
Property tax:			
Current year	20,311	-	20,311
Succeeding year	1,797,000	-	1,797,000
Income surtaxes	214,695	-	214,695
Accrued interest	384	-	384
Accounts	440	283	723
Interfund receivable (payable)	5,000	(5,000)	-
Due from other governments	113,953	-	113,953
Inventories	12,629	2,310	14,939
Restricted ISCAP assets (note 5):			
Investments	1,050,334	-	1,050,334
Accrued interest receivable	2,700	-	2,700
Capital assets, net of accumulated depreciation (note 6)	7,539,362	41,510	7,580,872
Total assets	12,902,191	39,449	12,941,640
Liabilities			
Accounts payable	95,464	-	95,464
Salaries and benefits payable	592,577	7,915	600,492
Incurred but not reported claims	50,000	-	50,000
Accrued interest payable	63,298	-	63,298
ISCAP warrants payable (note 5)	1,044,000	-	1,044,000
ISCAP accrued interest payable (note 5)	4,123	-	4,123
Deferred revenue:			
Succeeding year property tax	1,797,000	-	1,797,000
Other	-	2,930	2,930
Early retirement payable	2,266	-	2,266
Long-term liabilities (note 7):			
Portion due within one year:			
Early retirement	11,331	-	11,331
Bonds payable	360,000	-	360,000
Notes payable	70,000	-	70,000
Portion due after one year:			
Early retirement	45,892	-	45,892
Bonds payable	3,925,000	-	3,925,000
Total liabilities	8,060,951	10,845	8,071,796

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 3,546,991	\$ 41,510	\$ 3,588,501
Restricted for:			
Management levy	44,147	-	44,147
Other special revenue purposes	70,894	-	70,894
Debt service	398,934	-	398,934
Unrestricted	780,274	(12,906)	767,368
	<hr/>	<hr/>	<hr/>
Total net assets	<u>\$ 4,841,240</u>	<u>\$ 28,604</u>	<u>\$ 4,869,844</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental Activities:			
Instruction:			
Regular instruction	\$ 2,953,314	\$ 728,689	\$ 283,332
Special instruction	712,835	68,850	43,394
Other instruction	604,831	297,329	19,511
	<u>4,270,980</u>	<u>1,094,868</u>	<u>346,237</u>
Support services:			
Student services	288,757	-	-
Instructional staff services	243,441	-	-
Administration services	643,813	-	-
Operation and maintenance of plant services	514,859	1,330	60,000
Transportation services	155,502	-	2,728
	<u>1,846,372</u>	<u>1,330</u>	<u>62,728</u>
Non-instructional programs	<u>40</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	179,740	-	51,483
Long-term debt interest and fiscal charges	240,593	-	-
AEA flowthrough	213,445	-	213,445
Depreciation (unallocated) *	222,111	-	-
	<u>855,889</u>	<u>-</u>	<u>264,928</u>
Total governmental activities	6,973,281	1,096,198	673,893
Business-Type Activities:			
Non-instructional programs:			
Food service operations	312,028	219,113	76,693
Other programs	7,494	-	-
Total business-type activities	<u>319,522</u>	<u>219,113</u>	<u>76,693</u>
Total	<u>\$ 7,292,803</u>	<u>\$ 1,315,311</u>	<u>\$ 750,586</u>

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (1,941,293)	\$ -	\$ (1,941,293)
(600,591)	-	(600,591)
(287,991)	-	(287,991)
(2,829,875)	-	(2,829,875)
(288,757)	-	(288,757)
(243,441)	-	(243,441)
(643,813)	-	(643,813)
(453,529)	-	(453,529)
(152,774)	-	(152,774)
(1,782,314)	-	(1,782,314)
(40)	-	(40)
(128,257)	-	(128,257)
(240,593)	-	(240,593)
-	-	-
(222,111)	-	(222,111)
(590,961)	-	(590,961)
(5,203,190)	-	(5,203,190)
-	(16,222)	
-	(7,494)	(7,494)
-	(23,716)	(7,494)
(5,203,190)	(23,716)	(5,226,906)

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Capital outlay

Local option sales and services tax

Income surtax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year, as restated (note 14)

Net assets end of year

* = This amount excludes the depreciation that is included
in the direct expense of the various programs.

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ 1,644,696	\$ -	\$ 1,644,696
141,543	-	141,543
650,585	-	650,585
216,973	-	216,973
2,831,896	-	2,831,896
22,528	338	22,866
36,781	570	37,351
<hr/>		
5,545,002	908	5,545,910
<hr/>		
341,812	(22,808)	319,004
<hr/>		
4,499,428	51,412	4,550,840
<hr/>		
<u>\$ 4,841,240</u>	<u>\$ 28,604</u>	<u>\$ 4,869,844</u>

HUDSON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and pooled investments	\$ 1,044,843	\$ 924,358	\$ 1,969,201
Receivables:			
Property tax:			
Current year	17,666	2,645	20,311
Succeeding year	1,542,000	255,000	1,797,000
Income surtax	214,695	-	214,695
Accrued interest	102	187	289
Interfund receivable (note 3)	5,000	-	5,000
Accounts	440	-	440
Due from other governments	17,226	96,727	113,953
Inventories	12,629	-	12,629
Restricted ISCAP assets (note 5):			
Investments	1,050,334	-	1,050,334
Accrued interest receivable	2,700	-	2,700
	<u>\$ 3,907,635</u>	<u>\$ 1,278,917</u>	<u>\$ 5,186,552</u>
Total assets			

