

HUDSON COMMUNITY SCHOOL DISTRICT  
HUDSON, IOWA

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

JUNE 30, 2007

## TABLE OF CONTENTS

	Page
OFFICIALS	4
INDEPENDENT AUDITOR’S REPORT	5-6
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)	7-16
BASIC FINANCIAL STATEMENTS	
Exhibit	
District-Wide Financial Statements:	
A    Statement of Net Assets	18-19
B    Statement of Activities	20-23
Governmental Fund Financial Statements:	
C    Balance Sheet	24-25
D    Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	26
E    Statement of Revenues, Expenditures and Changes in Fund Balances	27-28
F    Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	29
Proprietary Fund Financial Statements:	
G    Statement of Net Assets	30
H    Statement of Revenues, Expenses, and Changes in Net Assets	31
I    Statement of Cash Flows	32-33
Fiduciary Fund Financial Statements:	
J    Statement of Fiduciary Net Assets	34
K    Statement of Changes in Fiduciary Net Assets	35
Notes to Financial Statements	36-50
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances – Budget and Actual – All Governmental Funds and Proprietary Fund	52
Notes to Required Supplementary Information – Budgetary Reporting	53
OTHER SUPPLEMENTARY INFORMATION:	
Schedule	
Nonmajor Governmental Funds:	
1    Combining Balance Sheet	56
2    Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	57-58
Internal Services Funds:	
3    Combining Statement of Net Assets	59
4    Combining Schedule of Revenues, Expenses, and Changes in Net Assets	60
5    Combining Schedule of Cash Flows	61
6    Schedule of Changes in Special Revenue Fund, Student Activity Accounts	62-63
7    Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	64
8    Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	65

TABLE OF CONTENTS  
(continued)

	Page
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	66-67
SCHEDULE OF FINDINGS	68-69

HUDSON COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2006 Election)		
Maureen Hanson	President	2007
Julie Marsch	Vice President	2008
Carrie Brown	Board Member	2006
Jeff Cory	Board Member	2007
Trent Goodnight	Board Member	2008
<u>Board of Education</u>		
(After September 2006 Election)		
Maureen Hanson	President	2007
Julie Marsch	Vice President	2008
Jeff Cory	Board Member	2007
Trent Goodnight	Board Member	2008
Jerry Griffith	Board Member	2009
<u>School Officials</u>		
Ronald D. Crooks	Superintendent	2007
Lois Scally	District Secretary	2007
Max Boyd	District Treasurer	2007
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, the 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, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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, the business-type activities, each major fund, and the aggregate remaining fund information of Hudson Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 29, 2007 on our consideration of Hudson Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 52 through 53 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 three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8 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 the 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 29, 2007

---

## 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, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### Financial Highlights

- General Fund revenues increased from \$6,109,056 in fiscal 2006 to \$6,550,268 in fiscal 2007, while General Fund expenditures increased from \$6,286,800 in fiscal 2006 to \$6,575,655 in fiscal 2007. This contributed to a decrease in the District's General Fund balance from \$316,339 in fiscal 2006 to \$291,077 in fiscal 2007, an 8 percent decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax and in unrestricted state grants. 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 \$25,387. The fund balance decrease was primarily due to negotiated salary and benefit increases as well as increased utility costs and fuel costs for our buses.
- A slight increase in interest rates during the fiscal year resulted in interest earnings in the General Fund alone to increase from \$42,063 in fiscal year 2006 to \$70,063 in fiscal year 2007.

### 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.

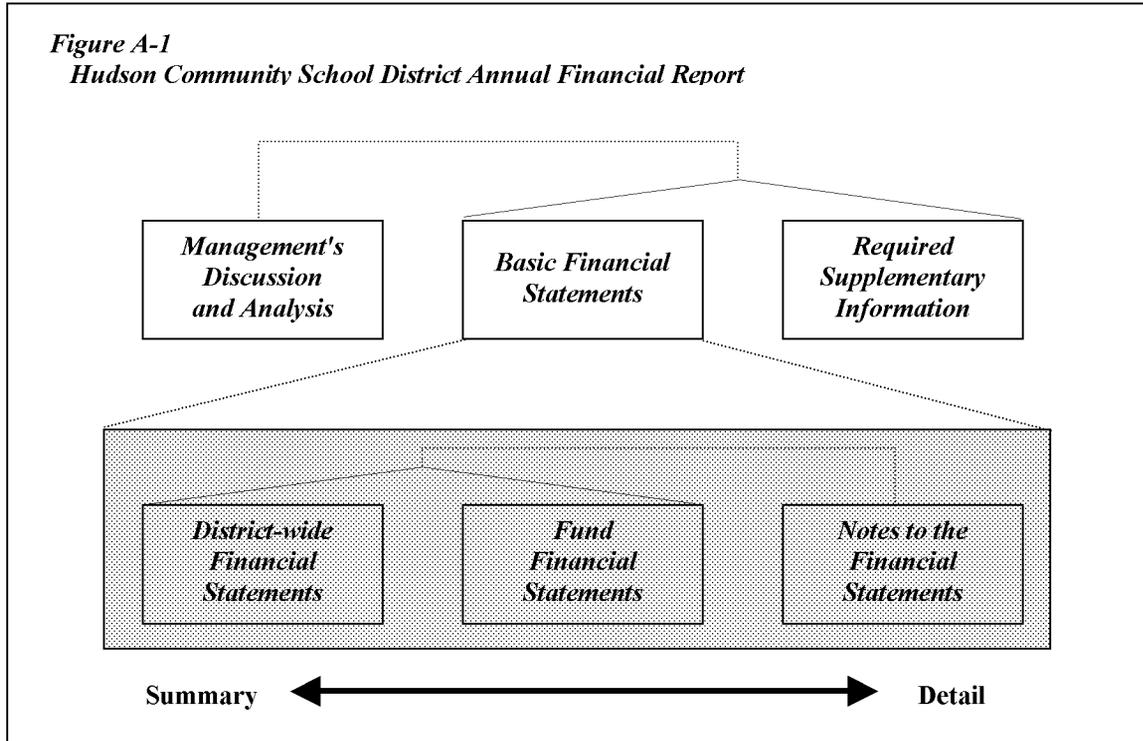


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the District-Wide and Fund Financial Statements</b>				
	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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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 reporting 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, 2007 compared to fiscal year 2006.

