

HUDSON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2015

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		4-6
Management's Discussion and Analysis		7-17
<b>Basic Financial Statements:</b>	<b><u>Exhibit</u></b>	
<i>Government-wide Financial Statements:</i>		
Statement of Net Position	A	20
Statement of Activities	B	21
<i>Governmental Fund Financial Statements:</i>		
Balance Sheet	C	22
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	D	23
Statement of Revenues, Expenditures and Changes in Fund Balances	E	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	25
<i>Proprietary Fund Financial Statements:</i>		
Statement of Net Position	G	26
Statement of Revenues, Expenses and Changes in Fund Net Position	H	27
Statement of Cash Flows	I	28
<i>Fiduciary Fund Financial Statements:</i>		
Statement of Fiduciary Net Position	J	29
Statement of Changes in Fiduciary Net Position	K	30
Notes to Financial Statements		31-45
<b>Required Supplementary Information:</b>		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		48
Notes to Required Supplementary Information - Budgetary Reporting		49
Schedule of the District's Proportionate Share of the Net Pension Liability		50
Schedule of District Contributions		51
Notes to Required Supplementary Information - Pension Liability		52-53
Schedule of Funding Progress for the Retiree Health Plan		54
<b>Supplementary Information:</b>	<b><u>Schedule</u></b>	
<i>Nonmajor Governmental Funds:</i>		
Combining Balance Sheet	1	56
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	57
<i>Capital Projects Accounts:</i>		
Combining Balance Sheet	3	58
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	4	59
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	60
<i>Internal Service Funds:</i>		
Combining Schedule of Net Position	6	61
Combining Schedule of Revenues, Expenses and Changes in Fund Balances	7	62
Combining Schedule of Cash Flows	8	63
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	9	64
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	10	65
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		66-67
Schedule of Findings		68-72

**Hudson Community School District**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
Jerry Griffith	President	2017
Tanya Higgins	Vice President	2015
Karyn Finn	Board Member	2015
Liz Folladori	Board Member	2017
Traci Trunck	Board Member	2017
<b>School Officials</b>		
Anthony D. Voss	Superintendent	2015
Chad Wagner	Business Manager	2015
Kimberly Lubbert	Board Secretary	2015
Swisher & Cohrt	Attorney	2015

**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, 2015, 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, 2015, 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.

### **Emphasis of Matter**

As discussed in Note 15 to the financial statements, Hudson Community School District adopted new accounting guidance related to Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 17 and 48 through 54 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 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 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 two years ended June 30, 2014 (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 seven 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 January 12, 2016 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.

January 12, 2016  
Newton, Iowa

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2015. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2015 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$7,915,781 in fiscal year 2014 to \$7,957,411 in fiscal year 2015, while General Fund expenditures increased from \$7,079,676 in fiscal year 2014 to \$7,419,200 in fiscal year 2015. The District's General Fund balance increased from \$2,174,480 at June 30, 2014 to \$2,712,691 at June 30, 2015, a 24.75% increase.
- The increase in General Fund revenues occurred mainly in state sources received as compared to the previous year. The increase in expenditures was due primarily from an increase in instruction expenditures incurred compared to the prior year.

