

HUDSON COMMUNITY SCHOOL DISTRICT
HUDSON, IOWA

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

JUNE 30, 2005

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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 2004 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>Board of Education</u>		
(After September 2004 Election)		
Maureen Hanson	President	2007
Douglas Hemesath	Vice President	2005
Julie Marsch	Board Member	2005
Carrie Brown	Board Member	2006
Jeff Cory	Board Member	2007
<u>School Officials</u>		
David Pappone	Superintendent	2008
Lois Scally	District Secretary	2005
Max Boyd	District Treasurer	2005
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, 2005, which collectively comprise the District's basic financial statements 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2005, 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.

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2005 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, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 6 through 15 and 52 through 54 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 required 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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the two years ended June 30, 2003 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7 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 26, 2005

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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues increased from \$6,012,959 in fiscal 2004 to \$6,214,086 in fiscal 2005, while General Fund expenditures increased from \$6,020,595 in fiscal 2004 to \$6,248,477 in fiscal 2005. This contributed to an increase in the District's General Fund balance from \$483,022 in fiscal 2004 to \$493,000 in fiscal 2005, a 2 percent increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax revenues and in state grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.
- General Fund expenditures exceeded General Fund revenues by \$34,391. The fund balance increased primarily due to compensation for loss of fixed assets of \$46,296 that more than offset the difference between expenditures and revenues.
- A slight increase in interest rates during the fiscal year, combined with some additional cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$17,059 in fiscal year 2004 to \$27,649 in fiscal year 2005.

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 relates to one another.

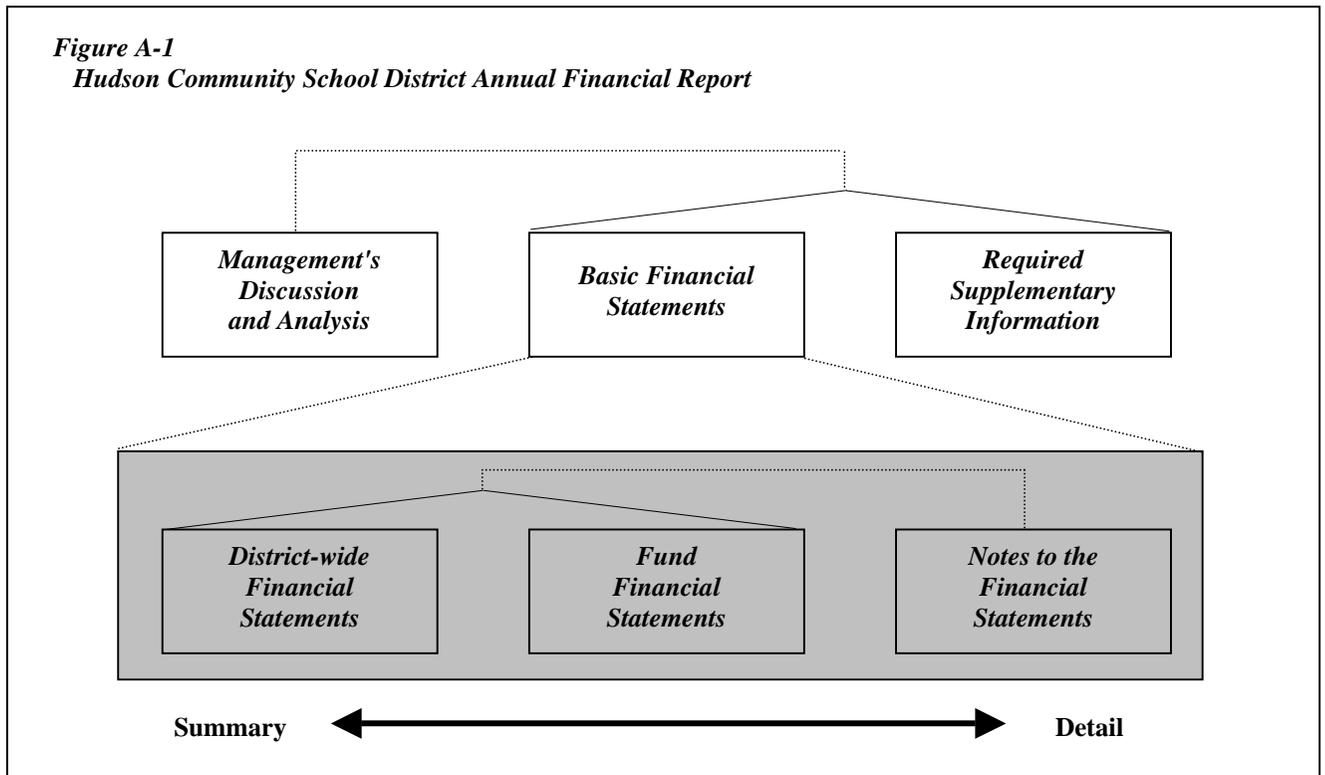


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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, 2005 compared to fiscal year 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change 2004-2005
	2005	2004	2005	2004	2005	2004	
Current and other assets	5,383,549	5,362,829	-5,853	-2,061	5,377,696	5,360,768	0.30%
Capital assets	<u>7,539,873</u>	<u>7,539,362</u>	<u>33,936</u>	<u>41,510</u>	<u>7,573,809</u>	<u>7,580,872</u>	-0.10%
Total assets	12,923,422	12,902,191	28,083	39,449	12,951,505	12,941,640	0.10%
Long-term liabilities	4,019,511	4,412,223	0	0	4,019,511	4,412,223	-8.90%
Other liabilities	<u>3,559,257</u>	<u>3,648,728</u>	<u>17,884</u>	<u>10,845</u>	<u>3,577,141</u>	<u>3,659,573</u>	-2.30%
Total liabilities	7,578,768	8,060,951	17,884	10,845	7,596,652	8,071,796	-5.90%
Net assets:							
Invested in capital assets, net of related debt	3,841,646	3,546,991	33,936	41,510	3,875,582	3,588,501	8.00%
Restricted	704,296	513,975	0	0	704,296	513,975	37.00%
Unrestricted	<u>798,712</u>	<u>780,274</u>	<u>-23,737</u>	<u>-12,906</u>	<u>774,975</u>	<u>767,368</u>	1.00%
Total net assets	5,344,654	4,841,240	10,199	28,604	5,354,853	4,869,844	10.00%

The District's combined net assets at June 30, 2005 compared to fiscal year 2004 are listed in Figure A-3. The District's net assets increased 10% to \$5,354,853. The improvement in financial position came from governmental activities, the net assets of which grew \$503,414.

