

HUDSON COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2012

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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, Hudson, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated February 28, 2013, on our consideration of Hudson Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 40 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing

standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming 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 two years ended June 30, 2011 and 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the six years ended June 30, 2009, (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 10, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

February 28, 2013

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, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$7,032,810 in fiscal 2011 to \$6,988,967 in fiscal 2012, a decrease of -.62% while General Fund expenditures decreased from \$7,011,322 in fiscal 2011 to \$6,490,970. Additionally, the districts fund balance grew from \$257,555 in fiscal 2011 to \$757,105 in fiscal 2012.
- The decrease in General Fund revenues is attributable to decreasing enrollment, particularly of those students who open enroll into the school district, and the education jobs fund that had previously been a significant source of federal funding. The decrease in expenditures is due to a large budget cut in excess of \$500,000.

USING THIS ANNUAL REPORT

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 District 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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor funds.

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

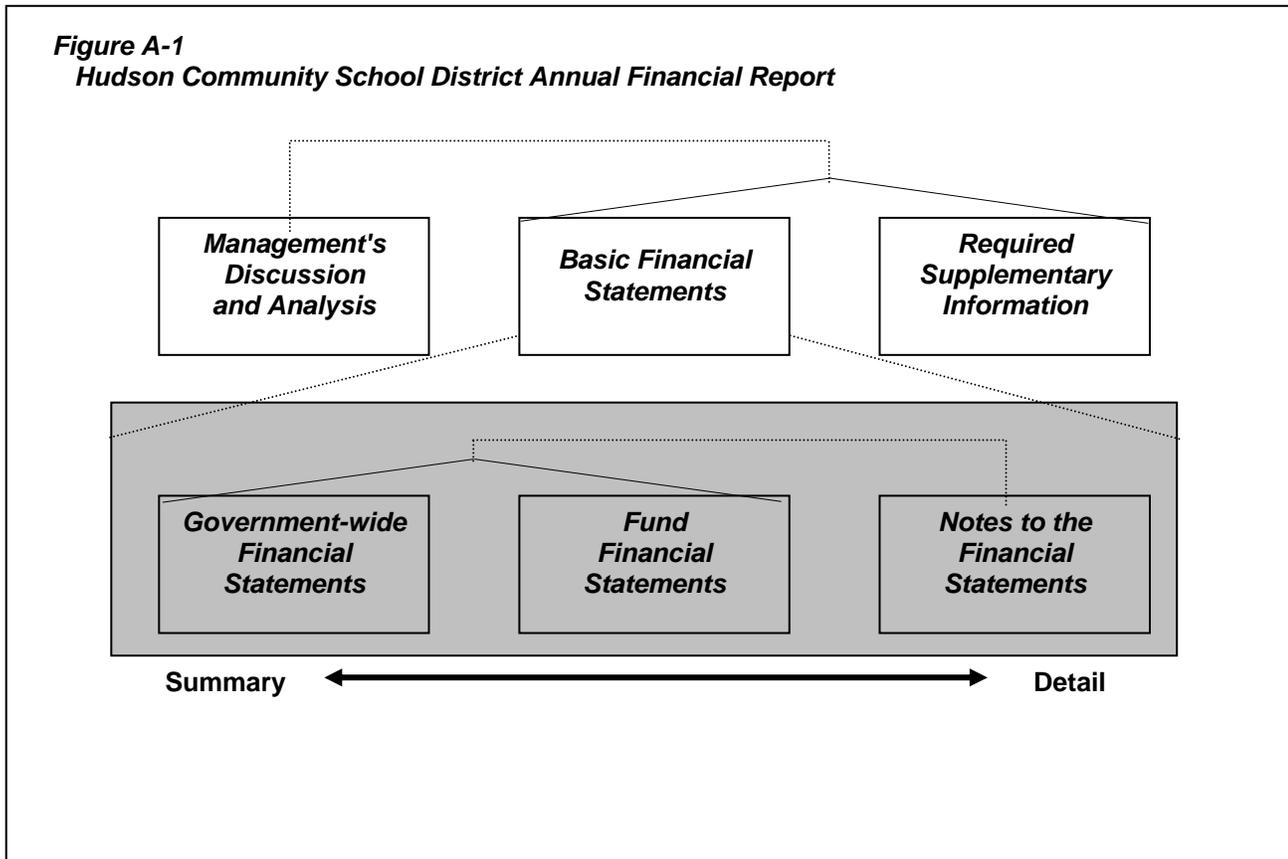


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-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	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
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 fund 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, 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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial 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 financial position. Over time, increases or decreases in the District’s net assets are an indicator of whether financial position is improving or deteriorating. To assess the District’s overall health,

additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-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:

- 1) *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.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *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 government-wide financial 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. The District uses *internal service funds*, the Health Fund, which partially covers the health insurance plan, and the Dental Fund, which covers the dental plan.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain monies behalf of other entities.

The District is responsible for ensuring 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 government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets. Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2012 compared to June 30, 2011.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2011-2012 %
	Governmental Activities		Business-type Activities		Total School District		
	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	
Current and other assets	5,568,179	6,507,795	14,793	21,887	5,582,972	6,529,682	16.96
Capital assets	7,376,728	7,175,737	44,273	39,703	7,421,001	7,215,440	(2.77)
Total assets	12,944,907	13,683,532	59,066	61,590	13,003,973	13,745,122	5.70
Long-term liabilities	1,130,737	819,198	3,310	5,042	1,134,047	824,240	(27.32)
Other liabilities	3,595,246	3,741,772	18,950	19,576	3,614,196	3,761,348	4.07
Total liabilities	4,725,983	4,560,970	22,260	24,618	4,748,243	4,585,588	(3.43)
Net Assets:							
Invested in capital assets, net of related debt	6,471,728	6,630,737	44,273	39,703	6,516,001	6,670,440	2.37
Restricted	1,107,871	1,225,688	0	0	1,107,871	1,225,688	10.66
Unrestricted	639,325	1,266,137	(7,467)	(2,731)	631,858	1,263,406	99.95
TOTAL NET ASSETS	8,218,924	9,122,562	36,806	36,972	8,255,730	9,159,534	10.95

The District's combined total net assets increased by 10.95%, or approximately \$903,804 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$117,817 or 10.66% over the prior year.

Unrestricted net assets – 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 – increased approximately \$631,548, or 99.95%. Most of the increase is the result of cutting expenses.

Figure A-4 shows the change in net assets for the years ended June 30, 2012 and 2011.

