

HUDSON COMMUNITY SCHOOL DISTRICT
HUDSON, IOWA

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

JUNE 30, 2008

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HUDSON COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2007 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>Board of Education</u>		
(After September 2007 Election)		
Maureen Hanson	President	2010
Julie Marsch	Vice President	2008
Jerry Griffith	Board Member	2009
Jeff Cory	Board Member	2010
Trent Goodnight	Board Member	2008
<u>School Officials</u>		
Roark Horn	Superintendent	2010
Lois Scally	District Secretary	2008
Max Boyd	District Treasurer	2008
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, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of the District's officials. 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, 2008, 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 October 21, 2008 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 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, 2007 (which are not 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
October 21, 2008

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, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues decreased from \$6,550,268 in fiscal 2007 to \$6,495,561 in fiscal 2008, while General Fund expenditures decreased from \$6,575,655 in fiscal 2007 to \$6,382,120 in fiscal 2008. This contributed to an increase in the District's General Fund balance from \$291,077 in fiscal 2007 to \$405,965 in fiscal 2008, a 39 percent increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in local tax due to a decrease in enrollment. The decrease in expenditures was due primarily to staff reduction and successful efforts at every level of the organization to trim costs without harming educational opportunities. As a result, General Fund expenditures exceeded General Fund expenditures by \$113,441.
- A slight increase in interest rates during the fiscal year resulted in interest earnings in the General Fund alone to increase from \$70,063 in fiscal year 2007 to \$73,035 in fiscal year 2008.

Overview of the Financial Statements

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Hudson Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Hudson Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

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

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

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

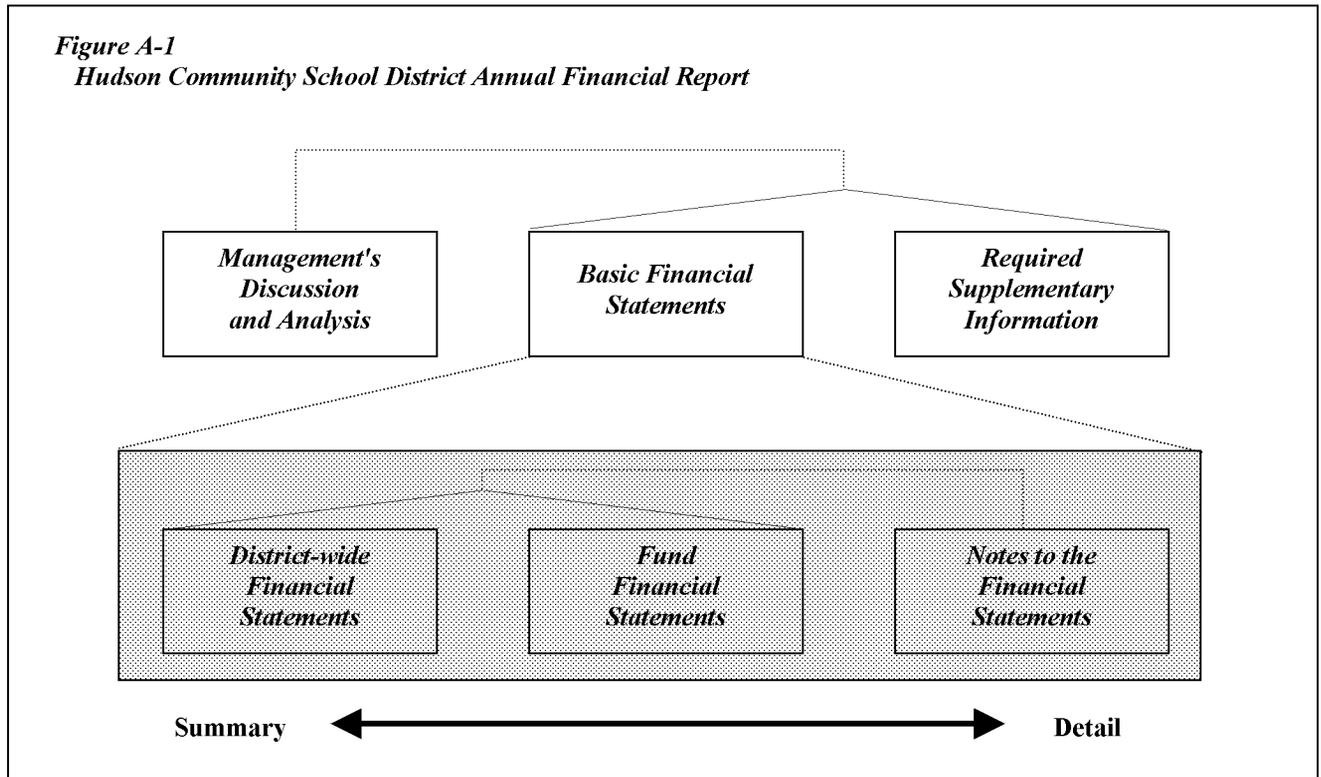


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the 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, 2008 compared to fiscal year 2007.