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.

Figure A-4 shows the change in net assets for the year ended June 30, 2005 compared to fiscal year 2004.

	Governmental Activities		Business-type Activities		Total District		Total Change 2004-2005
	2005	2004	2005	2004	2005	2004	
Revenues:							
Program Revenues:							
Charges for service	1,016,867	1,096,198	207,225	219,113	1,224,092	1,315,311	-6.90%
Operating grants, contributions and restricted interest	570,219	673,893	73,374	76,693	643,593	750,586	-14.30%
Capital grants, contributions and restricted interest	24,557	0	0	0	24,557	0	100.00%
General revenues:							
Property tax	2,016,323	1,786,239	0	0	2,016,323	1,786,239	12.90%
Local option sales and service tax	647,622	650,585	0	0	647,622	650,585	-0.50%
Income surtax	241,187	216,973	0	0	241,187	216,973	11.20%
Unrestricted state grants	2,912,859	2,831,896	0	0	2,912,859	2,831,896	2.90%
Unrestricted investment earnings	44,537	22,528	99	338	44,636	22,866	95.20%
Other	<u>64,894</u>	<u>36,781</u>	<u>0</u>	<u>570</u>	<u>64,894</u>	<u>37,351</u>	73.70%
Total revenues	7,539,065	7,315,093	280,698	296,714	7,819,763	7,611,807	2.70%
Program expenses:							
Governmental activities:							
Instruction	4,394,705	4,270,980	0	0	4,394,705	4,270,980	2.90%
Support services	1,985,781	1,846,372	0	0	1,985,781	1,846,372	7.60%
Non-instructional program	3,895	40	299,103	319,522	302,998	319,562	-5.20%
Other expenses	<u>651,270</u>	<u>855,889</u>	<u>0</u>	<u>0</u>	<u>651,270</u>	<u>855,889</u>	-23.90%
Total expenses	7,035,651	6,973,281	299,103	319,522	7,334,754	7,292,803	0.60%
Change in net assets	503,414	341,812	-18,405	-22,808	485,009	319,004	52.00%

Governmental Activities

Revenues for governmental activities were \$7,539,065 and expenses were \$7,035,651. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

Property tax and unrestricted state grants account for 65% of total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% 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	4,394,705	3,070,417
Support Services	1,985,781	1,981,894
Non-instructional programs	3,895	3,895
Other expenses	<u>651,270</u>	<u>367,802</u>
Totals:	7,035,651	5,424,008

- The cost financed by users of the District's programs was \$1,016,867.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$594,776.
- The net cost of governmental activities was financed in part with \$2,016,323 in property tax, \$2,878,101 in state foundation aid and \$44,537 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$280,698 and expenses were \$299,103. 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, 2005, the District did not generate revenues in the School Nutrition Fund to meet expenses. The district experienced an increase in the costs of salaries and benefits and a decrease in the enrollment that resulted in fewer meals being served. The correction planned is to increase meal prices and to transfer the cost of health benefits to the General Fund.

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 \$1,524,717 compared to \$1,436,427 in Fiscal Year 2004. The General Fund balance for Fiscal Year 2005 was \$493,000 compared to \$483,022 for Fiscal Year 2004.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in tax and grants resulted in an increase in revenues.

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 ensure that changes in coding of expenditures did not result in overspending any category, and that possible expenditures for the all-weather track project would be budgeted. 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 \$15,474 less than the total budgeted receipts, a variance of less than 1%. The District budget is an accurate representation of estimated revenue.

Total expenditures were \$893,307 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, 2005, the District had invested \$7,573,809, net of accumulated depreciation of \$4,112,370, 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 \$255,674.

The original cost of the District's capital assets was \$11,686,179. Governmental funds account for \$11,511,734 leaving \$174,445 in the Proprietary, School Nutrition Fund.

	Governmental Activities	Business Type Activities	Total District
Land	116,782	0	116,782
Construction in progress	144,326	0	144,326
Buildings	7,039,793	0	7,039,793
Improvements other than buildings	90,374	0	90,374
Furniture and equipment	<u>148,598</u>	<u>33,936</u>	<u>182,534</u>
Totals	7,539,873	33,936	7,573,809

Long-Term Liabilities

At June 30, 2005, the District had \$4,019,511 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

	Total District 2005
General obligation bonds	2,700,000
Local option sales and service tax revenue bonds	1,225,000
Capital loan notes	0
Early retirement	<u>94,511</u>
Totals:	4,019,511

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. Approximately 10% 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.

With the end of Fiscal Year 2005, the District's master contract with the Hudson Education Association entered the last year of a two-year agreement. 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 reduced staff during Fiscal Year 2005 in anticipation of reduced revenues for the upcoming budget year. Reductions were made in classroom teachers, teacher associates, and custodial workers. None of the reductions resulted in unemployment liabilities.

The District began receiving revenue from the Voted Physical Plant and Equipment Levy that provides funds for upgrading facilities and purchasing equipment. The renovation of the district's competition gym including a new floor was the primary project utilizing new funds.

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.

