

HUDSON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2014

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Hudson Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------|--------------|---------------------|
|-------------|--------------|---------------------|

Board of Education

(Before September 2013 Election)

| | | |
|----------------|----------------|------|
| Jerry Griffith | President | 2013 |
| Julie Marsch | Vice President | 2013 |
| Jeff Cory | Board Member | 2013 |
| Karyn Finn | Board Member | 2015 |
| Tanya Higgins | Board Member | 2015 |

(After September 2013 Election)

| | | |
|----------------|----------------|------|
| Jerry Griffith | President | 2017 |
| Tanya Higgins | Vice President | 2015 |
| Karyn Finn | Board Member | 2015 |
| Liz Folladori | Board Member | 2017 |
| Traci Trunck | Board Member | 2017 |

School Officials

| | | |
|------------------|------------------|------|
| Anthony D. Voss | Superintendent | 2014 |
| Chad Wagner | Business Manager | 2014 |
| Kimberly Lubbert | Board Secretary | 2014 |
| Swisher & Cohrt | Attorney | 2014 |

Hudson Community School District

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the Hudson Community School District:

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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 and the combining statements for the discreetly presented component unit on pages 7 through 16 and 42 through 46 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.

Supplementary Information

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 third paragraph of this report, the financial statements for the year ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight years ended June 30, 2012 (which are not presented herein) and expressed unmodified opinions on those financial statements. Other 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 Supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 9, 2015 on our consideration of Hudson Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that reports 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.


NOLTE, CORNMAN & JOHNSON, P.C.

March 9, 2015
Newton, Iowa

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, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$7,298,022 in fiscal year 2013 to \$7,915,781 in fiscal year 2014, while General Fund expenditures increased from \$6,716,752 in fiscal year 2013 to \$7,079,676 in fiscal year 2014. The District's General Fund balance increased from \$1,338,375 at the end of fiscal year 2013 to \$2,174,480 at the end of fiscal year 2014, a 62.47% increase.
- The increase in General Fund revenues occurred mainly in state sources received as compared to the previous year. The increase in expenditures occurred in the instructional and support services functional areas.
- The fund balance of the governmental funds increased from \$2,512,760 at the end of fiscal 2013 to \$3,417,820 at the end of fiscal 2014. This represents an increase of \$905,060 or 36.02%.

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 Position 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 the School District.

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.

Supplementary Information provides detailed information about the nonmajor governmental funds.

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

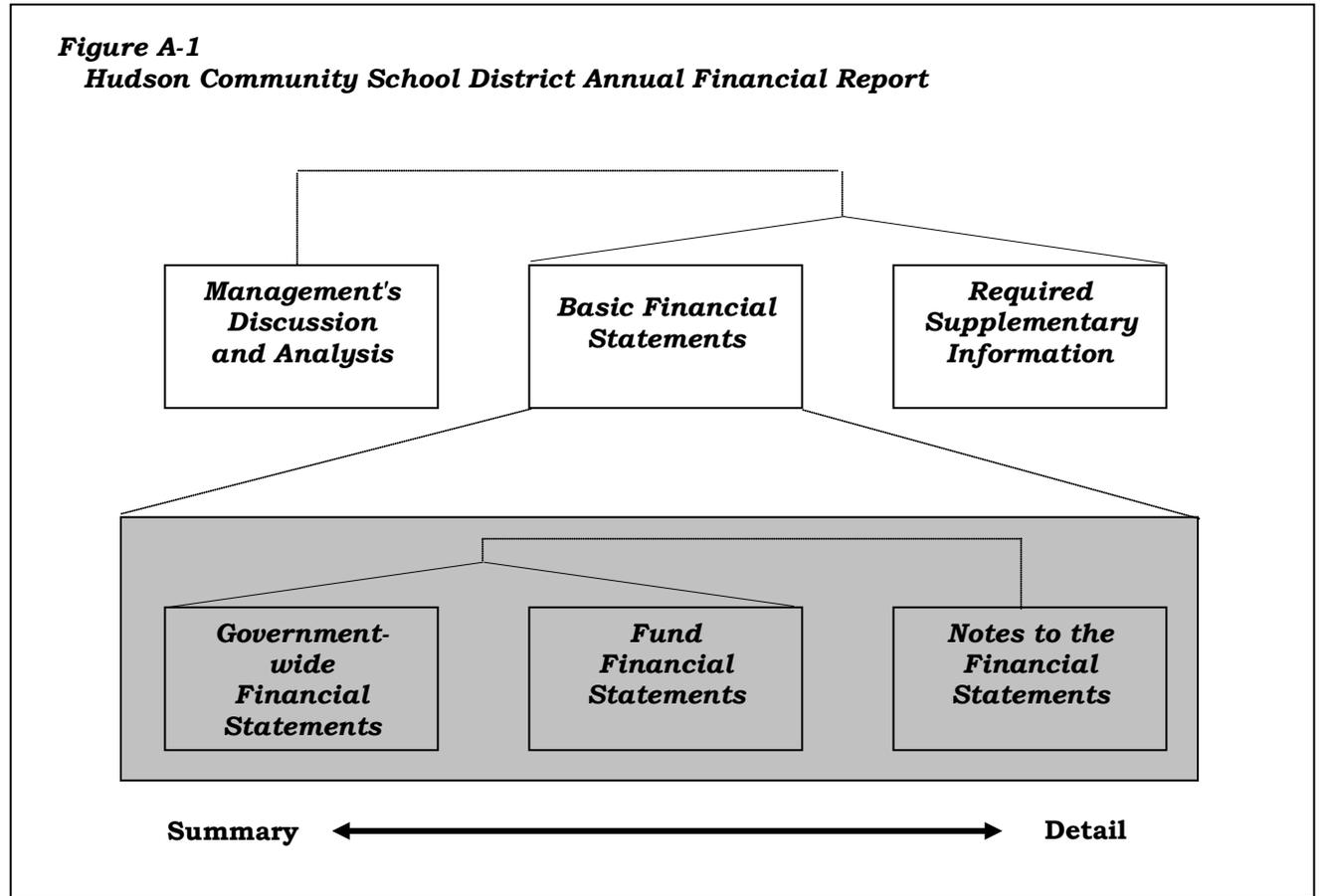


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

| 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 service operations | 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 position • 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 position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

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 Position includes all of the District’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. 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 position and how it has changed. Net position is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is 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 three 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.
- *Component unit*: This includes the activities of the Hudson Educational Fund. The District receives significant financial benefits from the Hudson Educational Fund although they are legally separate entities.

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 and Capital Projects Funds.

The required financial statements for the 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 Fund, one type of proprietary fund, is 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's Internal Service Funds, one type of proprietary fund, are the same as the governmental activities, but provides more detail and additional information, such as cash flows. The District currently has two internal service funds, the Self-Insured Health Plan and the Self-Insured Dental Plan.

The required financial statements for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position 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 the 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 on 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 Position and a Statement of Changes in Fiduciary Net Position.

Reconciliation between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net position at June 30, 2014 compared to June 30, 2013.

| Figure A-3 Condensed Statement of Net Position | | | | | | | |
|---|----------------------------|-------------------|-----------------------------|---------------|-------------------|-------------------|-----------------|
| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 |
| Current and other assets | \$ 8,309,997 | 7,274,782 | 26,274 | 27,771 | 8,336,271 | 7,302,553 | 14.16% |
| Capital assets | 7,573,207 | 7,382,937 | 38,898 | 34,600 | 7,612,105 | 7,417,537 | 2.62% |
| Total assets | <u>15,883,204</u> | <u>14,657,719</u> | <u>65,172</u> | <u>62,371</u> | <u>15,948,376</u> | <u>14,720,090</u> | <u>8.34%</u> |
| Long-term liabilities | 657,150 | 459,335 | 15,267 | 11,526 | 672,417 | 470,861 | 42.81% |
| Other liabilities | 1,048,763 | 941,525 | 22,701 | 20,146 | 1,071,464 | 961,671 | 11.42% |
| Total liabilities | <u>1,705,913</u> | <u>1,400,860</u> | <u>37,968</u> | <u>31,672</u> | <u>1,743,881</u> | <u>1,432,532</u> | <u>21.73%</u> |
| Deferred inflows of resources | <u>2,939,281</u> | <u>3,008,101</u> | <u>-</u> | <u>-</u> | <u>2,939,281</u> | <u>3,008,101</u> | <u>-2.29%</u> |
| Net position: | | | | | | | |
| Net investment in capital assets | 7,389,340 | 7,202,937 | 38,898 | 34,600 | 7,428,238 | 7,237,537 | 2.63% |
| Restricted | 1,190,819 | 1,305,091 | - | - | 1,190,819 | 1,305,091 | -8.76% |
| Unrestricted | 2,657,851 | 1,740,730 | (11,694) | (3,901) | 2,646,157 | 1,736,829 | 52.36% |
| Total net position | <u>\$ 11,238,010</u> | <u>10,248,758</u> | <u>27,204</u> | <u>30,699</u> | <u>11,265,214</u> | <u>10,279,457</u> | <u>9.59%</u> |

The District's combined net position increased by 9.59% or \$985,757 from the prior year. A large portion of the District's net position is invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net position decreased \$114,272 or 8.76% from the prior year. The decrease in restricted net position can be attributed to the decrease in fund balance of the Capital Projects: Physical Plant and Equipment Levy Fund as compared to the previous year.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$909,328 or 52.36%. The increase in unrestricted net position was primarily the result of the increase in the General Fund balance as compared to the previous year.