	Governmental Activities		Business-type Activities		Total District		Total Change
	2007	2006	2007	2006	2007	2006	2006-2007
Current and other assets	5,301,542	5,218,312	28,755	15,826	5,330,297	5,234,138	1.80%
Capital assets	<u>7,434,927</u>	<u>7,619,288</u>	<u>18,789</u>	<u>26,362</u>	<u>7,453,716</u>	<u>7,645,650</u>	-2.50%
Total assets	12,736,469	12,837,600	47,544	42,188	12,784,013	12,879,788	-0.70%
Long-term liabilities	3,079,525	3,607,083	0	0	3,079,525	3,607,083	-14.60%
Other liabilities	<u>3,649,286</u>	<u>3,431,099</u>	<u>15,432</u>	<u>14,179</u>	<u>3,664,718</u>	<u>3,445,278</u>	6.40%
Total liabilities	6,728,811	7,038,182	15,432	14,179	6,744,243	7,052,361	-4.40%
Net assets:							
Invested in capital assets, net of related debt	4,519,927	4,612,262	18,789	26,362	4,538,716	4,638,624	-2.20%
Restricted	1,062,194	566,871	0	0	1,062,194	566,871	87.40%
Unrestricted	<u>425,537</u>	<u>620,285</u>	<u>13,323</u>	<u>1,647</u>	<u>438,860</u>	<u>621,932</u>	-29.40%
Total net assets	6,007,658	5,799,418	32,112	28,009	6,039,770	5,827,427	3.60%

The District's combined net assets at June 30, 2007 compared to fiscal year 2006 are listed in Figure A-3. The District's net assets increased 3.6% to \$6,039,770. The improvement in financial position came from governmental activities, the net assets of which grew \$208,240.

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, 2007 compared to fiscal year 2006.

Figure A-4  
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program Revenues:							
Charges for service	1,029,850	1,030,564	242,442	244,313	1,272,292	1,274,877	-0.002
Operating grants, contributions and restricted interest	625,575	545,436	78,131	82,668	703,706	628,104	0.12
Capital grants, contributions and restricted interest	0	59,828	0	0	0	59,828	-1
General revenues:							
Property tax	2,242,026	2,097,151	0	0	2,242,026	2,097,151	0.069
Local option sales and service tax	661,349	681,304	0	0	661,349	681,304	-0.029
Income surtax	286,223	272,286	0	0	286,223	272,286	0.051
Unrestricted state grants	2,983,941	2,724,939	0	0	2,983,941	2,724,939	0.095
Unrestricted investment earnings	107,870	73,088	670	232	108,540	73,320	0.48
Other	<u>54,393</u>	<u>55,602</u>	<u>0</u>	<u>0</u>	<u>54,393</u>	<u>55,602</u>	-0.022
Total revenues	7,991,227	7,540,198	321,243	327,213	8,312,470	7,867,411	0.057
Program expenses:							
Governmental activities:							
Instruction	4,857,124	4,558,468	0	0	4,857,124	4,558,468	0.066
Support services	2,227,801	1,916,753	0	0	2,227,801	1,916,753	0.162
Non-instructional program	11,306	26,036	317,140	309,403	328,446	335,439	-0.021
Other expenses	<u>686,756</u>	<u>584,177</u>	<u>0</u>	<u>0</u>	<u>686,756</u>	<u>584,177</u>	0.176
Total expenses	7,782,987	7,085,434	317,140	309,403	8,100,127	7,394,837	0.095
Change in net assets	208,240	454,764	4,103	17,810	212,343	472,574	-0.551

## Governmental Activities

Revenues for governmental activities were \$7,991,227 and expenses were \$7,782,987. 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	4,857,124	3,473,003
Support Services	2,227,801	2,187,003
Non-instructional programs	11,306	11,306
Other expenses	<u>686,756</u>	<u>456,250</u>
Totals:	7,782,987	6,127,562

- The cost financed by users of the District's programs was \$1,029,850.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$625,575.
- The net cost of governmental activities was financed in part with \$2,242,026 in property tax, \$2,954,364 in state foundation aid and \$107,870 in interest income.

## Business-Type Activities

Revenues of the District's business-type activities were \$321,243 and expenses were \$317,140. 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, 2007, the District generated sufficient revenues in the School Nutrition Fund to meet expenses. If costs for the School Nutrition Fund increase in the future, the district will need to increase meal prices to offset them.

## **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 \$1,430,196 compared to \$1,403,977 in Fiscal Year 2006. The General Fund balance for Fiscal Year 2007 was \$291,077 compared to \$316,339 for Fiscal Year 2006.

### **Governmental Fund Highlights**

- The decrease in the combined fund balances is primarily the result of decreases in the General Fund balance and the district will need to carefully monitor future General Fund expenditures so that they match or are less than anticipated 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. Over the course of the year, the District amended its annual operating budget one time. Expenditures for the year exceeded the amount budgeted in the non-instructional programs function. 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 supplementary information section of this report.

### **Legal Budgetary Highlights**

The District's total actual receipts were \$21,424 more than the total budgeted receipts, a variance of less than a half a percent. The District budget is an accurate representation of estimated revenue.

Total expenditures were \$474,993 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. However, the legal level of budgetary control is at the functional level. As noted in required supplementary information provided on pages 52-53 of this report, the budget was exceeded in the non-instructional programs function.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2007, the District had invested \$7,453,716, net of accumulated depreciation of \$4,576,362, 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 \$286,434.

The original cost of the District's capital assets was \$12,030,078. Governmental funds account for \$11,855,633 leaving \$174,445 in the Proprietary, School Nutrition Fund.

Figure A-6  
Capital Assets, net of Depreciation

	Governmental Activities	Business Type Activities	Total District
Land	116,782	0	116,782
Construction in progress	0	0	0
Buildings	6,597,805	0	6,597,805
Improvements other than buildings	522,350	0	522,350
Furniture and equipment	<u>197,990</u>	<u>18,789</u>	<u>216,779</u>
Totals	7,434,927	18,789	7,453,716

### Long-Term Liabilities

At June 30, 2007, the District had \$3,079,525 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 2007
General obligation bonds	2,140,000
Local option sales and service tax revenue bonds	775,000
Capital loan notes	0

Early retirement	<u>164,525</u>
Totals:	3,079,525

## **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 developments continue to move 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. If the mobile home park ceases to exist, it is also likely that many residents will have difficulty finding alternate housing in the Hudson district. A sudden loss of 50 or more resident students would have a challenging impact on the District budget heading into the future.