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Basic Financial Statements

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 2,286,788	\$ 1	\$ 2,286,789
Receivables:			
Property tax:			
Current year	20,023	-	20,023
Succeeding year	1,872,000	-	1,872,000
Income surtax	227,614	-	227,614
Interfund receivable (payable)	11,000	(11,000)	-
Accounts	393	-	393
Due from other governments	140,145	-	140,145
Inventories	11,756	5,146	16,902
Restricted ISCAP assets (note 5):			
Investments	807,905	-	807,905
Accrued interest receivable	5,925	-	5,925
Capital assets, net of accumulated depreciation (note 6)	7,539,873	33,936	7,573,809
Total assets	12,923,422	28,083	12,951,505
Liabilities			
Excess of warrants issued over bank balance	-	2,782	2,782
Accounts payable	163,329	-	163,329
Salaries and benefits payable	625,651	12,016	637,667
Accrued interest payable	34,717	-	34,717
Early retirement payable	2,266	-	2,266
Incurred but not reported claims	50,000	-	50,000
ISCAP warrants payable (note 5)	805,000	-	805,000
ISCAP accrued interest payable (note 5)	6,294	-	6,294
Deferred revenue:			
Succeeding year property tax	1,872,000	-	1,872,000
Other	-	3,086	3,086
Long-term liabilities (note 7):			
Portion due within one year:			
Early retirement	18,481	-	18,481
Bonds payable	500,000	-	500,000
Portion due after one year:			
Early retirement	76,030	-	76,030
Bonds payable	3,425,000	-	3,425,000
Total liabilities	7,578,768	17,884	7,596,652

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

	<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	\$ 3,841,646	\$ 33,936	\$ 3,875,582
Restricted for:			
Other special revenue purposes	82,956	-	82,956
Debt service	621,340	-	621,340
Unrestricted	<u>798,712</u>	<u>(23,737)</u>	<u>774,975</u>
Total net assets	<u>\$ 5,344,654</u>	<u>\$ 10,199</u>	<u>\$ 5,354,853</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities:				
Instruction:				
Regular instruction	\$ 2,938,782	\$ 701,703	\$ 248,808	\$ -
Special instruction	789,223	73,431	38,589	-
Other instruction	666,700	241,733	20,024	-
	<u>4,394,705</u>	<u>1,016,867</u>	<u>307,421</u>	<u>-</u>
Support services:				
Student services	311,754	-	935	-
Instructional staff services	261,015	-	-	-
Administration services	722,445	-	-	-
Operation and maintenance of plant services	523,500	-	-	-
Transportation services	167,067	-	2,952	-
	<u>1,985,781</u>	<u>-</u>	<u>3,887</u>	<u>-</u>
Non-instructional programs	<u>3,895</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	18,303	-	48,747	24,557
Long-term debt interest and fiscal charges	197,057	-	-	-
AEA flowthrough	210,164	-	210,164	-
Depreciation (unallocated) *	225,746	-	-	-
	<u>651,270</u>	<u>-</u>	<u>258,911</u>	<u>24,557</u>
Total governmental activities	7,035,651	1,016,867	570,219	24,557
Business-Type Activities:				
Non-instructional programs:				
Food service operations	<u>299,103</u>	<u>207,225</u>	<u>73,374</u>	<u>-</u>
Total	<u>\$ 7,334,754</u>	<u>\$ 1,224,092</u>	<u>\$ 643,593</u>	<u>\$ 24,557</u>

Net (Expense) Revenue
and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ (1,988,271)	\$ -	\$ (1,988,271)
(677,203)	-	(677,203)
(404,943)	-	(404,943)
<u>(3,070,417)</u>	<u>-</u>	<u>(3,070,417)</u>
(310,819)	-	(310,819)
(261,015)	-	(261,015)
(722,445)	-	(722,445)
(523,500)	-	(523,500)
(164,115)	-	(164,115)
<u>(1,981,894)</u>	<u>-</u>	<u>(1,981,894)</u>
<u>(3,895)</u>	<u>-</u>	<u>(3,895)</u>
55,001	-	55,001
(197,057)	-	(197,057)
-	-	-
<u>(225,746)</u>	<u>-</u>	<u>(225,746)</u>
<u>(367,802)</u>	<u>-</u>	<u>(367,802)</u>
(5,424,008)	-	(5,424,008)
<u>-</u>	<u>(18,504)</u>	<u>(18,504)</u>
<u>(5,424,008)</u>	<u>(18,504)</u>	<u>(5,442,512)</u>

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Capital outlay

Income surtax

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year

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 Activities</u>	<u>Business-Type Activities</u>		<u>Total</u>
\$	1,785,217	\$ -	\$	1,785,217
	231,106	-		231,106
	241,187	-		241,187
	647,622	-		647,622
	2,912,859	-		2,912,859
	44,537	99		44,636
	64,894	-		64,894
	<hr/> 5,927,422	99		<hr/> 5,927,521
	503,414	(18,405)		485,009
	<hr/> 4,841,240	28,604		<hr/> 4,869,844
\$	<u><u>5,344,654</u></u>	<u><u>\$ 10,199</u></u>	\$	<u><u>5,354,853</u></u>

HUDSON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and pooled investments	\$ 1,090,435	\$ 656,057	\$ 383,618	\$ 2,130,110
Receivables:				
Property tax:				
Current year	17,277	-	2,746	20,023
Succeeding year	1,582,000	-	290,000	1,872,000
Income surtax	227,614	-	-	227,614
Interfund receivable (note 3)	11,000	-	3,065	14,065
Accounts	393	-	121,062	121,455
Due from other governments	19,083	-	-	19,083
Inventories	11,756	-	-	11,756
Restricted ISCAP assets (note 5):				
Investments	807,905	-	-	807,905
Accrued interest receivable	5,925	-	-	5,925
	<u>3,773,388</u>	<u>656,057</u>	<u>800,491</u>	<u>5,229,936</u>
Total assets	\$ <u>3,773,388</u>	\$ <u>656,057</u>	\$ <u>800,491</u>	\$ <u>5,229,936</u>