HUDSON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 27,218	\$ 68,246	\$ 95,464
Salaries and benefits payable	592,577	-	592,577
ISCAP warrants payable (note 5)	1,044,000	-	1,044,000
ISCAP accrued interest payable (note 5)	4,123	-	4,123
Deferred revenue:			
Succeeding year property tax	1,542,000	255,000	1,797,000
Other	214,695	-	214,695
Early retirement payable (note 7)	-	2,266	2,266
Total liabilities	<u>3,424,613</u>	<u>325,512</u>	<u>3,750,125</u>
Fund balance:			
Reserved for:			
Inventories	12,629	-	12,629
State grants	1,560	-	1,560
Debt service	-	462,232	462,232
Unreserved:			
Reported in nonmajor Special Revenue Funds	-	128,544	128,544
Undesignated	468,833	362,629	831,462
Total fund balances	<u>483,022</u>	<u>953,405</u>	<u>1,436,427</u>
Total liabilities and fund balances	<u>\$ 3,907,635</u>	<u>\$ 1,278,917</u>	<u>\$ 5,186,552</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

June 30, 2004

Total fund balances of governmental funds	\$ 1,436,427
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	7,539,362
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	214,695
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(63,298)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(4,412,223)
The balance of the Internal Service Fund is included with governmental activities due to the integral nature of the fund in relationship to governmental activities.	<u>126,277</u>
Net assets of governmental activities	<u>\$ 4,841,240</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	General	Nonmajor Governmental Funds	Total
Revenues:			
Local sources:			
Local tax	\$ 1,731,496	\$ 873,879	\$ 2,605,375
Tuition	754,763	-	754,763
Other	91,534	414,194	505,728
State sources	3,287,190	5,571	3,292,761
Federal sources	147,976	-	147,976
Total revenues	<u>6,012,959</u>	<u>1,293,644</u>	<u>7,306,603</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	3,010,666	10,060	3,020,726
Special instruction	727,211	-	727,211
Other instruction	289,292	315,539	604,831
	<u>4,027,169</u>	<u>325,599</u>	<u>4,352,768</u>
Support services:			
Student services	285,358	3,399	288,757
Instructional staff services	243,441	-	243,441
Administration services	657,192	17,802	674,994
Operation and maintenance of plant services	460,438	63,746	524,184
Transportation services	133,512	-	133,512
	<u>1,779,941</u>	<u>84,947</u>	<u>1,864,888</u>
Non-instructional programs	<u>40</u>	<u>-</u>	<u>40</u>
Other expenditures:			
Facilities acquisition	-	223,070	223,070
Long term debt:			
Principal	-	425,000	425,000
Interest and fiscal charges	-	245,695	245,695
AEA flowthrough	213,445	-	213,445
	<u>213,445</u>	<u>893,765</u>	<u>1,107,210</u>
Total expenditures	<u>6,020,595</u>	<u>1,304,311</u>	<u>7,324,906</u>
Deficiency of revenues (under) expenditures	<u>(7,636)</u>	<u>(10,667)</u>	<u>(18,303)</u>

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):			
Sale of equipment	\$ 4,921	\$ -	\$ 4,921
Compensation for loss of fixed assets	1,576	-	1,576
Interfund transfers in	-	560,869	560,869
Interfund transfers out	(17,874)	(542,995)	(560,869)
Total other financing sources (uses)	<u>(11,377)</u>	<u>17,874</u>	<u>6,497</u>
Net change in fund balances	(19,013)	7,207	(11,806)
Fund balances beginning of year	<u>502,035</u>	<u>946,198</u>	<u>1,448,233</u>
Fund balances end of year	<u>\$ 483,022</u>	<u>\$ 953,405</u>	<u>\$ 1,436,427</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ (11,806)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense in the year are as follows:

	Capital outlays	\$ 65,584	
	Depreciation expense	<u>(255,458)</u>	(189,874)

Certain income surtax not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the statement of activities. 1,993

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets. 425,000

Interest on long-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 due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 5,102

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 13,597

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds but increase long-term liabilities in the statement of net assets and do not affect the statement of activities. -

The increase in net asset of the Internal Service Fund represents an overcharge to the Funds serviced. Therefore, expenses are adjusted accordingly for the statement of activities. 97,800

Change in net assets of governmental activities \$ 341,812

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUND TYPES

June 30, 2004

	Nonmajor Enterprise Funds	Internal Service Funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 346	\$ 176,182
Receivables:		
Accrued interest	-	95
Accounts	283	-
Inventories	2,310	-
Capital assets, net of accumulated depreciation (note 6)	41,510	-
Total assets	<u>44,449</u>	<u>176,277</u>
Liabilities		
Salaries and benefits payable	7,915	-
Due to other funds	5,000	-
Deferred revenue:		
Other	2,930	-
Incurred but not reported claims	-	50,000
Total liabilities	<u>15,845</u>	<u>50,000</u>
Net Assets		
Invested in capital assets, net of related debt	41,510	-
Unrestricted	<u>(12,906)</u>	<u>126,277</u>
Total net assets	<u>\$ 28,604</u>	<u>\$ 126,277</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND TYPES
Year Ended June 30, 2004

	Nonmajor Enterprise Funds	Internal Service Funds
	<u> </u>	<u> </u>
Operating revenues:		
Local sources:		
Charges for services	\$ 219,683	\$ 479,387
	<u> </u>	<u> </u>
Operating expenses:		
Non-instructional programs:		
Salaries	103,652	-
Benefits	34,215	379,134
Purchased services	5,095	-
Supplies	161,221	-
Depreciation	7,521	-
Other	7,818	3,269
	<u> </u>	<u> </u>
	319,522	382,403
	<u> </u>	<u> </u>
Operating income (loss)	(99,839)	96,984
	<u> </u>	<u> </u>
Non-operating revenues:		
Interest on investments	338	816
State sources	3,291	-
Federal sources	73,402	-
Total non-operating revenues	<u>77,031</u>	<u>816</u>
Change in net assets	(22,808)	97,800
Net assets beginning of year	<u>51,412</u>	<u>28,477</u>
Net assets end of year	<u>\$ 28,604</u>	<u>\$ 126,277</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
Year Ended June 30, 2004