Figure A-4 shows the changes in net position for the year ended June 30, 2014 compared to the year ended June 30, 2013.

| | Figure A-4 Change in Net Position | | | | | | | |
|--|--------------------------------------|------------|-----------------------------|---------|-------------------|------------|-----------------|--|
| | Governmental Activities | | Business Type Activities | | Total District | | Total Change | |
| | June 30, | | June 30, | | June 30, | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 | |
| Revenues: | | | | | | | | |
| Program revenues: | | | | | | | | |
| Charges for service | \$ 1,275,589 | 1,046,746 | 197,826 | 199,701 | 1,473,415 | 1,246,447 | 18.21% | |
| Operating grants and contributions and restricted interest | 447,578 | 455,230 | 121,703 | 103,889 | 569,281 | 559,119 | 1.82% | |
| Capital grants and contributions and restricted interest | 3,181 | - | - | - | 3,181 | - | 100.00% | |
| General revenues: | | | | | | | | |
| Property tax | 3,035,626 | 2,923,476 | - | - | 3,035,626 | 2,923,476 | 3.84% | |
| Income surtax | 328,051 | 257,895 | - | - | 328,051 | 257,895 | 27.20% | |
| Statewide sales, services and use tax | 600,874 | 577,607 | - | - | 600,874 | 577,607 | 4.03% | |
| Unrestricted state grants | 3,727,710 | 3,386,816 | - | - | 3,727,710 | 3,386,816 | 10.07% | |
| Unrestricted investment earnings | 20,051 | 23,506 | 40 | 54 | 20,091 | 23,560 | -14.72% | |
| Other | 18,825 | 3,672 | 1,022 | 10,175 | 19,847 | 13,847 | 43.33% | |
| Total revenues | 9,457,485 | 8,674,948 | 320,591 | 313,819 | 9,778,076 | 8,988,767 | 8.78% | |
| Program expenses: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| Instructional | 5,426,786 | 4,998,852 | - | - | 5,426,786 | 4,998,852 | 8.56% | |
| Support services | 2,403,582 | 1,814,096 | - | - | 2,403,582 | 1,814,096 | 32.49% | |
| Non-instructional programs | 13,563 | 12,526 | 324,086 | 320,092 | 337,649 | 332,618 | 1.51% | |
| Other expenses | 624,302 | 723,278 | - | - | 624,302 | 723,278 | -13.68% | |
| Total expenses | 8,468,233 | 7,548,752 | 324,086 | 320,092 | 8,792,319 | 7,868,844 | 11.74% | |
| Change in net position | 989,252 | 1,126,196 | (3,495) | (6,273) | 985,757 | 1,119,923 | -11.98% | |
| Net position beginning of year | 10,248,758 | 9,122,562 | 30,699 | 36,972 | 10,279,457 | 9,159,534 | 12.23% | |
| Net position end of year | \$ 11,238,010 | 10,248,758 | 27,204 | 30,699 | 11,265,214 | 10,279,457 | 9.59% | |

In fiscal 2014, property tax, income surtax and unrestricted state grants account for 74.98% of the revenue from governmental activities while charges for services and operating grants and contributions account for nearly all of the revenue from business type activities.

The District's total revenues were approximately \$9.78 million, of which approximately \$9.46 million was for governmental activities and \$0.32 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 8.78% in revenues and an 11.74% increase in expenses.

Governmental Activities

Revenues for governmental activities were \$9,457,485 and expenses were \$8,468,233.

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 for the year ended June 30, 2014 compared to the year ended June 30, 2013.

| | Total Cost of Services | | | Net Cost of Services | | |
|----------------------------|------------------------|------------------|-------------------|----------------------|------------------|-------------------|
| | 2014 | 2013 | Change 2013-14 | 2014 | 2013 | Change 2013-14 |
| Instruction | \$ 5,426,786 | 4,998,852 | 8.56% | 4,034,040 | 3,779,461 | 6.74% |
| Support services | 2,403,582 | 1,814,096 | 32.49% | 2,351,080 | 1,787,011 | 31.56% |
| Non-instructional programs | 13,563 | 12,526 | 8.28% | 13,563 | 12,526 | 8.28% |
| Other expenses | 624,302 | 723,278 | -13.68% | 343,202 | 467,778 | -26.63% |
| Totals | <u>\$ 8,468,233</u> | <u>7,548,752</u> | <u>12.18%</u> | <u>6,741,885</u> | <u>6,046,776</u> | <u>11.50%</u> |

- The cost financed by users of the District's programs was \$1,275,589.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$450,759.
- The net cost of governmental activities was financed with \$3,035,626 in property tax, \$328,051 in income surtax, \$600,874 in statewide sales, services and use tax, \$3,727,710 in unrestricted state grants, \$20,051 in interest income and \$18,825 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$320,591 and expenses were \$324,086. 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.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$3,417,820, above last year's ending fund balances of \$2,512,760. This increase is primarily attributable to the increase General fund balance during fiscal year 2014.

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors. The General Fund increased from a balance of \$1,338,375 at June 30, 2013 to \$2,174,480 at June 30, 2014. This represents an increase of \$836,105 or 62.47%. The increase in the General Fund balance is primarily attributable to increased revenue from state and federal sources as compared to the previous year.
- The Capital Projects Fund balance increased from \$740,931 at June 30, 2013 to \$797,056 at June 30, 2014. As compared to the prior year, the increase in fund balance can be attributed to an increase in sales tax and property taxes received.

Proprietary Fund Highlights

The Enterprise, Nutrition Fund's net position decreased from \$30,699 at June 30, 2013 to \$27,204 at June 30, 2014, representing a decrease of approximately 11.38%. This decrease can be attributed partly to increases to the cost of supplying food to the District's program.

BUDGETARY HIGHLIGHTS

Over the course of the year, Hudson CSD amended its budget one time to reflect additional expenditures associated with special education, food, and the purchase of land.

The District's total revenues were \$516,791 more than budgeted revenues, a variance of 5.59%. The most significant variance resulted from the District receiving more in state sources than originally anticipated.

Total expenditures were greater than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures slightly above anticipated spending for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction and other expenditures functional areas, as well as in total.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had invested \$7,612,105, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 2.62% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$408,497.

The original cost of the District's capital assets was \$14,429,148. Governmental funds account for \$14,202,894 with the remainder of \$226,254 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land category. Land totaled \$116,782 reported at June 30, 2013, compared to \$391,082 reported at June 30, 2014. The increase was caused by the purchase of the old hotel property from Tom and Lana Peterson.

Figure A-6
Capital Assets, Net of Depreciation

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|--------------------------|-------------------------|-----------|--------------------------|--------|----------------|-----------|--------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 |
| Land | \$ 391,082 | 116,782 | - | - | 391,082 | 116,782 | 234.88% |
| Construction in progress | 118,045 | - | - | - | 118,045 | - | 100.00% |
| Buildings | 5,768,031 | 5,989,181 | - | - | 5,768,031 | 5,989,181 | -3.69% |
| Land improvements | 1,042,239 | 1,100,788 | - | - | 1,042,239 | 1,100,788 | -5.32% |
| Machinery and equipment | 253,810 | 176,186 | 38,898 | 34,600 | 292,708 | 210,786 | 38.87% |
| Total | \$ 7,573,207 | 7,382,937 | 38,898 | 34,600 | 7,612,105 | 7,417,537 | 2.62% |

Long-Term Debt

At June 30, 2014, the District had \$672,417 in other long-term debt outstanding. This represents a decrease of 42.81% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

The District had two computer leases totaling \$274,958 at June 30, 2014. Both computer leases are payable from the Capital Projects: Physical Plant and Equipment Levy Fund.

The District had a land purchase contract payable totaling \$183,867 at June 30, 2014. This contract is payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

The District had total outstanding termination benefits payable from the Special Revenue, Management Fund of \$14,020 and \$18,257 payable from the General Fund at June 30, 2014.

The District had a net OPEB liability of \$181,315 at June 30, 2014. Of this, \$125,358 is attributable to governmental activities with the remaining \$15,267 attributable to the business activities of the District.

Figure A-7
Outstanding Long-Term Obligations

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|--------------------------|-------------------------|---------|--------------------------|--------|----------------|---------|--------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 |
| General obligation bonds | \$ - | 180,000 | - | - | - | 180,000 | -100.00% |
| Computer lease | 274,958 | 58,698 | - | - | 274,958 | 58,698 | 368.43% |
| Land purchase contract | 183,867 | - | - | - | 183,867 | - | 100.00% |
| Termination benefits | 32,277 | 95,279 | - | - | 32,277 | 95,279 | -66.12% |
| Net OPEB liability | 166,048 | 125,358 | 15,267 | 11,526 | 181,315 | 136,884 | 32.46% |
| Total | \$ 657,150 | 459,335 | 15,267 | 11,526 | 672,417 | 470,861 | 42.81% |

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 continues to be a topic of discussion 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 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, certified enrollment for FY13 increased by 28 students, and certified enrollment for FY14 decreased by 21 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 Chad Wagner, Business Manager, Hudson Community School District, 136 South Washington Street, Hudson, Iowa, 50643.