### **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.

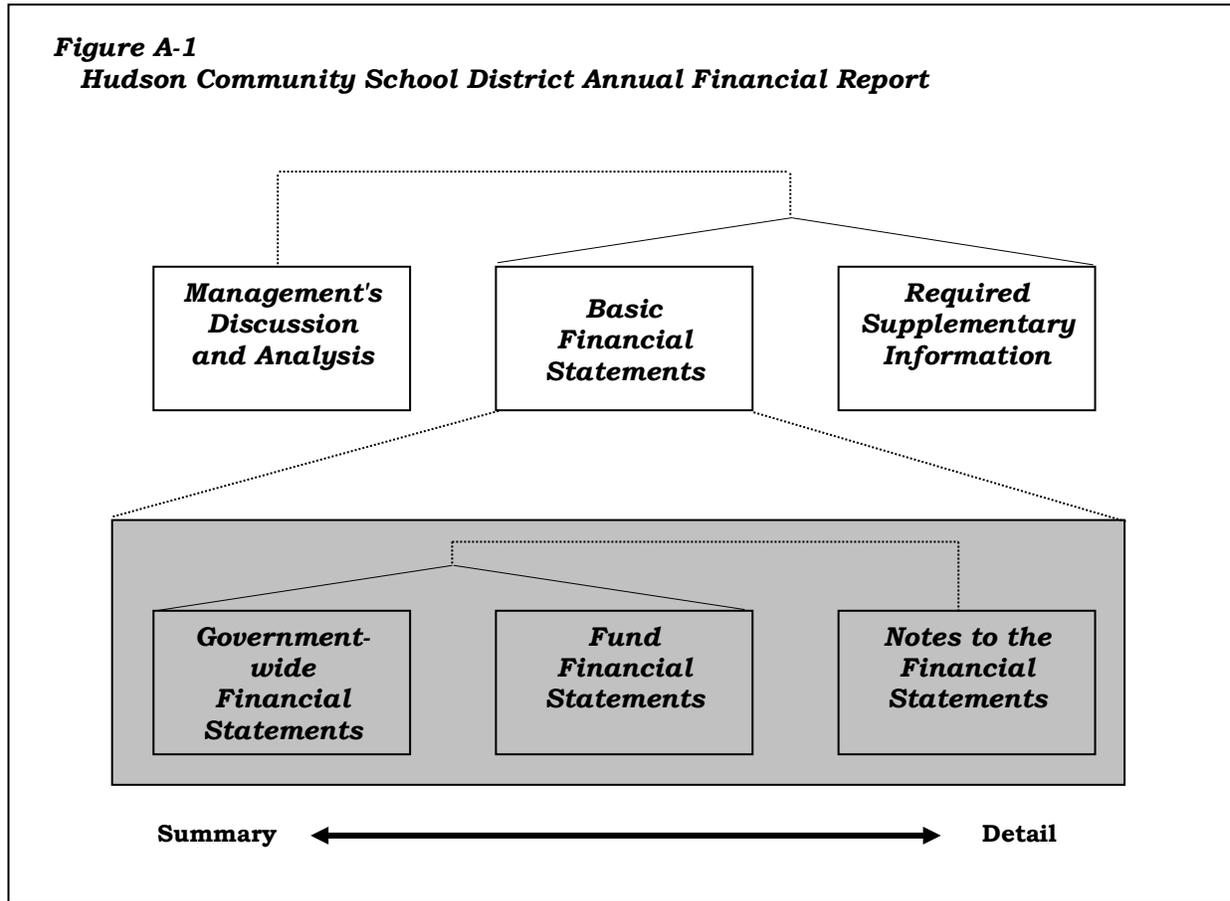
The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Hudson Community School District's operations in more detail than the government-wide statements by providing information about the 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, the District's proportionate share of the net pension liability and related contributions, 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.

<b>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</b>				
	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	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"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and changes in fund net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of deferred outflow / inflow information	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/ acquisition of fund balance that is applicable to a future reporting period	Consumption/ acquisition of net position that is applicable to a future reporting period	Consumption/ acquisition of net position that is applicable to a future reporting period.
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

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## **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 two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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

The required financial statements for the governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

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- 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.
- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
  - Agency Fund – 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, 2015 compared to June 30, 2014.

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		2014		2014		2014-15
	2015	(Not Restated)	2015	(Not Restated)	2015	(Not Restated)	
Current and other assets	\$ 8,544,906	8,309,997	5,692	26,274	8,550,598	8,336,271	2.57%
Capital assets	7,651,120	7,573,207	41,815	38,898	7,692,935	7,612,105	1.06%
Total assets	16,196,026	15,883,204	47,507	65,172	16,243,533	15,948,376	1.85%
Deferred outflows of resources	625,918	-	13,742	-	639,660	-	100.00%
Long-term liabilities	3,116,457	657,150	62,511	15,267	3,178,968	672,417	372.77%
Other liabilities	1,056,628	1,048,763	5,364	22,701	1,061,992	1,071,464	-0.88%
Total liabilities	4,173,085	1,705,913	67,875	37,968	4,240,960	1,743,881	143.19%
Deferred inflows of resources	3,860,040	2,939,281	21,753	-	3,881,793	2,939,281	32.07%
Net position:							
Net investment in capital assets	7,558,686	7,389,340	41,815	38,898	7,600,501	7,428,238	2.32%
Restricted	1,376,074	1,190,819	-	-	1,376,074	1,190,819	15.56%
Unrestricted	(145,941)	2,657,851	(70,194)	(11,694)	(216,135)	2,646,157	-108.17%
Total net position	\$ 8,788,819	11,238,010	(28,379)	27,204	8,760,440	11,265,214	-22.23%

The District's combined net position decreased by 22.23% or \$2,504,774 from the prior year. A large portion of the District's net position is invested in capital assets, net of 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 increased \$185,255 or 15.56% from the prior year. The increase in restricted net position can be attributed to the increase in fund balance of the Capital Projects: Statewide Sales, Services and Use Tax 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 - decreased \$2,862,292 or 108.17%. The decrease in unrestricted net position was primarily due to the District's net pension liability net pension expense recorded in the current year.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 for governmental activities and business type activities were restated by \$3,072,060 and \$69,106, respectively, to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Fiscal year 2013 and 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the

past, pension expense was the amount of employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

**Figure A-4** shows the changes in net position for the year ended June 30, 2015 compared to the year ended June 30, 2014.