HUDSON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 33,829	\$ -	\$ 129,500	\$ 163,329
Salaries and benefits payable	625,651	-	-	625,651
Interfund payable	-	-	3,065	3,065
ISCAP warrants payable (note 5)	805,000	-	-	805,000
ISCAP accrued interest payable (note 5)	6,294	-	-	6,294
Deferred revenue:				
Succeeding year property tax	1,582,000	-	290,000	1,872,000
Other	227,614	-	-	227,614
Early retirement payable (note 7)	-	-	2,266	2,266
Total liabilities	<u>3,280,388</u>	<u>-</u>	<u>424,831</u>	<u>3,705,219</u>
Fund balance:				
Reserved for:				
Inventories	11,756	-	-	11,756
State grants	452	-	-	452
Debt service	-	656,057	-	656,057
Unreserved:				
Reported in nonmajor Special Revenue Funds	-	-	148,887	148,887
Undesignated	480,792	-	226,773	707,565
Total fund balances	<u>493,000</u>	<u>656,057</u>	<u>375,660</u>	<u>1,524,717</u>
Total liabilities and fund balances	<u>\$ 3,773,388</u>	<u>\$ 656,057</u>	<u>\$ 800,491</u>	<u>\$ 5,229,936</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, 2005

Total fund balances of governmental funds	\$	1,524,717
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.		7,539,873
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		227,614
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.		(34,717)
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.		(4,019,511)
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>106,678</u>
Net assets of governmental activities	\$	<u><u>5,344,654</u></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, 2005

	General	Debt Service	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 1,956,054	\$ -	\$ 934,095	\$ 2,890,149
Tuition	731,701	-	-	731,701
Other	90,219	6,018	300,812	397,049
State sources	3,322,187	-	24,839	3,347,026
Federal sources	113,925	-	-	113,925
Total revenues	<u>6,214,086</u>	<u>6,018</u>	<u>1,259,746</u>	<u>7,479,850</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	2,877,400	-	16,722	2,894,122
Special instruction	786,141	-	-	786,141
Other instruction	433,102	-	233,598	666,700
	<u>4,096,643</u>	<u>-</u>	<u>250,320</u>	<u>4,346,963</u>
Support services:				
Student services	308,355	-	3,399	311,754
Instructional staff services	261,015	-	-	261,015
Administration services	689,347	-	26,705	716,052
Operation and maintenance of plant services	536,588	-	65,505	602,093
Transportation services	146,365	-	11,648	158,013
	<u>1,941,670</u>	<u>-</u>	<u>107,257</u>	<u>2,048,927</u>
Non-instructional programs	-	-	3,895	3,895
Other expenditures:				
Facilities acquisition	-	-	172,269	172,269
Long term debt:				
Principal	-	430,000	-	430,000
Interest and fiscal charges	-	225,638	-	225,638
AEA flowthrough	210,164	-	-	210,164
	<u>210,164</u>	<u>655,638</u>	<u>172,269</u>	<u>1,038,071</u>
Total expenditures	<u>6,248,477</u>	<u>655,638</u>	<u>533,741</u>	<u>7,437,856</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(34,391)</u>	<u>(649,620)</u>	<u>726,005</u>	<u>41,994</u>

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):				
Compensation for loss of fixed assets	\$ 46,296	\$ -	\$ -	\$ 46,296
Interfund transfers in	2,000	1,044,443	207,990	1,254,433
Interfund transfers out	(3,927)	(200,998)	(1,049,508)	(1,254,433)
Total other financing sources (uses)	<u>44,369</u>	<u>843,445</u>	<u>(841,518)</u>	<u>46,296</u>
Net change in fund balances	9,978	193,825	(115,513)	88,290
Fund balances beginning of year	<u>483,022</u>	<u>462,232</u>	<u>491,173</u>	<u>1,436,427</u>
Fund balances end of year	<u>\$ 493,000</u>	<u>\$ 656,057</u>	<u>\$ 375,660</u>	<u>\$ 1,524,717</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, 2005

Net change in fund balances - total governmental funds \$ 88,290

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	\$ 248,611	
	Depreciation expense	<u>(248,100)</u>	511

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. 12,919

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets. 430,000

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. 28,581

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. (37,288)

The decrease in net assets of the Internal Service Fund represents an undercharge to the funds serviced. Therefore, expenses are adjusted accordingly for the statement of activities. (19,599)

Change in net assets of governmental activities \$ 503,414

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUND TYPES
June 30, 2005

	Nonmajor Enterprise Fund	Internal Service Funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 1	\$ 156,678
Inventories	5,146	-
Capital assets, net of accumulated depreciation	33,936	-
Total assets	<u>39,083</u>	<u>156,678</u>
Liabilities		
Excess of warrants issued over bank balance	2,782	-
Salaries and benefits payable	12,016	-
Due to other funds	11,000	-
Incurred but not reported claims	-	50,000
Deferred revenue:		
Other	3,086	-
Total liabilities	<u>28,884</u>	<u>50,000</u>
Net Assets		
Invested in capital assets, net of related debt	33,936	-
Unrestricted	<u>(23,737)</u>	<u>106,678</u>
Total net assets	<u>\$ 10,199</u>	<u>\$ 106,678</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, 2005

	Nonmajor Enterprise Fund	Internal Service Funds
	<u> </u>	<u> </u>
Operating revenues:		
Local sources:		
Charges for services	\$ 207,225	\$ 456,381
	<u> </u>	<u> </u>
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	101,736	-
Benefits	36,131	-
Purchased services	3,304	478,510
Supplies	150,358	-
Depreciation	7,574	-
	<u>299,103</u>	<u>478,510</u>
Operating loss	<u>(91,878)</u>	<u>(22,129)</u>
Non-operating revenues:		
Interest on investments	99	2,530
State sources	2,973	-
Federal sources	70,401	-
Total non-operating revenues	<u>73,473</u>	<u>2,530</u>
Change in net assets	(18,405)	(19,599)
Net assets beginning of year	<u>28,604</u>	<u>126,277</u>
Net assets end of year	<u>\$ 10,199</u>	<u>\$ 106,678</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
Year Ended June 30, 2005