Basic Financial Statements

HUDSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|-------------------|-------------------------------|
| | Governmental Activities | Business Type Activities | Total | Hudson Educational Fund |
| ASSETS | | | | |
| Cash and pooled investments | \$ 4,849,266 | 23,632 | 4,872,898 | 473,358 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 22,306 | - | 22,306 | - |
| Succeeding year | 2,939,281 | - | 2,939,281 | - |
| Income surtax | 294,101 | - | 294,101 | - |
| Due from other governments | 205,043 | - | 205,043 | - |
| Inventories | - | 2,642 | 2,642 | - |
| Capital assets, net of accumulated depreciation | 7,573,207 | 38,898 | 7,612,105 | - |
| TOTAL ASSETS | 15,883,204 | 65,172 | 15,948,376 | 473,358 |
| LIABILITIES | | | | |
| Accounts payable | 243,830 | - | 243,830 | - |
| Salaries and benefits payable | 750,852 | 17,335 | 768,187 | - |
| Incurred but not reported claims | 45,000 | - | 45,000 | - |
| Accrued interest payable | 9,081 | - | 9,081 | - |
| Unearned revenue | - | 5,366 | 5,366 | - |
| Long-term liabilities: | | | | |
| Portion due within one year: | | | | |
| Computer lease payable | 96,977 | - | 96,977 | - |
| Land purchase contract payable | 91,433 | - | 91,433 | - |
| Termination benefits payable | 32,277 | - | 32,277 | - |
| Portion due after one year: | | | | |
| Computer lease payable | 177,981 | - | 177,981 | - |
| Land purchase contract payable | 92,434 | - | 92,434 | - |
| Net OPEB liability | 166,048 | 15,267 | 181,315 | - |
| TOTAL LIABILITIES | 1,705,913 | 37,968 | 1,743,881 | - |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable property tax revenue | 2,939,281 | - | 2,939,281 | - |
| NET POSITION | | | | |
| Net investment in capital assets | 7,389,340 | 38,898 | 7,428,238 | - |
| Restricted for: | | | | |
| Categorical funding | 232,161 | - | 232,161 | - |
| Management levy | 137,358 | - | 137,358 | - |
| Student activities | 299,202 | - | 299,202 | - |
| School infrastructure | 457,398 | - | 457,398 | - |
| Physical plant and equipment levy | 64,700 | - | 64,700 | - |
| Unrestricted | 2,657,851 | (11,694) | 2,646,157 | 473,358 |
| TOTAL NET POSITION | \$ 11,238,010 | 27,204 | 11,265,214 | 473,358 |

SEE NOTES TO FINANCIAL STATEMENTS.

**HUDSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | | Component Unit Hudson Educational Fund |
|---------------------------------------|---------------------|---------------------------|--|--|--|--------------------------------|--------------------|---|
| | Expenses | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Primary Government | | Total | |
| | | | | | Govern- mental Activities | Business Type Activities | | |
| Functions/Programs: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| Instruction: | | | | | | | | |
| Regular | \$ 3,598,533 | 653,682 | 33,665 | - | (2,911,186) | - | (2,911,186) | - |
| Special | 966,259 | 109,498 | 73,206 | - | (783,555) | - | (783,555) | - |
| Other | 861,994 | 469,714 | 52,981 | - | (339,299) | - | (339,299) | - |
| | <u>5,426,786</u> | <u>1,232,894</u> | <u>159,852</u> | <u>-</u> | <u>(4,034,040)</u> | <u>-</u> | <u>(4,034,040)</u> | <u>-</u> |
| Support services: | | | | | | | | |
| Student | 309,356 | - | - | - | (309,356) | - | (309,356) | - |
| Instructional staff | 288,053 | - | 1,300 | - | (286,753) | - | (286,753) | - |
| Administration | 751,207 | 42,695 | - | - | (708,512) | - | (708,512) | - |
| Operation and maintenance of plant | 768,011 | - | - | 3,181 | (764,830) | - | (764,830) | - |
| Transportation | 286,955 | - | 5,326 | - | (281,629) | - | (281,629) | - |
| | <u>2,403,582</u> | <u>42,695</u> | <u>6,626</u> | <u>3,181</u> | <u>(2,351,080)</u> | <u>-</u> | <u>(2,351,080)</u> | <u>-</u> |
| Non-instructional programs: | | | | | | | | |
| Food service operations | 13,563 | - | - | - | (13,563) | - | (13,563) | - |
| Long-term debt interest | 11,998 | - | - | - | (11,998) | - | (11,998) | - |
| Other expenditures: | | | | | | | | |
| AEA flowthrough | 281,100 | - | 281,100 | - | - | - | - | - |
| Depreciation(unallocated)* | 331,204 | - | - | - | (331,204) | - | (331,204) | - |
| | <u>612,304</u> | <u>-</u> | <u>281,100</u> | <u>-</u> | <u>(331,204)</u> | <u>-</u> | <u>(331,204)</u> | <u>-</u> |
| Total governmental activities | <u>8,468,233</u> | <u>1,275,589</u> | <u>447,578</u> | <u>3,181</u> | <u>(6,741,885)</u> | <u>-</u> | <u>(6,741,885)</u> | <u>-</u> |
| Business type activities: | | | | | | | | |
| Non-instructional programs: | | | | | | | | |
| Food service operations | 324,086 | 197,826 | 121,703 | - | - | (4,557) | (4,557) | - |
| Total primary government | <u>\$ 8,792,319</u> | <u>1,473,415</u> | <u>569,281</u> | <u>3,181</u> | <u>(6,741,885)</u> | <u>(4,557)</u> | <u>(6,746,442)</u> | <u>-</u> |
| Total component unit | <u>\$ 16,204</u> | <u>-</u> | <u>78,791</u> | | | | | <u>62,587</u> |
| General Revenues: | | | | | | | | |
| Property tax levied for: | | | | | | | | |
| General purposes | | | | | \$ 2,710,441 | - | 2,710,441 | - |
| Capital outlay | | | | | 325,185 | - | 325,185 | - |
| Income surtax | | | | | 328,051 | - | 328,051 | - |
| Statewide sales, services and use tax | | | | | 600,874 | - | 600,874 | - |
| Unrestricted state grants | | | | | 3,727,710 | - | 3,727,710 | - |
| Unrestricted investment earnings | | | | | 20,051 | 40 | 20,091 | 16,854 |
| Other | | | | | 18,825 | 1,022 | 19,847 | 2,099 |
| Total general revenues | | | | | <u>7,731,137</u> | <u>1,062</u> | <u>7,732,199</u> | <u>18,953</u> |
| Change in net position | | | | | 989,252 | (3,495) | 985,757 | 81,540 |
| Net position beginning of year | | | | | 10,248,758 | 30,699 | 10,279,457 | 392,018 |
| Net position end of year | | | | | <u>\$ 11,238,010</u> | <u>27,204</u> | <u>11,265,214</u> | <u>473,558</u> |

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

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

| | General | Capital Projects | Nonmajor | Total |
|---|---------------------|---------------------|----------------|------------------|
| ASSETS | | | | |
| Cash and pooled investments | \$ 2,977,647 | 753,991 | 453,515 | 4,185,153 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 18,806 | 2,390 | 1,110 | 22,306 |
| Succeeding year | 2,381,841 | 332,440 | 225,000 | 2,939,281 |
| Income surtax | 294,101 | - | - | 294,101 |
| Due from other governments | 109,580 | 95,372 | 91 | 205,043 |
| TOTAL ASSETS | \$ 5,781,975 | 1,184,193 | 679,716 | 7,645,884 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 180,701 | 54,697 | 8,432 | 243,830 |
| Salaries and benefits payable | 750,852 | - | - | 750,852 |
| Total liabilities | 931,553 | 54,697 | 8,432 | 994,682 |
| Deferred inflows of resources: | | | | |
| Unavailable revenues: | | | | |
| Succeeding year property tax | 2,381,841 | 332,440 | 225,000 | 2,939,281 |
| Income surtax | 294,101 | - | - | 294,101 |
| Total deferred inflows of resources | 2,675,942 | 332,440 | 225,000 | 3,233,382 |
| Fund balances: | | | | |
| Restricted for: | | | | |
| Categorical funding | 232,161 | - | - | 232,161 |
| Management levy purposes | - | - | 151,378 | 151,378 |
| Student activities | - | - | 299,202 | 299,202 |
| School infrastructure | - | 457,398 | - | 457,398 |
| Physical plant and equipment levy | - | 339,658 | - | 339,658 |
| Unassigned | | | | |
| General | 1,942,319 | - | - | 1,942,319 |
| Student activities | - | - | (4,296) | (4,296) |
| Total fund balances | 2,174,480 | 797,056 | 446,284 | 3,417,820 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 5,781,975 | 1,184,193 | 679,716 | 7,645,884 |

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2014

| | |
|---|------------------------------------|
| Total fund balances of governmental funds(page 20) | \$ 3,417,820 |
| <i>Amounts reported for governmental activities in the Statement of Net Position 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. | 7,573,207 |
| Accounts receivable income surtax are not yet available to finance current year expenditures of the current fiscal period and, therefore, are recognized as deferred inflows of resources in the governmental funds. | 294,101 |
| Blending of the Internal Service Funds to be reflected on an entity-wide basis. | 619,113 |
| 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. | (9,081) |
| Long-term liabilities, including termination benefits payable, computer lease payable, land purchase contract, and other postemployment benefits payable, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds. | <u>(657,150)</u> |
| Net position of governmental activities(page 18) | <u><u>\$ 11,238,010</u></u> |