	Figure A-4 Change in Net Position						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2014		2014		2014		2014-15
	2015	(Not Restated)	2015	(Not Restated)	2015	(Not Restated)	
Revenues:							
Program revenues:							
Charges for service	\$ 1,187,800	1,275,589	191,395	197,826	1,379,195	1,473,415	-6.39%
Operating grants, contributions and restricted interest	453,357	447,578	117,359	121,703	570,716	569,281	0.25%
Capital grants, contributions and restricted interest	1,000	3,181	-	-	1,000	3,181	-68.56%
General revenues:							
Property tax	2,956,826	3,035,626	-	-	2,956,826	3,035,626	-2.60%
Income surtax	108,595	328,051	-	-	108,595	328,051	-66.90%
Statewide sales, services and use tax	637,834	600,874	-	-	637,834	600,874	6.15%
Unrestricted state grants	3,936,378	3,727,710	-	-	3,936,378	3,727,710	5.60%
Unrestricted investment earnings	20,920	20,051	21	40	20,941	20,091	4.23%
Other	107,610	18,825	11,040	1,022	118,650	19,847	497.82%
Total revenues	9,410,320	9,457,485	319,815	320,591	9,730,135	9,778,076	-0.49%
Program expenses:							
Governmental activities:							
Instructional	5,695,589	5,426,786	-	-	5,695,589	5,426,786	4.95%
Support services	2,220,334	2,403,582	-	-	2,220,334	2,403,582	-7.62%
Non-instructional programs	18,157	13,563	314,800	324,086	332,957	337,649	-1.39%
Other expenses	844,863	624,302	-	-	844,863	624,302	35.33%
Total expenses	8,778,943	8,468,233	314,800	324,086	9,093,743	8,792,319	3.43%
Excess(Deficiency) of revenues over(under) expenses	631,377	989,252	5,015	(3,495)	636,392	985,757	-35.44%
Transfers	(8,508)	-	8,508	-	-	-	0.00%
Change in net position	622,869	989,252	13,523	(3,495)	636,392	985,757	-35.44%
Net position beginning of year, as restated	8,165,950	10,248,758	(41,902)	30,699	8,124,048	10,279,457	-20.97%
Net position end of year	\$ 8,788,819	11,238,010	(28,379)	27,204	8,760,440	11,265,214	-22.23%

In fiscal year 2015, property tax and unrestricted state grants account for 73.25% of the revenue from governmental activities, while charges for service and operating grants and contributions account for 96.54% of the revenue from business type activities.

The District's total revenues were approximately \$9.73 million, of which approximately \$9.41 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 a decrease of 0.49% in revenues and a 3.43% increase in expenditures as compared to the prior year.

**Governmental Activities**

Revenues for governmental activities were \$9,410,320 and expenses were \$8,778,943 for the year ended June 30, 2015.

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, 2015 compared to the year ended June 30, 2014.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2015	2014 (Not Restated)	Change 2014-15	2015	2014 (Not Restated)	Change 2014-15
	Instruction	\$ 5,695,589	5,426,786	4.95%	4,396,365	4,034,040
Support services	2,220,334	2,403,582	-7.62%	2,163,076	2,351,080	-8.00%
Non-instructional programs	18,157	13,563	33.87%	18,157	13,563	33.87%
Other expenses	844,863	624,302	35.33%	559,188	343,202	62.93%
Totals	\$ 8,778,943	8,468,233	3.67%	7,136,786	6,741,885	5.86%

For the year ended June 30, 2015:

- The cost financed by users of the District’s programs was \$1,187,800.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$454,357.
- The net cost of governmental activities was financed with \$2,956,826 in property tax, \$108,595 in income surtax, \$637,834 in statewide sales, services and use tax, \$3,936,378 in unrestricted state grants, \$20,920 in interest income and \$107,610 in other general revenues.

**Business Type Activities**

Revenues of the District’s business type activities were \$319,815 and expenses were \$314,800 for the year ended June 30, 2015. 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, investment income and other general revenues.

**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 \$3,924,880, above last year’s ending fund balances of \$3,417,820. This increase is primarily attributable to the increase of the General Fund balance during fiscal year 2015.

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## **Governmental Fund Highlights**

- The District's General Fund financial position is the result of many factors. The General Fund increased from a balance of \$2,174,480 at June 30, 2014 to \$2,712,691 at June 30, 2015. This represents an increase of \$538,211 or 24.75%. The increase in the General Fund balance is primarily attributable to increased revenue from state sources as compared to the previous year.
- The Capital Projects Fund balance decreased from \$797,056 at June 30, 2014 to \$752,359 at June 30, 2015. As compared to the prior year, the decrease in fund balance can be attributed to continued capital outlay expenditures on District construction projects.