	Nonmajor Enterprise Funds	Internal Service Funds
	<u> </u>	<u> </u>
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 217,679	\$ -
Cash received from miscellaneous operating activities	695	479,569
Cash payments to employees for services	(138,009)	-
Cash payments to suppliers for goods or services	<u>(160,096)</u>	<u>(397,403)</u>
Net cash provided by (used in) operating activities	<u>(79,731)</u>	<u>82,166</u>
Cash flows from non-capital financing activities:		
State grants received	3,291	-
Federal grants received	61,139	-
Increase in due to other funds	<u>5,000</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>69,430</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>338</u>	<u>755</u>
Net increase (decrease) in cash and cash equivalents	(9,963)	82,921
Cash and cash equivalents beginning of year	<u>10,309</u>	<u>93,261</u>
Cash and cash equivalents end of year	<u>\$ 346</u>	<u>\$ 176,182</u>

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
Year Ended June 30, 2004

	Nonmajor Enterprise Funds	Internal Service Funds
	<u> </u>	<u> </u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (99,839)	\$ 96,984
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	7,521	-
Commodities used	12,263	-
(Increase) decrease in accounts receivable	(68)	182
Decrease in inventories	1,986	-
(Decrease) in accounts payable	(211)	-
(Decrease) in salaries and benefits payable	(142)	-
(Decrease) in deferred revenues	(1,241)	-
(Decrease) in incurred but not reported claims	<u>-</u>	<u>(15,000)</u>
Net cash provided by (used in) operating activities	<u>\$ (79,731)</u>	<u>\$ 82,166</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$12,263 of federal commodities.

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2004

		Private Purpose Trust
		<u>Scholarship</u>
Assets:		
Cash and pooled investments	\$	<u>71,150</u>
Liabilities:		
None		<u>-</u>
Net assets:		
Reserved for scholarships	\$	<u><u>71,150</u></u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 Year Ended June 30, 2004

	<u>Private Purpose Trust</u>	<u>Scholarship</u>
Additions:		
Local sources:		
Interest	\$	<u>1,257</u>
Deductions:		
Support services:		
Scholarships awarded		<u>1,257</u>
Change in net assets		-
Net assets beginning of year		<u>71,150</u>
Net assets end of year	\$	<u><u>71,150</u></u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

Hudson Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Hudson, Iowa, and agricultural territory in Blackhawk County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Hudson Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. Hudson Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Blackhawk County Assessor's Conference Board.

B. Basis of Presentation

District-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental fund:

The General Fund is the main operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District's proprietary funds are the Enterprise, School Nutrition Fund used to account for the food service operations of the District; the Enterprise, FFA Farm and Enterprise, FFA Greenhouse Funds, used to account for the farming activities of the FFA organization; and the Internal Service Funds, Self-Insured Health Plan and Self-Insured Dental Plan, used to account for the District's self-funding of the health and dental plans.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of income earned to be used to benefit individuals through scholarship awards.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary 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 when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. 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.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

HUDSON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

HUDSON COMMUNITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	5,000

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20-30 years
Furniture and equipment	5-20 years

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, and unearned meal revenues.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave benefits. Employees are not paid for unused vacation or sick leave benefits per District policy.

Long-term Liabilities – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets, net of related debt – In the District-wide statement of net assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in any of the four functional areas.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 2. Cash and Pooled Investments (continued)

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$479,955 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

Note 3. Interfund Payables/Receivables

Details of the District's interfund payables and receivables at June 30, 2004, are as follows:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Enterprise, School Nutrition	\$ <u>5,000</u>

Note 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 470,302
	Special Revenue:	
	Physical Plant and Equipment Levy	<u>72,693</u>
		<u>542,995</u>
Special Revenue, Student Activity	General	<u>17,874</u>
Total		\$ <u>560,869</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Note 5. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 5. Iowa Schools Cash Anticipation Program (ISCAP) (continued)

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2003-04B	1/30/2004	1/28/2005	\$ 489,310	\$ 2,662	\$ 486,000	\$ 4,077
2004-05A	6/30/2004	6/30/2005	561,024	38	558,000	46
Total			<u>\$ 1,050,334</u>	<u>\$ 2,700</u>	<u>\$ 1,044,000</u>	<u>\$ 4,123</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The District had no ISCAP advance activity in the General Fund for the year ended June 30, 2004.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2003-04B	2.000%	1.392%
2004-05A	3.000%	2.463%

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as Restated (note 14)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 116,782	\$ -	\$ -	\$ 116,782
Construction in progress	3,385	-	3,385	-
Total capital assets not being depreciated	<u>120,167</u>	<u>-</u>	<u>3,385</u>	<u>116,782</u>
Capital assets being depreciated:				
Buildings	10,296,949	41,630	-	10,338,579
Improvements other than buildings	109,256	5,085	-	114,341
Furniture and equipment	747,994	22,254	18,925	751,323
Total capital assets being depreciated	<u>11,154,199</u>	<u>68,969</u>	<u>18,925</u>	<u>11,204,243</u>
Less accumulated depreciation for:				
Buildings	2,958,587	217,202	-	3,175,789
Improvements other than buildings	13,894	4,909	-	18,803
Furniture and equipment	572,649	33,347	18,925	587,071
Total accumulated depreciation	<u>3,545,130</u>	<u>255,458</u>	<u>18,925</u>	<u>3,781,663</u>
Total capital assets being depreciated, net	<u>7,609,069</u>	<u>(186,489)</u>	<u>-</u>	<u>7,422,580</u>
Governmental activities capital assets, net	<u>\$ 7,729,236</u>	<u>\$ (186,489)</u>	<u>\$ 3,385</u>	<u>\$ 7,539,362</u>