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

| | General | Capital Projects | Nonmajor | Total |
|--|---------------------|---------------------|----------------|------------------|
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 2,879,116 | 325,185 | 150,994 | 3,355,295 |
| Tuition | 707,185 | - | - | 707,185 |
| Other | 168,298 | 7,485 | 448,622 | 624,405 |
| State sources | 4,020,585 | 600,985 | 51 | 4,621,621 |
| Federal sources | 140,597 | - | - | 140,597 |
| Total revenues | <u>7,915,781</u> | <u>933,655</u> | <u>599,667</u> | <u>9,449,103</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 3,346,679 | 247,812 | 70,306 | 3,664,797 |
| Special | 976,182 | - | - | 976,182 |
| Other | 501,930 | - | 408,097 | 910,027 |
| | <u>4,824,791</u> | <u>247,812</u> | <u>478,403</u> | <u>5,551,006</u> |
| Support services: | | | | |
| Student | 311,691 | - | 9,136 | 320,827 |
| Instructional staff | 163,644 | 122,179 | - | 285,823 |
| Administration | 739,692 | 11,927 | 665 | 752,284 |
| Operation and maintenance of plant | 558,135 | 29,050 | 64,450 | 651,635 |
| Transportation | 200,623 | 122,203 | 16,929 | 339,755 |
| | <u>1,973,785</u> | <u>285,359</u> | <u>91,180</u> | <u>2,350,324</u> |
| Non-instructional programs: | | | | |
| Food service operations | - | - | 13,563 | 13,563 |
| Capital outlay | - | 654,748 | - | 654,748 |
| Long-term debt: | | | | |
| Principal | - | - | 199,617 | 199,617 |
| Interest and fiscal charges | - | - | 3,862 | 3,862 |
| | <u>-</u> | <u>-</u> | <u>203,479</u> | <u>203,479</u> |
| Other expenditures: | | | | |
| AEA flowthrough | 281,100 | - | - | 281,100 |
| Total expenditures | <u>7,079,676</u> | <u>1,187,919</u> | <u>786,625</u> | <u>9,054,220</u> |
| Excess(Deficiency) of revenues over(under) expenditures | 836,105 | (254,264) | (186,958) | 394,883 |
| Other financing sources(uses): | | | | |
| Transfer in | - | - | 199,788 | 199,788 |
| Transfer out | - | (199,788) | - | (199,788) |
| Proceeds from land purchase contract | - | 274,300 | - | 274,300 |
| Computer lease proceeds | - | 235,877 | - | 235,877 |
| Total other financing sources(uses) | <u>-</u> | <u>310,389</u> | <u>199,788</u> | <u>510,177</u> |
| Change in fund balances | 836,105 | 56,125 | 12,830 | 905,060 |
| Fund balances beginning of year | <u>1,338,375</u> | <u>740,931</u> | <u>433,454</u> | <u>2,512,760</u> |
| Fund balances end of year | <u>\$ 2,174,480</u> | <u>797,056</u> | <u>446,284</u> | <u>3,417,820</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2014

Change in fund balances - total governmental funds(page 22) \$ 905,060

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

Capital outlay 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. Capital outlay expenditures exceeded depreciation expenses in the current year as follows:

| | | |
|----------------------|------------------|---------|
| Capital outlay | \$ 593,514 | |
| Depreciation expense | <u>(403,244)</u> | 190,270 |

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year issuances exceeded repayments, as follows:

| | | |
|--------|----------------|-----------|
| Issued | (510,177) | |
| Repaid | <u>290,050</u> | (220,127) |

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. (8,136)

Income surtax account receivable is not considered available revenue and is recognized as deferred inflows of resources in the governmental funds. 8,382

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 91,491

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.

| | | |
|-------------------------------|-----------------|---------------|
| Termination benefits | 63,002 | |
| Other postemployment benefits | <u>(40,690)</u> | <u>22,312</u> |

Change in net position of governmental activities(page 19) \$ 989,252

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

| | Business Type | |
|---|--------------------|--|
| | Enterprise Fund | Governmental Activities: Internal Service Fund |
| ASSETS | | |
| Current assets: | | |
| Cash and pooled investments | \$ 23,632 | 664,113 |
| Inventories | 2,642 | - |
| Total current assets | <u>26,274</u> | <u>664,113</u> |
| Noncurrent assets: | | |
| Capital assets, net of accumulated depreciation | 38,898 | - |
| TOTAL ASSETS | <u>65,172</u> | <u>664,113</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Salaries and benefits payable | 17,335 | - |
| Incurred but not reported claims | - | 45,000 |
| Unearned revenue | 5,366 | - |
| Total current liabilities | <u>22,701</u> | <u>45,000</u> |
| Noncurrent liabilities: | | |
| Net OPEB liability | 15,267 | - |
| TOTAL LIBILITIES | <u>37,968</u> | <u>45,000</u> |
| NET POSITION | | |
| Net investment in capital assets | 38,898 | - |
| Unrestricted | (11,694) | 619,113 |
| TOTAL NET POSITION | <u>\$ 27,204</u> | <u>619,113</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

| | Business Type | |
|--------------------------------|--|--|
| | Activities: Enterprise Fund School Nutrition | Governmental Activities: Internal Service Fund |
| Operating revenues: | | |
| Local sources: | | |
| Charges for service | \$ 197,826 | - |
| Donations | 150 | - |
| Miscellaneous | 1,022 | 671,251 |
| Total operating revenues | <u>198,998</u> | <u>671,251</u> |
| Operating expenses: | | |
| Non-instructional programs: | | |
| Salaries | 100,670 | - |
| Benefits | 38,458 | - |
| Services | 16,271 | - |
| Supplies | 163,434 | - |
| Depreciation | 5,253 | - |
| | <u>324,086</u> | <u>-</u> |
| Other enterprise operations: | | |
| Benefits | - | 580,447 |
| Services | - | 335 |
| Other | - | 2,352 |
| | <u>-</u> | <u>583,134</u> |
| Total operating expenses | <u>324,086</u> | <u>583,134</u> |
| Operating income(loss) | <u>(125,088)</u> | <u>88,117</u> |
| Non-operating revenues: | | |
| State sources | 2,215 | - |
| Federal sources | 119,338 | - |
| Interest income | 40 | 3,374 |
| Total non-operating revenues | <u>121,593</u> | <u>3,374</u> |
| Change in net position | (3,495) | 91,491 |
| Net position beginning of year | <u>30,699</u> | <u>527,622</u> |
| Net position end of year | <u>\$ 27,204</u> | <u>619,113</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

| | Business Type | |
|--|--|--|
| | Activities: Enterprise Fund School Nutrition | Governmental Activities: Internal Service Fund |
| Cash flows from operating activities: | | |
| Cash received from sale of lunches and breakfasts | \$ 198,584 | - |
| Cash received from donations | 150 | - |
| Cash received from miscellaneous | 1,022 | 671,251 |
| Cash paid to employees for services | (133,556) | - |
| Cash paid to suppliers for goods or services | (171,007) | (593,134) |
| Net cash provided by(used by) operating activities | <u>(104,807)</u> | <u>78,117</u> |
| Cash flows from non-capital financing activities: | | |
| State grants received | 2,215 | - |
| Federal grants received | 121,157 | - |
| Net cash provided by non-capital financing activities | <u>123,372</u> | <u>-</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (9,551) | - |
| Cash flows from investing activities: | | |
| Interest on investments | 40 | 3,374 |
| Net increase in cash and pooled investments | 9,054 | 81,491 |
| Cash and pooled investments beginning of year | 14,578 | 582,622 |
| Cash and pooled investments end of year | <u>\$ 23,632</u> | <u>664,113</u> |
| Reconciliation of operating income(loss) to net cash provided by(used by)operating activities: | | |
| Operating income (loss) | \$ (125,088) | 88,117 |
| Adjustments to reconcile operating income(loss) to net cash provided by(used by) operating activities: | | |
| Commodities consumed | 8,652 | - |
| Depreciation | 5,253 | - |
| Decrease in inventories | 80 | - |
| Decrease in incurred but not reported claims | - | (10,000) |
| Increase in accounts payable | (34) | - |
| Increase in salaries and benefits payable | 1,831 | - |
| Increase in unearned revenue | 758 | - |
| Increase in other postemployment benefits | 3,741 | - |
| Net cash provided by(used by) operating activities | <u>\$ (104,807)</u> | <u>78,117</u> |

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2014, the District received Federal commodities valued at \$8,652.

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

| | <u>Private Purpose Trust Scholarship</u> | <u>Agency</u> |
|-----------------------------|--|---------------|
| ASSETS | | |
| Cash and pooled investments | \$ 71,576 | 62,707 |
| LIABILITIES | | |
| Due to other groups | - | 62,707 |
| NET POSITION | | |
| Restricted for scholarships | \$ 71,576 | - |

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2014

| | <u>Private Purpose Trust Scholarship</u> |
|--------------------------------|--|
| Additions: | |
| Local sources: | |
| Gifts and contributions | \$ 2,500 |
| Interest | 784 |
| Total additions | <u>3,284</u> |
| Deductions: | |
| Instruction: | |
| Regular: | |
| Scholarships awarded | <u>2,250</u> |
| Change in net position | 1,034 |
| Net position beginning of year | <u>70,722</u> |
| Net position end of year | <u>\$ 71,756</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Summary of Significant Accounting Policies

The Hudson Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. 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.

Discretely Presented Component Unit - The Hudson Educational Fund is an independent, tax-exempt corporation, formed to provide scholarships and assistance for education programs and projects within the Hudson Community School District.