Figure A-3							
Condensed Statement of Net Assets							
	Governmental Activities		Business-type Activities		Total District		Total Change
	2008	2007	2008	2007	2008	2007	2007-2008
Current and other assets	5,881,826	5,301,542	18,987	28,755	5,900,813	5,330,297	10.70%
Capital assets	7,263,334	7,434,927	11,678	18,789	7,275,012	7,453,716	-2.40%
Total assets	13,145,160	12,736,469	30,665	47,544	13,175,825	12,784,013	3.10%
Long-term liabilities	2,581,125	3,079,525	0	0	2,581,125	3,079,525	-16.20%
Other liabilities	3,759,031	3,649,286	16,733	15,432	3,775,764	3,664,718	3.00%
Total liabilities	6,340,156	6,728,811	16,733	15,432	6,356,889	6,744,243	-5.70%
Net assets:							
Invested in capital assets, net of related debt	4,893,334	4,519,927	11,678	18,789	4,905,012	4,538,716	8.10%
Restricted	1,137,683	1,062,194	0	0	1,137,683	1,062,194	7.10%
Unrestricted	773,987	425,537	2,254	13,323	776,241	438,860	76.90%
Total net assets	6,805,004	6,007,658	13,932	32,112	6,818,936	6,039,770	12.90%

The District's combined net assets at June 30, 2008 compared to fiscal year 2007 are listed in Figure A-3. The District's net assets increased 12.9% to \$6,818,936. The improvement in financial position came from governmental activities, the net assets of which grew \$797,346.

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, 2008 compared to fiscal year 2007.

Figure A-4 Changes in Net Assets							
	Governmental Activities		Business-type Activities		Total District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program Revenues:							
Charges for service	1,032,900	1,029,850	234,701	242,442	1,267,601	1,272,292	-0.004
Operating grants, contributions and restricted interest	699,271	625,575	79,348	78,131	778,619	703,706	0.106
Capital grants, contributions and restricted interest	0	0	0	0	0	0	0
General revenues:							
Property tax	2,226,478	2,242,026	0	0	2,226,478	2,242,026	-0.007
Local option sales and service tax	730,388	661,349	0	0	730,388	661,349	0.104
Income surtax	282,590	286,223	0	0	282,590	286,223	-0.013
Unrestricted state grants	3,005,225	2,983,941	0	0	3,005,225	2,983,941	0.007
Unrestricted investment earnings	120,576	107,870	521	670	121,097	108,540	0.116
Other	61,916	54,393	0	0	61,916	54,393	0.138
Total revenues	8,159,344	7,991,227	314,570	321,243	8,473,914	8,312,470	0.019
Program expenses:							
Governmental activities:							
Instruction	4,585,800	4,857,124	0	0	4,585,800	4,857,124	-0.056
Support services	2,148,923	2,227,801	0	0	2,148,923	2,227,801	-0.035
Non-instructional program	6,826	11,306	332,750	317,140	339,576	328,446	0.034
Other expenses	620,449	686,756	0	0	620,449	686,756	-0.097
Total expenses	7,361,998	7,782,987	332,750	317,140	7,694,748	8,100,127	-0.05
Change in net assets	797,346	208,240	-18,180	4,103	779,166	212,343	2.669

Governmental Activities

Revenues for governmental activities were \$8,159,344 and expenses were \$7,361,998. Even in a difficult budget year, the District was able to advance the budget by trimming expenses so that available revenues exceeded expenses.

Property tax and unrestricted state grants account for 64% of total revenue. The District’s expenses primarily relate to instruction and support services, which account for 92% 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	4,585,800	3,098,029
Support Services	2,148,923	2,140,001
Non-instructional programs	6,826	6,826
Other expenses	620,449	384,971
Totals:	7,361,998	5,629,827

- The cost financed by users of the District’s programs was \$1,032,900.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$699,271.
- The net cost of governmental activities was financed in part with \$2,226,478 in property tax, \$2,976,484 in state foundation aid and \$120,576 in interest income.

Business-Type Activities

Revenues of the District’s business-type activities were \$314,570 and expenses were \$332,750. 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, 2008, the District did not generate sufficient revenues in the School Nutrition Fund to meet expenses. The Board of Directors has implemented across the board increases in meal costs for FY09 in an effort to have revenues match or exceed expenses. These revenues and expenses will be monitored each month by the Board and a mid-year meal price increase will also be considered if revenues are not matching expenditures.

Financial Analysis of the District's Funds

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$1,774,752 compared to \$1,430,196 in Fiscal Year 2007. Positive advances were made in most of the governmental funds. The General Fund balance for Fiscal Year 2008 was \$405,965 compared to \$291,077 for Fiscal Year 2007 for an increase of \$114,888. The Debt Service balance for Fiscal Year 2008 was \$598,478 compared to \$534,137 for Fiscal Year 2007 for an increase of \$64,341. In the Nonmajor Governmental Funds, ending fund balances for FY08 totaled \$770,309 as compared to \$604,982 at the end of FY07 for an increase of \$165,327. The total increase in combined funds from FY07 to FY08 was \$344,556.

Governmental Fund Highlights

- The increase in the combined fund balances is primarily the result of a commitment on behalf of the district to fiscal responsibility at all levels. Close monitoring of revenues, combined with implementation of a rigid method of expense approval, guided by a strategy that expenses would not be incurred until the applicable revenue was available led to a highly successful budgetary fiscal year.

Budgetary Highlights

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

Legal Budgetary Highlights

The District's total actual receipts were \$22,076 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 \$601,677 less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at or near the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the District had invested \$7,275,012, net of accumulated depreciation of \$4,830,117, 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 5 to the financial statements. Depreciation expense for the year totaled \$290,462.

The original cost of the District's capital assets was \$12,105,129. Governmental funds account for \$11,930,684 leaving \$174,445 in the Proprietary, School Nutrition Fund.

Figure A-6			
Capital Assets, net of Depreciation			
	Governmental	Business Type	Total
	Activities	Activities	District
Land	116,782	0	116,782
Construction in progress	56,144	0	56,144
Buildings	6,388,038	0	6,388,038
Improvements other than buildings	493,984	0	493,984
Furniture and equipment	208,386	11,678	220,064
Totals	7,263,334	11,678	7,275,012

Long-Term Liabilities

At June 30, 2008, the District had \$2,581,125 in general obligation debt and other long-term liabilities outstanding. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7
Outstanding Long-term Obligations

	Total District 2008
General obligation bonds	1,845,000
Local option sales and service tax revenue bonds	525,000
Early retirement	<u>211,125</u>
Totals:	2,581,125

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.