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 6. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 174,445	\$ -	\$ -	\$ 174,445
Less accumulated depreciation	<u>125,414</u>	<u>7,521</u>	<u>-</u>	<u>132,935</u>
Business-type activities capital assets, net	<u>\$ 49,031</u>	<u>\$ (7,521)</u>	<u>\$ -</u>	<u>\$ 41,510</u>

Depreciation expense was charged by the District to the following functions:

Governmental activities:

 Instruction:

 Regular

\$ 3,419

 Support services:

 Administration

1,231

 Operation and maintenance of plant services

6,707

 Transportation

21,990

33,347

Unallocated depreciation

222,111

Total governmental activities depreciation expense

\$ 255,458

Business-type activities:

 Food service operations

\$ 7,521

HUDSON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 7. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Early Retirement	General Obligation Bonds	Local Option Sales and Services Tax Revenue Bonds	Capital Loan Notes	Total
Balance beginning of year	\$ 70,820	\$ 3,105,000	\$ 1,540,000	\$ 135,000	\$ 4,850,820
Additions	-	-	-	-	-
Reductions	13,597	195,000	165,000	65,000	438,597
Balance end of year	<u>\$ 57,223</u>	<u>\$ 2,910,000</u>	<u>\$ 1,375,000</u>	<u>\$ 70,000</u>	<u>\$ 4,412,223</u>
Due within one year	<u>\$ 11,331</u>	<u>\$ 210,000</u>	<u>\$ 150,000</u>	<u>\$ 70,000</u>	<u>\$ 441,331</u>

Early Retirement

The District offered a voluntary early retirement plan to its certified employees for the year ended June 30, 2000. Eligible employees were at least age fifty-five and employees had completed fifteen years of continuous service to the District. Employees completed an application which was required to be approved by the Board of Education. The early retirement incentive was monthly participation in the District's health plan at District cost at the monthly single rate in effect at July 1, 2000. The insurance contribution continues until the employee reaches Medicare eligibility, becomes eligible for participation in other group insurance, or for ten years, whichever ever comes first. Early retirement benefits paid during the year ended June 30, 2004, totaled \$13,597. The cost of early retirement payments expected to be liquidated currently is recorded as a liability of the Special Revenue Fund, Management Levy in the fund financial statements and in the District-wide financial statements. The long-term portion of early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 7. Long-Term Liabilities (continued)

General Obligation Bonds Payable

Details of the district's June 30, 2004, general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	5.500 %	\$ 210,000	\$ 156,015	\$ 366,015
2006	2.650	275,000	95,425	370,425
2007	3.000	285,000	88,138	373,138
2008	3.250	295,000	79,587	374,587
2009	3.450	305,000	70,000	375,000
2010	3.650	320,000	59,478	379,478
2011	3.750	335,000	47,798	382,798
2012	3.900	345,000	35,235	380,235
2013	4.000	360,000	21,780	381,780
2014	4.100	180,000	7,380	187,380
Total		<u>\$ 2,910,000</u>	<u>\$ 660,836</u>	<u>\$ 3,570,836</u>

The amount of the District's defeased general obligation bonded indebtedness still outstanding at June 30, 2004, was \$2,580,000.

School Infrastructure Sales and Services Tax Revenue Bonds

Details of the District's school infrastructure sales and services tax revenue bonds indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	3.875 %	\$ 150,000	\$ 59,344	\$ 209,344
2006	4.500	225,000	51,375	276,375
2007	4.500	225,000	41,250	266,250
2008	4.500	250,000	30,563	280,563
2009	4.750	250,000	19,000	269,000
2010	4.750	275,000	6,531	281,531
Total		<u>\$ 1,375,000</u>	<u>\$ 208,063</u>	<u>\$ 1,583,063</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitation of the District.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 7. Long-Term Liabilities (continued)

School Infrastructure Sales and Services Tax Revenue Bonds (continued)

The resolution providing for the issuance of the local option sales and services tax revenue bonds include the following provisions:

The bonds will only be redeemed from the future earnings of the local option sales tax revenues received by the District and the bond holders hold a lien on the future revenues received.

Bonds maturing after September 1, 2007, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter.

\$170,000 of the proceeds from the bond issue has been placed in a reserve fund with a trustee. The reserve fund is part of the District's Debt Service Fund.

All proceeds from the local option sales and services tax shall be placed in a sinking fund with a trustee. Money in the sinking fund shall be used to pay the interest and principal on the bonds. Surplus monies in the sinking fund may be transferred to the capital projects fund to be used for any lawful purpose. The sinking fund is part of the Debt Service Fund.

Capital Loan Notes

Details of the District's June 30, 2004, capital loan note indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	5.50 %	\$ 70,000	\$ 3,850	\$ 73,850

The capital loan notes will be paid from tax receipts of the Special Revenue, Physical Plant and Equipment Levy.

Note 8. Operating Lease

The District has entered into operating leases for two school buses. The first lease requires annual payments of \$7,565 and expires in June, 2005. The second lease requires annual payments of \$7,638 and expires in June, 2006. Details of the District's future minimum lease payments are as follows:

Year Ended June 30,	Minimum Lease Payments
2005	\$ 15,203
2006	7,638
	\$ 22,841

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 9. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$204,799, \$212,217, and \$221,607 respectively, equal to the required contributions for each year.