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position (previously referred to as net assets) and the Statement of Activities report information on all of the non-fiduciary 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 Position presents the District's non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets 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 position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary 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 other non-major 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 not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The 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 reports the following nonmajor proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District also reports the following other 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 position and changes in net position. 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 and proprietary and fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position 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.

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

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

D. Assets, Liabilities, Deferred Inflows of Resources and Fund Balances

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

Cash, Pooled Investments - 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, they have a maturity date no longer than three months.

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. 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 become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2013.

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

| Asset Class | Amount |
|---------------------------------|----------|
| Land | \$ 5,000 |
| Buildings | 25,000 |
| Land improvements | 25,000 |
| Intangibles | 25,000 |
| Machinery and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other machinery and equipment | 5,000 |

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

| Asset Class | Estimated Useful Lives (In Years) |
|-------------------------|-----------------------------------|
| Buildings | 50 years |
| Land improvements | 20-30 years |
| Intangibles | 3-10 years |
| Machinery and equipment | 5-20 years |

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is 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 on the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Position in the Proprietary Funds.

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 Position.

Fund Balances - 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 spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, District expenditures exceeded the amounts budgeted in the instruction and other expenditures functional areas, as well as in total.

Note 2. Cash and Pooled Investments

The District’s deposits at June 30, 2014 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, 2014, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$3,676 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investments in the Iowa Schools Joint Investment Trust were rated AAA by Standard & Poor’s Financial Services.

Note 3. Interfund Transfers

The detail of transfers for the year ended June 30, 2014 is as follows:

| Transfer to | Transfer from | Amount |
|--------------|--|-------------------|
| Debt Service | Capital Projects: Statewide Sales, Services and Use Tax | \$ 179,689 |
| Debt Service | Capital Projects: Physical Plant and Equipment Levy | 20,099 |
| Total | | <u>\$ 199,788</u> |

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed for principal and interest payments on the District's general obligation bond indebtedness.

The transfer from the Capital Projects: Physical Plant and Equipment Levy Fund to the Debt Service Fund was needed for principal and interest payments on the District's computer lease indebtedness.

Note 4. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2014 are summarized as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year | Due Within One Year |
|----------------------------------|---------------------------------|----------------|----------------|---------------------------|---------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 180,000 | - | 180,000 | - | - |
| Computer lease | 58,698 | 235,877 | 19,617 | 274,958 | 96,977 |
| Land purchase contract | - | 183,867 | - | 183,867 | 91,433 |
| Termination benefits | 95,279 | - | 63,002 | 32,277 | 32,277 |
| Net OPEB liability | 125,358 | 40,690 | - | 166,048 | - |
| Total | \$ 459,335 | 460,434 | 262,619 | 657,150 | 220,687 |
| Business type activities: | | | | | |
| Net OPEB liabilities | \$ 11,526 | 3,741 | - | 15,267 | - |

Computer Lease

Details of the District's June 30, 2014 computer lease indebtedness, which is paid from the Physical Plant and Equipment Levy Fund is as follows:

| Year Ending June 30, | Computer Lease of February 1, 2013 | | | Computer Lease of October 1, 2013 | | | Total | | |
|----------------------------|------------------------------------|------------------|--------------|-----------------------------------|-------------------|--------------|-------------------|--------------|----------------|
| | Interest Rate | Principal | Interest | Interest Rate | Principal | Interest | Principal | Interest | Total |
| 2015 | 4.81 % | \$ 19,357 | 743 | 2.52 % | \$ 77,620 | 3,043 | \$ 96,977 | 3,786 | 100,763 |
| 2016 | 4.81 | 19,724 | 375 | 2.52 | 78,621 | 2,042 | 98,345 | 2,417 | 100,762 |
| 2017 | | - | - | 2.52 | 79,636 | 1,027 | 79,636 | 1,027 | 80,663 |
| Total | | \$ 39,081 | 1,118 | | \$ 235,877 | 6,112 | \$ 274,958 | 7,230 | 282,188 |

Land Purchase Contract

On October 21, 2014 the District entered into a land purchase contract agreement with Tom and Lana Peterson totaling \$274,300. The remaining balance of \$183,867 at June 30, 2014 will be paid with annual lease payments continuing through fiscal year 2016, payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

Termination Benefits

Prior to January 16, 2012, the District offered a voluntary early retirement plan for employees. Eligible employees must have been at least fifty five years of age on or before June 30 of the year in which the employee wishes to retire and have completed a total of at least 20 years of service as an employee of the District. The approval or denial of an application is at the discretion of the Board of Directors.

The early retirement benefits equaled 200% of the difference between the BA base and the employee's current salary less supplemental pay or extended contract pay.

The benefit is either continuation of insurance if the employee is was currently on the District's insurance or paid into a 403(B) account if the employee did not receive insurance at the time of retirement.

At June 30, 2014, the District had obligations to five participants with a total liability of \$32,277. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$63,002.

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2014 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|-----------|-----------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 116,782 | 274,300 | - | 391,082 |
| Construction in progress | - | 118,045 | - | 118,045 |
| Total capital assets not being depreciated | 116,782 | 392,345 | - | 509,127 |
| Capital assets being depreciated: | | | | |
| Buildings | 11,255,659 | 38,222 | - | 11,293,881 |
| Land improvements | 1,520,528 | 13,283 | - | 1,533,811 |
| Machinery and equipment | 860,293 | 149,664 | 143,882 | 866,075 |
| Total capital assets being depreciated | 13,636,480 | 201,169 | 143,882 | 13,693,767 |
| Less accumulated depreciation for: | | | | |
| Buildings | 5,266,478 | 259,372 | - | 5,525,850 |
| Land improvements | 419,740 | 71,832 | - | 491,572 |
| Machinery and equipment | 684,107 | 72,040 | 143,882 | 612,265 |
| Total accumulated depreciation | 6,370,325 | 403,244 | 143,882 | 6,629,687 |
| Total capital assets being depreciated, net | 7,266,155 | (202,075) | - | 7,064,080 |
| Governmental activities capital assets, net | \$ 7,382,937 | 190,270 | - | 7,573,207 |
| Business type activities: | | | | |
| Machinery and equipment | \$ 222,003 | 9,551 | 5,300 | 226,254 |
| Less accumulated depreciation | 187,403 | 5,253 | 5,300 | 187,356 |
| Business type activities capital assets, net | \$ 34,600 | 4,298 | - | 38,898 |

Depreciation expense was charged by the District as follows:

| | |
|--|------------|
| Governmental activities: | |
| Instruction: | |
| Regular | \$ 13,880 |
| Other | 5,609 |
| Support services: | |
| Instructional staff | 2,813 |
| Administration | 4,763 |
| Transportation | 44,975 |
| | 72,040 |
| Unallocated depreciation | 331,204 |
| Total governmental activities depreciation expense | \$ 403,244 |
| Business type activities: | |
| Food service operations | \$ 5,253 |

Note 6. Pension and Retirement Benefits

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

Plan members are required to contribute 5.95% of their annual covered salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$381,960, \$348,924, and \$304,371 respectively, equal to the required contributions for each year.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 59 active and 5 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a self-insured plan with a stop loss policy from HCC Life. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate 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 which, 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, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

| | | |
|--|----|-----------------|
| Annual required contribution | \$ | 62,577 |
| Interest on net OPEB obligation | | 3,422 |
| Adjustment to annual required contribution | | <u>(11,620)</u> |
| Annual OPEB cost | | 54,379 |
| Contributions made | | <u>(9,948)</u> |
| Increase in net OPEB obligation | | 44,431 |
| Net OPEB obligation beginning of year | | <u>136,884</u> |
| Net OPEB obligation end of year | \$ | <u>181,315</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, 2014.

For the year ended June 30, 2014, the District contributed \$9,948 to the medical plan.

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, 2014 are summarized as follows:

| Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------|------------------|--|---------------------|
| 2012 | 43,750 | 27.4% | 92,440 |
| 2013 | 54,044 | 17.8% | 136,884 |
| 2014 | 54,379 | 18.3% | 181,315 |

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$330,253, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$330,253. The covered payroll (annual payroll of active employees covered by the plan) was \$3,294,783 and the ratio of the UAAL to covered payroll was 10.0%. As of June 30, 2014, 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, presents 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 to 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 long-term perspective of the calculations.

As of July 1, 2012 actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions include a 2.50% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000 assumed 2/3 female and 1/3 male. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 8. 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 \$619,113 at June 30, 2014 and is recorded in the Internal Service Fund. The incurred but not reported claims of \$45,000 are reported as liabilities in the Internal Service Fund at June 30, 2014.

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

Note 9. 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 \$281,100 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Categorical Funding

The District's ending restricted balance for categorical funding at June 30, 2014 is comprised of the following programs:

| <u>Program</u> | <u>Amount</u> |
|--|-------------------|
| At-risk supplemental weighting | \$ 11,592 |
| Gifted and talented | 22,737 |
| Dropout prevention | 98,671 |
| Beginning teacher mentoring | 1,975 |
| Professional development for model core curriculum | 51,672 |
| Professional development | 27,732 |
| Successful Progression for Early Readers | 15,140 |
| Teacher leadership grants | 2,642 |
| Total | <u>\$ 232,161</u> |

Note 11. Deficit Fund Balances/Unrestricted Net Position

At June 30, 2014, the Student Activity Fund had three individual accounts with deficit balances totaling \$4,296. The District also had a deficit unrestricted net position of \$11,694 in the School Nutrition Fund.