	Nonmajor Enterprise Fund	Internal Service Funds
	<u> </u>	<u> </u>
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 206,238	\$ -
Cash received from miscellaneous operating activities	987	456,381
Cash payments to employees for services	(133,765)	-
Cash payments to suppliers for goods or services	(145,928)	(478,510)
Net cash used in operating activities	<u>(72,468)</u>	<u>(22,129)</u>
Cash flows from non-capital financing activities:		
Increase in warrants issued over bank balance	2,782	-
Increase in due to other funds	6,000	-
State grants received	2,973	-
Federal grants received	60,269	-
Net cash provided by non-capital financing activities	<u>72,024</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	99	2,625
Net increase in cash and cash equivalents	(345)	(19,504)
Cash and cash equivalents beginning of year	<u>346</u>	<u>176,182</u>
Cash and cash equivalents end of year	<u>\$ 1</u>	<u>\$ 156,678</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (91,878)	\$ (22,129)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	7,574	-
Commodities used	10,132	-
Decrease in accounts receivable	283	-
(Increase) in inventories	(2,836)	-
Increase in salaries and benefits payable	4,101	-
Increase in deferred revenues	156	-
Net cash used in operating activities	<u>\$ (72,468)</u>	<u>\$ (22,129)</u>
Non-cash investing, capital and financing activities:		
During the year ended June 30, 2005, the District received \$10,132 of federal commodities.		

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2005

		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>71,150</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 Year Ended June 30, 2005

	<u>Private Purpose Trust</u> <u>Scholarship</u>
Additions:	
Local sources:	
Interest	\$ <u>965</u>
Deductions:	
Support services:	
Scholarships awarded	<u>965</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, 2005

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, 2005

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 funds:

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 Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt.

The District's proprietary funds are the Enterprise, School Nutrition Fund, used to account for the food service operations of the District, 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, 2005

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, 2005

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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

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, 2005

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, 2005

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 and 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, 2005, disbursements did not exceed amounts budgeted in any of the four functional areas.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 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 also had investments in money market mutual funds valued at \$568,047 held by Bankers Trust that are uninsured and not covered under Chapter 12C of the Code of Iowa.

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, 2005

Note 2. Cash and Pooled Investments (continued)

At June 30, 2005, the District had the following investments:

	Total
Goldman Sachs Treasury Obligation Fund	\$ 568,047
Iowa Schools Joint Investment Trust, Diversified Portfolio	1,533,350
	\$ 2,101,397

The investments in the Iowa Schools Joint Investment Trust, Diversified Portfolio are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investments in the Goldman Sachs Treasury Obligation Fund are recorded at fair value.

Interest rate risk – The District’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit Risk – The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody’s Investors Service.

Note 3. Interfund Payables/Receivables

Details of the District’s interfund payables and receivables at June 30, 2005, are as follows:

Receivable Fund	Payable Fund	Amount
Capital Projects	Special Revenue, Physical Plant and Equipment Levy	\$ 3,065
General	Enterprise, School Nutrition	11,000
		\$ 14,065

HUDSON COMMUNITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005

Note 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects	Debt Service	\$ 200,998
General	Special Revenue: Management Levy	2,000
Special Revenue: Student Activity	General	3,927
Physical Plant and Equipment Levy	Capital Projects	3,065
Debt Service	Capital Projects Special Revenue: Physical Plant and Equipment Levy	970,193 <u>74,250</u>
Total		\$ <u><u>1,254,433</u></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, 2005 is as follows:

<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>
2004-05B	1/28/2005	1/27/2006	\$ 430,240	\$ 5,829	\$ 429,000	\$ 6,210
2005-06A	6/30/2005	6/30/2006	377,665	96	376,000	84
Total			\$ <u><u>807,905</u></u>	\$ <u><u>5,925</u></u>	\$ <u><u>805,000</u></u>	\$ <u><u>6,294</u></u>

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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

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. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2004-05A	\$ <u> -</u>	\$ <u> 185,000</u>	\$ <u> 185,000</u>	\$ <u> -</u>

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>
2004-05B	3.500%	3.232%
2005-06A	3.500%	3.903%

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 116,782	\$ -	\$ -	\$ 116,782
Construction in progress	-	144,326	-	144,326
Total capital assets not being depreciated	<u>116,782</u>	<u>144,326</u>	<u>-</u>	<u>261,108</u>
Capital assets being depreciated:				
Buildings	10,338,579	97,585	-	10,436,164
Improvements other than buildings	114,341	-	-	114,341
Furniture and equipment	751,323	6,700	57,902	700,121
Total capital assets being depreciated	<u>11,204,243</u>	<u>104,285</u>	<u>57,902</u>	<u>11,250,626</u>
Less accumulated depreciation for:				
Buildings	3,175,789	220,582	-	3,396,371
Improvements other than buildings	18,803	5,164	-	23,967
Furniture and equipment	587,071	22,354	57,902	551,523
Total accumulated depreciation	<u>3,781,663</u>	<u>248,100</u>	<u>57,902</u>	<u>3,971,861</u>
Total capital assets being depreciated, net	<u>7,422,580</u>	<u>(143,815)</u>	<u>-</u>	<u>7,278,765</u>
Governmental activities capital assets, net	<u>\$ 7,539,362</u>	<u>\$ 511</u>	<u>\$ -</u>	<u>\$ 7,539,873</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 174,445	\$ -	\$ -	\$ 174,445
Less accumulated depreciation	132,935	7,574	-	140,509
Business-type activities capital assets, net	<u>\$ 41,510</u>	<u>\$ (7,574)</u>	<u>\$ -</u>	<u>\$ 33,936</u>

HUDSON COMMUNITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005

Note 6. Capital Assets (continued)

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

Governmental activities:

Instruction:		
Regular	\$	3,420
Support services:		
Administration		2,889
Operation and maintenance of plant services		6,991
Transportation		9,054
		<u>22,354</u>
Unallocated depreciation		<u>225,746</u>
Total governmental activities depreciation expense	\$	<u><u>248,100</u></u>