Although the District's enrollment remained steady in FY09, 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 likely have to overcome the budget impact of a negative 40 students during FY11. The Board of Education, in advance of this trend, reduced employee expenses significantly in FY08 and FY09 through means such as staff reductions, 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 continues as expected, it is possible that more positions will need to be reduced in order to keep the district financially solvent.

The Board of Education also took action during FY08 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 met its goal of cutting expenses across the board and raising revenue where applicable to the point that all internal loans were repaid during FY08. It is a Board goal to continue to build up revenue in those accounts in an effort to improve buying power going into the future. In the fall of 2009, part of the District's construction debt will also be paid off, which will also help clear funds going into the future. These funds will be necessary as the Black Hawk County Local Option Sales Tax will transform into the Statewide Penny Tax, probably reducing revenue into that account for at least the short term.

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, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 2,418,993	\$ 14,115	\$ 2,433,108
Receivables:			
Property tax:			
Current year	20,005	-	20,005
Succeeding year	1,951,000	-	1,951,000
Income surtax	251,273	-	251,273
Accrued interest	3,911	-	3,911
Accounts	3,425	62	3,487
Due from other governments	215,487	-	215,487
Inventories	-	4,810	4,810
Restricted ISCAP assets (note 4):			
Investments	1,012,598	-	1,012,598
Accrued interest receivable	5,134	-	5,134
Capital assets, net of accumulated depreciation (note 5)	7,263,334	11,678	7,275,012
Total assets	13,145,160	30,665	13,175,825
Liabilities			
Accounts payable	83,407	115	83,522
Salaries and benefits payable	614,674	13,172	627,846
Accrued interest payable	19,979	-	19,979
Incurred but not reported claims	65,000	-	65,000
ISCAP warrants payable (note 4)	1,006,000	-	1,006,000
ISCAP accrued interest payable (note 4)	5,540	-	5,540
ISCAP unamortized premium (note 4)	13,431	-	13,431
Deferred revenue:			
Succeeding year property tax	1,951,000	-	1,951,000
Other	-	3,446	3,446
Long-term liabilities (note 6):			
Portion due within one year:			
Early retirement	93,445	-	93,445
Bonds payable	555,000	-	555,000
Portion due after one year:			
Early retirement	117,680	-	117,680
Bonds payable	1,815,000	-	1,815,000
Total liabilities	6,340,156	16,733	6,356,889

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2008

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 4,893,334	\$ 11,678	\$ 4,905,012
Restricted for:			
Management levy	54,450	-	54,450
Physical plant and equipment levy	72,326	-	72,326
Other special revenue purposes	92,395	-	92,395
Debt service	578,499	-	578,499
Capital projects	340,013	-	340,013
Unrestricted	<u>773,987</u>	<u>2,254</u>	<u>776,241</u>
Total net assets	<u>\$ 6,805,004</u>	<u>\$ 13,932</u>	<u>\$ 6,818,936</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental Activities:			
Instruction:			
Regular instruction	\$ 3,161,368	\$ 625,125	\$ 408,125
Special instruction	657,531	85,741	35,033
Other instruction	766,901	322,034	11,713
	<u>4,585,800</u>	<u>1,032,900</u>	<u>454,871</u>
Support services:			
Student services	294,287	-	5,251
Instructional staff services	243,918	-	-
Administration services	764,788	-	-
Operation and maintenance of plant services	631,320	-	-
Transportation services	214,610	-	3,671
	<u>2,148,923</u>	<u>-</u>	<u>8,922</u>
Non-instructional programs	<u>6,826</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	25,894	-	-
Long-term debt interest and fiscal charges	104,802	-	-
AEA flowthrough	235,478	-	235,478
Depreciation (unallocated) *	254,275	-	-
	<u>620,449</u>	<u>-</u>	<u>235,478</u>
Total governmental activities	<u>7,361,998</u>	<u>1,032,900</u>	<u>699,271</u>
Business-Type Activities:			
Non-instructional programs:			
Food service operations	<u>332,750</u>	<u>234,701</u>	<u>79,348</u>
Total	<u>\$ 7,694,748</u>	<u>\$ 1,267,601</u>	<u>\$ 778,619</u>

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (2,128,118)	\$ -	\$ (2,128,118)
(536,757)	-	(536,757)
(433,154)	-	(433,154)
(3,098,029)	-	(3,098,029)
(289,036)	-	(289,036)
(243,918)	-	(243,918)
(764,788)	-	(764,788)
(631,320)	-	(631,320)
(210,939)	-	(210,939)
(2,140,001)	-	(2,140,001)
(6,826)	-	(6,826)
(25,894)	-	(25,894)
(104,802)	-	(104,802)
-	-	-
(254,275)	-	(254,275)
(384,971)	-	(384,971)
(5,629,827)	-	(5,629,827)
-	(18,701)	(18,701)
(5,629,827)	(18,701)	(5,648,528)

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Functions/Programs

General Revenues:

Property tax levied for:

 General purposes

 Capital outlay

Income surtax

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

* = This amount excludes the depreciation 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
\$ 1,982,081	\$ -	\$ 1,982,081
244,397	-	244,397
282,590	-	282,590
730,388	-	730,388
3,005,225	-	3,005,225
120,576	521	121,097
61,916	-	61,916
6,427,173	521	6,427,694
797,346	(18,180)	779,166
6,007,658	32,112	6,039,770
\$ 6,805,004	\$ 13,932	\$ 6,818,936