Note 12. Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2014, expenditures exceeded the amounts budgeted in the instruction and other expenditures functional areas, as well as in total.

Note 13. Construction Commitment

As of June 30, 2014, costs of \$118,045 had been incurred by the District for a parking lot project. Once the project is completed the costs of the project will be added to the District's capital assets listing.

Note 14. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosure required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

Note 15. Detailed Reconciliation of Governmental Fund Balances to Net Position

The following is the detailed reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.

| | Net Investment in Capital Assets | Physical Plant and Equipment Levy | Management Levy | Unassigned/ Restricted Balances |
|---|--|---|--------------------|---------------------------------------|
| Fund Balance (Exhibit C) | \$ - | 339,658 | 151,378 | 1,942,319 |
| Capital assets, net of accumulated depreciation | 7,573,207 | - | - | - |
| Land purchase contract capitalized indebtedness | (183,867) | - | - | - |
| Termination benefits payable | - | - | (14,020) | (18,257) |
| Computer lease payable | - | (274,958) | - | - |
| Internal service fund balance | - | - | - | 619,113 |
| Net OPEB liability | - | - | - | (166,048) |
| Income surtax | - | - | - | 294,101 |
| Accrued interest payable | - | - | - | (9,081) |
| Unassigned for student activities | - | - | - | (4,296) |
| Net position(Exhibit A) | \$ 7,389,340 | 64,700 | 137,358 | 2,657,851 |

Hudson Community School District

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 FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2014

| | Governmental | Proprietary | Total | Budgeted Amounts | | Final to Actual Variance |
|---|--------------|-------------|-----------|------------------|-----------|--------------------------------|
| | Funds | Funds | | Original | Final | |
| | Actual | Actual | | | | |
| Revenues: | | | | | | |
| Local sources | \$ 4,686,885 | 199,038 | 4,885,923 | 5,189,155 | 5,189,155 | (303,232) |
| State sources | 4,621,621 | 2,215 | 4,623,836 | 3,861,648 | 3,861,648 | 762,188 |
| Federal sources | 140,597 | 119,338 | 259,935 | 202,100 | 202,100 | 57,835 |
| Total revenues | 9,449,103 | 320,591 | 9,769,694 | 9,252,903 | 9,252,903 | 516,791 |
| Expenditures/expenses: | | | | | | |
| Instruction | 5,551,006 | - | 5,551,006 | 5,410,000 | 5,510,000 | (41,006) |
| Support services | 2,350,324 | - | 2,350,324 | 2,558,000 | 2,558,000 | 207,676 |
| Non-instructional programs | 13,563 | 324,086 | 337,649 | 350,000 | 370,000 | 32,351 |
| Other expenditures | 1,139,327 | - | 1,139,327 | 729,828 | 800,000 | (339,327) |
| Total expenditures/expenses | 9,054,220 | 324,086 | 9,378,306 | 9,047,828 | 9,238,000 | (140,306) |
| Excess(Deficiency) of revenues over(under) expenditures/expenses | 394,883 | (3,495) | 391,388 | 205,075 | 14,903 | 376,485 |
| Other financing sources, net | 510,177 | - | 510,177 | - | - | 510,177 |
| Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses | 905,060 | (3,495) | 901,565 | 205,075 | 14,903 | 886,662 |
| Balances beginning of year | 2,512,760 | 30,699 | 2,543,459 | 1,882,671 | 1,882,671 | 660,788 |
| Balances end of year | \$ 3,417,820 | 27,204 | 3,445,024 | 2,087,746 | 1,897,574 | 1,547,450 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2014

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 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. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$190,172.

During the year ended June 30, 2014, expenditures exceeded the amounts budgeted in the instruction and other expenditures functional areas, as well as in total.

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% |
| 2013 | July 1, 2012 | - | \$ 343,354 | 343,354 | 0.0% | \$ 2,960,420 | 11.6% |
| 2014 | July 1, 2012 | - | \$ 330,253 | 330,253 | 0.0% | \$ 3,294,783 | 10.0% |

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF ASSETS, LIABILITIES AND NET POSITION - CASH BASIS
 COMPONENT UNIT
 JUNE 30, 2014

| | Hudson Educational Fund |
|-------------------------|-------------------------------|
| ASSETS | |
| Cash | \$ 18,077 |
| Certificates of deposit | 265,111 |
| Annuity | 190,170 |
| TOTAL ASSETS | 473,358 |
| LIABILITIES | |
| | - |
| NET POSITION | |
| Unrestricted | \$ 473,358 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF SUPPORT AND REVENUE, EXPENSES AND
CHANGES IN NET POSITION - CASH BASIS
COMPONENT UNIT
YEAR ENDED JUNE 30, 2014

| | Hudson Educational Fund |
|--------------------------------|-------------------------------|
| Support and Revenue: | |
| Interest | \$ 16,854 |
| Donations | 78,791 |
| Other | 2,099 |
| Total support and revenue | 97,744 |
| Expenses: | |
| Insurance | 175 |
| Office | 254 |
| Scholarships | 15,775 |
| Total expenses | 16,204 |
| Change in net position | 81,540 |
| Net position beginning of year | 392,018 |
| Net position end of year | \$ 473,558 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Supplementary Information

HUDSON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

| | Special Revenue | | |
|---|---------------------|--------------------|----------------|
| | Student Activity | Management Levy | Total |
| ASSETS | | | |
| Cash and pooled investments | \$ 155,514 | 298,001 | 453,515 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | - | 1,110 | 1,110 |
| Succeeding year | - | 225,000 | 225,000 |
| Due from other governments | - | 91 | 91 |
| TOTAL ASSETS | \$ 155,514 | 524,202 | 679,716 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 8,432 | - | 8,432 |
| Deferred inflows of resources: | | | |
| Unavailable revenues: | | | |
| Succeeding year property tax | - | 225,000 | 225,000 |
| Fund balances: | | | |
| Restricted for: | | | |
| Student activities | 151,378 | - | 151,378 |
| Management levy purposes | - | 299,202 | 299,202 |
| Unassigned | (4,296) | - | (4,296) |
| Total fund balances | 147,082 | 299,202 | 446,284 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 155,514 | 524,202 | 679,716 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2014

| | Special Revenue | | | | |
|--|---------------------|--------------------|-----------------------------|-----------------|-----------|
| | Student Activity | Management Levy | Total Special Revenue | Debt Service | Total |
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ - | 150,994 | 150,994 | - | 150,994 |
| Other | 441,707 | 6,914 | 448,621 | 1 | 448,622 |
| State sources | - | 51 | 51 | - | 51 |
| Total revenues | 441,707 | 157,959 | 599,666 | 1 | 599,667 |
| Expenditures: | | | | | |
| Instruction: | | | | | |
| Regular | - | 70,306 | 70,306 | - | 70,306 |
| Other | 408,097 | - | 408,097 | - | 408,097 |
| Support services: | | | | | |
| Student | - | 9,136 | 9,136 | - | 9,136 |
| Administration | - | 665 | 665 | - | 665 |
| Operation and maintenance of plant | - | 64,450 | 64,450 | - | 64,450 |
| Transportation | - | 16,929 | 16,929 | - | 16,929 |
| Non-instructional programs: | | | | | |
| Food service operations | - | 13,563 | 13,563 | - | 13,563 |
| Long-term debt: | | | | | |
| Principal | - | - | - | 199,617 | 199,617 |
| Interest and fiscal charges | - | - | - | 3,862 | 3,862 |
| Total expenditures | 408,097 | 175,049 | 583,146 | 203,479 | 786,625 |
| Excess(Deficiency) of revenues over(under) expenditures | 33,610 | (17,090) | 16,520 | (203,478) | (186,958) |
| Other financing sources: | | | | | |
| Transfer in | - | - | - | 199,788 | 199,788 |
| Change in fund balances | 33,610 | (17,090) | 16,520 | (3,690) | 12,830 |
| Fund balances beginning of year | 113,472 | 316,292 | 429,764 | 3,690 | 433,454 |
| Fund balances end of year | \$ 147,082 | 299,202 | 446,284 | - | 446,284 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2014

| | Capital Projects | | |
|---|--|--|------------------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Total |
| ASSETS | | | |
| Cash and pooled investments | \$ 362,219 | 391,772 | 753,991 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | - | 2,390 | 2,390 |
| Succeeding year | - | 332,440 | 332,440 |
| Due from other governments | 95,179 | 193 | 95,372 |
| TOTAL ASSETS | \$ 457,398 | 726,795 | 1,184,193 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | 54,697 | 54,697 |
| Deferred inflows of resources: | | | |
| Unavailable revenues: | | | |
| Succeeding year property tax | - | 332,440 | 332,440 |
| Fund balances: | | | |
| Restricted for: | | | |
| School infrastructure | 457,398 | - | 457,398 |
| Physical plant and equipment | - | 339,658 | 339,658 |
| Total fund balances | 457,398 | 339,658 | 797,056 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 457,398 | 726,795 | 1,184,193 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 CAPITAL PROJECTS ACCOUNTS
 YEAR ENDED JUNE 30, 2014

| | Capital Projects | | |
|--|--|--|------------------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Total |
| Revenues: | | | |
| Local sources: | | | |
| Local tax | \$ - | 325,185 | 325,185 |
| Other | 1,903 | 5,582 | 7,485 |
| State sources | 600,874 | 111 | 600,985 |
| Total revenues | <u>602,777</u> | <u>330,878</u> | <u>933,655</u> |
| Expenditures: | | | |
| Instruction: | | | |
| Regular | - | 247,812 | 247,812 |
| Support services: | | | |
| Instructional staff | 12,579 | 109,600 | 122,179 |
| Administration | - | 11,927 | 11,927 |
| Operation and maintenance of plant | - | 29,050 | 29,050 |
| Transportation | - | 122,203 | 122,203 |
| Capital outlay | 474,267 | 180,481 | 654,748 |
| Total expenditures | <u>486,846</u> | <u>701,073</u> | <u>1,187,919</u> |
| Excess(Deficiency) of revenues over(under) expenditures | 115,931 | (370,195) | (254,264) |
| Other financing sources(uses): | | | |
| Transfer out | (179,689) | (20,099) | (199,788) |
| Proceeds from land purchase contract | 274,300 | - | 274,300 |
| Computer lease proceeds | - | 235,877 | 235,877 |
| Total other financing sources(uses) | <u>94,611</u> | <u>215,778</u> | <u>310,389</u> |
| Change in fund balances | 210,542 | (154,417) | 56,125 |
| Fund balances beginning year | <u>246,856</u> | <u>494,075</u> | <u>740,931</u> |
| Fund balances end of year | <u>\$ 457,398</u> | <u>339,658</u> | <u>797,056</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2014