Figure A-4

	Change in Net Assets						Percentage Change 2011-2012 %
	Governmental Activities		Business-type Activities		Total School District		
	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	
Revenues							
Program Revenues:							
Charges for services	1,082,751	1,142,725	218,675	213,893	1,301,426	1,356,618	4.24
Operating grants & contributions	1,061,071	842,192	95,416	95,617	1,156,487	937,809	(18.91)
Capital grants & contributions	0	25,000	0	0	0	25,000	-
General Revenues:							
Property taxes	2,613,033	2,703,457	0	0	2,613,033	2,703,457	3.46
Income surtax	143,101	283,798	0	0	143,101	283,798	98.32
Sales tax	549,979	562,817	0	0	549,979	562,817	2.33
Unrestricted state grants	2,907,727	2,991,212	0	0	2,907,727	2,991,212	2.87
Unrestricted investment earnings	21,775	21,276	38	50	21,813	21,326	(2.23)
Other revenue	61,591	14,735	0	0	61,591	14,735	(76.08)
Total Revenues	8,441,028	8,587,212	314,129	309,560	8,755,157	8,896,772	1.62
Expenses:							
Instruction	5,141,520	5,020,660	0	0	5,141,520	5,020,660	(2.35)
Support services	2,264,491	2,044,140	0	0	2,264,491	2,044,140	(9.73)
Non-instructional programs	10,837	11,186	322,356	309,394	333,193	320,580	(3.79)
Other expenditures	617,929	607,588	0	0	617,929	607,588	(1.67)
Total expenses	8,034,777	7,683,574	322,356	309,394	8,357,133	7,992,968	(4.36)
Change in net assets before transfers	406,251	903,638	(8,227)	166	398,024	903,804	127.07
Transfers	(32,373)	0	32,373	0	0	0	0
CHANGE IN NET ASSETS	373,878	903,638	24,146	166	398,024	903,804	127.07
Net assets beginning of year	7,845,046	8,218,924	12,660	36,806	7,857,706	8,255,730	5.07
Net assets end of year	8,218,924	9,122,562	36,806	36,972	8,255,730	9,159,534	10.95

In fiscal year 2012 property tax and unrestricted state grants account for 64% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 88% of the total expenses.

As shown in figure A-4, the District as a whole experienced a 1.62% increase in revenues and a 4.36% decrease in expenses. Property tax increased \$90,424 to fund increases in expenses in the management fund. The decreases in expenses related to the impact of a budget reduction plan.

Governmental Activities

Revenues for governmental activities were \$8,587,212 and expenses were \$7,683,574. In a difficult budget year, the District was able to balance the budget by cutting expenses to match available revenues with a goal of improved financial position in regard to the districts unspent budget authority.

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 Cost of Services			Net Cost of Services		
	2011	2012	Percent Change 2011-2012	2011	2012	Percent Change 2011-2012
	\$	\$	%	\$	\$	%
Instruction	5,141,520	5,020,660	(2.35)	3,296,013	3,308,553	0.38
Support Services	2,264,491	2,044,140	(9.73)	2,258,373	2,035,640	(9.08)
Non-instructional Programs	10,837	11,186	3.22	10,837	11,186	3.22
Other Expenses	617,929	607,588	(1.75)	325,732	318,278	(2.29)
TOTAL	8,034,777	7,683,574	(4.37)	5,890,955	5,673,657	(3.69)

For the year ended June 30, 2012

- The cost financed by users of the District's programs was \$1,142,725. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$867,192.
- The net cost of governmental activities was financed with \$3,550,072 in property and local other taxes and \$2,991,212 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$309,560 and expenses were \$309,394. 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, 2012, the District increased meal prices. This increase resulted in increased revenue to the School Nutrition Fund to meet expenses. Meal prices will continue to be monitored in order to keep the district nutrition solvent.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,028,112, well above last year's ending fund balances of \$1,437,756. The General Fund balance for Fiscal Year 2012 was \$757,105 compared to \$257,555 for Fiscal Year 2012.

Governmental Fund Highlights

- The District's improving General Fund financial position is the result of many factors. The District's decision to levy extra cash to replace depleted reserves began to have a positive impact on the cash position of the district. This along with broad based budget cuts improved our position.

- The General Fund balance increased from \$257,555 to \$757,105, due in part to budget cut, retirements of faculty that were either not replaced or replaced at a lower salary, and the District levying for Cash Reserves.
- The Capital Projects Fund includes revenues from sales tax and from the physical plant and equipment levy (PPEL). These two revenue streams and the related expenditures are tracked separately in the District's accounting records, but are combined into one Capital Projects Fund for financial reporting.
 - The Physical Plant and Equipment Levy (PPEL) account balance increased from \$283,268 in Fiscal Year 2011 to \$342,644 in Fiscal Year 2012. While revenues remained approximately the same, the District substantially reduced spending from the PPEL Fund in order to begin saving for major construction projects in the district.
 - The Sales Tax Fund increased from \$403,920 in Fiscal Year 2011 to \$477,323 in Fiscal Year 2012. The District is using sales tax proceeds to make the payments on the general obligation bonds.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$36,806 at June 30, 2011 to \$36,972 at June 30, 2012, representing an increase of approximately 0.45%. For fiscal 2012, the District increased meal prices, resulting in the small increase in net assets. Additionally, much of the equipment used in the hot lunch program has depreciated to the point where it is beginning to reach the end of its life. It will be important for the district to continue to increase meal prices in an effort to improve the financial position of the School Nutrition Fund.

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 fund and agency funds. Although the budget document presents functional area expenditures or expenses by funds, 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. During Fiscal Year 2012, the District did not amend its annual operating budget. 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, budget for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison as presented in the supplemental information section of this report.

The District's total actual receipts were \$180,802 more than budgeted receipts, a variance of approximately 2.06%. The most significant variance resulted from the District receiving more in local and federal sources than originally anticipated.

Total expenditures were \$720,494 less than budgeted. It is the District's practice to budget expenditures near or at the maximum authorized spending authority of the General Fund. The District then manages or controls the 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 ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested \$7,215,440, net of accumulated depreciation of \$6,133,755, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of -2.77% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$363,915.

The original cost of the District's capital assets was \$13,349,195. Governmental funds account for \$13,125,303 leaving \$223,892 in the Proprietary, School Nutrition Fund.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2011-2012 %
	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	
Land	116,782	116,782			116,782	116,782	0.00%
Construction in progress	65,350	31,807			65,350	31,807	-51.33%
Buildings	6,133,080	6,023,915			6,133,080	6,023,915	-1.78%
Improvements	726,140	725,924			726,140	725,924	-0.03%
Equipment & furniture	335,376	277,309	44,273	39,703	379,649	317,012	-16.50%
TOTAL	7,376,728	7,175,737	44,273	39,703	7,421,001	7,215,440	-2.77%

Long-Term Debt

At June 30, 2012 the District had \$824,240 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately -27.32% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The District continues to carry a bond rating of AA+/Stable assigned by national rating agencies to the District's debt.