## **Proprietary Fund Highlights**

The Enterprise, Nutrition Fund's net position increased from a restated deficit net position of \$41,902 at July 1, 2014 to a deficit of \$28,379 at June 30, 2015, representing an increase of approximately 32.28%. This increase can be attributed partly to increases in capital contributions received as well as a decrease in expenditures incurred compared to the prior year.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Hudson Community School District amended its budget one time to reflect additional expenditures associated with teacher leadership and lease agreements during the year.

The District's total revenues were \$296,712 more than budgeted revenues, a variance of 3.08%. The most significant variance resulted from the District receiving more in state sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2015, the District had invested \$7,692,935, 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 1.06% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$631,081.

The original cost of the District's capital assets was \$15,080,417. Governmental funds account for \$14,881,398 with the remainder of \$199,019 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in land improvement category. Land improvements totaled \$1,042,239 reported at June 30, 2014, compared to \$1,409,481 reported at June 30, 2015.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014	2015	2014	2015	2014	2014-15
Land	\$ 391,082	391,082	-	-	391,082	391,082	0.00%
Construction in progress	118,045	118,045	-	-	118,045	118,045	0.00%
Buildings	5,449,033	5,768,031	-	-	5,449,033	5,768,031	-5.53%
Land improvements	1,409,481	1,042,239	-	-	1,409,481	1,042,239	35.24%
Machinery and equipment	283,479	253,810	41,815	38,898	325,294	292,708	11.13%
Total	\$ 7,651,120	7,573,207	41,815	38,898	7,692,935	7,612,105	1.06%

### Long-Term Debt

At June 30, 2015, the District had \$3,178,968 in other long-term debt outstanding. (See Figure A-7) Of the total long-term debt remaining, \$219,915 is due within one year. 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 \$176,980 at June 30, 2015. Both computer leases are payable from the Capital Projects: Physical Plant and Equipment Levy Fund.

The District had a land purchase contract payable totaling \$92,434 at June 30, 2015. 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 \$87,137.

The District had a net pension liability of \$2,592,724 at June 30, 2015. Of this, \$2,535,684 is attributable to governmental activities with the remaining \$57,040 attributable to the business activities of the District.

The District had a net OPEB liability of \$229,693 at June 30, 2015. Of this, \$224,222 is attributable to governmental activities with the remaining \$5,471 attributable to the business activities of the District.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014	2015	2014	2015	2014	2014-15
		(Not Restated)		(Not Restated)		(Not Restated)	
Computer lease	176,980	274,958	-	-	176,980	274,958	-35.63%
Land purchase contract	92,434	183,867	-	-	92,434	183,867	-49.73%
Termination benefits	87,137	32,277	-	-	87,137	32,277	169.97%
Net pension liability	2,535,684	-	57,040	-	2,592,724	-	100.00%
Net OPEB liability	224,222	166,048	5,471	15,267	229,693	181,315	26.68%
Total	\$ 3,116,457	657,150	62,511	15,267	3,178,968	672,417	372.77%

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## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District boundaries to the north reach into the City of Cedar Falls. The Cedar Falls Industrial Park and other developments continue to move south. 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.
- 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.

**Hudson Community School District**

## **Basic Financial Statements**

HUDSON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2015

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 5,333,075	1,301	5,334,376
Receivables:			
Property tax:			
Delinquent	17,130	-	17,130
Succeeding year	2,893,003	-	2,893,003
Income surtax	79,919	-	79,919
Accounts	6,443	-	6,443
Due from other governments	215,336	-	215,336
Inventories	-	4,391	4,391
Capital assets, net of accumulated depreciation	7,651,120	41,815	7,692,935
<b>Total Assets</b>	<b>16,196,026</b>	<b>47,507</b>	<b>16,243,533</b>
<b>Deferred Outflows of Resources</b>			
Pension related deferred outflows	625,918	13,742	639,660
<b>Liabilities</b>			
Accounts payable	241,993	-	241,993
Salaries and benefits payable	757,786	-	757,786
Computer deposit payable	6,900	-	6,900
Incurred but not reported claims	45,000	-	45,000
Accrued interest payable	4,949	-	4,949
Unearned revenue	-	5,364	5,364
Long-term liabilities:			
Portion due within one year:			
Computer leases payable	98,346	-	98,346
Land purchase contract payable	92,434	-	92,434
Termination benefits payable	29,135	-	29,135
Portion due after one year:			
Computer leases payable	78,634	-	78,634
Termination benefits payable	58,002	-	58,002
Net pension liability	2,535,684	57,040	2,592,724
Net OPEB liability	224,222	5,471	229,693
<b>Total Liabilities</b>	<b>4,173,085</b>	<b>67,875</b>	<b>4,240,960</b>
<b>Deferred Inflows of Resources</b>			
Unavailable property tax revenue	2,893,003	-	2,893,003
Pension related deferred inflows	967,037	21,753	988,790
<b>Total Deferred Inflows of Resources</b>	<b>3,860,040</b>	<b>21,753</b>	<b>3,881,793</b>
<b>Net Position</b>			
Net investment in capital assets	7,558,686	41,815	7,600,501
Restricted for:			
Categorical funding	251,022	-	251,022
Management levy	254,903	-	254,903
Student activities	117,790	-	117,790
School infrastructure	550,040	-	550,040
Physical plant and equipment levy	202,319	-	202,319
Unrestricted	(145,941)	(70,194)	(216,135)
<b>Total Net Position</b>	<b>\$ 8,788,819</b>	<b>(28,379)</b>	<b>8,760,440</b>