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Intrafund Transfers | Balance End of Year |
|-------------------------------|---------------------------------|----------------|-------------------|------------------------|---------------------------|
| Vocal Music | \$ 550 | 1,316 | 2,582 | 716 | - |
| Vocal Music Trip | 1,366 | 41,455 | 41,712 | - | 1,109 |
| Physics Club | 28 | - | - | - | 28 |
| Photography | 33 | - | - | - | 33 |
| National Honor Society | 1,089 | 9,704 | 9,849 | - | 944 |
| Instrumental Music | 552 | 8,445 | 9,130 | 133 | - |
| Band Uniform | 803 | 810 | 924 | - | 689 |
| Instrumental Music Trip | 1,718 | - | 60 | - | 1,658 |
| Athletic Adm. | 156 | 78,822 | 36,599 | (46,060) | (3,681) |
| Track | 240 | 4,750 | 7,471 | 1,936 | (545) |
| Girls Track | 205 | - | 250 | 45 | - |
| Cross Country | - | - | 685 | 685 | - |
| Soccer | 75 | 321 | 5,531 | 5,135 | - |
| Golf | - | 675 | 1,896 | 1,221 | - |
| Basketball | - | 2,847 | 10,325 | 7,478 | - |
| Elem. Boys Basketball Camp | 15 | - | - | - | 15 |
| Boys Soccer Camp | 3,346 | - | - | - | 3,346 |
| Football | - | - | 12,460 | 12,390 | (70) |
| Baseball | - | 730 | 7,672 | 6,942 | - |
| Baseball.Softball Concessions | 282 | - | - | - | 282 |
| Wrestling | - | 1,709 | 4,673 | 2,964 | - |
| Dugout Club | 310 | - | - | - | 310 |
| Volleyball | - | 400 | 3,826 | 3,426 | - |
| Softball | - | 485 | 4,131 | 3,646 | - |
| Interest | 6,576 | 372 | 5,101 | 112 | 1,959 |
| Annual | 10,486 | 13,712 | 18,006 | - | 6,192 |
| FFA Chapter | 15,748 | 32,448 | 31,626 | - | 16,570 |
| Sr. High Student Council | 3,242 | 4,201 | 3,524 | - | 3,919 |
| Jr. High Student Council | 2,392 | 4,779 | 5,785 | - | 1,386 |
| 5-6 Student Council | 9,939 | 703 | 307 | - | 10,335 |
| Show Choir Concert | (133) | - | 171 | 304 | - |
| Cheerleaders | - | 3,484 | 3,675 | 191 | - |
| Fall Play/Musical | 3,088 | - | - | - | 3,088 |
| Vocal Music Production | 1,233 | 5,526 | 4,920 | - | 1,839 |
| MS Show Choir | 2,147 | 110 | 522 | - | 1,735 |
| Spanish Club Trip | 1,077 | - | - | - | 1,077 |
| Speech | - | - | 50 | 50 | - |
| Class of 2008 | 21 | - | - | (21) | - |
| Class of 2009 | 5 | - | - | (5) | - |
| Class of 2011 | 407 | - | - | (407) | - |
| Class of 2012 | 101 | - | - | (101) | - |
| Class of 2013 | 780 | - | - | (780) | - |
| Class of 2014 | 350 | 376 | 589 | - | 137 |
| Class of 2015 | 1,143 | 7,873 | 7,331 | - | 1,685 |
| Athletic Fundraising | 32,581 | 187,705 | 149,417 | - | 70,869 |
| Music Fundraising | 11,521 | 27,949 | 17,297 | - | 22,173 |
| Total | \$ 113,472 | 441,707 | 408,097 | - | 147,082 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2014

| | Governmental Activities: Internal Service Funds | | |
|---------------------------------|--|-----------------------------|---------|
| | Self-Insured Heath Plan | Self-Insured Dental Plan | Total |
| ASSETS | | | |
| Cash and pooled investments | \$ 594,891 | 69,222 | 664,113 |
| LIABILITIES | | | |
| Incured but not reported claims | 45,000 | - | 45,000 |
| NET POSITION | | | |
| Unrestricted | \$ 549,891 | 69,222 | 619,113 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2014

| | Governmental Activities: | | |
|--------------------------------|-----------------------------|-----------------------------|---------|
| | Internal Service Funds | | |
| | Self-Insured Health Plan | Self-Insured Dental Plan | Total |
| Operating revenues: | | | |
| Local sources: | | | |
| Miscellaneous | \$ 633,385 | 37,866 | 671,251 |
| Operating expenses: | | | |
| Non-instructional programs: | | | |
| Other enterprise operations: | | | |
| Benefits | 532,100 | 48,347 | 580,447 |
| Services | 335 | - | 335 |
| Supplies | 2,352 | - | 2,352 |
| Total operating expenses | 534,787 | 48,347 | 583,134 |
| Operating income (loss) | 98,598 | (10,481) | 88,117 |
| Non-operating revenues: | | | |
| Interest income | 2,873 | 501 | 3,374 |
| Change in net position | 101,471 | (9,980) | 91,491 |
| Net position beginning of year | 448,420 | 79,202 | 527,622 |
| Net position end of year | \$ 549,891 | 69,222 | 619,113 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUND
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

| | Governmental Activities: Internal Service Funds | | |
|---|--|-----------------------------|-----------|
| | Self-Insured Health Plan | Self-Insured Dental Plan | Total |
| Cash flows from operating activities: | | | |
| Cash received from miscellaneous | \$ 633,385 | 37,866 | 671,251 |
| Cash paid to suppliers for goods or services | (544,787) | (48,347) | (593,134) |
| Net cash provided by (used by) operating activities | 88,598 | (10,481) | 78,117 |
| Cash flows from investing activities: | | | |
| Interest on investments | 2,873 | 501 | 3,374 |
| Net increase (decrease) in cash and cash equivalents | 91,471 | (9,980) | 81,491 |
| Cash and cash equivalents at beginning of year | 503,420 | 79,202 | 582,622 |
| Cash and cash equivalents at end of year | \$ 594,891 | 69,222 | 664,113 |
| Reconciliation of operating income (loss) to net cash provided by(used by) operating activities: | | | |
| Operating income (loss) | \$ 98,598 | (10,481) | 88,117 |
| Adjustments to reconcile operating income(loss) to net cash provided by(used) by operating activities: | | | |
| Decrease in incurred but not reported claims | (10,000) | - | (10,000) |
| Net cash used by operating activities | \$ 88,598 | (10,481) | 78,117 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2014

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|-----------------------------|---------------------------------|-----------|-----------|---------------------------|
| ASSETS | | | | |
| Cash and pooled investments | \$ 64,006 | 102,223 | 103,522 | 62,707 |
| LIABILITIES | | | | |
| Due to other groups | \$ 64,006 | 102,223 | 103,522 | 62,707 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