Business-type activities:

Food service operations	\$	<u><u>7,574</u></u>
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Note 7. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

		<u>Early Retirement</u>	<u>General Obligation Bonds</u>	<u>Local Option Sales and Services Tax Revenue Bonds</u>	<u>Capital Loan Notes</u>	<u>Total</u>
Balance beginning of year	\$	57,223	\$ 2,910,000	\$ 1,375,000	\$ 70,000	\$ 4,412,223
Additions		48,619	-	-	-	48,619
Reductions		11,331	210,000	150,000	70,000	441,331
		<u>11,331</u>	<u>210,000</u>	<u>150,000</u>	<u>70,000</u>	<u>441,331</u>
Balance end of year	\$	<u>94,511</u>	<u>2,700,000</u>	<u>1,225,000</u>	<u>-</u>	<u>4,019,511</u>
Due within one year	\$	<u>18,481</u>	<u>275,000</u>	<u>225,000</u>	<u>-</u>	<u>518,481</u>

HUDSON COMMUNITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005

Note 7. Long-Term Liabilities (continued)

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. Under a new plan adopted for the year ended June 30, 2005, requirements for retirees are the same, but the incentive is participation in the District's health plan at district cost at the monthly single rate in effect at July 1, 2005, plus an additional \$1,000 contribution to the individual's health savings plan. 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, Management Fund in the fund financial statements and as a liability of the Governmental Activities 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.

Line of Credit

The District entered into an agreement for revolving line of credit up to \$350,000 for financing of the track project. The line of credit has a floating interest rate on any outstanding principal of between 5% and 20% per annum. The District had no activity in this line of credit for the year ended June 30, 2005.

General Obligation Bonds Payable

Details of the District's June 30, 2005, general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
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
		<u>\$ 2,700,000</u>	<u>\$ 504,821</u>	<u>\$ 3,204,821</u>

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 7. Long-Term Liabilities (continued)

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
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
		<u>\$ 1,225,000</u>	<u>\$ 148,719</u>	<u>\$ 1,373,719</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.

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.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 8. Operating Lease

The district has entered into operating leases for two school buses. The first lease requires annual payments of \$7,638 and expires in June, 2006. The second lease requires three annual payments of \$8,103 with a balloon payment of \$34,250 in March, 2008. Details of the District's future minimum lease payments are as follows:

Year Ending June 30,	Minimum Lease Payments
2006	\$ 15,741
2007	8,103
2008	34,250
	\$ 58,094

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, 2005, 2004, and 2003 were \$209,325, \$204,799, and \$212,217 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 \$106,678 at June 30, 2005 and is recorded in the Internal Service Fund. The incurred but not reported claims of \$50,000 are reported as liabilities at June 30, 2005.

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 for these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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 \$210,164 for the year ended June 30, 2005 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 various contracts totaling \$363,074, including change orders, for a new track project. At June 30, 2005 \$144,327 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the project progresses.

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 \$10,711, and the Enterprise Fund, School Nutrition Fund had an unrestricted net asset deficit of \$23,737 at June 30, 2005.

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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, 2005

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
RECEIPTS:						
Local sources	\$ 4,022,060	\$ 213,324	\$ 4,235,384	\$ 4,261,905	\$ 4,261,905	\$ (26,521)
State sources	3,327,603	2,973	3,330,576	3,357,263	3,357,263	(26,687)
Federal sources	109,333	70,401	179,734	142,000	142,000	37,734
Total receipts	7,458,996	286,698	7,745,694	7,761,168	7,761,168	(15,474)
DISBURSEMENTS:						
Instruction	4,330,586	-	4,330,586	4,481,015	4,650,000	319,414
Support services	2,099,673	-	2,099,673	2,209,515	2,209,515	109,842
Non-instructional programs	-	289,825	289,825	318,000	318,000	28,175
Other expenditures	914,124	-	914,124	1,033,548	1,350,000	435,876
Total disbursements	7,344,383	289,825	7,634,208	8,042,078	8,527,515	893,307
Excess (deficiency) of receipts over (under) disbursements	114,613	(3,127)	111,486	(280,910)	(766,347)	877,833
Other financing sources, net	46,296	-	46,296	-	-	46,296
Excess (deficiency) of receipts and other financing sources over (under) disbursements	160,909	(3,127)	157,782	(280,910)	(766,347)	924,129
Balance beginning of year	1,969,201	346	1,969,547	1,767,326	1,767,326	202,221
Balance end of year	<u>\$ 2,130,110</u>	<u>\$ (2,781)</u>	<u>\$ 2,127,329</u>	<u>\$ 1,486,416</u>	<u>\$ 1,000,979</u>	<u>\$ 1,126,350</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, 2005

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 7,458,996	\$ 20,854	\$ 7,479,850
Expenditures	7,344,383	93,473	7,437,856
Net	114,613	(72,619)	41,994
Other financing sources (uses)	46,296	-	46,296
Beginning fund balances	1,969,201	(532,774)	1,436,427
Ending fund balances	<u>\$ 2,130,110</u>	<u>\$ (605,393)</u>	<u>\$ 1,524,717</u>
	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Basis
Revenues	\$ 286,698	\$ (6,000)	\$ 280,698
Expenses	289,825	9,278	299,103
Net	(3,127)	(15,278)	(18,405)
Beginning net assets	346	28,258	28,604
Ending net assets	<u>\$ (2,781)</u>	<u>\$ 12,980</u>	<u>\$ 10,199</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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 functions, not by fund or fund type. These four functions 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 by fund. 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 \$485,437.

During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted in any of the four functional areas.