The constitution of the State of Iowa limits the amount of debt school districts can issue to 5% of the assessed value of all taxable property within the district. The District's outstanding bonded and note indebtedness is significantly below its constitutional debt limit of approximately \$8 million.

Figure A-7

Outstanding Long-Term Obligations

	Total School District		Percentage Change 2011-2012 %
	2011 \$	2012 \$	
General obligation bonds	905,000	545,000	-39.78%
Early retirement	168,357	186,800	10.95%
Net OPEB liability	60,690	92,440	52.32%
	1,134,047	824,240	-27.32%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S 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. An annexation of property on the northern border of the district is being discussed with city leaders. 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 alternative housing in the Hudson district. A sudden loss of 50 or more resident students would have a challenging impact on the District budget into the future.
- At this time enrollment projections are fluid and difficult to predict, as the certified enrollment for FY11 decreased by 10.75 students, certified enrollment for FY12 declined by 3 students, and certified enrollment for FY13 increased by 28 students. Declining enrollment has a negative impact on the District's General Fund Budget. Enrollment projection models illustrate a continued decline in enrollment through academic year 2016-2017.
- The BEDS enrollment, which considers all students being served by the district, is also in decline. This is due primarily to a decrease in open enrollment students from the Waterloo Community School District. Because Waterloo has a policy on open enrollment, this number is expected to continue to decrease.
- Because of current fluidity in enrollment and lower than normal allowable growth rates, the Board of Education must continue to monitor employee expenses through means of staff reduction, early retirements, and attrition.

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 Jared Abel, District Business Manager/Board Secretary, Hudson Community School District, 136 S. Washington Street, Hudson, Iowa 50643.

BASIC FINANCIAL STATEMENTS

HUDSON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2012

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	3,071,760	19,012	3,090,772
Receivables:			
Property tax:			
Delinquent	19,292	-	19,292
Succeeding year	2,903,599	-	2,903,599
Accounts	6,297	-	6,297
Due from other governments	506,847	-	506,847
Inventories	-	2,875	2,875
Capital assets, net of accumulated depreciation	7,175,737	39,703	7,215,440
Total assets	13,683,532	61,590	13,745,122
Liabilities			
Accounts payable	152,035	-	152,035
Salaries and benefits payable	630,897	15,663	646,560
Incurred but not reported claims	54,000	-	54,000
Accrued interest payable	1,241	-	1,241
Deferred revenue:			
Succeeding year property tax	2,903,599	-	2,903,599
Other	-	3,913	3,913
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	365,000	-	365,000
Termination benefits	91,128	-	91,128
Portion due after one year:			
General obligation bonds payable	180,000	-	180,000
Termination benefits	95,672	-	95,672
Net OPEB liability	87,398	5,042	92,440
Total liabilities	4,560,970	24,618	4,585,588
Net assets			
Invested in capital assets, net of related debt	6,630,737	39,703	6,670,440
Restricted for:			
Categorical funding	142,722	-	142,722
Management levy	142,866	-	142,866
Physical plant and equipment levy	342,644	-	342,644
Student activities	117,698	-	117,698
School infrastructure	477,323	-	477,323
Debt service	2,435	-	2,435
Unrestricted	1,266,137	(2,731)	1,263,406
Total net assets	9,122,562	36,972	9,159,534

HUDSON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2012

Functions/Programs	<u>Program Revenues</u>			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
			\$	\$
Governmental activities:				
Instruction:				
Regular	3,327,967	637,135	452,487	-
Special	749,091	50,255	71,731	-
Other	943,602	453,945	46,554	-
	<u>5,020,660</u>	<u>1,141,335</u>	<u>570,772</u>	<u>-</u>
Support services:				
Student	293,491	-	-	-
Instructional staff	269,237	-	-	-
Administration	674,805	-	-	-
Operation and maintenance of plant	585,893	1,390	-	-
Transportation	220,714	-	7,110	-
	<u>2,044,140</u>	<u>1,390</u>	<u>7,110</u>	<u>-</u>
Non-instructional programs	<u>11,186</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	46,951	-	-	25,000
Long-term debt interest	10,250	-	14	-
AEA flowthrough	264,296	-	264,296	-
Depreciation (unallocated)*	286,091	-	-	-
	<u>607,588</u>	<u>-</u>	<u>264,310</u>	<u>25,000</u>
Total governmental activities	7,683,574	1,142,725	842,192	25,000
Business type activities:				
Non-instructional programs:				
Food service operations	309,394	213,893	95,617	-
Total	<u>7,992,968</u>	<u>1,356,618</u>	<u>937,809</u>	<u>25,000</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales, services and use tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year

Net assets end of year

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

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
Governmental Activities	Business Type Activities	Total
\$	\$	\$
(2,238,345)	-	(2,238,345)
(627,105)	-	(627,105)
(443,103)	-	(443,103)
<u>(3,308,553)</u>	<u>-</u>	<u>(3,308,553)</u>
(293,491)	-	(293,491)
(269,237)	-	(269,237)
(674,805)	-	(674,805)
(584,503)	-	(584,503)
(213,604)	-	(213,604)
<u>(2,035,640)</u>	<u>-</u>	<u>(2,035,640)</u>
<u>(11,186)</u>	<u>-</u>	<u>(11,186)</u>
(21,951)	-	(21,951)
(10,236)	-	(10,236)
-	-	-
(286,091)	-	(286,091)
<u>(318,278)</u>	<u>-</u>	<u>(318,278)</u>
(5,673,657)	-	(5,673,657)
<u>-</u>	<u>116</u>	<u>116</u>
<u>(5,673,657)</u>	<u>116</u>	<u>(5,673,541)</u>
2,423,797	-	2,423,797
279,660	-	279,660
283,798	-	283,798
562,817	-	562,817
2,991,212	-	2,991,212
21,276	50	21,326
14,735	-	14,735
<u>6,577,295</u>	<u>50</u>	<u>6,577,345</u>
903,638	166	903,804
<u>8,218,924</u>	<u>36,806</u>	<u>8,255,730</u>
<u>9,122,562</u>	<u>36,972</u>	<u>9,159,534</u>