HUDSON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and pooled investments	\$ 941,083	\$ 598,478	\$ 697,683	\$ 2,237,244
Receivables:				
Property tax:				
Current year	15,073	-	4,932	20,005
Succeeding year	1,610,000	-	341,000	1,951,000
Income surtax	251,273	-	-	251,273
Accrued interest	3,911	-	-	3,911
Accounts	1,081	-	2,344	3,425
Due from other governments	105,105	-	110,382	215,487
Restricted ISCAP assets (note 4):				
Investments	1,012,598	-	-	1,012,598
Accrued interest receivable	5,134	-	-	5,134
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ <u>3,945,258</u>	\$ <u>598,478</u>	\$ <u>1,156,341</u>	\$ <u>5,700,077</u>

HUDSON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 38,375	\$ -	\$ 45,032	\$ 83,407
Salaries and benefits payable	614,674	-	-	614,674
ISCAP warrants payable (note 4)	1,006,000	-	-	1,006,000
ISCAP accrued interest payable (note 4)	5,540	-	-	5,540
ISCAP unamortized premium (note 4)	13,431	-	-	13,431
Deferred revenue:				
Succeeding year property tax	1,610,000	-	341,000	1,951,000
Other	251,273	-	-	251,273
Total liabilities	<u>3,539,293</u>	<u>-</u>	<u>386,032</u>	<u>3,925,325</u>
Fund balance:				
Reserved for:				
State grants	5,816	-	-	5,816
Debt service	-	598,478	-	598,478
Unreserved:				
Reported in nonmajor Special Revenue Funds	-	-	430,296	430,296
Undesignated	400,149	-	340,013	740,162
Total fund balances	<u>405,965</u>	<u>598,478</u>	<u>770,309</u>	<u>1,774,752</u>
Total liabilities and fund balances	<u>\$ 3,945,258</u>	<u>\$ 598,478</u>	<u>\$ 1,156,341</u>	<u>\$ 5,700,077</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, 2008

Total fund balances of governmental funds	\$ 1,774,752
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.	7,263,334
Other long-term assets, including income surtax receivable, are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	251,273
The balance of the Internal Service Fund is included with the governmental activities due to the integral nature of the fund in relation to those governmental activities.	116,749
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.	(19,979)
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>(2,581,125)</u>
Net assets of governmental activities	<u>\$ 6,805,004</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, 2008

	General	Debt Service	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 1,961,122	\$ -	\$ 1,277,261	\$ 3,238,383
Tuition	661,426	15,850	-	677,276
Other	172,359	-	369,561	541,920
State sources	3,591,770	-	449	3,592,219
Federal sources	108,884	-	-	108,884
Total revenues	<u>6,495,561</u>	<u>15,850</u>	<u>1,647,271</u>	<u>8,158,682</u>
Expenditures:				
Current:				
Instruction	4,234,507	-	404,264	4,638,771
Support services:				
Student services	290,885	-	3,399	294,284
Instructional staff services	186,823	-	51,506	238,329
Administration services	743,291	-	37,151	780,442
Operation and maintenance of plant services	542,614	-	50,897	593,511
Transportation services	148,522	-	68,755	217,277
	<u>1,912,135</u>	<u>-</u>	<u>211,708</u>	<u>2,123,843</u>
Non-instructional programs	-	-	6,826	6,826
Other expenditures:				
Facilities acquisition	-	-	153,605	153,605
Long term debt:				
Principal	-	545,000	-	545,000
Interest and fiscal charges	-	112,050	-	112,050
AEA flowthrough	235,478	-	-	235,478
	<u>235,478</u>	<u>657,050</u>	<u>153,605</u>	<u>1,046,133</u>
Total expenditures	<u>6,382,120</u>	<u>657,050</u>	<u>776,403</u>	<u>7,815,573</u>
Excess (deficiency) of revenues over (under) expenditures	<u>113,441</u>	<u>(641,200)</u>	<u>870,868</u>	<u>343,109</u>

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):				
Sale of equipment	\$ 752	\$ -	\$ -	\$ 752
Compensation for loss of capital assets	695	-	-	695
Interfund transfers in (note 3)	-	948,637	243,096	1,191,733
Interfund transfers out (note 3)	-	(243,096)	(948,637)	(1,191,733)
Total other financing sources (uses)	<u>1,447</u>	<u>705,541</u>	<u>(705,541)</u>	<u>1,447</u>
Net change in fund balances	114,888	64,341	165,327	344,556
Fund balances beginning of year	<u>291,077</u>	<u>534,137</u>	<u>604,982</u>	<u>1,430,196</u>
Fund balances end of year	<u>\$ 405,965</u>	<u>\$ 598,478</u>	<u>\$ 770,309</u>	<u>\$ 1,774,752</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, 2008

Net change in fund balances - total governmental funds \$ 344,556

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 not 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	\$ 111,758	
Depreciation expense	<u>(283,351)</u>	(171,593)

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. (785)

The increase in net assets of the Internal Service Fund represents an overcharge to the funds serviced. Therefore, expenses are adjusted accordingly for the Statement of Activities. 121,420

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 545,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 5,348

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 the governmental funds. (46,600)

Change in net assets of governmental activities \$ 797,346

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2008

	<u>School Nutrition</u>	<u>Internal Service Fund</u>
Assets		
Cash and cash equivalents	\$ 14,115	\$ 181,749
Receivables:		
Accounts	62	
Inventories	4,810	-
Capital assets, net of accumulated depreciation (note 6)	<u>11,678</u>	<u>-</u>
Total assets	<u>30,665</u>	<u>181,749</u>
Liabilities		
Accounts payable	115	-
Salaries and benefits payable	13,172	-
Incurred but not reported claims	-	65,000
Deferred revenue	<u>3,446</u>	<u>-</u>
Total liabilities	<u>16,733</u>	<u>65,000</u>
Net Assets		
Invested in capital assets	11,678	-
Unrestricted	<u>2,254</u>	<u>116,749</u>
Total net assets	<u>\$ 13,932</u>	<u>\$ 116,749</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, 2008