Projections show a continuous decline in enrollment through at least the next five years, as larger classes are graduating and smaller classes are enrolling. For example, the District will have to overcome the budget impact of a negative 35 students during FY09. The Board of Education, in advance of this trend, reduced employee expenses significantly in FY08 through means such as staff reductions, early retirements, and attrition. It is hoped that addressing this declining enrollment trend in its early stages will prevent the Board from having to eliminate employee positions going into the future, but if the trend in enrollment does not reverse, it is likely that more positions will need to be reduced in order to keep the district financially solvent.

The Board of Education also took action during FY07 to address concerns in specific funds, such as Hudson's self-funded health insurance plan. Expenses exceeded revenues by a significant amount in FY07, so premiums were raised in FY08 to offset this. The Board has also used loan options to keep funds such as the health fund solvent, but has set the goal of cutting expenses across the board to the point that all loans can be repaid in FY08. Once this is done, it is a Board goal to then build up revenue in those accounts in an effort to improve buying power going into the future. In the spring of FY09, part of the District's construction debt will also be paid off, which will also help clear funds going into the future.

## **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lois Scally, District Secretary/Business Manager, Hudson Community School District, 136 S. Washington Street, Hudson, Iowa, 50643.

## Basic Financial Statements

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
June 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 1,973,043	\$ 23,392	\$ 1,996,435
Receivables:			
Property tax:			
Current year	17,621	-	17,621
Succeeding year	1,987,000	-	1,987,000
Income surtax	252,058	-	252,058
Accounts	52,859	-	52,859
Due from other governments	135,929	-	135,929
Inventories	-	5,363	5,363
Restricted ISCAP assets (note 5):			
Investments	871,319	-	871,319
Accrued interest receivable	11,713	-	11,713
Capital assets, net of accumulated depreciation (note 6)	7,434,927	18,789	7,453,716
<b>Total assets</b>	<b>12,736,469</b>	<b>47,544</b>	<b>12,784,013</b>
<b>Liabilities</b>			
Accounts payable	42,900	-	42,900
Salaries and benefits payable	620,135	12,648	632,783
Incurred but not reported claims	90,000	-	90,000
Accrued interest payable	25,327	-	25,327
ISCAP warrants payable (note 5)	873,000	-	873,000
ISCAP accrued interest payable (note 5)	5,751	-	5,751
ISCAP unamortized premium (note 5)	5,173	-	5,173
Deferred revenue:			
Succeeding year property tax	1,987,000	-	1,987,000
Other	-	2,784	2,784
Long-term liabilities (note 7):			
Portion due within one year:			
Early retirement	55,229	-	55,229
Bonds payable	545,000	-	545,000
Portion due after one year:			
Early retirement	109,296	-	109,296
Bonds payable	2,370,000	-	2,370,000
<b>Total liabilities</b>	<b>6,728,811</b>	<b>15,432</b>	<b>6,744,243</b>

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
June 30, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 4,519,927	\$ 18,789	\$ 4,538,716
Restricted for:			
Other special revenue purposes	108,297	-	108,297
Debt service	508,810	-	508,810
Capital projects	445,087	-	445,087
Unrestricted	<u>425,537</u>	<u>13,323</u>	<u>438,860</u>
Total net assets	<u>\$ 6,007,658</u>	<u>\$ 32,112</u>	<u>\$ 6,039,770</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental Activities:			
Instruction:			
Regular instruction	\$ 3,320,552	\$ 644,756	\$ 254,855
Special instruction	805,724	50,941	81,590
Other instruction	730,848	334,153	17,826
	<u>4,857,124</u>	<u>1,029,850</u>	<u>354,271</u>
Support services:			
Student services	315,422	-	8,823
Instructional staff services	266,776	-	28,677
Administration services	817,784	-	-
Operation and maintenance of plant services	633,820	-	-
Transportation services	193,999	-	3,298
	<u>2,227,801</u>	<u>-</u>	<u>40,798</u>
Non-instructional programs	<u>11,306</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	77,383	-	-
Long-term debt interest and fiscal charges	126,488	-	-
AEA flowthrough	230,506	-	230,506
Depreciation (unallocated) *	252,379	-	-
	<u>686,756</u>	<u>-</u>	<u>230,506</u>
Total governmental activities	<u>7,782,987</u>	<u>1,029,850</u>	<u>625,575</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>
\$ (2,420,941)	\$ -	\$ (2,420,941)
(673,193)	-	(673,193)
(378,869)	-	(378,869)
<u>(3,473,003)</u>	<u>-</u>	<u>(3,473,003)</u>
(306,599)	-	(306,599)
(238,099)	-	(238,099)
(817,784)	-	(817,784)
(633,820)	-	(633,820)
(190,701)	-	(190,701)
<u>(2,187,003)</u>	<u>-</u>	<u>(2,187,003)</u>
<u>(11,306)</u>	<u>-</u>	<u>(11,306)</u>
(77,383)	-	(77,383)
(126,488)	-	(126,488)
-	-	-
(252,379)	-	(252,379)
<u>(456,250)</u>	<u>-</u>	<u>(456,250)</u>
<u>(6,127,562)</u>	<u>-</u>	<u>(6,127,562)</u>

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants, Contributions and Restricted Interest
Business-Type Activities:			
Non-instructional programs:			
Food service operations	\$ 317,140	\$ 242,442	\$ 78,131
Total	\$ 8,100,127	\$ 1,272,292	\$ 703,706

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 included  
in the direct expenses of the various programs.

See notes to financial statements.

Net (Expense) Revenue  
and Changes in Net Assets

---

Governmental Activities	Business-Type Activities	Total
\$ -	\$ 3,433	\$ 3,433
(6,127,562)	3,433	(6,124,129)
\$ 1,998,400	\$ -	\$ 1,998,400
243,626	-	243,626
286,223	-	286,223
661,349	-	661,349
2,983,941	-	2,983,941
107,870	670	108,540
54,393	-	54,393
6,335,802	670	6,336,472
208,240	4,103	212,343
5,799,418	28,009	5,827,427
\$ 6,007,658	\$ 32,112	\$ 6,039,770

HUDSON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and pooled investments	\$ 908,314	\$ 534,137	\$ 433,022	\$ 1,875,473
Receivables:				
Property tax:				
Current year	14,580	-	3,041	17,621
Succeeding year	1,499,000	-	488,000	1,987,000
Income surtax	252,058	-		252,058
Interfund receivable (note 3)	-	-	154,100	154,100
Accounts	100	-	111,621	111,721
Due from other governments	24,308	-	-	24,308
Restricted ISCAP assets (note 5):				
Investments	871,319	-	-	871,319
Accrued interest receivable	11,713	-	-	11,713
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ <u>3,581,392</u>	\$ <u>534,137</u>	\$ <u>1,189,784</u>	\$ <u>5,305,313</u>