HUDSON COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2012

	<u>General</u>	<u>Capital</u>	<u>Nonmajor</u>	<u>Total</u>
	\$	\$	\$	\$
Assets				
Cash and pooled investments	1,413,600	730,902	456,055	2,600,557
Receivables:				
Property tax:				
Delinquent	16,275	1,934	1,083	19,292
Succeeding year	2,417,483	311,116	175,000	2,903,599
Accounts	4,498	-	1,749	6,247
Due from other governments	417,417	89,326	104	506,847
Total assets	<u><u>4,269,273</u></u>	<u><u>1,133,278</u></u>	<u><u>633,991</u></u>	<u><u>6,036,542</u></u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	141,889	2,195	7,951	152,035
Salaries and benefits payable	630,897	-	-	630,897
Deferred revenue:				
Succeeding year property tax	2,417,483	311,116	175,000	2,903,599
Income surtax	271,644	-	-	271,644
Other	50,255	-	-	50,255
Total liabilities	<u><u>3,512,168</u></u>	<u><u>313,311</u></u>	<u><u>182,951</u></u>	<u><u>4,008,430</u></u>
Fund balances:				
Restricted for:				
Categorical funding	142,722	-	-	142,722
Debt service	-	-	3,676	3,676
Management levy	-	-	329,666	329,666
Student activities	-	-	117,698	117,698
School infrastructure	-	477,323	-	477,323
Physical plant and equipment	-	342,644	-	342,644
Unassigned	614,383	-	-	614,383
Total fund balances	<u><u>757,105</u></u>	<u><u>819,967</u></u>	<u><u>451,040</u></u>	<u><u>2,028,112</u></u>
Total liabilities and fund balances	<u><u>4,269,273</u></u>	<u><u>1,133,278</u></u>	<u><u>633,991</u></u>	<u><u>6,036,542</u></u>

HUDSON COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2012

	\$
Total fund balances of governmental funds (Exhibit C)	2,028,112
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	7,175,737
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	321,899
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.	(1,241)
An internal service fund is used by the District's management to charge the costs of the self-funded health insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	417,253
Long-term liabilities, including bonds payable, termination benefits, and other postemployment benefits are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(819,198)</u>
Net assets of governmental activities (Exhibit A)	<u><u>9,122,562</u></u>

HUDSON COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2012

	General	Capital Projects	Nonmajor Governmental	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,486,890	842,477	151,205	3,480,572
Tuition	580,702	-	-	580,702
Other	108,115	7,802	446,257	562,174
State sources	3,674,659	229	129	3,675,017
Federal sources	138,601	25,000	-	163,601
Total revenues	<u>6,988,967</u>	<u>875,508</u>	<u>597,591</u>	<u>8,462,066</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,220,431	5,389	105,190	3,331,010
Special	749,091	-	-	749,091
Other	492,933	-	456,621	949,554
	<u>4,462,455</u>	<u>5,389</u>	<u>561,811</u>	<u>5,029,655</u>
Support services:				
Student	295,475	-	-	295,475
Instructional staff	151,346	120,867	-	272,213
Administration	672,694	-	500	673,194
Operation and maintenance of plant	482,776	44,776	50,675	578,227
Transportation	161,928	-	13,997	175,925
	<u>1,764,219</u>	<u>165,643</u>	<u>65,172</u>	<u>1,995,034</u>
Non-instructional programs	-	-	11,186	11,186
Other expenditures:				
Facilities acquisition	-	205,305	-	205,305
Long-term debt:				
Principal	-	-	360,000	360,000
Interest and fiscal charges	-	-	11,625	11,625
AEA flowthrough	264,296	-	-	264,296
	<u>264,296</u>	<u>205,305</u>	<u>371,625</u>	<u>841,226</u>
Total expenditures	<u>6,490,970</u>	<u>376,337</u>	<u>1,009,794</u>	<u>7,877,101</u>
Excess (deficiency) of revenues over (under) expenditures	<u>497,997</u>	<u>499,171</u>	<u>(412,203)</u>	<u>584,965</u>

HUDSON COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2012

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
	\$	\$	\$	\$
Other financing sources (uses):				
Compensation for loss of fixed assets	1,658	3,733	-	5,391
Operating transfers in	-	2,000	372,230	374,230
Operating transfers out	(105)	(372,125)	(2,000)	(374,230)
Total other financing sources (uses)	<u>1,553</u>	<u>(366,392)</u>	<u>370,230</u>	<u>5,391</u>
Net change in fund balances	499,550	132,779	(41,973)	590,356
Fund balances beginning of year	<u>257,555</u>	<u>687,188</u>	<u>493,013</u>	<u>1,437,756</u>
Fund balances end of year	<u><u>757,105</u></u>	<u><u>819,967</u></u>	<u><u>451,040</u></u>	<u><u>2,028,112</u></u>

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, 2012

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		590,356
 <i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
 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 Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense and capital outlay expenditures in the year are as follows:		
Expenditures for capital assets	158,354	
Depreciation expense	<u>(359,345)</u>	(200,991)
 Income surtaxes and receivables not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		
		119,755
 Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		360,000
 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 interest expense is recognized as the interest accrues, regardless of when it is due.		
		1,375
 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, as follows:		
Termination benefits	(18,443)	
Other postemployment benefits	<u>(30,018)</u>	(48,461)
 An internal service fund is used by the District's management to charge the costs of the self-funded health insurance program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		
		<u>81,604</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>903,638</u></u>

HUDSON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2012

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>Service Fund</u> \$
Assets		
Cash and cash equivalents	19,012	471,203
Accounts receivable	-	50
Inventories	2,875	-
Capital assets, net of accumulated depreciation	<u>39,703</u>	<u>-</u>
Total assets	<u>61,590</u>	<u>471,253</u>
Liabilities		
Salaries and benefits payable	15,663	-
Incurred but not reported claims	-	54,000
Deferred revenue	3,913	-
Net OPEB liability	<u>5,042</u>	<u>-</u>
Total liabilities	<u>24,618</u>	<u>54,000</u>
Net assets		
Invested in capital assets	39,703	-
Unrestricted	<u>(2,731)</u>	<u>417,253</u>
Total net assets	<u><u>36,972</u></u>	<u><u>417,253</u></u>

HUDSON COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2012

	Enterprise Fund Nonmajor School Nutrition \$	Governmental Activities - Internal Service Fund \$
Operating revenue:		
Local sources:		
Charges for service	213,893	539,433
Operating expenses:		
Non-instructional programs:		
Salaries	98,834	-
Benefits	35,354	458,623
Purchased services	14,254	3,626
Supplies	156,382	5
Depreciation	4,570	-
Total operating expenses	309,394	462,254
Operating income (loss)	(95,501)	77,179
Non-operating revenue:		
State sources	2,261	-
Federal sources	93,356	-
Interest income	50	4,425
Total non-operating revenue	95,667	4,425
Change in net assets	166	81,604
Net assets beginning of year	36,806	335,649
Net assets end of year	36,972	417,253

HUDSON COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2012

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u> </u> \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	214,424	-
Cash received from services to other funds	-	539,433
Cash payments to employees for services	(132,361)	-
Cash payments to suppliers for goods or services	<u>(160,960)</u>	<u>(449,170)</u>
Net cash (used) provided by operating activities	<u>(78,897)</u>	<u>90,263</u>
Cash flows from non-capital financing activities:		
State grants received	2,261	-
Federal grants received	84,315	-
Net cash provided by non-capital financing activities	<u>86,576</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>50</u>	<u>4,425</u>
Net increase (decrease) in cash and cash equivalents	7,729	94,688
Cash and cash equivalents at beginning of year	<u>11,283</u>	<u>376,515</u>
Cash and cash equivalents at end of year	<u><u>19,012</u></u>	<u><u>471,203</u></u>
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating income (loss)	(95,501)	77,179
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Commodities used	9,041	-
Depreciation	4,570	-
Decrease (increase) in inventories	635	-
Decrease (increase) in accounts receivable	-	15,084
(Decrease) increase in salaries and benefits payable	95	-
(Decrease) increase in incurred, but not reported claims	-	(2,000)
(Decrease) increase in deferred revenue	531	-
(Decrease) increase in other postemployment benefits	<u>1,732</u>	<u>-</u>
Net cash (used) provided by operating activities	<u>(78,897)</u>	<u>90,263</u>
Non-cash investing, capital and financing activities:		

During the year ended June 30, 2012, the District received \$9,041 of federal commodities.