	<u>School Nutrition</u>	<u>Internal Service Fund</u>
Operating revenues:		
Local sources:		
Charges for services	\$ 234,701	\$ 580,818
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	101,658	-
Benefits	37,736	462,935
Purchased services	5,848	-
Supplies	180,397	-
Depreciation	7,111	-
Other	-	2,218
	<u>332,750</u>	<u>465,153</u>
Operating income (loss)	<u>(98,049)</u>	<u>115,665</u>
Non-operating revenues:		
Interest on investments	521	5,755
State sources	2,567	-
Federal sources	76,781	-
Total non-operating revenues	<u>79,869</u>	<u>5,755</u>
Change in net assets	(18,180)	121,420
Net assets beginning of year	<u>32,112</u>	<u>(4,671)</u>
Net assets end of year	<u>\$ 13,932</u>	<u>\$ 116,749</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2008

	<u>School Nutrition</u>	<u>Internal Service Fund</u>
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 234,776	\$ -
Cash received from miscellaneous operating activities	525	580,818
Cash payments to employees for services	(138,870)	-
Cash payments to suppliers for goods or services	<u>(175,900)</u>	<u>(437,394)</u>
Net cash provided by (used by) operating activities	<u>(79,469)</u>	<u>143,424</u>
Cash flows from non-capital financing activities:		
Cash repayments of loans from other funds	-	(65,000)
Decrease in due to other funds	-	65,000
State grants received	2,567	-
Federal grants received	<u>67,104</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>69,671</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>521</u>	<u>5,755</u>
Net increase (decrease) in cash and cash equivalents	(9,277)	149,179
Cash and cash equivalents beginning of year	<u>23,392</u>	<u>32,570</u>
Cash and cash equivalents end of year	<u>\$ 14,115</u>	<u>\$ 181,749</u>

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2008

	<u>School Nutrition</u>	<u>Internal Service Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:		
Operating income (loss)	\$ (98,049)	\$ 115,665
Adjustments to reconcile operating loss to net cash provided by (used by) operating activities:		
Depreciation	7,111	-
Commodities used	9,677	-
(Increase) decrease in accounts receivable	(62)	52,759
Decrease in inventories	553	-
(Decrease) in incurred but not reported claims	-	(25,000)
Increase in accounts payable	115	-
Increase in salaries and benefits payable	524	-
Increase in deferred revenues	662	-
	<u>662</u>	<u>-</u>
Net cash provided by (used by) operating activities	<u>\$ (79,469)</u>	<u>\$ 143,424</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2008, the District received \$9,677 of federal commodities.

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2008

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Cash and pooled investments	\$ 71,150	\$ 11,881
Liabilities:		
Other payables	-	11,881
Net assets:		
Reserved for scholarships	\$ 71,150	\$ -

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 Year Ended June 30, 2008

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest	\$ <u>3,605</u>
Deductions:	
Support services:	
Scholarships awarded	<u>3,605</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, 2008

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, 2008

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 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 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, 2008

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.

The 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, 2008

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.

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, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2007.

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, 2008

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, 2008

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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.

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.

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. Net assets restricted through enabling legislation as of June 30, 2008 consists of \$1,137,683.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures did not exceed the amounts budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2008 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, 2008

Note 2. Cash and Pooled Investments (continued)

At June 30, 2008, the District had the following investments:

	<u>Amortized Cost/ Fair Value</u>
Goldman Sachs Treasury Obligation Fund	\$ 597,089
Iowa Schools Joint Investment Trust, Diversified Portfolio	<u>1,786,094</u>
	<u>\$ 2,383,183</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 Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 948,637
Capital Projects	Debt Service	<u>243,096</u>
Total		<u>\$ 1,191,733</u>

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

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 4. 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, 2008 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>
2007-08B	1/23/2008	1/23/2009	\$ 325,040	\$ 4,873	\$ 324,000	\$ 5,333	\$ 1,735
2008-09A	6/26/2008	6/25/2009	687,558	261	682,000	207	11,696
Total			<u>\$ 1,012,598</u>	<u>\$ 5,134</u>	<u>\$ 1,006,000</u>	<u>\$ 5,540</u>	<u>\$ 13,431</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2008 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>
2007-08A	\$ -	\$ 300,000	\$ 300,000	\$ -

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 4. Iowa Schools Cash Anticipation Program (ISCAP) (continued)

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>
2007-08A	4.50%	5.455%
2007-08B	3.75%	3.451%
2008-09A	3.50%	3.469%

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2008 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
Construction in progress	-	56,144	-	56,144
Total capital assets not being depreciated	<u>116,782</u>	<u>56,144</u>	<u>-</u>	<u>172,926</u>
Capital assets being depreciated:				
Buildings	10,445,100	16,141	-	10,461,241
Improvements other than buildings	578,397	-	-	578,397
Furniture and equipment	715,354	39,473	36,707	718,120
Total capital assets being depreciated	<u>11,738,851</u>	<u>55,614</u>	<u>36,707</u>	<u>11,757,758</u>
Less accumulated depreciation for:				
Buildings	3,847,295	225,908	-	4,073,203
Improvements other than buildings	56,047	28,366	-	84,413
Furniture and equipment	517,364	29,077	36,707	509,734
Total accumulated depreciation	<u>4,420,706</u>	<u>283,351</u>	<u>36,707</u>	<u>4,667,350</u>
Total capital assets being depreciated, net	<u>7,318,145</u>	<u>(227,737)</u>	<u>-</u>	<u>7,090,408</u>
Governmental activities capital assets, net	<u>\$ 7,434,927</u>	<u>\$ (171,593)</u>	<u>\$ -</u>	<u>\$ 7,263,334</u>