Other Supplementary Information

HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Total
Assets					
Cash and pooled investments	\$ 78,352	\$ 87,228	\$ 55,140	\$ 162,898	\$ 383,618
Receivables:					
Property tax:					
Current year	556	-	2,190	-	2,746
Succeeding year	80,000	-	210,000	-	290,000
Interfund receivable	-	-	-	3,065	3,065
Due from other governments	-	-	-	121,062	121,062
Total assets	\$ <u>158,908</u>	\$ <u>87,228</u>	\$ <u>267,330</u>	\$ <u>287,025</u>	\$ <u>800,491</u>
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ -	\$ 4,272	\$ 64,976	\$ 60,252	\$ 129,500
Interfund payable	-	-	3,065	-	3,065
Early retirement payable	2,266	-	-	-	2,266
Deferred revenue:					
Succeeding year property tax	80,000	-	210,000	-	290,000
Total liabilities	<u>82,266</u>	<u>4,272</u>	<u>278,041</u>	<u>60,252</u>	<u>424,831</u>
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	<u>76,642</u>	<u>82,956</u>	<u>(10,711)</u>	<u>226,773</u>	<u>375,660</u>
Total fund equity	<u>76,642</u>	<u>82,956</u>	<u>(10,711)</u>	<u>226,773</u>	<u>375,660</u>
Total liabilities and fund equity	\$ <u>158,908</u>	\$ <u>87,228</u>	\$ <u>267,330</u>	\$ <u>287,025</u>	\$ <u>800,491</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	Special Revenue				Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	
Revenues:					
Local sources:					
Local tax	\$ 55,592	\$ -	\$ 230,881	\$ 647,622	\$ 934,095
Other	1,081	241,733	498	57,500	300,812
State sources	57	-	225	24,557	24,839
Total revenues	<u>56,730</u>	<u>241,733</u>	<u>231,604</u>	<u>729,679</u>	<u>1,259,746</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	15,722	-	1,000	-	16,722
Other instruction	-	233,598	-	-	233,598
Support services:					
Student services	3,399	-	-	-	3,399
Administration services	3,399	-	23,306	-	26,705
Operation and maintenance of plant services	41,395	-	24,110	-	65,505
Transportation services	11,648	-	-	-	11,648
Non instructional programs	3,895	-	-	-	3,895
Other expenditures:					
Facilities acquisition	-	-	78,994	93,275	172,269
Total expenditures	<u>79,458</u>	<u>233,598</u>	<u>127,410</u>	<u>93,275</u>	<u>533,741</u>
Excess (deficiency) of revenues over (under) expenditures	(22,728)	8,135	104,194	636,404	726,005
Other financing sources (uses):					
Interfund transfers in	-	3,927	3,065	200,998	207,990
Interfund transfers out	(2,000)	-	(74,250)	(973,258)	(1,049,508)
Total other financing sources (uses)	<u>(2,000)</u>	<u>3,927</u>	<u>(71,185)</u>	<u>(772,260)</u>	<u>(841,518)</u>

HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	<u>Special Revenue</u>				<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	
Excess (deficiency) of revenues over (under) expenditures and other financing uses	\$ (24,728)	\$ 12,062	\$ 33,009	\$ (135,856)	\$ (115,513)
Fund balances beginning of year	<u>101,370</u>	<u>70,894</u>	<u>(43,720)</u>	<u>362,629</u>	<u>491,173</u>
Fund balances end of year	<u>\$ 76,642</u>	<u>\$ 82,956</u>	<u>\$ (10,711)</u>	<u>\$ 226,773</u>	<u>\$ 375,660</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF NET ASSETS
 INTERNAL SERVICE FUNDS
 June 30, 2005

	<u>Self-Insured Health Plan</u>	<u>Self-Insured Dental Plan</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ <u>106,767</u>	\$ <u>49,911</u>	\$ <u>156,678</u>
Liabilities			
Incurred but not reported claims	\$ <u>46,843</u>	\$ <u>3,157</u>	\$ <u>50,000</u>
Net Assets			
Unrestricted	\$ <u>59,924</u>	\$ <u>46,754</u>	\$ <u>106,678</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, 2005

	<u>Self-Insured Health Plan</u>	<u>Self-Insured Dental Plan</u>	<u>Total</u>
Operating revenue:			
Local sources:			
Other local sources:			
Services	\$ 426,719	\$ 29,662	\$ 456,381
Operating expenses:			
Non-instructional programs:			
Benefits	445,521	29,703	475,224
Other	3,036	250	3,286
Total expenses	<u>448,557</u>	<u>29,953</u>	<u>478,510</u>
Operating loss	(21,838)	(291)	(22,129)
Non-operating revenue:			
Interest income	<u>1,749</u>	<u>781</u>	<u>2,530</u>
Change in net assets	(20,089)	490	(19,599)
Net assets beginning of year	<u>80,013</u>	<u>46,264</u>	<u>126,277</u>
Net assets end of year	<u>\$ 59,924</u>	<u>\$ 46,754</u>	<u>\$ 106,678</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 Year Ended June 30, 2005

	Self-Insured Health Plan	Self-Insured Dental Plan	Total
Cash flows from operating activities:			
Cash received from local sources	\$ 426,719	\$ 29,662	\$ 456,381
Cash payments to suppliers for goods or services	(448,293)	(30,217)	(478,510)
Net cash used in operating activities	(21,574)	(555)	(22,129)
Cash flows from investing activities:			
Interest on investments	1,816	809	2,625
Net increase in cash and cash equivalents	(19,758)	254	(19,504)
Cash and cash equivalents at beginning of year	126,525	49,657	176,182
Cash and cash equivalents at end of year	\$ 106,767	\$ 49,911	\$ 156,678
Reconciliation of operating loss to net cash provided by operating activities:			
Operating income	\$ (21,838)	\$ (291)	\$ (22,129)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Increase (decrease) in incurred but not reported claims	264	(264)	-
Net cash provided by operating activities	\$ (21,574)	\$ (555)	\$ (22,129)