HUDSON COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2012

	Private Purpose Trust Scholarship	Agency
	<u>\$</u>	<u>\$</u>
Assets		
Cash and pooled investments	71,150	52,377
Liabilities		
Other payables	<u>-</u>	<u>52,377</u>
Net Assets		
Reserved for scholarships	<u><u>71,150</u></u>	<u><u>-</u></u>

HUDSON COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2012

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Interest	608
Deductions:	
Support services:	
Scholarships awarded	<u>608</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>

HUDSON COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

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. The geographic area served includes the City of Hudson, Iowa and the predominately agricultural territory in a portion of 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. The Hudson Community School District has no component units that 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 County Assessor's Conference Board.

B. Basis of Presentation

Government-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.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but 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 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 government-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. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District's Internal Service Fund is also reported as a proprietary fund. The Internal Service Fund is used to account for the District's self-insured health insurance plan and self insured dental plan.

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, which require 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.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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 judgements, 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 the 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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the district's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

The proprietary fund of the District applies 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 nonoperating 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 nonoperating 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.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. 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 government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became 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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011, through June 30, 2012, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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.

Capital Assets – Capital assets, which include property, furniture and equipment and intangibles, are reported in the applicable governmental or business type activities columns in the government-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 repair 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.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	5,000
Buildings	25,000
Improvements other than buildings	25,000
Intangibles	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20-30 years
Intangibles	3-10 years
Furniture and equipment	5-20 years

Salaries and Benefits Payable – Payroll and related expenditures 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 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 in the governmental fund financial statements represent 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, as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in other classifications.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures did not exceed the amounts budgeted.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2012 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.

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust, which are valued at an amortized cost of \$3,052 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor's Financial Services.

3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer To	Transfer From	Amount
		\$
Debt Service Fund	Capital Projects Fund	372,125
Capital Projects Fund	Nonmajor Governmental, Management	2,000
Nonmajor Governmental, Student Activity	General Fund	105

The transfer from the Capital Project Fund to the Debt Service Fund moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

The other transfers reclassified expenditures.

4. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School 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. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for the warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The District participated in the issuance of the taxable warrants. The interest rates on the taxable Series 2011-2012A and taxable Series 2011-2012B warrants are variable rates, calculated daily, based on the one-month LIBOR rate plus 100 basis points. A summary of the District's ISCAP activity for the year ended June 30, 2012 is as follows.

Series	Warrant Date	Final Warrant Maturity Date	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
			\$	\$	\$	\$
2011-12A	6/30/11	6/23/12	-	293,501	293,501	-

During the year ended June 30, 2012 the District paid \$18 of interest on the ISCAP warrants.

5. Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	65,350	100,806	134,349	31,807
Land	116,782	-	-	116,782
Total capital assets not being depr.	<u>182,132</u>	<u>100,806</u>	<u>134,349</u>	<u>148,589</u>
Capital assets being depreciated:				
Buildings	10,897,332	132,048	-	11,029,380
Improvements other than buildings	908,638	44,662	-	953,300
Furniture and equipment	978,847	15,187	-	994,034
Total capital assets being deprec.	<u>12,784,817</u>	<u>191,897</u>	<u>-</u>	<u>12,976,714</u>
Less accumulated depreciation for:				
Buildings	4,764,252	241,213	-	5,005,465
Improvements other than buildings	182,498	44,878	-	227,376
Furniture and equipment	643,471	73,254	-	716,725
Total accumulated depreciation	<u>5,590,221</u>	<u>359,345</u>	<u>-</u>	<u>5,949,566</u>
Total capital assets being depreciated, net	<u>7,194,596</u>	<u>(167,448)</u>	<u>-</u>	<u>7,027,148</u>
Governmental activities capital assets, net	<u>7,376,728</u>	<u>(66,642)</u>	<u>134,349</u>	<u>7,175,737</u>
Business type activities:				
Furniture and equipment	223,892	-	-	223,892
Less accumulated depreciation	<u>179,619</u>	<u>4,570</u>	<u>-</u>	<u>184,189</u>
Business type activities capital assets, net	<u>44,273</u>	<u>(4,570)</u>	<u>-</u>	<u>39,703</u>

Depreciation expense was charged to the following functions:

	Amount \$
Governmental activities:	
Instruction:	
Regular	6,292
Support services:	
Administration services	9,547
Operation and maintenance of plant services	11,634
Transportation	45,781
	<u>73,254</u>
Unallocated depreciation	<u>286,091</u>
Total depreciation expense – governmental activities	<u>359,345</u>

Business type activities:
Food services

4,570

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
General obligation bonds	905,000	-	360,000	545,000	365,000
Termination benefits	168,357	82,179	63,736	186,800	91,128
Net OPEB liability	<u>57,380</u>	<u>30,018</u>	<u>-</u>	<u>87,398</u>	<u>-</u>
Total	<u>1,130,737</u>	<u>112,197</u>	<u>423,736</u>	<u>819,198</u>	<u>456,128</u>
Business type activities:					
Net OPEB liability	<u>3,310</u>	<u>1,732</u>	<u>-</u>	<u>5,042</u>	<u>-</u>

Termination Benefits

The District offers a voluntary early retirement plan for employees. Eligible employees must have completed at least twenty years of service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education and no more than five employees per year will be granted benefits under the policy.

If the employee is currently covered by the district-sponsored group health plan they will remain covered for three years. If the employee is not currently covered by the district-sponsored group health plan they will receive a payment to the 403(b) plan. The early retirement benefit is equal to 175% of the difference between the BA base and the employee's current placement on the salary schedule.

Early retirement benefits will be paid over three years.

At June 30, 2012, the District has obligations to seven participants with a total liability of \$186,800. Actual early retirement expenditures for the year ended June 30, 2012 totaled \$63,736.