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 5. 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	155,656	7,111	-	162,767
Business-type activities capital assets, net	<u>\$ 18,789</u>	<u>\$ (7,111)</u>	<u>\$ -</u>	<u>\$ 11,678</u>

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

Governmental activities:	
Instruction:	
Regular	\$ 8,823
Support services:	
Administration	3,423
Operation and maintenance of plant services	7,729
Transportation	9,101
	<u>29,076</u>
Unallocated depreciation	<u>254,275</u>
	<u>\$ 283,351</u>
Business-type activities:	
Food service operations	<u>\$ 7,111</u>

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Early Retirement	General Obligation Bonds	Local Option Sales and Services Tax Revenue Bonds	Total
Balance beginning of year	\$ 164,525	\$ 2,140,000	\$ 775,000	\$ 3,079,525
Additions	113,652	-	-	113,652
Reductions	67,052	295,000	250,000	612,052
Balance end of year	<u>\$ 211,125</u>	<u>\$ 1,845,000</u>	<u>\$ 525,000</u>	<u>\$ 2,581,125</u>
Due within one year	<u>\$ 93,445</u>	<u>\$ 305,000</u>	<u>\$ 250,000</u>	<u>\$ 648,445</u>

Early Retirement

The District offered a voluntary early retirement plan to its certified employees for the year ended June 30, 2008. 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 180% of the difference between the BA base and the employee's current year salary less supplemental pay and extended contract pay. The incentive can be used to offset future health insurance payments on behalf of the employee or can be contributed to an employee's tax-sheltered annuity. The District is also paying early retirement benefits based on prior year plans. Details of these plans are available upon request at the District administrative office.

At June 30, 2008, the District had obligations to 14 participants with a total liability of \$211,125. Actual early retirement expenditures for the year ended June 30, 2008 totaled \$67,052. 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, 2008

Note 6. Long-Term Liabilities (continued)

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2009	3.45 %	\$ 305,000	\$ 70,000	\$ 375,000
2010	3.65	320,000	59,478	379,478
2011	3.75	335,000	47,798	382,798
2012	3.90	345,000	35,235	380,235
2013	4.00	360,000	21,780	381,780
2014	4.10	180,000	7,380	187,380
		<u>\$ 1,845,000</u>	<u>\$ 241,671</u>	<u>\$ 2,086,671</u>

School Infrastructure Sales and Services Tax Revenue Bonds

Details of the District's June 30, 2008 school infrastructure sales and services tax revenue bonds indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2009	4.75 %	\$ 250,000	\$ 19,000	\$ 269,000
2010	4.75	275,000	6,531	281,531
		<u>\$ 525,000</u>	<u>\$ 25,531</u>	<u>\$ 550,531</u>

The District pledged future local option sales and services tax revenues to repay the \$1,700,000 bonds issued in 2001. The bonds were issued for the purpose of financing a portion of the costs of new school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District and are payable through 2011. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 40 percent of the local option sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$550,531. For the current year, principal and interest paid on the bonds totaled \$280,563 and total local option sales and services tax revenues were \$730,388

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.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 6. Long-Term Liabilities (continued)

School Infrastructure Sales and Services Tax Revenue Bonds (continued)

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 7. Operating Lease

The District has entered into an operating lease for a school bus. The 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:

<u>Year Ending June 30,</u>	<u>Minimum Lease Payments</u>
2009	\$ 11,931
2010	<u>39,700</u>
	<u>\$ 51,631</u>

Note 8. 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 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the year ended June 30, 2008. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$230,740, \$220,612, and \$214,307, respectively, equal to the required contributions for each year.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 9. 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 \$116,749 at June 30, 2008 and is recorded in the Internal Service Fund. The incurred but not reported claims of \$65,000 are reported as liabilities at June 30, 2008.

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 10. 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 \$235,478 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

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Required Supplementary Information

HUDSON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances –
Budget and Actual – All Governmental Funds
and Proprietary Fund
Required Supplementary Information
Year Ended June 30, 2008

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds - Actual	Fund - Actual		Original	Final	
REVENUES:						
Local sources	\$ 4,457,579	\$ 235,222	\$ 4,692,801	\$ 4,689,531	\$ 4,689,531	\$ 3,270
Intermediate sources	-	-	-	5,000	5,000	(5,000)
State sources	3,592,219	2,567	3,594,786	3,562,645	3,562,645	32,141
Federal sources	108,884	76,781	185,665	194,000	194,000	(8,335)
Total revenues	8,158,682	314,570	8,473,252	8,451,176	8,451,176	22,076
EXPENDITURES/EXPENSES:						
Instruction	4,638,771	-	4,638,771	4,612,623	4,900,000	261,229
Support services	2,123,843	-	2,123,843	1,830,000	2,300,000	176,157
Non-instructional programs	6,826	332,750	339,576	403,394	450,000	110,424
Other expenditures	1,046,133	-	1,046,133	898,686	1,100,000	53,867
Total expenditures/expenses	7,815,573	332,750	8,148,323	7,744,703	8,750,000	601,677
Excess (deficiency) of revenues over (under) expenditures/ expenses	343,109	(18,180)	324,929	706,473	(298,824)	623,753
Other financing sources, net	1,447	-	1,447	-	-	1,447
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses	344,556	(18,180)	326,376	706,473	(298,824)	625,200
Balance beginning of year	1,430,196	32,112	1,462,308	1,334,856	1,334,856	127,452
Balance end of year	\$ <u>1,774,752</u>	\$ <u>13,932</u>	\$ <u>1,788,684</u>	\$ <u>2,041,329</u>	\$ <u>1,036,032</u>	\$ <u>752,652</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2008

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 expenditures by \$1,005,297.