Note 10. Risk Management

The District has a self-funded health and dental insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess of \$50,000 in insured claims for any one covered individual. Settled claims have not exceeded the commercial coverage for the past three fiscal years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for incurred but unpaid claims. The reserve was \$126,277 at June 30, 2004 and is recorded in the Internal Service Fund. The incurred but not reported claims of \$50,000 are reported as liabilities at June 30, 2004.

Hudson Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$213,445 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 12. Construction Commitments

The District entered into a contract totaling \$92,600 for a gym floor renovation. At June 30, 2004 \$61,370 of the contract was completed and recorded in accounts payable. The remaining amount of the contract will be paid as work on the project progresses.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 13. Financial Condition

The Special Revenue Fund, Physical Plant and Equipment Levy, reported as a nonmajor governmental fund in the fund statements, had an unreserved, undesignated deficit balance of \$43,720, and the Enterprise Fund, School Nutrition Fund had an unrestricted net asset deficit of \$12,906 at June 30, 2004. In addition, the Special Revenue Fund, Student Activity had several individual accounts with deficit balances at June 30, 2004.

Note 14. Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosure; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; were implemented during the year June 30, 2004. The statements create new basic financial statements for reporting the District’s financial activities. The financial statements now include District-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The District-wide financial statements separate the District’s programs between business-type and governmental activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 14. Accounting Change (continued)

	<u>Fund</u>		<u>Total</u>
	<u>General</u>	<u>Nonmajor</u>	
Net assets, June 30, 2003, as previously reported	\$ <u>502,035</u>	\$ <u>946,198</u>	\$ 1,448,233
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$3,781,663			7,729,236
Long-term liabilities:			
Bonds and notes		(4,780,000)	
Early retirement		<u>(70,820)</u>	(4,850,820)
Accrued interest payable			(68,400)
Deferred revenue			212,702
Internal Service Fund			<u>28,477</u>
Net assets, July 1, 2003, as restated			\$ <u>4,499,428</u>

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Required Supplementary Information

HUDSON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds
 and Proprietary Fund
 Required Supplementary Information
 Year Ended June 30, 2004

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds - Actual	Fund - Actual		Original	Final	
RECEIPTS:						
Local sources	\$ 3,868,025	\$ 223,712	\$ 4,091,737	\$ 4,057,521	\$ 4,057,521	\$ 34,216
State sources	3,293,079	3,291	3,296,370	3,429,012	3,429,012	(132,642)
Federal sources	176,168	73,402	249,570	129,000	129,000	120,570
Total receipts	7,337,272	300,405	7,637,677	7,615,533	7,615,533	22,144
DISBURSEMENTS:						
Instruction	4,352,551	-	4,352,551	4,226,846	4,376,846	24,295
Support services	1,845,010	-	1,845,010	2,163,506	2,163,506	318,496
Non-instructional programs	-	310,368	310,368	342,000	342,000	31,632
Other expenditures	1,044,714	-	1,044,714	953,781	1,053,781	9,067
Total disbursements	7,242,275	310,368	7,552,643	7,686,133	7,936,133	383,490
Excess (deficiency) of receipts over (under) disbursements	94,997	(9,963)	85,034	(70,600)	(320,600)	405,634
Other financing sources, net	6,057	-	6,057	-	-	6,057
Excess (deficiency) of receipts and other financing sources over (under) disbursements	101,054	(9,963)	91,091	(70,600)	(320,600)	411,691
Balance beginning of year	1,868,147	10,309	1,878,456	2,832,565	2,832,565	(954,109)
Balance end of year	\$ <u>1,969,201</u>	\$ <u>346</u>	\$ <u>1,969,547</u>	\$ <u>2,761,965</u>	\$ <u>2,511,965</u>	\$ <u>(542,418)</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule – Budget to GAAP Reconciliation
 Required Supplementary Information
 Year Ended June 30, 2004

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 7,337,272	\$ (30,669)	\$ 7,306,603
Expenditures	7,242,275	82,631	7,324,906
Net	94,997	(113,300)	(18,303)
Other financing sources (uses)	6,057	440	6,497
Beginning fund balances	1,868,147	(419,914)	1,448,233
Ending fund balances	<u>\$ 1,969,201</u>	<u>\$ (532,774)</u>	<u>\$ 1,436,427</u>
	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Basis
Revenues	\$ 300,405	\$ (3,691)	\$ 296,714
Expenses	310,368	9,154	319,522
Net	(9,963)	(12,845)	(22,808)
Beginning net assets	10,309	41,103	51,412
Ending net assets	<u>\$ 346</u>	<u>\$ 28,258</u>	<u>\$ 28,604</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$250,000.

During the year ended June 30, 2004, disbursements did not exceed budgeted amounts in any functional area.