General Obligation Bonds

Details of the District's June 30, 2012 general obligation bonded indebtedness are as follows:

Year Ending June 30,	2011 Refunding Bond Issue			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2013	1.25	365,000	7,443	372,443
2014	1.60	<u>180,000</u>	<u>2,880</u>	<u>182,880</u>
		<u>545,000</u>	<u>10,323</u>	<u>555,323</u>

7. 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 that 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 5.38% of their annual salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$304,371, \$285,877, and \$272,982 respectively, equal to the required contributions for each year.

8. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 55 active and 5 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a self funded plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

	\$
Annual required contribution	45,630
Interest on net OPEB obligation	1,821
Adjustment to annual required contribution	<u>(3,701)</u>
Annual OPEB cost	43,750
Contributions made	<u>12,000</u>
Increase in net OPEB obligation	31,750
Net OPEB obligation beginning of year	<u>60,690</u>
Net OPEB obligation end of year	<u>92,440</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District contributed \$12,000 to the medical plan. Plan members eligible for benefits contributed \$12,489, or 51% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u> \$	<u>Percentage of Annual OPEB Cost Contributed</u> %	<u>Net OPEB Obligation</u> \$
2010	39,764	23%	30,732
2011	40,380	25%	60,690
2012	43,750	27%	92,440

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$329,003, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$329,003. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,540,000, and the ratio of the UAAL to covered payroll was 13%. As of June 30, 2012 there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6.0%.

Mortality rates are from the 94 group annuity mortality table projected to 2000.

The UAAL is being amortized over 30 years.

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 of 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 \$417,253 at June 30, 2012 and is recorded in the Internal Service Fund. The incurred but not reported claims of \$54,000 are reported as liabilities in the Internal Service Fund at June 30, 2012.

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.

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 \$264,296 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

11. Construction Commitment

The District has entered into contracts totaling \$296,889 for parking and electrical improvements. As of June 30, 2012 costs of \$23,985 had been incurred against the contracts. The balances remaining at June 30, 2012 will be paid as work on the projects progresses.

12. Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2012 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
	\$
At risk	4,731
Returning dropout and dropout prevention program	73,445
Core curriculum	36,450
Educator quality, professional development	<u>28,096</u>
	<u><u>142,722</u></u>

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, 2012

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	4,623,448	213,943	4,837,391	4,712,209	4,712,209	125,182
State sources	3,675,017	2,261	3,677,278	3,725,615	3,725,615	(48,337)
Federal sources	163,601	93,356	256,957	153,000	153,000	103,957
Total revenues	<u>8,462,066</u>	<u>309,560</u>	<u>8,771,626</u>	<u>8,590,824</u>	<u>8,590,824</u>	<u>180,802</u>
Expenditures/Expenses:						
Instruction	5,029,655	-	5,029,655	5,275,000	5,275,000	245,345
Support services	1,995,034	-	1,995,034	2,277,000	2,277,000	281,966
Non-instructional programs	11,186	309,394	320,580	350,000	350,000	29,420
Other expenditures	841,226	-	841,226	1,004,989	1,004,989	163,763
Total expenditures/expenses	<u>7,877,101</u>	<u>309,394</u>	<u>8,186,495</u>	<u>8,906,989</u>	<u>8,906,989</u>	<u>720,494</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	584,965	166	585,131	(316,165)	(316,165)	901,296
Other financing sources (uses) net	<u>5,391</u>	<u>-</u>	<u>5,391</u>	<u>-</u>	<u>-</u>	<u>5,391</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures/expenses	590,356	166	590,522	(316,165)	(316,165)	906,687
Balance beginning of year	<u>1,437,756</u>	<u>36,806</u>	<u>1,474,562</u>	<u>1,004,847</u>	<u>1,004,847</u>	<u>469,715</u>
Balance end of year	<u><u>2,028,112</u></u>	<u><u>36,972</u></u>	<u><u>2,065,084</u></u>	<u><u>688,682</u></u>	<u><u>688,682</u></u>	<u><u>1,376,402</u></u>

HUDSON COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard 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 GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. 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. The District did not amend its budget during the year.

HUDSON COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the Retiree Health Plan

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a) \$	Actuarial Accrued Liability (AAL) (b) \$	Unfunded AAL (UAAL) (b-a) \$	Funded Ratio (a/b) %	Covered Payroll (c) \$	UAAL as a Percentage of Covered Payroll ((b-a)/c) %
2010	July 1, 2009	-	350,401	350,401	0.0%	2,380,000	14.7%
2011	July 1, 2009	-	347,134	347,134	0.0%	2,990,000	11.6%
2012	July 1, 2009	-	329,003	329,003	0.0%	2,540,000	13.0%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

HUDSON COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2012

Assets	Special Revenue Funds			Total
	Management Levy	Student Activity	Debt Service	
	\$	\$	\$	
Cash and pooled investments	329,634	122,745	3,676	456,055
Receivables:				
Property tax:				
Delinquent	1,083	-	-	1,083
Succeeding year	175,000	-	-	175,000
Accounts	-	1,749	-	1,749
Due from other governments	104	-	-	104
Total assets	505,821	124,494	3,676	633,991
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	1,155	6,796	-	7,951
Deferred revenue:				
Succeeding year property tax	175,000	-	-	175,000
Total liabilities	176,155	6,796	-	182,951
Fund balances:				
Restricted for:				
Debt service	-	-	3,676	3,676
Management levy	329,666	-	-	329,666
Student activities	-	117,698	-	117,698
Total fund balances	329,666	117,698	3,676	451,040
Total liabilities and fund balances	505,821	124,494	3,676	633,991

HUDSON COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2012

	Special Revenue Funds			Total
	Management	Student	Debt	
	Levy	Activity	Service	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	151,205	-	-	151,205
Other	12,180	434,063	14	446,257
State sources	129	-	-	129
Total revenues	<u>163,514</u>	<u>434,063</u>	<u>14</u>	<u>597,591</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	105,190	-	-	105,190
Other instruction	-	456,621	-	456,621
Support services:				
Administration services	-	-	500	500
Operation and maintenance of plant	50,675	-	-	50,675
Transportation services	13,997	-	-	13,997
Non-instructional programs	11,186	-	-	11,186
Other expenditures:				
Long-term debt:				
Principal	-	-	360,000	360,000
Interest and fiscal charges	-	-	11,625	11,625
Total expenditures	<u>181,048</u>	<u>456,621</u>	<u>372,125</u>	<u>1,009,794</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(17,534)</u>	<u>(22,558)</u>	<u>(372,111)</u>	<u>(412,203)</u>
Other financing sources (uses):				
Operating transfers in	-	105	372,125	372,230
Operating transfers out	(2,000)	-	-	(2,000)
Total other financing sources (uses)	<u>(2,000)</u>	<u>105</u>	<u>372,125</u>	<u>370,230</u>
Net change in fund balances	(19,534)	(22,453)	14	(41,973)
Fund balances beginning of year	<u>349,200</u>	<u>140,151</u>	<u>3,662</u>	<u>493,013</u>
Fund balances end of year	<u><u>329,666</u></u>	<u><u>117,698</u></u>	<u><u>3,676</u></u>	<u><u>451,040</u></u>