During the year ended June 30, 2008, expenditures did not exceed the amounts budgeted.

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Other Supplementary Information

HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2008

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Total
Assets					
Cash and pooled investments	\$ 262,796	\$ 95,330	\$ 70,173	\$ 269,384	\$ 697,683
Receivables:					
Property tax:					
Current year	2,779	-	2,153	-	4,932
Succeeding year	128,000	-	213,000	-	341,000
Accounts	-	2,344	-	-	2,344
Due from other governments	-	-	-	110,382	110,382
Total assets	\$ <u>393,575</u>	\$ <u>97,674</u>	\$ <u>285,326</u>	\$ <u>379,766</u>	\$ <u>1,156,341</u>
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ -	\$ 5,279	\$ -	\$ 39,753	\$ 45,032
Deferred revenue:					
Succeeding year property tax	128,000	-	213,000	-	341,000
Total liabilities	<u>128,000</u>	<u>5,279</u>	<u>213,000</u>	<u>39,753</u>	<u>386,032</u>
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	<u>265,575</u>	<u>92,395</u>	<u>72,326</u>	<u>340,013</u>	<u>770,309</u>
Total liabilities and fund equity	\$ <u>393,575</u>	\$ <u>97,674</u>	\$ <u>285,326</u>	\$ <u>379,766</u>	\$ <u>1,156,341</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, 2008

	Special Revenue				Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	
Revenues:					
Local sources:					
Local tax	\$ 302,671	\$ -	\$ 244,202	\$ 730,388	\$ 1,277,261
Other	14,524	325,251	7,602	22,184	369,561
State sources	254	-	195	-	449
Total revenues	317,449	325,251	251,999	752,572	1,647,271
Expenditures:					
Current:					
Instruction	63,111	341,153	-	-	404,264
Support services:					
Student services	3,399	-	-	-	3,399
Instructional staff services	-	-	51,506	-	51,506
Administration services	15,543	-	21,608	-	37,151
Operation and maintenance of plant services	48,536	-	2,361	-	50,897
Transportation services	10,805	-	57,950	-	68,755
Non instructional programs	6,826	-	-	-	6,826
Other expenditures:					
Facilities acquisition	-	-	1,500	152,105	153,605
Total expenditures	148,220	341,153	134,925	152,105	776,403
Excess (deficiency) of revenues over (under) expenditures	169,229	(15,902)	117,074	600,467	870,868
Other financing sources (uses):					
Interfund transfers in	-	-	-	243,096	243,096
Interfund transfers out	-	-	-	(948,637)	(948,637)
Total other financing sources (uses)	-	-	-	(705,541)	(705,541)
Net change in fund balances	\$ 169,229	\$ (15,902)	\$ 117,074	\$ (105,074)	\$ 165,327
Fund balances beginning of year	96,346	108,297	(44,748)	445,087	604,982
Fund balances end of year	\$ 265,575	\$ 92,395	\$ 72,326	\$ 340,013	\$ 770,309

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT

 COMBINING SCHEDULE OF NET ASSETS
 INTERNAL SERVICE FUNDS
 June 30, 2008

	<u>Self-Insured Health Plan</u>	<u>Self-Insured Dental Plan</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ <u>104,770</u>	\$ <u>76,979</u>	\$ <u>181,749</u>
Liabilities			
Incurred but not reported claims	<u>61,100</u>	<u>3,900</u>	<u>65,000</u>
Net Assets			
Unrestricted	\$ <u><u>43,670</u></u>	\$ <u><u>73,079</u></u>	\$ <u><u>116,749</u></u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
 INTERNAL SERVICE FUNDS
 June 30, 2008

	<u>Self-Insured Health Plan</u>	<u>Self-Insured Dental Plan</u>	<u>Total</u>
Operating revenue:			
Local sources:			
Other local services:			
Services	\$ 547,526	\$ 33,292	\$ 580,818
Operating expenses:			
Non-operating programs:			
Benefits	438,885	24,050	462,935
Other	1,968	250	2,218
Total expenses	440,853	24,300	465,153
Operating income	106,673	8,992	115,665
Non-operating revenue:			
Interest income	3,627	2,128	5,755
Changes in net assets	110,300	11,120	121,420
Net assets beginning of year	(66,630)	61,959	(4,671)
Net assets end of year	\$ 43,670	\$ 73,079	\$ 116,749

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 Year Ended June 30, 2008

	Self-Insured Health Plan	Self-Insured Dental Plan	Total
Cash flows from operating activities:			
Cash received from local sources	\$ 547,526	\$ 33,292	\$ 580,818
Cash payments to suppliers for goods or services	(411,594)	(25,800)	(437,394)
Net cash provided by operating activities	135,932	7,492	143,424
Cash flows from non-capital financing activities:			
Repayment of loans to other funds	(77,000)	-	(77,000)
Repayments of loans from other funds	-	12,000	12,000
Decrease in due to other funds	77,000	-	77,000
Decrease 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 financing activities	(34,789)	34,789	-
Cash flows from investing activities:			
Interest on investments	3,627	2,128	5,755
Net increase in cash and cash equivalents	104,770	44,409	149,179
Cash and cash equivalents at beginning of year	-	32,570	32,570
Cash and cash equivalents at end of year	\$ 104,770	\$ 76,979	\$ 181,749
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 106,673	\$ 8,992	\$ 115,665
Adjustments to reconcile operating income to net cash provided by operating activities:			
Decrease in accounts receivable	52,759	-	52,759
(Decrease) in incurred but not reported claims	(23,500)	(1,500)	(25,000)
Net cash provided by operating activities	\$ 135,932	\$ 7,492	\$ 143,424