HUDSON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2007

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 35,198	\$ -	\$ 7,702	\$ 42,900
Salaries and benefits payable	620,135	-	-	620,135
Interfund payable (note 3)	-	-	89,100	89,100
ISCAP warrants payable (note 5)	873,000	-	-	873,000
ISCAP accrued interest payable (note 5)	5,751	-	-	5,751
ISCAP unamortized premium (note 5)	5,173	-	-	5,173
<b>Deferred revenue:</b>				
Succeeding year property tax	1,499,000	-	488,000	1,987,000
Other	252,058	-	-	252,058
Total liabilities	<u>3,290,315</u>	<u>-</u>	<u>584,802</u>	<u>3,875,117</u>
<b>Fund balance:</b>				
<b>Reserved for:</b>				
Debt service	-	534,137	-	534,137
<b>Unreserved:</b>				
<b>Designated:</b>				
Early retirement incentives	-	-	35,470	35,470
<b>Undesignated:</b>				
Reported in nonmajor Special Revenue Funds	-	-	124,425	124,425
Undesignated	291,077	-	445,087	736,164
Total fund balances	<u>291,077</u>	<u>534,137</u>	<u>604,982</u>	<u>1,430,196</u>
<b>Total liabilities and fund balances</b>	<u>\$ 3,581,392</u>	<u>\$ 534,137</u>	<u>\$ 1,189,784</u>	<u>\$ 5,305,313</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, 2007

Total fund balances of governmental funds	\$ 1,430,196
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.	7,434,927
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	252,058
The balance of the Internal Service Fund is included with the governmental activities due to the integral nature of the fund in relation to governmental activities.	(4,671)
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.	(25,327)
Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,079,525)</u>
Net assets of governmental activities	<u>\$ 6,007,658</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, 2007

	General	Debt Service	Nonmajor Governmental Funds	Total
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 2,136,960	\$ -	\$ 1,048,523	\$ 3,185,483
Tuition	663,168	-	-	663,168
Other	139,083	25,698	364,039	528,820
State sources	3,488,265	-	321	3,488,586
Federal sources	122,792	-	-	122,792
Total revenues	<u>6,550,268</u>	<u>25,698</u>	<u>1,412,883</u>	<u>7,988,849</u>
<b>Expenditures:</b>				
Current:				
Instruction	4,351,256	-	394,218	4,745,474
Support services:				
Student services	312,023	-	3,399	315,422
Instructional staff services	213,447	-	53,329	266,776
Administration services	762,686	1,900	33,496	798,082
Operation and maintenance of plant services	558,081	-	57,852	615,933
Transportation services	142,783	-	90,722	233,505
	<u>1,989,020</u>	<u>1,900</u>	<u>238,798</u>	<u>2,229,718</u>
Non-instructional programs	4,873	-	6,433	11,306
Other expenditures:				
Facilities acquisition	-	-	106,363	106,363
Long term debt:				
Principal	-	510,000	-	510,000
Interest and fiscal charges	-	129,388	-	129,388
AEA flowthrough	230,506	-	-	230,506
	<u>230,506</u>	<u>639,388</u>	<u>106,363</u>	<u>976,257</u>
Total expenditures	<u>6,575,655</u>	<u>641,288</u>	<u>745,812</u>	<u>7,962,755</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(25,387)</u>	<u>(615,590)</u>	<u>667,071</u>	<u>26,094</u>

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):				
Sale of equipment	\$ 125	\$ -	\$ -	\$ 125
Interfund transfers in (note 4)	-	1,027,573	386,011	1,413,584
Interfund transfers out (note 4)	-	(386,011)	(1,027,573)	(1,413,584)
Total other financing sources (uses)	<u>125</u>	<u>641,562</u>	<u>(641,562)</u>	<u>125</u>
Net change in fund balances	(25,262)	25,972	25,509	26,219
Fund balances beginning of year	<u>316,339</u>	<u>508,165</u>	<u>579,473</u>	<u>1,403,977</u>
Fund balances end of year	<u>\$ 291,077</u>	<u>\$ 534,137</u>	<u>\$ 604,982</u>	<u>\$ 1,430,196</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, 2007

Net change in fund balances - total governmental funds \$ 26,219

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:

Expenditures for capital assets	\$ 94,500	
Depreciation expense	<u>(278,861)</u>	(184,361)

Income surtax revenue 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. 2,253

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. (168,229)

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 510,000

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. 4,800

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. 17,558

Change in net assets of governmental activities \$ 208,240

See notes to financial statements.

## HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
June 30, 2007

	<u>School Nutrition</u>	<u>Internal Service Funds</u>
Assets		
Cash and cash equivalents	\$ 23,392	\$ 97,570
Receivables:		
Accounts	-	52,759
Interfund receivables (note 3)	-	46,789
Inventories	5,363	-
Capital assets, net of accumulated depreciation (note 6)	<u>18,789</u>	<u>-</u>
Total assets	<u>47,544</u>	<u>197,118</u>
Liabilities		
Interfund payable (note 3)	-	111,789
Salaries and benefits payable	12,648	-
Incurred but not reported claims	-	90,000
Deferred revenue:		
Other	<u>2,784</u>	<u>-</u>
Total liabilities	<u>15,432</u>	<u>201,789</u>
Net Assets		
Invested in capital assets	18,789	-
Unrestricted	<u>13,323</u>	<u>(4,671)</u>
Total net assets	<u>\$ 32,112</u>	<u>\$ (4,671)</u>

See notes to financial statements.

## HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
Year Ended June 30, 2007

	<u>School Nutrition</u>	<u>Internal Service Funds</u>
Operating revenues:		
Local sources:		
Charges for services	\$ 237,569	\$ 507,287
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	103,354	-
Benefits	33,383	677,431
Purchased services	4,923	-
Supplies	167,907	-
Depreciation	7,573	-
Other	-	2,520
	<u>317,140</u>	<u>679,951</u>
Operating loss	<u>(79,571)</u>	<u>(172,664)</u>
Non-operating revenues:		
Interest on investments	670	4,435
Contributions from other funds	4,873	-
State sources	2,760	-
Federal sources	75,371	-
Total non-operating revenues	<u>83,674</u>	<u>4,435</u>
Change in net assets	4,103	(168,229)
Net assets beginning of year	<u>28,009</u>	<u>163,558</u>
Net assets end of year	<u>\$ 32,112</u>	<u>\$ (4,671)</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year Ended June 30, 2007

	<u>School Nutrition</u>	<u>Internal Service Funds</u>
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 236,025	\$ -
Cash received from miscellaneous operating activities	1,133	507,287
Cash payments to employees for services	(135,073)	-
Cash payments to suppliers for goods or services	<u>(164,774)</u>	<u>(684,110)</u>
Net cash used by operating activities	<u>(62,689)</u>	<u>(176,823)</u>
Cash flows from non-capital financing activities:		
Contributions from other funds	4,873	-
Cash received in loans from other funds	-	65,000
(Increase) in due to other funds	-	(65,000)
State grants received	2,760	-
Federal grants received	<u>67,304</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>74,937</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>670</u>	<u>4,435</u>
Net increase (decrease) in cash and cash equivalents	12,918	(172,388)
Cash and cash equivalents beginning of year	<u>10,474</u>	<u>204,958</u>
Cash and cash equivalents end of year	<u>\$ 23,392</u>	<u>\$ 32,570</u>

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year Ended June 30, 2007

	<u>School Nutrition</u>	<u>Internal Service Funds</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (79,571)	\$ (172,664)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	7,573	-
Commodities used	8,067	-
(Increase) in accounts receivable	-	(52,159)
(Increase) in inventories	(11)	-
Increase in incurred but not reported claims	-	48,000
Increase in salaries and benefits payable	1,664	-
(Decrease) in deferred revenues	<u>(411)</u>	<u>-</u>
Net cash used by operating activities	<u>\$ (62,689)</u>	<u>\$ (176,823)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$8,067 of federal commodities.

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 June 30, 2007

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Cash and pooled investments	\$ 71,150	\$ <u>4,655</u>
Liabilities:		
Early retirement trust	<u>-</u>	\$ <u>4,655</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, 2007

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest	\$ <u>3,736</u>
Deductions:	
Support services:	
Scholarships awarded	<u>3,736</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, 2007

### 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 attributable 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, 2007

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 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 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 general 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 expenditures, 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.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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, 2007

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

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. 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 in April 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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

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 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, 2007

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, 2007

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 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, 2007, expenditures in the non-instructional programs function exceeded the amount budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 2. Cash and Pooled Investments (continued)

At June 30, 2007, the District had the following investments:

	<u>Amortized Cost/ Fair Value</u>
Goldman Sachs Treasury Obligation Fund	\$ 438,094
Iowa Schools Joint Investment Trust, Diversified Portfolio	<u>1,365,464</u>
	<u>\$ 1,803,558</u>

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.

Credit Risk – The investments in the Iowa Schools Joint Investment Trust and in the Goldman Sachs Treasury Obligation Fund were both rated Aaa by Moody’s Investors Service.

Note 3. Interfund Payables/Receivables

Details of the District’s interfund payables and receivables at June 30, 2007, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Amounts due to interfund loans:		
Capital Projects	Special Revenue, Physical Plant and Equipment Levy	\$ 89,100
	Internal Service, Self-funded Health	65,000
Internal Service, Self-funded Dental		<u>12,000</u>
		166,100
Amounts due to pooled cash transactions:		
Internal Service, Self-funded Dental	Internal Service, Self-funded Health	<u>34,789</u>
Total		<u>\$ 200,889</u>

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 1,027,573
Capital Projects	Debt Service	<u>386,011</u>
Total		<u>\$ 1,413,584</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, 2007 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>	<u>Unamortized Premium</u>
2006-07B	1/26/2007	1/25/2008	\$ 310,207	\$ 11,461	\$ 311,000	\$ 5,470	\$ 1,003
2007-08A	6/27/2007	6/27/2008	561,112	252	562,000	281	4,170
Total			<u>\$ 871,319</u>	<u>\$ 11,713</u>	<u>\$ 873,000</u>	<u>\$ 5,751</u>	<u>\$ 5,173</u>

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 25<sup>th</sup> 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, 2007 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>
2006-07A	\$ -	\$ 200,000	\$ 200,000	\$ -

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>
2006-07A	4.50%	5.676%
2006-07B	4.25%	5.315%
2007-08A	4.50%	5.455%

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 116,782	\$ -	\$ -	\$ 116,782
Capital assets being depreciated:				
Buildings	10,436,164	8,936	-	10,445,100
Improvements other than buildings	549,417	28,980	-	578,397
Furniture and equipment	728,341	56,584	69,571	715,354
Total capital assets being depreciated	<u>11,713,922</u>	<u>94,500</u>	<u>69,571</u>	<u>11,738,851</u>
Less accumulated depreciation for:				
Buildings	3,621,833	225,462	-	3,847,295
Improvements other than buildings	29,130	26,917	-	56,047
Furniture and equipment	560,453	26,482	69,571	517,364
Total accumulated depreciation	<u>4,211,416</u>	<u>278,861</u>	<u>69,571</u>	<u>4,420,706</u>
Total capital assets being depreciated, net	<u>7,502,506</u>	<u>(184,361)</u>	<u>-</u>	<u>7,318,145</u>
Governmental activities capital assets, net	<u>\$ 7,619,288</u>	<u>\$ (184,361)</u>	<u>\$ -</u>	<u>\$ 7,434,927</u>

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 6. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 174,445	\$ -	\$ -	\$ 174,445
Less accumulated depreciation	148,083	7,573	-	155,656
Business-type activities capital assets, net	<u>\$ 26,362</u>	<u>\$ (7,573)</u>	<u>\$ -</u>	<u>\$ 18,789</u>

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

Governmental activities:

Instruction:

    Regular \$ 9,329

Support services:

    Administration 3,423

    Operation and maintenance of plant services 7,729

    Transportation 6,001

26,482

Unallocated depreciation 252,379

Total governmental activities depreciation expense \$ 278,861

Business-type activities:

    Food service operations \$ 7,573

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 7. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Early Retirement	General Obligation Bonds	Local Option Sales and Services Tax Revenue Bonds	Total
Balance beginning of year	\$ 182,083	\$ 2,425,000	\$ 1,000,000	\$ 3,607,083
Additions	38,520	-	-	38,520
Reductions	56,078	285,000	225,000	566,078
Balance end of year	<u>\$ 164,525</u>	<u>\$ 2,140,000</u>	<u>\$ 775,000</u>	<u>\$ 3,079,525</u>
Due within one year	<u>\$ 55,229</u>	<u>\$ 295,000</u>	<u>\$ 250,000</u>	<u>\$ 600,229</u>

Early Retirement

The District offered a voluntary early retirement plan to its certified employees for the year ended June 30, 2007. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of service to the District. Employees must complete an application which is required to be approved by the Board of Education.