HUDSON COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Capital Project Accounts

June 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets	\$	\$	\$
Cash and pooled investments	388,255	342,647	730,902
Receivables:			
Property tax:			
Delinquent	-	1,934	1,934
Succeeding year	-	311,116	311,116
Due from other governments	89,143	183	89,326
Total assets	<u>477,398</u>	<u>655,880</u>	<u>1,133,278</u>
Liabilities & Fund Balances			
Liabilities:			
Accounts payable	75	2,120	2,195
Deferred revenue:			
Succeeding year property tax	-	311,116	311,116
Total liabilities	<u>75</u>	<u>313,236</u>	<u>313,311</u>
Fund balances:			
Restricted for:			
School infrastructure	477,323	-	477,323
Physical plant and equipment	-	342,644	342,644
Total fund balances	<u>477,323</u>	<u>342,644</u>	<u>819,967</u>
Total liabilities and fund balances	<u>477,398</u>	<u>655,880</u>	<u>1,133,278</u>

HUDSON COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Capital Project Accounts

Year ended June 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	562,817	279,660	842,477
Other	5,083	2,719	7,802
State sources	-	229	229
Federal sources	-	25,000	25,000
Total revenues	<u>567,900</u>	<u>307,608</u>	<u>875,508</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	-	5,389	5,389
Support services:			
Instructional staff services	5,195	115,672	120,867
Operation and maintenance of plant	43,534	1,242	44,776
Other expenditures:			
Facilities acquisition	77,514	127,791	205,305
Total expenditures	<u>126,243</u>	<u>250,094</u>	<u>376,337</u>
Excess (deficiency) of revenues over (under) expenditures	<u>441,657</u>	<u>57,514</u>	<u>499,171</u>
Other financing sources (uses):			
Compensation for loss of fixed assets	2,871	862	3,733
Operating transfers in	1,000	1,000	2,000
Operating transfers out	(372,125)	-	(372,125)
Total other financing sources (uses)	<u>(368,254)</u>	<u>1,862</u>	<u>(366,392)</u>
Net change in fund balance	73,403	59,376	132,779
Fund balances beginning of year	<u>403,920</u>	<u>283,268</u>	<u>687,188</u>
Fund balance end of year	<u><u>477,323</u></u>	<u><u>342,644</u></u>	<u><u>819,967</u></u>

HUDSON COMMUNITY SCHOOL DISTRICT

Combining Schedule of Net Assets
Internal Service Funds

June 30, 2012

	Self-Insured Health Plan	Self-Insured Dental Plan	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	387,384	83,819	471,203
Accounts receivable	50	-	50
	<u>387,434</u>	<u>83,819</u>	<u>471,253</u>
Total assets			
	<u>387,434</u>	<u>83,819</u>	<u>471,253</u>
Liabilities			
Incurred, but not reported claims	54,000	-	54,000
	<u>54,000</u>	<u>-</u>	<u>54,000</u>
Net assets			
Unrestricted	333,434	83,819	417,253
	<u>333,434</u>	<u>83,819</u>	<u>417,253</u>

HUDSON COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds

Year ended June 30, 2012

	Self-Insured Health Plan	Self-Insured Dental Plan	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges to other funds	506,756	32,677	539,433
Operating expenses:			
Non-instructional programs:			
Benefits	421,366	37,257	458,623
Purchased services	3,376	250	3,626
Supplies	5	-	5
	<u>424,747</u>	<u>37,507</u>	<u>462,254</u>
Operating income (loss)	82,009	(4,830)	77,179
Non-operating revenue:			
Interest income	3,554	871	4,425
Change in net assets	85,563	(3,959)	81,604
Net assets beginning of year	<u>247,871</u>	<u>87,778</u>	<u>335,649</u>
Net assets end of year	<u><u>333,434</u></u>	<u><u>83,819</u></u>	<u><u>417,253</u></u>

HUDSON COMMUNITY SCHOOL DISTRICT

Combining Schedule of Cash Flows
Internal Service Funds

Year ended June 30, 2012

	Self-Insured Health Plan	Self-Insured Dental Plan	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from services to other funds	506,756	32,677	539,433
Cash payments to suppliers for goods or services	(411,663)	(37,507)	(449,170)
Net cash (used) provided by operating activities	<u>95,093</u>	<u>(4,830)</u>	<u>90,263</u>
Cash flows from non-capital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:			
Interest on investments	<u>3,554</u>	<u>871</u>	<u>4,425</u>
Net increase (decrease) in cash and cash equivalents	98,647	(3,959)	94,688
Cash and cash equivalents at beginning of year	<u>288,737</u>	<u>87,778</u>	<u>376,515</u>
Cash and cash equivalents at end of year	<u><u>387,384</u></u>	<u><u>83,819</u></u>	<u><u>471,203</u></u>
Reconciliation of operating income (loss) to net cash used by operating activities:			
Operating income (loss)	82,009	(4,830)	77,179
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Decrease (increase) in accounts receivable	15,084	-	15,084
(Decrease) increase in incurred, but not reported claims	<u>(2,000)</u>	<u>-</u>	<u>(2,000)</u>
Net cash (used) provided by operating activities	<u><u>95,093</u></u>	<u><u>(4,830)</u></u>	<u><u>90,263</u></u>

HUDSON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2012

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Speech	-	-	95	95	-
Vocal music	1,955	1,250	1,879	-	1,326
Vocal music trip	1,401	175	210	-	1,366
Physics club	28	-	-	-	28
Photography	33	-	-	-	33
National Honor Society	259	2,417	2,880	204	-
Instrumental music	-	7,686	8,804	1,118	-
Band uniform	537	600	784	-	353
Instrumental music trip	8,828	42,911	50,021	-	1,718
Athletic Adm.	4,694	67,233	26,624	(43,365)	1,938
Track	-	7,072	9,489	2,904	487
Girls track	71	-	49	-	22
Cross country	-	-	580	580	-
Soccer	-	360	5,402	5,042	-
Golf	-	1,485	2,403	918	-
Basketball	-	700	8,768	8,068	-
Elem. boys basketball camp	15	-	-	-	15
Boys soccer camp	41	-	-	-	41
Football	-	8,016	16,515	8,499	-
Baseball	-	215	5,970	5,881	126
Baseball/softball concessions	282	-	-	-	282
Wrestling	-	1,033	4,364	3,331	-
Girls BB camp	1	-	-	-	1
Dug out club	599	-	-	-	599
Volleyball camp	-	710	3,765	3,055	-
Textbook	2,528	5,720	4,081	-	4,167
Softball	-	684	5,310	5,019	393
Interest	10,775	703	999	(1,417)	9,062
Annual	10,993	12,906	14,617	-	9,282
FFA chapter	21,518	41,336	46,952	-	15,902
Sr. high student council	1,868	5,475	5,247	-	2,096
Jr. high student council	1,326	5,715	5,126	-	1,915
5-6 student council	7,592	9,163	7,292	-	9,463
Show choir concert	358	-	165	-	193
Cheerleaders	-	-	68	68	-
Fall play/musical	2,413	-	-	-	2,413
Vocal music production	742	3,690	2,981	-	1,451
MS show choir	3,008	2,293	4,315	-	986
Spanish club trip	1,077	-	-	-	1,077