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2008

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Speech	\$ -	\$ 80	\$ 80	\$ -
Vocal Music	808	1,524	1,513	819
Vocal Music Trip	36	-	36	-
Physics Club	1,007	1,550	1,518	1,039
Photography	33	-	-	33
National Honor Society	619	340	529	430
Instrumental Music	(67)	3,537	3,224	246
Band Uniform	-	415	-	415
Instrumental Music Trip	12,113	25,475	37,305	283
Athletic Adm.	5,319	78,255	74,263	9,311
Track	220	13,035	13,045	210
Girls Track	1,409	1,897	1,925	1,381
Cross Country	(1)	1,461	1,461	(1)
Cross Country Concessions	1,764	4,530	5,404	890
Soccer	(371)	4,324	3,953	-
Tennis	1	1,346	1,306	41
Golf	-	1,315	1,315	-
Golf Camp	(298)	188	390	(500)
Basketball	-	6,779	6,779	-
Boys Basketball Camp	178	1,830	2,468	(460)
Elem. Boys Basketball Camp	475	-	-	475
MS Volleyball Camp	45	1,416	1,128	333
Boys Soccer Camp	3,679	-	3,052	627
Volleyball Camp	1,470	3,162	2,958	1,674
Football	-	8,481	8,481	-
FB Camp	5,414	2,947	5,983	2,378
Baseball	141	5,045	5,186	-
Baseball Camp	9	914	924	(1)
Baseball/Softball Concessions	282	-	-	282
Wrestling	-	2,667	2,667	-
Boys Wrestling Camp	-	946	757	189
Girls BB Camp	3,728	6,926	10,653	1
Dug Out Club	166	3,878	4,044	-
Volleyball	-	3,157	3,157	-
All-American Basketball Camp	-	-	-	-
Softball	54	3,605	3,877	(218)
Interest	19,228	3,216	5,645	16,799
Annual	9,455	11,968	10,265	11,158
FFA Chapter	9,394	19,324	17,023	11,695
Sr. High Student Council	6,342	12,560	10,200	8,702
Jr. High Student Council	3,567	6,464	7,187	2,844

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2008

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
5-6 Student Council	\$ 4,248	\$ 13,101	\$ 13,649	\$ 3,700
Show Choir Concert	(3,339)	8,537	4,564	634
Cheerleaders	929	3,833	2,919	1,843
Fall Play/Musical	897	1,461	1,456	902
Vocal Music Production	2,312	-	-	2,312
MS Show Choir	823	2,850	2,857	816
Spanish Club Trip	1,077	-	-	1,077
Class of 2006	(5,000)	5,000	-	-
Class of 2007	1,560	-	63	1,497
Class of 2008	3,327	1,710	3,588	1,449
Class of 2009	3,349	11,843	11,048	4,144
Class of 2010	1,451	1,392	1,528	1,315
Class of 2011	-	1,425	-	1,425
Athletic Boosters	10,444	78,659	88,897	206
Less: Intrafund transfers	-	(49,117)	(49,117)	-
Total	\$ 108,297	\$ 325,251	\$ 341,153	\$ 92,395

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2008

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
Assets				
Cash	\$ <u>4,655</u>	\$ <u>29,905</u>	\$ <u>22,679</u>	\$ <u>11,881</u>
Liabilities				
Other payables	\$ <u>4,655</u>	\$ <u>29,905</u>	\$ <u>22,679</u>	\$ <u>11,881</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 FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 3,238,383	\$ 3,185,483	\$ 3,026,723	\$ 2,890,149	\$ 2,605,375
Tuition	677,276	663,168	677,476	731,701	754,763
Other	541,920	528,820	515,841	397,049	505,728
State sources	3,592,219	3,488,586	3,184,093	3,347,026	3,292,761
Federal sources	108,884	122,792	112,791	113,925	147,976
Total revenues	\$ 8,158,682	\$ 7,988,849	\$ 7,516,924	\$ 7,479,850	\$ 7,306,603
Expenditures:					
Instruction	\$ 4,638,771	\$ 4,745,474	\$ 4,530,889	\$ 4,346,963	\$ 4,352,768
Support services:					
Student services	294,284	315,422	330,175	311,754	288,757
Instructional staff services	238,329	266,776	213,238	261,015	243,441
Administration services	780,442	798,082	681,123	716,052	674,994
Operation and maintenance					
of plant services	593,511	615,933	542,427	602,093	524,184
Transportation services	217,277	233,505	170,876	158,013	133,512
Non-instructional programs	6,826	11,306	26,036	3,895	40
Other expenditures:					
Facilities acquisition	153,605	106,363	285,841	172,269	223,070
Long-term debt:					
Principal	545,000	510,000	500,000	430,000	425,000
Interest and fiscal charges	112,050	129,388	148,300	225,638	245,695
AEA flowthrough	235,478	230,506	209,842	210,164	213,445
Total expenditures	\$ 7,815,573	\$ 7,962,755	\$ 7,638,747	\$ 7,437,856	\$ 7,324,906

See accompanying independent auditor's report.

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

To the Board of Education of
Hudson Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Hudson Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 21, 2008. 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.

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.

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. We noted no material weaknesses during the course of our audit.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about Hudson Community School District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

Oskaloosa, Iowa
October 21, 2008

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2008

Part I: Findings Related to the Basic Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

No matters were reported.

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2008

Part II: Other Findings Related to Statutory Reporting:

- II-A-08 Certified Budget – Expenditures for the year ended June 30, 2008, did not exceed the amounts budgeted.
- II-B-08 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-08 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-08 Business Transactions – No business transactions between the District and District officials or employees were noted.
- II-E-08 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-08 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- II-G-08 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- II-H-08 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-08 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.