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 3,745,862	641,238	26,142	-	(3,078,482)	-	(3,078,482)
Special	1,054,187	116,165	79,253	-	(858,769)	-	(858,769)
Other	895,540	386,703	49,723	-	(459,114)	-	(459,114)
	<u>5,695,589</u>	<u>1,144,106</u>	<u>155,118</u>	<u>-</u>	<u>(4,396,365)</u>	<u>-</u>	<u>(4,396,365)</u>
Support services:							
Student	320,539	-	-	-	(320,539)	-	(320,539)
Instructional staff	329,878	-	8,835	-	(321,043)	-	(321,043)
Administration	722,633	43,694	-	-	(678,939)	-	(678,939)
Operation and maintenance of plant	569,457	-	-	1,000	(568,457)	-	(568,457)
Transportation	277,827	-	3,729	-	(274,098)	-	(274,098)
	<u>2,220,334</u>	<u>43,694</u>	<u>12,564</u>	<u>1,000</u>	<u>(2,163,076)</u>	<u>-</u>	<u>(2,163,076)</u>
Non-instructional programs:							
Food service operations	18,157	-	-	-	(18,157)	-	(18,157)
Long-term debt interest							
	7,921	-	-	-	(7,921)	-	(7,921)
Other expenditures:							
AEA flowthrough	285,675	-	285,675	-	-	-	-
Depreciation(unallocated)*	551,267	-	-	-	(551,267)	-	(551,267)
	<u>836,942</u>	<u>-</u>	<u>285,675</u>	<u>-</u>	<u>(551,267)</u>	<u>-</u>	<u>(551,267)</u>
Total governmental activities	<u>8,778,943</u>	<u>1,187,800</u>	<u>453,357</u>	<u>1,000</u>	<u>(7,136,786)</u>	<u>-</u>	<u>(7,136,786)</u>
Business type activities:							
Non-instructional programs:							
Food service operations	314,800	191,395	117,359	-	-	(6,046)	(6,046)
Total primary government	<u>\$ 9,093,743</u>	<u>1,379,195</u>	<u>570,716</u>	<u>1,000</u>	<u>(7,136,786)</u>	<u>(6,046)</u>	<u>(7,142,832)</u>
<b>General Revenues:</b>							
Property tax levied for:							
General purposes				\$ 2,622,258	-	2,622,258	
Capital outlay				334,568	-	334,568	
Income surtax				108,595	-	108,595	
Statewide sales, services and use tax				637,834	-	637,834	
Unrestricted state grants				3,936,378	-	3,936,378	
Unrestricted investment earnings				20,920	21	20,941	
Other				107,610	11,040	118,650	
Transfers				(8,508)	8,508	-	
Total general revenues and transfers				<u>7,759,655</u>	<u>19,569</u>	<u>7,779,224</u>	
Change in net position				622,869	13,523	636,392	
Net position beginning of year, as restated				<u>8,165,950</u>	<u>(41,902)</u>	<u>8,124,048</u>	
Net position end of year				<u>\$ 8,788,819</u>	<u>(28,379)</u>	<u>8,760,440</u>	