The early retirement incentive was equal to 200% of the difference between the BA base and the employee's current year salary less supplemental pay and extended contract pay. The incentive can only be used to offset future health insurance payments on behalf of the employee. The District is also paying early retirement benefits under plans adopted in previous years. After May 14, 2007, the early retirement incentive for certified staff only is equal to 200% of the difference between the BA base and the employee's current year salary less supplemental pay and extended contract pay. The incentive can only be used to offset future health insurance payments on behalf of the employee. Details of these plans are available upon request at the District administrative office.

At June 30, 2007, the District has obligations to 12 participants with a total liability of \$164,525. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$56,078. Early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 7. Long-Term Liabilities (continued)

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
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>\$ 2,140,000</u>	<u>\$ 321,258</u>	<u>\$ 2,461,258</u>

School Infrastructure Sales and Services Tax Revenue Bonds

Details of the District's June 30, 2007 school infrastructure sales and services tax revenue bonds indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
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>\$ 775,000</u>	<u>\$ 56,094</u>	<u>\$ 831,094</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.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 7. Long-Term Liabilities (continued)

School Infrastructure Sales and Services Tax Revenue Bonds (continued)

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.

Note 8. Operating Lease

The District has entered into two operating leases for two school buses. The first lease, effective March 15, 2005, requires three annual payments of \$8,103 with a balloon payment of \$34,250 in March, 2008. The second lease, effective September 7, 2006, requires three annual payments of \$11,931 with a balloon payment of \$39,700 in August, 2009. Details of the District's future minimum lease payments are as follows:

Year Ending June 30,	Minimum Lease Payments
2008	\$ 46,181
2009	11,931
2010	<u>39,700</u>
	<u>\$ 97,812</u>

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 for the years ended June 30, 2007, 2006, and 2005. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$220,612, \$214,307, and \$209,325, respectively, equal to the required contributions for each year.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 \$30,000 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 \$(4,671) at June 30, 2007 and is recorded in the Internal Service Fund. The incurred but not reported claims of \$90,000 are reported as liabilities at June 30, 2007.

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

Note 11. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$230,506 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 12. 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 \$44,748 at June 30, 2007. In addition, the Internal Service Fund, Self-funded Health had a deficit retained earnings balance of \$66,630 at June 30, 2007.

Required Supplementary Information

HUDSON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances –  
 Budget and Actual – All Governmental Funds  
 and Proprietary Fund  
 Required Supplementary Information  
 Year Ended June 30, 2007

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
<b>REVENUES:</b>						
Local sources	\$ 4,377,471	\$ 243,112	\$ 4,620,583	\$ 4,597,994	\$ 4,597,994	\$ 22,589
State sources	3,488,586	2,760	3,491,346	3,472,674	3,472,674	18,672
Federal sources	122,792	75,371	198,163	218,000	218,000	(19,837)
<b>Total revenues</b>	<b>7,988,849</b>	<b>321,243</b>	<b>8,310,092</b>	<b>8,288,668</b>	<b>8,288,668</b>	<b>21,424</b>
<b>EXPENDITURES:</b>						
Instruction	4,745,474	-	4,745,474	4,905,045	4,955,045	209,571
Support services	2,229,718	-	2,229,718	2,098,872	2,398,872	169,154
Non-instructional programs	11,306	317,140	328,446	325,000	325,000	(3,446)
Other expenditures	976,257	-	976,257	1,075,971	1,075,971	99,714
<b>Total expenditures</b>	<b>7,962,755</b>	<b>317,140</b>	<b>8,279,895</b>	<b>8,404,888</b>	<b>8,754,888</b>	<b>474,993</b>
Excess (deficiency) of revenues over (under) expenditures	26,094	4,103	30,197	(116,220)	(466,220)	496,417
Other financing sources, net	125	-	125			125
Excess (deficiency) of revenues and other financing sources over (under) expenditures	26,219	4,103	30,322	(116,220)	(466,220)	496,542
Balance beginning of year	1,403,977	28,009	1,431,986	1,384,932	1,384,932	47,054
Balance end of year	<u>\$ 1,430,196</u>	<u>\$ 32,112</u>	<u>\$ 1,462,308</u>	<u>\$ 1,268,712</u>	<u>\$ 918,712</u>	<u>\$ 543,596</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2007

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 internal service, 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 accrual basis.

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 function 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 \$350,000.

During the year ended June 30, 2007, expenditures in the non-instructional programs function exceeded the amount budgeted.

This page intentionally left blank

Other Supplementary Information

## HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2007

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Total
<b>Assets</b>					
Cash and pooled investments	\$ 95,215	\$ 115,999	\$ 42,442	\$ 179,366	\$ 433,022
Receivables:					
Property tax:					
Current year	1,131	-	1,910	-	3,041
Succeeding year	270,000	-	218,000	-	488,000
Interfund receivable	-	-	-	154,100	154,100
Due from other governments	-	-	-	111,621	111,621
Total assets	<u>\$ 366,346</u>	<u>\$ 115,999</u>	<u>\$ 262,352</u>	<u>\$ 445,087</u>	<u>\$ 1,189,784</u>
<b>Liabilities and Fund Equity</b>					
<b>Liabilities:</b>					
Accounts payable	\$ -	\$ 7,702	\$ -	\$ -	\$ 7,702
Interfund payable	-		89,100	-	89,100
Deferred revenue:					
Succeeding year property tax	270,000	-	218,000	-	488,000
Total liabilities	<u>270,000</u>	<u>7,702</u>	<u>307,100</u>	<u>-</u>	<u>584,802</u>
<b>Fund equity:</b>					
<b>Fund balances:</b>					
<b>Unreserved:</b>					
<b>Designated for:</b>					
Early retirement incentives	35,470	-	-	-	35,470
Undesignated	60,876	108,297	(44,748)	445,087	569,512
Total fund equity	<u>96,346</u>	<u>108,297</u>	<u>(44,748)</u>	<u>445,087</u>	<u>604,982</u>
Total liabilities and fund equity	<u>\$ 366,346</u>	<u>\$ 115,999</u>	<u>\$ 262,352</u>	<u>\$ 445,087</u>	<u>\$ 1,189,784</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, 2007