Other Supplementary Information

HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2004

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service
Assets				
Cash and pooled investments	\$ 102,719	\$ 73,126	\$ 20,495	\$ 462,121
Receivables:				
Property tax:				
Current year	991	-	1,654	-
Succeeding year	49,000	-	206,000	-
Accrued interest	59	-	12	111
Due from other governments	-	-	-	-
Total assets	<u>\$ 152,769</u>	<u>\$ 73,126</u>	<u>\$ 228,161</u>	<u>\$ 462,232</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ 133	\$ 2,232	\$ 65,881	\$ -
Deferred revenue:				
Succeeding year property tax	49,000	-	206,000	-
Early retirement	2,266	-	-	-
Total liabilities	<u>51,399</u>	<u>2,232</u>	<u>271,881</u>	<u>-</u>
Fund equity:				
Fund balances:				
Reserved for:				
Debt service	-	-	-	462,232
Unreserved:				
Undesignated	101,370	70,894	(43,720)	-
Total fund equity	<u>101,370</u>	<u>70,894</u>	<u>(43,720)</u>	<u>462,232</u>
Total liabilities and fund equity	<u>\$ 152,769</u>	<u>\$ 73,126</u>	<u>\$ 228,161</u>	<u>\$ 462,232</u>

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Total</u>
\$ 265,897	\$ 924,358
-	2,645
-	255,000
5	187
<u>96,727</u>	<u>96,727</u>
<u>\$ 362,629</u>	<u>\$ 1,278,917</u>
\$ -	\$ 68,246
-	255,000
-	2,266
<u>-</u>	<u>325,512</u>
-	462,232
<u>362,629</u>	<u>491,173</u>
<u>362,629</u>	<u>953,405</u>
<u>\$ 362,629</u>	<u>\$ 1,278,917</u>

HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2004

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service
Revenues:				
Local sources:				
Local tax	\$ 85,030	\$ -	\$ 138,263	\$ -
Other	463	297,838	60,239	1,620
State sources	2,291	-	3,280	-
Total revenues	<u>87,784</u>	<u>297,838</u>	<u>201,782</u>	<u>1,620</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	8,848	-	1,212	-
Other instruction	-	315,539	-	-
Support services:				
Student services	3,399	-	-	-
Administration services	3,399	-	14,403	-
Operation and maintenance of plant services	63,746	-	-	-
Other expenditures:				
Facilities acquisition	-	-	184,466	-
Long term debt:				
Principal	-	-	-	425,000
Interest and fiscal charges	-	-	-	245,695
Total expenditures	<u>79,392</u>	<u>315,539</u>	<u>200,081</u>	<u>670,695</u>
Excess (deficiency) of revenues over (under) expenditures	8,392	(17,701)	1,701	(669,075)
Other financing sources (uses)				
Interfund transfers in	-	17,874	-	542,995
Interfund transfers out	-	-	(72,693)	-
Total other financing sources (uses)	<u>-</u>	<u>17,874</u>	<u>(72,693)</u>	<u>542,995</u>

	<u>Capital Projects</u>	<u>Total</u>
\$	650,586	\$ 873,879
	54,034	414,194
	-	5,571
	<u>704,620</u>	<u>1,293,644</u>
	-	10,060
	-	315,539
	-	3,399
	-	17,802
	-	63,746
	38,604	223,070
	-	425,000
	-	245,695
	<u>38,604</u>	<u>1,304,311</u>
	666,016	(10,667)
	-	560,869
	<u>(470,302)</u>	<u>(542,995)</u>
	<u>(470,302)</u>	<u>17,874</u>

HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2004

	<u>Special Revenue</u>			
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	\$ 8,392	\$ 173	\$ (70,992)	\$ (126,080)
Fund balances beginning of year, as restated (note 14)	<u>92,978</u>	<u>70,721</u>	<u>27,272</u>	<u>588,312</u>
Fund balances end of year	<u>\$ 101,370</u>	<u>\$ 70,894</u>	<u>\$ (43,720)</u>	<u>\$ 462,232</u>

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Total</u>
\$ 195,714	\$ 7,207
<u>166,915</u>	<u>946,198</u>
<u>\$ 362,629</u>	<u>\$ 953,405</u>

HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2004

	School Nutrition	FFA Farm Fund	FFA Greenhouse	Total
Operating revenue:				
Local sources:				
Other local sources:				
Sale of lunches and breakfasts	\$ 218,988	\$ -	\$ -	\$ 218,988
Miscellaneous	125	570	-	695
Total operating revenue	<u>219,113</u>	<u>570</u>	<u>-</u>	<u>219,683</u>
Operating expenses:				
Non-instructional programs:				
Salaries	103,652	-	-	103,652
Benefits	34,215	-	-	34,215
Services	5,095	-	-	5,095
Supplies	161,221	-	-	161,221
Depreciation	7,521	-	-	7,521
Other	324	6,701	793	7,818
Total operating expenses	<u>312,028</u>	<u>6,701</u>	<u>793</u>	<u>319,522</u>
Operating loss	<u>(92,915)</u>	<u>(6,131)</u>	<u>(793)</u>	<u>(99,839)</u>
Non-operating revenues:				
Interest income	87	219	32	338
State lunch & breakfast program	3,291	-	-	3,291
National school lunch & breakfast program	61,139	-	-	61,139
Food distribution	12,263	-	-	12,263
Total non-operating revenues	<u>76,780</u>	<u>219</u>	<u>32</u>	<u>77,031</u>
Change in net assets	(16,135)	(5,912)	(761)	(22,808)
Net assets beginning of year	<u>44,739</u>	<u>5,912</u>	<u>761</u>	<u>51,412</u>
Net assets end of year	<u>\$ 28,604</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,604</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CASH FLOWS
 NONMAJOR ENTERPRISE FUNDS
 Year Ended June 30, 2004