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Speech	\$ -	\$ -	\$ -	-
Vocal Music	(718)	6,153	4,849	586
Vocal Music Trip	2,135	-	-	2,135
Physics Club	3,899	3,439	6,842	496
Photography	33	-	-	33
National Honor Society	-	933	762	171
Instrumental Music	(659)	2,890	2,231	-
Instrumental Music Trip	1,077	-	-	1,077
Athletic Adm.	16	47,322	20,163	27,175
Track	103	2,419	9,149	(6,627)
Cross Country	-	37	1,318	(1,281)
Cross Country Concessions	1,025	1,884	2,168	741
Soccer	(45)	1,494	2,369	(920)
Tennis	77	1,117	1,234	(40)
Golf	-	542	1,576	(1,034)
Golf Camp	368	827	1,377	(182)
Basketball	-	4,290	6,002	(1,712)
Boys Basketball Camp	(536)	587	511	(460)
Elem. Boys Basketball Camp	475	-	-	475
MS Volleyball Camp	(609)	-	-	(609)
Boys Soccer Camp	4,942	4,632	4,056	5,518
Volleyball Camp	1,241	1,030	1,025	1,246
Football	-	62	4,834	(4,772)
FB Camp	2,288	2,395	1,327	3,356
Baseball	(305)	1,356	1,445	(394)
Baseball Camp	(127)	-	-	(127)
Wrestling	3	8,424	10,908	(2,481)
Boys Wrestling Camp	(277)	-	-	(277)
Girls BB Camp	1,048	983	440	1,591
Dug Out Club	166	-	-	166
Volleyball Camp	-	4,185	7,964	(3,779)
All-American Basketball Camp	1,435	2,725	3,830	330
Softball	188	2,517	5,422	(2,717)
Interest	22,754	739	36	23,457
Annual	13,968	6,800	8,264	12,504
FFA Chapter	7,810	19,763	18,179	9,394
Sr. High Student Council	1,953	18,150	15,228	4,875
Jr. High Student Council	1,504	16,267	15,392	2,379
5-6 Student Council	1,367	1,323	1,480	1,210
Show Choir Concert	(9,927)	8,778	2,351	(3,500)

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Cheerleaders	\$ -	\$ 4,947	\$ 5,485	\$ (538)
MS Cheerleaders	-	-	-	-
Fall/Play Musical	-	791	791	-
Vocal Music Production	1,210	1,602	123	2,689
MS Show Choir	2,025	1,779	1,218	2,586
Spanish Club Trip	892	185	-	1,077
Class of 2003	-	-	-	-
Class of 2004	-	-	-	-
Class of 2005	3,119	2,584	5,417	286
Class of 2006	1,875	3,435	7,338	(2,028)
Class of 2007	1,187	1,902	32	3,057
Class of 2008	-	1,490	67	1,423
Athletic Boosters	3,914	52,882	50,395	6,401
 Total	 \$ 70,894	 \$ 245,660	 \$ 233,598	 \$ 82,956

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,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 2,890,149	\$ 2,605,375	\$ 2,723,819	\$ 2,444,354
Tuition	731,701	754,763	770,982	736,622
Other	397,049	505,728	552,602	462,137
State sources	3,347,026	3,292,761	3,167,842	3,181,241
Federal sources	113,925	147,976	96,950	69,213
	<u>\$ 7,479,850</u>	<u>\$ 7,306,603</u>	<u>\$ 7,312,195</u>	<u>\$ 6,893,567</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 2,894,122	\$ 3,020,726	\$ 2,774,834	\$ 2,978,001
Special instruction	786,141	727,211	593,538	567,960
Other instruction	666,700	604,831	650,594	595,718
Support services:				
Student services	311,754	288,757	267,325	436,084
Instructional staff services	261,015	243,441	225,930	25,355
Administration services	716,052	674,994	822,647	895,417
Operation and maintenance of plant services	602,093	524,184	482,179	385,904
Transportation services	158,013	133,512	139,280	161,140
Non-instructional programs	3,895	40	53	2,321
Other expenditures:				
Facilities acquisition	172,269	223,070	339,153	1,221,160
Long-term debt:				
Principal	430,000	425,000	400,000	230,000
Interest and fiscal charges	225,638	245,695	302,327	271,453
AEA flowthrough	210,164	213,445	221,502	222,619
	<u>\$ 7,437,856</u>	<u>\$ 7,324,906</u>	<u>\$ 7,219,362</u>	<u>\$ 7,993,132</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education of
Hudson Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Hudson Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 26, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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 an opinion 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 reportable 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 caused by error or fraud 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. We noted no material weaknesses during the course of our audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hudson Community School District's 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 or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters 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, 2005 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.

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, including federal awarding agencies and pass-through entities. 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 26, 2005

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

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

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

I-A-05 Unsupported Disbursement – We noted a disbursement made for a flat dollar meal allowance for sports teams while traveling. The allowance required no subsequent documentation to support the disbursement.

Recommendation – The District should adopt a policy for such disbursements requiring receipts be submitted following the trip to support all expenditures and that any balance of funds be returned to the District.

Response – We will discuss such a policy in the future and consider this recommendation.

Conclusion – Response accepted.

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

- II-A-05 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.
- II-B-05 Certified Budget – Disbursements for the year ended June 30, 2005, did not exceed the amount budgeted in any of the four functional areas.
- II-C-05 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-05 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-05 Business Transactions – No business transactions between the District and District officials or employees were noted.
- II-F-05 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-05 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- II-H-05 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- II-I-05 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-05 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.
- II-K-05 Financial Condition – The Special Revenue Fund, Physical Plant and Equipment Levy had an unreserved, undesignated fund deficit of \$10,711 and the Enterprise Fund, School Nutrition had a deficit unrestricted net assets balance of \$23,737 at June 30, 2005.

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

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

Conclusion – Response accepted.

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

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

II-L-05 Federal Grant Expenditures – We noted in our review of federal grant revenues and expenditures that the expenditures for one federal grant are not assigned a federal grant expenditure code. This makes monitoring for allowability of expenditures difficult.

Recommendation – The District should contact the Department of Education and obtain the correct expenditure code for this federal grant to allow monitoring of the allowability of these expenditures. This is a requirement for all state and federal grants.

Response – We will use the proper expenditure codes for all federal grants in the future.

Conclusion – Response accepted.

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