	Special Revenue				Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	
Revenues:					
Local sources:					
Local tax	\$ 143,749	\$ -	\$ 243,425	\$ 661,349	\$ 1,048,523
Other	12,657	336,099	7,957	7,326	364,039
State sources	120	-	201	-	321
Total revenues	<u>156,526</u>	<u>336,099</u>	<u>251,583</u>	<u>668,675</u>	<u>1,412,883</u>
Expenditures:					
Current:					
Instruction	52,620	316,635	24,963	-	394,218
Support services:					
Student services	3,399	-	-	-	3,399
Instructional staff services	-	-	53,329	-	53,329
Administration services	14,487	-	19,009	-	33,496
Operation and maintenance of plant services	47,986	-	9,866	-	57,852
Transportation services	12,215	-	78,507	-	90,722
Non instructional programs	6,433	-	-	-	6,433
Other expenditures:					
Facilities acquisition	-	-	106,363	-	106,363
Total expenditures	<u>137,140</u>	<u>316,635</u>	<u>292,037</u>	<u>-</u>	<u>745,812</u>
Excess (deficiency) of revenues over (under) expenditures	19,386	19,464	(40,454)	668,675	667,071
Other financing sources (uses):					
Interfund transfers in	-	-	-	386,011	386,011
Interfund transfers out	-	-	-	(1,027,573)	(1,027,573)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(641,562)</u>	<u>(641,562)</u>

HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2007

	<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	\$ 19,386	\$ 19,464	\$ (40,454)	\$ 27,113	\$ 25,509
Fund balances beginning of year	<u>76,960</u>	<u>88,833</u>	<u>(4,294)</u>	<u>417,974</u>	<u>579,473</u>
Fund balances end of year	<u>\$ 96,346</u>	<u>\$ 108,297</u>	<u>\$ (44,748)</u>	<u>\$ 445,087</u>	<u>\$ 604,982</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF NET ASSETS  
 INTERNAL SERVICES FUNDS  
 June 30, 2007

	<u>Self-Insured Health Plan</u>	<u>Self-Insured Dental Plan</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 77,000	\$ 20,570	\$ 97,570
Receivables:			
Accounts	52,759	-	52,759
Interfund receivable	-	46,789	46,789
	<u>129,759</u>	<u>67,359</u>	<u>197,118</u>
Total assets			
Liabilities			
Interfund payable	111,789	-	111,789
Incurred but not reported claims	84,600	5,400	90,000
	<u>196,389</u>	<u>5,400</u>	<u>201,789</u>
Total liabilities			
Net Assets			
Unrestricted	<u>\$ (66,630)</u>	<u>\$ 61,959</u>	<u>\$ (4,671)</u>

See accompanying independent auditor's report.

## HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS  
INTERNAL SERVICES FUNDS  
June 30, 2007

	Self-Insured Health Plan	Self-Insured Dental Plan	Total
Operating revenue:			
Local sources:			
Other local sources:			
Services	\$ 470,762	\$ 36,525	\$ 507,287
Operating expenses:			
Non-operating programs:			
Benefits	649,249	28,182	677,431
Other	2,265	255	2,520
Total expenses	651,514	28,437	679,951
Operating income	(180,752)	8,088	(172,664)
Non-operating revenue:			
Interest income	1,866	2,569	4,435
Change in net assets	(178,886)	10,657	(168,229)
Net assets beginning of year	112,256	51,302	163,558
Net assets end of year	\$ (66,630)	\$ 61,959	\$ (4,671)

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CASH FLOWS  
 INTERNAL SERVICES FUNDS  
 Year Ended June 30, 2007

	Self-Insured Health Plan	Self-Insured Dental Plan	Total
Cash flows from operating activities:			
Cash received from local sources	\$ 470,762	\$ 36,525	\$ 507,287
Cash payments to suppliers for goods or services	(659,153)	(24,957)	(684,110)
Net cash provided by (used in) operating activities	(188,391)	11,568	(176,823)
Cash flows from non-capital and related financing activities:			
Loans from other funds	77,000	-	77,000
Loans to other funds	-	(12,000)	(12,000)
(Increase) in due to other funds	(77,000)	-	(77,000)
Increase in due from other funds	-	12,000	12,000
Increase (decrease) in amounts due to/from other funds due to pooled cash	34,789	(34,789)	-
Net cash provided by (used in) non-capital and related financing activities	34,789	(34,789)	-
Cash flows from investing activities:			
Interest on investments	1,866	2,569	4,435
Net decrease in cash and cash equivalents	(151,736)	(20,652)	(172,388)
Cash and cash equivalents at beginning of year	151,736	53,222	204,958
Cash and cash equivalents at end of year	\$ -	\$ 32,570	\$ 32,570
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (180,752)	\$ 8,088	\$ (172,664)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
(Increase) decrease in accounts receivable	(52,759)	600	(52,159)
Increase in incurred but not reported claims	45,120	2,880	48,000
Net cash provided by (used in) operating activities	\$ (188,391)	\$ 11,568	\$ (176,823)

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Speech	\$ (50)	\$ 194	\$ 144	\$ -
Vocal Music	599	1,944	1,735	808
Vocal Music Trip	(290)	33,078	32,752	36
Physics Club	969	1,485	1,447	1,007
Photography	33	-	-	33
National Honor Society	380	479	240	619
Instrumental Music	200	4,575	4,842	(67)
Instrumental Music Trip	1,468	10,645	-	12,113
Athletic Adm.	1,671	25,548	21,900	5,319
Track	32	8,352	8,164	220
Girls Track	1,985	540	1,116	1,409
Cross Country	-	4,298	4,299	(1)
Cross Country Concessions	1,355	4,848	4,439	1,764
Soccer	(449)	5,192	5,114	(371)
Tennis	(167)	770	602	1
Golf	-	1,610	1,610	-
Golf Camp	(222)	-	76	(298)
Basketball	85	8,796	8,881	-
Boys Basketball Camp	241	3,101	3,164	178
Elem. Boys Basketball Camp	475	-	-	475
MS Volleyball Camp	(609)	654	-	45
Boys Soccer Camp	4,969	1,305	2,595	3,679
Volleyball Camp	1,487	3,514	3,531	1,470
Football	(200)	11,607	11,407	-
FB Camp	5,852	5,410	5,848	5,414
Baseball	793	3,790	4,442	141
Baseball Camp	(127)	2,455	2,319	9
Baseball/Softball Concessions	-	994	712	282
Wrestling	-	7,553	7,553	-
Boys Wrestling Camp	(277)	2,417	2,140	-
Girls BB Camp	3,055	8,122	7,449	3,728
Dug Out Club	166	-	-	166
Volleyball	-	6,686	6,686	-
All-American Basketball Camp	-	3,750	3,750	-
Softball	328	6,143	6,417	54
Interest	24,724	(4,051)	1,445	19,228
Annual	11,422	7,110	9,077	9,455
FFA Chapter	6,127	19,606	16,339	9,394
Sr. High Student Council	4,474	19,237	17,369	6,342
Jr. High Student Council	3,046	11,834	11,313	3,567
5-6 Student Council	2,683	8,412	6,847	4,248