	School Nutrition	FFA Farm Fund	FFA Greenhouse	Total
Cash flows from operating activities:				
Cash received from local sources	\$ 217,679	\$ -	\$ -	\$ 217,679
Cash received from miscellaneous operating revenue	125	570	-	695
Cash payments to employees for services	(138,009)	-	-	(138,009)
Cash payments to suppliers for goods or services	(152,602)	(6,701)	(793)	(160,096)
Net cash used in operating activities	<u>(72,807)</u>	<u>(6,131)</u>	<u>(793)</u>	<u>(79,731)</u>
Cash flows from non-capital financing activities:				
Increase in due to other funds	5,000	-	-	5,000
State grants received	3,291	-	-	3,291
Federal grants received	61,139	-	-	61,139
Net cash provided by non-capital financing activities	<u>69,430</u>	<u>-</u>	<u>-</u>	<u>69,430</u>
Cash flows from investing activities:				
Interest on investments	87	219	32	338
Net decrease in cash and cash equivalents	(3,290)	(5,912)	(761)	(9,963)
Cash and cash equivalents beginning of year	<u>3,636</u>	<u>5,912</u>	<u>761</u>	<u>10,309</u>
Cash and cash equivalents end of year	<u>\$ 346</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 346</u>
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	\$ (92,915)	\$ (6,131)	\$ (793)	\$ (99,839)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	7,521	-	-	7,521
Commodities used	12,263	-	-	12,263
Decrease in accounts receivable	(68)	-	-	(68)
Decrease in inventories	1,986	-	-	1,986
(Decrease) in accounts payable	(211)	-	-	(211)
(Decrease) in salaries and benefits payable	(142)	-	-	(142)
(Decrease) in deferred revenues	(1,241)	-	-	(1,241)
Net cash used in operating activities	<u>\$ (72,807)</u>	<u>\$ (6,131)</u>	<u>\$ (793)</u>	<u>\$ (79,731)</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF NET ASSETS
 INTERNAL SERVICE FUNDS
 June 30, 2004

	<u>Self-Insured Health Plan</u>	<u>Self-Insured Dental Plan</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 126,525	\$ 49,657	\$ 176,182
Receivables:			
Accrued interest	<u>67</u>	<u>28</u>	<u>95</u>
Total assets	<u>\$ 126,592</u>	<u>\$ 49,685</u>	<u>\$ 176,277</u>
Liabilities			
Accounts payable	<u>\$ 46,579</u>	<u>\$ 3,421</u>	<u>\$ 50,000</u>
Net Assets			
Unrestricted	<u>\$ 80,013</u>	<u>\$ 46,264</u>	<u>\$ 126,277</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 INTERNAL SERVICE FUNDS
 Year Ended June 30, 2004

	<u>Self-Insured Health Plan</u>	<u>Self-Insured Dental Plan</u>	<u>Total</u>
Operating revenue:			
Local sources:			
Other local sources:			
Services	\$ 450,009	\$ 29,378	\$ 479,387
Operating expenses:			
Non-instructional programs:			
Benefits	350,524	28,610	379,134
Other	2,995	274	3,269
Total expenses	<u>353,519</u>	<u>28,884</u>	<u>382,403</u>
Operating income	96,490	494	96,984
Non-operating revenue:			
Interest income	450	366	816
Change in net assets	96,940	860	97,800
Net assets beginning of year	<u>(16,927)</u>	<u>45,404</u>	<u>28,477</u>
Net assets end of year	<u>\$ 80,013</u>	<u>\$ 46,264</u>	<u>\$ 126,277</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 Year Ended June 30, 2004

	Self-Insured Health Plan	Self-Insured Dental Plan	Total
Cash flows from operating activities:			
Cash received from local sources	\$ 450,009	\$ 29,378	\$ 479,387
Cash payments to suppliers for goods or services	(369,996)	(27,225)	(397,221)
Net cash provided by operating activities	80,013	2,153	82,166
Cash flows from investing activities:			
Interest on investments	398	357	755
Net increase in cash and cash equivalents	80,411	2,510	82,921
Cash and cash equivalents at beginning of year	46,114	47,147	93,261
Cash and cash equivalents at end of year	\$ 126,525	\$ 49,657	\$ 176,182
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 96,490	\$ 494	\$ 96,984
Adjustments to reconcile operating income to net cash provided by operating activities:			
Decrease in accounts receivable	182	-	182
Increase (decrease) in incurred but not reported claims	(16,659)	1,659	(15,000)
Net cash provided by operating activities	\$ 80,013	\$ 2,153	\$ 82,166

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2004

Account	Balance Beginning of Year	Revenues and other financing sources	Expenditures	Balance End of Year
Speech	\$ -	\$ 220	\$ 220	\$ -
Vocal Music	445	5,924	7,087	(718)
Vocal Music Trip	-	2,135	-	2,135
Physics Club	279	5,292	1,672	3,899
Photography	33	-	-	33
National Honor Society	422	687	1,109	-
Instrumental Music	-	5,195	5,854	(659)
Instrumental Music Trip	995	30,095	30,013	1,077
Athletic Adm.	557	62,168	62,709	16
Track	12	7,510	7,419	103
Cross Country	-	465	465	-
Cross Country Concessions	1,128	1,381	1,484	1,025
Soccer	(251)	6,158	5,952	(45)
Tennis	2	546	471	77
Golf	212	2,065	2,277	-
Golf Camp	298	140	70	368
Basketball	-	17,704	17,704	-
Boys Basketball Camp	(367)	5,641	5,810	(536)
Elem. Boys Basketball Camp	475	-	-	475
MS Volleyball Camp	(609)	-	-	(609)
Boys Soccer Camp	4,626	6,035	5,719	4,942
Volleyball Camp	1,356	1,155	1,270	1,241
Football	(96)	20,884	20,788	-
FB Camp	582	5,736	4,030	2,288
Baseball	(1,712)	8,837	7,430	(305)
Baseball Camp	(127)	-	-	(127)
Wrestling	-	11,187	11,184	3
Boys Wrestling Camp	(277)	-	-	(277)
Girls BB Camp	1,132	2,379	2,463	1,048
Dug Out Club	230	326	390	166
Volleyball Camp	-	3,075	3,075	-
All-American Basketball Camp	-	1,435	-	1,435
Softball	(1,061)	5,920	4,671	188
Interest	24,095	508	1,849	22,754
Annual	14,512	7,550	8,094	13,968
FFA Chapter	(230)	25,720	17,680	7,810
Sr. High Student Council	2,998	17,677	18,722	1,953
Jr. High Student Council	1,295	12,516	12,307	1,504
5-6 Student Council	-	3,359	1,992	1,367
Show Choir Concert	272	6,417	16,616	(9,927)