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

	General	Capital Projects	Nonmajor	Total
<b>Assets</b>				
Cash and pooled investments	\$ 3,528,038	662,762	462,334	4,653,134
Receivables:				
Property tax:				
Delinquent	13,890	1,927	1,313	17,130
Succeeding year	2,251,746	341,257	300,000	2,893,003
Income surtax	79,919	-	-	79,919
Accounts	312	960	105	1,377
Due from other governments	116,103	99,197	36	215,336
<b>Total Assets</b>	<b>\$ 5,990,008</b>	<b>1,106,103</b>	<b>763,788</b>	<b>7,859,899</b>
<b>Liabilities, Deferred Outflows of Resources and Fund Balances</b>				
Liabilities:				
Accounts payable	180,966	12,487	3,958	197,411
Salaries and benefits payable	757,786	-	-	757,786
Computer deposit payable	6,900	-	-	6,900
Total liabilities	945,652	12,487	3,958	955,197
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	2,251,746	341,257	300,000	2,893,003
Income surtax	79,919	-	-	79,919
Total deferred inflows of resources	2,331,665	341,257	300,000	2,972,922
Fund balances:				
Restricted for:				
Categorical funding	251,022	-	-	251,022
Management levy purposes	-	-	342,040	342,040
Student activities	-	-	117,790	117,790
School infrastructure	-	550,040	-	550,040
Physical plant and equipment levy	-	202,319	-	202,319
Unassigned:				
General	2,461,669	-	-	2,461,669
Total fund balances	2,712,691	752,359	459,830	3,924,880
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 5,990,008</b>	<b>1,106,103</b>	<b>763,788</b>	<b>7,852,999</b>

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2015

<b>Total fund balances of governmental funds(page 22)</b>		\$ 3,924,880
 <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.		7,651,120
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.		79,919
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		595,425
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.		(4,949)
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:		
Deferred outflows of resources	\$ 625,918	
Deferred inflows of resources	<u>(967,037)</u>	(341,119)
Long-term liabilities, including termination benefits payable, computer leases payable, land lease payable, other postemployment benefits payable and net pension liability, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.		<u>(3,116,457)</u>
<b>Net position of governmental activities(page 20)</b>		<u><u>\$ 8,788,819</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, 2015

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 2,718,769	334,568	226,266	3,279,603
Tuition	693,033	-	-	693,033
Other	164,638	3,325	466,727	634,690
State sources	4,231,141	640,990	2,090	4,874,221
Federal sources	142,955	-	-	142,955
Total revenues	<u>7,950,536</u>	<u>978,883</u>	<u>695,083</u>	<u>9,624,502</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,597,178	-	100,128	3,697,306
Special	1,068,655	-	-	1,068,655
Other	488,095	-	414,857	902,952
	<u>5,153,928</u>	<u>-</u>	<u>514,985</u>	<u>5,668,913</u>
Support services:				
Student	327,746	-	9,136	336,882
Instructional staff	190,853	141,193	-	332,046
Administration	729,307	20,874	999	751,180
Operation and maintenance of plant	516,790	23,753	117,023	657,566
Transportation	214,901	104,467	20,237	339,605
	<u>1,979,597</u>	<u>290,287</u>	<u>147,395</u>	<u>2,417,279</u>
Non-instructional programs:				
Food service operations	-	-	18,157	18,157
Capital outlay	-	536,082	-	536,082
Long-term debt:				
Principal	-	-	189,411	189,411
Interest and fiscal charges	-	-	12,053	12,053
	<u>-</u>	<u>-</u>	<u>201,464</u>	<u>201,464</u>
Other expenditures:				
AEA flowthrough	285,675	-	-	285,675
Total expenditures	<u>7,419,200</u>	<u>826,369</u>	<u>882,001</u>	<u>9,127,570</u>
Excess(Deficiency) of revenues over(under) expenditures	531,336	152,514	(186,918)	496,932
Other financing sources(uses):				
Transfer in	1,000	-	201,464	202,464
Transfer out	-	(201,464)	(1,000)	(202,464)
Insurance proceeds	5,875	4,253	-	10,128
Total other financing sources(uses)	<u>6,875</u>	<u>(197,211)</u>	<u>200,464</u>	<u>10,128</u>
Change in fund balances	538,211	(44,697)	13,546	507,060
Fund balances beginning of year	<u>2,174,480</u>	<u>797,056</u>	<u>446,284</u>	<u>3,417,820</u>
Fund balances end of year	<u>\$ 2,712,691</u>	<u>752,359</u>	<u>459,830</u>	<u>3,924,880</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, 2015

**Change in fund balances - total governmental funds(page 24)** \$ 507,060

*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	\$ 703,403	
Depreciation expense	<u>(625,490)</u>	77,913

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position. 189,411

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. 4,132

Income surtax account receivable is not considered available revenue and is recognized as deferred inflows of resources in the governmental funds. (214,182)

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (23,688)

The current year District employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position. 404,252

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Termination benefits	(54,860)	
Pension expense	(208,995)	
Other post employment benefits	<u>(58,174)</u>	<u>(322,029)</u>