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Show Choir Concert	\$ (3,500)	\$ 4,825	\$ 4,664	\$ (3,339)
Cheerleaders	-	6,504	5,575	929
Fall Play/Musical	-	1,119	222	897
Vocal Music Production	2,387	-	75	2,312
MS Show Choir	712	2,265	2,154	823
Spanish Club Trip	1,077	-	-	1,077
Class of 2006	(5,061)	61	-	(5,000)
Class of 2007	3,974	2,034	4,448	1,560
Class of 2008	2,923	8,852	8,448	3,327
Class of 2009	1,840	1,650	141	3,349
Class of 2010	-	1,460	9	1,451
Athletic Boosters	8,253	65,326	63,135	10,444
<b>Total</b>	<b>\$ 88,833</b>	<b>\$ 336,099</b>	<b>\$ 316,635</b>	<b>\$ 108,297</b>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 Year Ended June 30, 2007

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
Assets				
Cash	\$ <u>          -</u>	\$ <u>      17,521</u>	\$ <u>      12,866</u>	\$ <u>          4,655</u>
Liabilities				
Early retirement	\$ <u>          -</u>	\$ <u>      17,521</u>	\$ <u>      12,866</u>	\$ <u>          4,655</u>

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,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 3,185,483	\$ 3,026,723	\$ 2,890,149	\$ 2,605,375
Tuition	663,168	677,476	731,701	754,763
Other	528,820	515,841	397,049	505,728
State sources	3,488,586	3,184,093	3,347,026	3,292,761
Federal sources	122,792	112,791	113,925	147,976
Total revenues	<u>\$ 7,988,849</u>	<u>\$ 7,516,924</u>	<u>\$ 7,479,850</u>	<u>\$ 7,306,603</u>
Expenditures:				
Instruction	\$ 4,745,474	\$ 4,530,889	\$ 4,346,963	\$ 4,352,768
Support services:				
Student services	315,422	330,175	311,754	288,757
Instructional staff services	266,776	213,238	261,015	243,441
Administration services	798,082	681,123	716,052	674,994
Operation and maintenance of plant services	615,933	542,427	602,093	524,184
Transportation services	233,505	170,876	158,013	133,512
Non-instructional programs	11,306	26,036	3,895	40
Other expenditures:				
Facilities acquisition	106,363	285,841	172,269	223,070
Long-term debt:				
Principal	510,000	500,000	430,000	425,000
Interest and fiscal charges	129,388	148,300	225,638	245,695
AEA flowthrough	230,506	209,842	210,164	213,445
Total expenditures	<u>\$ 7,962,755</u>	<u>\$ 7,638,747</u>	<u>\$ 7,437,856</u>	<u>\$ 7,324,906</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 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, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hudson Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hudson Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hudson Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Hudson Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of Hudson Community School District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Hudson Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-B-07 is a material weakness.

### 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, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. 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, 2007 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.

Hudson Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Hudson Community School District's responses and, accordingly, we express no opinion on them.

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 29, 2007

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2007

Part I: Findings Related to the Basic Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

I-A-07 Support Documentation – We noted one disbursement of forty tested that lacked full documentation, such as invoices or receipts. The disbursement was paid on a statement amount only with no supporting details. A request for the details at the audit date disclosed \$22 of personal expenses reimbursed by the District.

Recommendation – The District should require full supporting documentation before making any disbursements or obtain and document Board approval to make a payment with the understanding the necessary documentation will be subsequently provided. The District should seek reimbursement of the personal expenses made by the employee.

Response – We will consider this suggestion and will change our disbursement procedures so that all support documentation is retained and documented. We obtained support documentation for all disbursements subsequent to year end and we requested and have already received reimbursement of the personal expenses from the employee.

Conclusion – Response accepted.

I-B-07 Bank Reconciliation/Unrecorded Revenues – We noted in our testing of bank account reconciliations that the School Nutrition bank reconciliation had ongoing adjustments totaling \$7,642.50. These adjustments to the bank reconciliation were due to errors in revenue recognition in the months of December and January related to the District's Pay-Pal lunch system software.

Recommendation – The district should investigate and correct all bank reconciliation differences on a timely basis, especially any large dollar items. The District should investigate any discrepancies in monthly revenues on a timely basis by scanning amounts recorded monthly for reasonableness.

Response – We have already corrected the bank reconciliation difference by making a journal entry to recognize the unrecorded revenue in the proper year. We will investigate all such differences on a timely basis in the future.

Conclusion – Response accepted.

I-C-07 School Nutrition Revenue Recognition – The District records all meal revenue deposits into the student lunch general ledger account, then makes year end journal entries to adjust the student lunch account amounts into the proper revenue accounts.

Recommendation – The District should record all student account deposits into a deferred revenue liability account, then adjust the deferred revenue account on a monthly basis to recognize meal revenues as earned based on meal count summaries provided by the School Nutrition lunch software. This would allow the District to more closely track meal revenues and would help to avoid problems as noted in comment I-B-07.

Response – We will implement this suggestion in the current fiscal year.

Conclusion – Response accepted.

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

II-A-07 Certified Budget – Expenditures for the year ended June 30, 2007, exceeded the amount budgeted in the non-instructional programs function.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – We will amend our budget before expenditures exceed the budget.

Conclusion – Response accepted.

II-B-07 Questionable Expenditures – No expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-07 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-D-07 Business Transactions – No business transactions between the District and District officials or employees were noted.

II-E-07 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-F-07 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

II-G-07 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

II-H-07 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-I-07 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-07 Financial Condition – The Special Revenue Fund, Physical Plant and Equipment Levy had an unreserved, undesignated fund deficit of \$44,748 at June 30, 2007. In addition, the district’s Internal Service Fund, Self-funded Health had a deficit unrestricted retained earnings deficit of \$66,630.

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

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

Conclusion – Response accepted.