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2004

Account	Balance Beginning of Year	Revenues and other financing sources	Expenditures	Balance End of Year
Cheerleaders	\$ -	\$ 3,197	\$ 3,197	\$ -
MS Cheerleaders	1,951	390	2,341	-
Fall/Play Musical	213	2,315	2,528	-
Vocal Music Production	906	1,387	1,083	1,210
MS Show Choir	2,701	4,096	4,772	2,025
Spanish Club Trip	673	668	449	892
Class of 2004	3,408	4,513	7,921	-
Class of 2005	2,529	8,977	8,387	3,119
Class of 2006	812	1,110	47	1,875
Class of 2007	-	1,345	158	1,187
Athletic Boosters	6,302	51,786	54,174	3,914
Less: Intrafund Transfers	-	(58,114)	(58,114)	-
Total	\$ 70,721	\$ 315,712	\$ 315,539	\$ 70,894

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 2,605,375	\$ 2,723,819	\$ 2,444,354	\$ 2,405,891
Tuition	754,763	770,982	736,622	748,864
Other	505,728	552,602	462,137	473,180
State sources	3,292,761	3,167,842	3,181,241	3,362,959
Federal sources	147,976	96,950	69,213	72,234
Total revenues	<u>\$ 7,306,603</u>	<u>\$ 7,312,195</u>	<u>\$ 6,893,567</u>	<u>\$ 7,063,128</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 3,020,726	\$ 2,774,834	\$ 2,978,001	\$ 2,991,934
Special instruction	727,211	593,538	567,960	564,229
Other instruction	604,831	650,594	595,718	627,446
Support services:				
Student services	288,757	267,325	436,084	403,610
Instructional staff services	243,441	225,930	25,355	24,358
Administration services	674,994	822,647	895,417	843,634
Operation and maintenance of plant services	524,184	482,179	385,904	481,264
Transportation services	133,512	139,280	161,140	174,034
Non-instructional programs	40	53	2,321	5,191
Other expenditures:				
Facilities acquisition	223,070	339,153	1,221,160	605,089
Long-term debt:				
Principal	425,000	400,000	230,000	210,000
Interest and fiscal charges	245,695	302,327	271,453	223,237
AEA flowthrough	213,445	221,502	222,619	235,311
Total expenditures	<u>\$ 7,324,906</u>	<u>\$ 7,219,362</u>	<u>\$ 7,993,132</u>	<u>\$ 7,389,337</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education of
Hudson Community School District:

We have audited the financial statements of Hudson Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hudson Community School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about Hudson Community School District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item II-K-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hudson Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Hudson Community School District and other parties to whom Hudson Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Hudson Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
August 20, 2004

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

I-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. In addition, disbursements are entered into the system and checks are prepared, signed and mailed by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances. Another individual could review the monthly financial statements, bank reconciliations, and monthly disbursement records. In addition, an initial cash listing could be prepared by the mail opener, with a person independent of the cash receipt area later comparing recorded receipts to the listing.

Response – We will consider this.

Conclusion – Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-04 Fundraiser Reconciliation – The District currently has no process to reconcile fundraiser collections to associated costs to determine that all transactions are properly recorded.

Recommendation – The District should establish reconciliation procedures for all fundraising activities. The reconciliation should include the comparison of receipts to deposits recorded, reconciliation of receipts to total sales recorded, comparison of fundraising supplies to items sold, and an overall determination of the profit percentage.

Response – We will review our present procedures for fundraising activities and consider the recommended reconciliation procedures.

Conclusion – Response accepted.

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

- II-A-04 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget – Disbursements for the year ended June 30, 2004, did not exceed the amount budgeted in any of the four functional areas.
- II-C-04 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-D-04 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-04 Business Transactions – No business transactions between the District and District officials or employees were noted.
- II-F-04 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- II-H-04 Certified Enrollment – We noted that the basic enrollment data certified to the Department of Education for open enrolled in students was overstated by one student due to an error in reporting by another District.
- Recommendation – The District should contact the Department of Management and the Department of Education to resolve this situation.
- Response – We will contact the required Departments to resolve this matter.
- Conclusion – Response accepted.
- II-I-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- II-J-04 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting (continued):

II-K-04 Financial Condition – The Special Revenue Fund, Physical Plant and Equipment Levy had an unreserved, undesignated fund deficit of \$43,720 and the Enterprise Fund, School Nutrition had a deficit unrestricted net assets balance of \$12,906 at June 30, 2004. In addition, the Special Revenue Fund, Student Activities had several individual accounts with deficit balances at June 30, 2004.

Recommendation – The District should investigate alternatives to eliminate all deficit balances.

Response – We will search alternatives to resolve these deficit balances.

Conclusion – Response accepted.

II-L-04 Additional Compensation – The method of payment to employees for some services relating to extra-curricular activities does not allow for the withholding of any taxes.

Recommendation – The District should ensure that all payments to employees for services performed be treated as additional compensation and, accordingly, withhold the appropriate taxes as required by the Internal Revenue Service and the Iowa Department of Revenue and Finance.

Response – We will take the necessary steps to correct this situation.

Conclusion – Response accepted.

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