**Change in net position of governmental activities(page 21)** \$ 622,869

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2015

	Business Type	
	Activities- Enterprise Fund School Nutrition	Governmental Activities- Internal Service Fund
<b>Assets</b>		
Cash and pooled investments	\$ 1,301	679,941
Accounts receivable	-	5,066
Inventories	4,391	-
Capital assets, net of accumulated depreciation	41,815	-
<b>Total Assets</b>	<b>47,507</b>	<b>685,007</b>
<b>Deferred Outflows of Resources</b>		
Pension related deferred outflows	13,742	-
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	-	44,582
Incurred but not reported claims	-	45,000
Unearned revenue	5,364	-
Total current liabilities	5,364	89,582
Noncurrent liabilities:		
Net pension liability	57,040	-
Net OPEB liability	5,471	-
Total noncurrent liabilities	62,511	-
<b>Total Liabilities</b>	<b>67,875</b>	<b>89,582</b>
<b>Deferred Inflows of Resources</b>		
Pension related deferred inflows	21,753	-
<b>Net Position</b>		
Net investment in capital assets	41,815	-
Unrestricted	(70,194)	595,425
<b>Total Net Position</b>	<b>\$ (28,379)</b>	<b>595,425</b>

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, 2015

	Business Type Activities- Enterprise Fund School Nutrition	Governmental Activites- Internal Service Fund
Operating revenues:		
Local sources:		
Charges for service	\$ 191,395	-
Miscellaneous	11,040	672,741
Total operating revenues	<u>202,435</u>	<u>672,741</u>
Operating expenses:		
Non-instructional programs:		
Salaries	100,089	-
Benefits	26,988	-
Services	12,099	-
Supplies	170,033	-
Depreciation	5,591	-
	<u>314,800</u>	<u>-</u>
Other enterprise operations:		
Benefits	-	696,137
Services	-	100
Other	-	2,864
Total operating expenses	<u>314,800</u>	<u>699,101</u>
Operating loss	<u>(112,365)</u>	<u>(26,360)</u>
Non-operating revenues:		
State sources	2,145	-
Federal sources	115,214	-
Interest income	21	2,672
Total non-operating revenues	<u>117,380</u>	<u>2,672</u>
Change in net position before other financing sources	5,015	(23,688)
Other financing sources:		
Capital contribution	<u>8,508</u>	<u>-</u>
Change in net position	13,523	(23,688)
Net position beginning of year, as restated	<u>(41,902)</u>	<u>619,113</u>
Net position end of year	<u>\$ (28,379)</u>	<u>595,425</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2015

	Business Type Activities- Enterprise Fund School Nutrition	Governmental Activites- Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 191,393	-
Cash received from miscellaneous	11,040	667,675
Cash paid to employees for services	(158,263)	-
Cash paid to suppliers for goods or services	(174,873)	(654,519)
Net cash provided by(used in) operating activities	<u>(130,703)</u>	<u>13,156</u>
Cash flows from non-capital financing activities:		
State grants received	2,145	-
Federal grants received	106,206	-
Net cash provided by non-capital financing activities	<u>108,351</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	21	2,672
Net increase(decrease) in cash and pooled investments	(22,331)	15,828
Cash and pooled investments beginning of year	23,632	664,113
Cash and pooled investments end of year	<u>\$ 1,301</u>	<u>679,941</u>
<b>Reconciliation of operating loss to net cash provided by(used in) operating activities:</b>		
Operating loss	\$ (112,365)	(26,360)
Adjustments to reconcile operating loss to net cash provided by(used by) operating activities:		
Commodities consumed	9,008	-
Depreciation	5,591	-
Increase in inventories	(1,749)	-
Increase in accounts receivable	-	(5,066)
Increase in accounts payable	-	44,582
Decrease in salaries and benefits payable	(17,335)	-
Decrease in deferred revenue	(2)	-
Decrease in net pension liability	(20,470)	-
Increase in deferred outflows of resources	(5,338)	-
Increase in deferred inflows of resources	21,753	-
Decrease in other postemployment benefits	(9,796)	-
Net cash provided by(used in) operating activities	<u>\$ (130,703)</u>	<u>13,156</u>

**Non-cash investing, capital and related financing activities:**

During the year ended June 30, 2015, the District received Federal commodities valued at \$9,008.

During the year ended June 30, 2015, the School Nutrition received capital contributions of \$8,508 from the Capital Projects: Physical Plant and Equipment Levy Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
JUNE 30, 2015

	<u>Private Purpose Trust Scholarship</u>
<b>Assets</b>	
Cash and pooled investments	<u>\$ 71,369</u>
<b>Net Position</b>	
Held in trust for scholarships	<u><u>\$ 71,369</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2015

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 3,050
Interest	219
Total additions	<u>3,269</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>3,656</u>
Change in net position	(387)
Net position beginning of year	<u>71,756</u>
Net position end of year	<u><u>\$ 71,369</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

HUDSON COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

**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. The Hudson Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Position 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, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds. Combining schedules are also included for the Capital Project Fund accounts and the Districts Internal Service Fund.