| | Modified Accrual Basis | | | | | | | | | |
|------------------------------------|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | Years Ended June 30, | | | | | | | | | |
| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
| Revenues: | | | | | | | | | | |
| Local sources: | | | | | | | | | | |
| Local tax | \$ 3,355,295 | 3,795,158 | 3,480,572 | 3,366,767 | 3,341,180 | 3,375,178 | 3,238,383 | 3,185,483 | 3,026,723 | 2,890,149 |
| Tuition | 707,185 | 628,632 | 580,702 | 597,051 | 611,994 | 633,213 | 677,276 | 663,168 | 677,476 | 731,701 |
| Other | 624,405 | 504,469 | 562,174 | 525,109 | 605,381 | 471,187 | 541,920 | 528,820 | 515,841 | 397,049 |
| State sources | 4,621,621 | 3,652,947 | 3,675,017 | 3,615,679 | 3,140,342 | 3,577,952 | 3,592,219 | 3,488,586 | 3,184,093 | 3,347,026 |
| Federal sources | 140,597 | 129,922 | 163,601 | 344,656 | 476,555 | 188,431 | 108,884 | 122,792 | 112,791 | 113,925 |
| Total | \$ 9,449,103 | 8,711,128 | 8,462,066 | 8,449,262 | 8,175,452 | 8,245,961 | 8,158,682 | 7,988,849 | 7,516,924 | 7,479,850 |
| Expenditures: | | | | | | | | | | |
| Instruction: | | | | | | | | | | |
| Regular | \$ 3,664,797 | 3,266,245 | 3,331,010 | 3,541,116 | 3,480,144 | 3,425,589 | 3,198,908 | 3,233,108 | 3,054,288 | 3,016,698 |
| Special | 976,182 | 996,279 | 749,091 | 781,817 | 783,930 | 687,056 | 672,961 | 781,517 | 697,962 | 726,241 |
| Other | 910,027 | 878,967 | 949,554 | 886,105 | 932,197 | 740,710 | 766,902 | 730,849 | 778,639 | 604,024 |
| Support services: | | | | | | | | | | |
| Student | 320,827 | 293,853 | 295,475 | 310,099 | 312,994 | 364,071 | 294,284 | 315,422 | 330,175 | 311,754 |
| Instructional staff | 285,823 | 272,495 | 272,213 | 285,201 | 204,256 | 133,693 | 238,329 | 266,776 | 213,238 | 261,015 |
| Administration | 752,284 | 696,507 | 673,194 | 836,017 | 787,642 | 780,876 | 780,442 | 798,082 | 681,123 | 716,052 |
| Operation and maintenance of plant | 651,635 | 628,552 | 578,227 | 662,812 | 664,552 | 626,065 | 593,511 | 615,933 | 542,427 | 602,093 |
| Transportation | 339,755 | 192,129 | 175,925 | 169,639 | 247,638 | 260,766 | 217,277 | 233,505 | 170,876 | 158,013 |
| Non-instructional programs | 13,563 | 12,526 | 11,186 | 10,837 | 8,720 | 7,210 | 6,826 | 11,306 | 26,036 | 3,895 |
| Capital outlays | 566,113 | 437,385 | 205,305 | 279,588 | 333,191 | 252,450 | 153,605 | 106,363 | 285,841 | 172,269 |
| Long-term debt: | | | | | | | | | | |
| Principal | 199,617 | 365,000 | 360,000 | 1,220,000 | 595,000 | 555,000 | 545,000 | 510,000 | 500,000 | 430,000 |
| Interest | 3,862 | 7,443 | 11,625 | 47,798 | 66,009 | 90,900 | 112,050 | 129,388 | 148,300 | 225,638 |
| Other expenditures: | | | | | | | | | | |
| AEA flow-through | 281,100 | 255,500 | 264,296 | 292,178 | 284,723 | 240,610 | 235,478 | 230,506 | 209,842 | 210,164 |
| Total | \$ 8,965,585 | 8,302,881 | 7,877,101 | 9,323,207 | 8,700,996 | 8,164,996 | 7,815,573 | 7,962,755 | 7,638,747 | 7,437,856 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

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 the Hudson Community School District:

We have audited in accordance with U.S. generally accepted auditing standard and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Hudson Community School District as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 9, 2015.

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, we identified certain deficiencies in internal control over financial reporting we consider to be a material weakness and other deficiencies we consider to be a significant deficiency.

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 misstatement 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 deficiencies in internal control described in Part I of the accompanying Schedule of Findings as item I-A-14 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-B-14 and I-C-14 to be a significant deficiencies.

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.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2014 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

Hudson Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.



NOLTE, CORNMAN & JOHNSON, P.C.

March 9, 2015
Newton, Iowa

HUDSON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-14 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Payroll - recordkeeping, preparation, posting and distribution.
- 4) Transfers - preparing and approving.
- 5) Financial reporting - preparing, reconciling and approving.
- 6) Computer systems - performing all general accounting functions and controlling all data input and output.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The District will continue to monitor internal controls and make changes when appropriate.

Conclusion - Response accepted.

I-B-14 Gate Admissions - We noted during our audit that the District does not utilize pre-numbered tickets for all events that require admission.

Recommendation - The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to individuals involved. The Board would of course, approve any policies and the District's business office should be involved in developing the detailed procedures. At a minimum these procedures should include:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.

- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the “accounting” of the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District’s vault or other secure location at the District’s office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - The District currently uses a counter punch system for gate admissions. With the limited staff to take tickets it is difficult to implement a system to utilize pre-numbered tickets effectively. However, we are always looking at ways to improve controls and will continue to develop procedures to utilize pre-numbered tickets.

Conclusion - Response acknowledged, the District should utilize pre-numbered tickets for all events that require admission.

I-C-14 Agency Fund - During our audit we noted the District utilizes an Agency Fund. According to Chapter 9 of the LEA Administrative Manual, “Agency funds are used to account for assets received and held as an agent for individuals, private organizations, or other governments. Agency Funds could include money collected for another government, a grant consortium when the District serves as fiscal agent for the other districts but has no managerial responsibilities, and funds for a teacher or a parent-teacher organization which has its own Federal Identification Number.

The District acts as a custodian of the assets and not an owner. Agency Funds may be created when an organization which is related to the operation of the District places certain assets into the custody of the District. The District renders a service, as custodian, for the organization providing the assets. Agency funds typically involve only the receipt, temporary investment and remittance of assets to their rightful owners. Moneys owned by the District would not be accounted for in the Agency Fund”.

Currently, it appears that the District accounts for the payment of benefits for early retirees in the Agency Fund.

Recommendation - Management should review the transactions regarding early retiree benefits in the Agency Fund and determine if these transactions are truly appropriate in the Agency Fund. Monies accounted for in the Agency Fund should be the property a separate entity.

The transactions for the early retirees should be recorded in the most appropriate fund(Management Levy Fund) where standard District policies and procedures should be followed and subjected to the same level of accounting as any other transactions currently recorded in the District’s records.

Response - This has been past District practice for many years. The District will transfer the balance from the Agency Fund to the Management Levy Fund and account for early retirement payments from the Management Levy Fund.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-14 Certified Budget - Expenditures for the year ended June 30, 2014 exceeded the amended certified budget amounts in the instruction and other expenditures functional areas, as well as in total.

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

Response - The budget over expenditure was due to year end entries done without sufficient time to amend the budget. In the future the District will monitor the budget closer to allow for time to amend if needed.

Conclusion - Response accepted.

II-B-14 Questionable Disbursements - 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.

II-C-14 Travel Expense - No expenditures of the District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-14 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|--|---|-----------|
| Steve Miles, Basketball coach co-owner, Craft Cochran | sports apparel, equipment, shirts and supplies | \$ 55,570 |

Recommendation - The above transactions with the basketball coach appear to create a conflict of interest under Chapter 301.28 of the Code of Iowa, which states in part that "a school director, officer, or teacher shall not act as agent for sports apparel or equipment during such term of employment with the District". Although Mr. Miles is not a director, officer, or teacher, he is an employee of the District and benefitted personally from the transactions. The District should contact legal counsel regarding this matter to determine the legality of these transactions and if any corrective action is required.

Response - The District did not renew Mr. Miles' coaching contract for the 2014-15 school.

Conclusion - Response accepted.

II-E-14 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-14 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- II-G-14 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- II-H-14 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-14 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- II-J-14 Certified Annual Report - The Certified Annual Report was certified timely with the Department of Education and we noted no significant deficiencies in the amounts reported.
- II-K-14 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- II-L-14 Statewide Sales and Services and Use Tax - No instances of non-compliance with the use of the statewide sales and services 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. 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, 2014, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2014 audit:

| | | |
|--------------------------------------|------------|------------|
| Beginning Balance | | \$ 246,856 |
| Revenues: | | |
| Sales tax revenues | \$ 600,874 | |
| Other local revenues | 1,903 | |
| Proceeds from land purchase contract | 274,300 | 877,077 |
| | | 1,123,933 |
| Expenditures/transfer out: | | |
| School infrastructure construction | 54,483 | |
| Land purchased | 274,300 | |
| Equipment | 64,248 | |
| Other | 93,815 | |
| Transfer to another fund: | | |
| Debt service fund | 179,689 | 666,535 |
| | | |
| Ending Balance | | \$ 457,398 |

For the year ended June 30, 2014, the District reduced the following levy as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

| | Rate of Levy Reduction Per \$1000 of Taxable Valuation | Property Tax Dollars Reduced |
|-------------------|--|---------------------------------------|
| Debt service levy | \$ 0.92863 | \$ 179,689 |

II-M-14 Non-Certified Coaches Timesheets - We noted during our audit that the District does not maintain timesheets for coaches and other non-certified employees. The Department of Labor requires these be maintained to ensure employees are receiving at least the minimum wage.

Recommendation - The timesheets must be maintained to comply with Department of Labor requirements.

Response - The District has implemented procedures to track non-certified staff's coaching hours.

Conclusion - Response accepted.

II-N-14 Financial Condition - We noted three accounts within the Student Activity Fund with deficit balances totaling \$4,296. We also noted the School Nutrition Fund had deficit unrestricted net position of \$11,694.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

Response - The District will continue to monitor these funds closely.

Conclusion - Response accepted.

II-O-14 Check Signatures - During our audit we noted instances of District checks which were signed only by the Board Secretary. Chapter 291.1 of the Code of Iowa requires the District's Board President to sign all checks. Also pursuant to this section, the Board President may designate an individual to sign warrants on his/her behalf.

Recommendation - The District should review procedures in place to ensure that the proper signatures are on all checks in order to be in compliance with Chapter 291.1.

Response - The District made changes to its procedures to ensure this does not happen in the future.

Conclusion - Response accepted.