HUDSON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2012

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Class of 2008	21	-	-	-	21
Class of 2009	5	-	-	-	5
Class of 2011	407	-	-	-	407
Class of 2012	630	2,138	2,667	-	101
Class of 2013	1,679	9,109	9,832	-	956
Class of 2014	1,063	1,262	96	-	2,229
Class of 2015	-	1,260	38	-	1,222
Athletic fundraising	32,027	168,718	173,684	-	27,061
Music fundraising	21,377	22,133	24,549	-	18,961
	<u>140,151</u>	<u>434,168</u>	<u>456,621</u>	<u>-</u>	<u>117,698</u>

HUDSON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2012

		Balance Beginning of Year	Additions	Deductions	Balance End of Year
		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
	Assets				
Cash		<u>49,740</u>	<u>43,662</u>	<u>41,025</u>	<u>52,377</u>
	Liabilities				
Other payables		<u>49,740</u>	<u>43,662</u>	<u>41,025</u>	<u>52,377</u>

HUDSON COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Fund Types

For the Last Nine Years

	Modified Accrual Basis								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:									
Local sources:									
Local tax	3,480,572	3,366,767	3,341,180	3,375,178	3,238,383	3,185,483	3,026,723	2,890,149	2,605,375
Tuition	580,702	597,051	611,994	633,213	677,276	663,168	677,476	731,701	754,763
Other	562,174	525,109	605,381	471,187	541,920	528,820	515,841	397,049	505,728
State sources	3,675,017	3,615,679	3,140,342	3,577,952	3,592,219	3,488,586	3,184,093	3,347,026	3,292,761
Federal sources	163,601	344,656	476,555	188,431	108,884	122,792	112,791	113,925	147,976
Total revenues	<u>8,462,066</u>	<u>8,449,262</u>	<u>8,175,452</u>	<u>8,245,961</u>	<u>8,158,682</u>	<u>7,988,849</u>	<u>7,516,924</u>	<u>7,479,850</u>	<u>7,306,603</u>
Expenditures:									
Instruction	5,029,655	5,209,038	5,196,271	4,853,355	4,638,771	4,745,474	4,530,889	4,346,963	4,352,768
Support services:									
Student services	295,475	310,099	312,994	364,071	294,284	315,422	330,175	311,754	288,757
Instructional staff services	272,213	285,201	204,256	133,693	238,329	266,776	213,238	261,015	243,441
Administration services	673,194	836,017	787,642	780,876	780,442	798,082	681,123	716,052	674,994
Operation and maintenance	578,227	662,812	664,552	626,065	593,511	615,933	542,427	602,093	524,184
Transportation services	175,925	169,639	247,638	260,766	217,277	233,505	170,876	158,013	133,512
Non-instructional programs	11,186	10,837	8,720	7,210	6,826	11,306	26,036	3,895	40
Other expenditures:									
Facilities acquisition	205,305	279,588	333,191	252,450	153,605	106,363	285,841	172,269	223,070
Long-term debt:									
Principal	360,000	1,220,000	595,000	555,000	545,000	510,000	500,000	430,000	425,000
Interest and other charges	11,625	47,798	66,009	90,900	112,050	129,388	148,300	225,638	245,695
AEA flowthrough	264,296	292,178	284,723	240,610	235,478	230,506	209,842	210,164	213,445
Total expenditures	<u>7,877,101</u>	<u>9,323,207</u>	<u>8,700,996</u>	<u>8,164,996</u>	<u>7,815,573</u>	<u>7,962,755</u>	<u>7,638,747</u>	<u>7,437,856</u>	<u>7,324,906</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Hudson Community School District:

We have audited the 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, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 28, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Hudson Community School District is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings and Responses as item 12-I-A to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hudson Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Hudson Community School District and other parties to whom Hudson Community School District may report, and 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.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

February 28, 2013

HUDSON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Internal Control Deficiencies:

12-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. We noted that one person was responsible for preparing and posting general journal entries. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should develop procedures to have an independent review of and document approval of general journal entries before the entries are posted.

District Response: We will continue to review our procedures and implement additional controls where possible.

Conclusion: Response accepted.

HUDSON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:

- 12-II-A Certified Budget: Expenditures for the year ended June 30, 2012, did not exceed the certified budget amounts.
- 12-II-B Questionable Expenditures: No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- 12-II-C Travel Expenses: 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.
- 12-II-D Business Transactions: No business transactions between the District and District officials or employees were noted.
- 12-II-E Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 12-II-F Board Minutes: No transactions requiring board approval that had not been approved by the board were noted.
- 12-II-G Certified Enrollment: The number of resident students reported to the Iowa Department of Education at October 2011, was overstated by one student. A resident IEP preschool student was to attend school at another facility and was counted by the District. The student did not attend the other facility and should not have been counted.
- Recommendation: The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.
- District Response: We will contact these departments.
- Conclusion: Response accepted.
- 12-II-H Supplementary Weighting: No variances regarding supplementary weighting certified to the Department of Education were noted.
- 12-II-I Deposits and Investments: No instances of noncompliance 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.
- 12-IVI-J Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.
- 12-II-K Categorical Funding: No instances were noted of categorical funding being used to supplant rather than supplement other funds.

HUDSON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting (Continued):

12-II-L Statewide Sales, Services and Use Tax: No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the following information includes the amounts reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2012 audit:

Beginning balance	\$	\$
		403,920
Revenues/transfers in:		
Statewide sales, services and use tax revenue	562,817	
Interest	5,083	
Insurance claims	2,871	
Transfers in from Management Fund	1,000	571,771
Expenditures/transfers out:		
School infrastructure construction	58,839	
Equipment	65,080	
Other	2,324	
Transfers to Debt Service Fund	372,125	498,368
Ending balance		<u>477,323</u>

For the year ended June 30, 2012, the District reduced the following levies as a result of the moneys received under Chapter 423E of 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
	<u>\$</u>	<u>\$</u>
Debt service levy	2.23846	372,126