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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity**

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

Cash, Cash Equivalents and 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, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2014.

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

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

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.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. 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 inflows of resources 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 inflows of resources consists of property tax receivables and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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 Equity - In the governmental fund financial statements, fund balances are classified as follows:

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

Unassigned - All amounts not included in the preceding classifications.

### **E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2015, District expenditures exceeded the amount budgeted in the other expenditures functional area.

### **Note 2. Cash and Pooled Investments**

The District's deposits at June 30, 2015 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, 2015, the District had an investment in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which is valued at an amortized cost of \$0 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was AAA by Standard and Poor's Financial Services.

**Note 3. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Management Levy	\$ 1,000
Debt Service	Capital Projects: Physical Plant and Equipment Levy	100,762
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	100,702
Total		<u>\$ 202,464</u>

The transfer from the Special Revenue: Management Levy to the General Fund was needed for an insurance deductible for boiler damage.

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.

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 land lease indebtedness.

**Note 4. Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2015 are summarized as follows:

	Balance Beginning of Year, Restated	Additions	Deletions	Balance End of Year	Due Within One Year
<b>Governmental activities:</b>					
Computer lease	\$ 274,958	-	97,978	176,980	98,346
Land purchase contract	183,867	-	91,433	92,434	92,434
Termination benefits	32,277	105,982	51,122	87,137	29,135
Net pension liability	3,445,671	-	909,987	2,535,684	-
Net OPEB liability	166,048	58,174	-	224,222	-
Total	<u>\$ 4,102,821</u>	<u>164,156</u>	<u>1,150,520</u>	<u>3,116,457</u>	<u>219,915</u>
<b>Business type activities:</b>					
Net pension liability	\$ 77,510	-	20,470	57,040	-
Net OPEB liabilities	15,267	-	9,796	5,471	-
Total	<u>\$ 92,777</u>	<u>-</u>	<u>30,266</u>	<u>62,511</u>	<u>-</u>

**Computer Lease**

Details of the District's June 30, 2015 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
2016	4.81 %	\$ 19,725	374	2.52 %	\$ 78,621	2,042	\$ 98,346	2,416	100,762
2017		-	-	2.52	79,634	1,028	79,634	1,028	80,662
Total		<u>\$ 19,725</u>	<u>374</u>		<u>\$ 158,255</u>	<u>3,070</u>	<u>\$ 177,980</u>	<u>3,444</u>	<u>181,424</u>

**Land Purchase Contract**

In fiscal year 2014 the District entered into a land purchase contract agreement with Tom and Lana Peterson totaling \$274,300. The remaining balance of \$92,434 at June 30, 2015 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**

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, 2015, the District had obligations to eight participants with a total liability of \$87,137. Actual early retirement expenditures for the year ended June 30, 2015 totaled \$51,122.

**Note 5. Capital Assets**

Capital assets activity for the year ended June 30, 2015 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 391,082	-	-	391,082
Construction in progress	118,045	-	-	118,045
Total capital assets not being depreciated	509,127	-	-	509,127
Capital assets being depreciated:				
Buildings	11,293,881	184,766	-	11,478,647
Land improvements	1,533,811	414,745	-	1,948,556
Machinery and equipment	866,075	103,892	24,899	945,068
Total capital assets being depreciated	13,693,767	703,403	24,899	14,372,271
Less accumulated depreciation for:				
Buildings	5,525,850	503,764	-	6,029,614
Land improvements	491,572	47,503	-	539,075
Machinery and equipment	612,265	74,223	24,899	661,589
Total accumulated depreciation	6,629,687	625,490	24,899	7,230,278
Total capital assets being depreciated, net	7,064,080	77,913	-	7,141,993
Governmental activities capital assets, net	\$ 7,573,207	77,913	-	7,651,120
<b>Business type activities:</b>				
Machinery and equipment	\$ 226,254	8,508	35,743	199,019
Less accumulated depreciation	187,356	5,591	35,743	157,204
Business type activities capital assets, net	\$ 38,898	2,917	-	41,815

Depreciation expense was charged by the District as follows:

<b>Governmental activities:</b>	
Instruction:	
Regular	\$ 14,913
Other	10,382
Support services:	
Administration	2,381
Transportation	46,547
	74,223
Unallocated depreciation	551,267
Total governmental activities depreciation expense	\$ 625,490
<b>Business type activities:</b>	
Food service operations	\$ 5,591

## **Note 6. Pension Plan**

**Plan Description** - IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

**Pension Benefits** - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

**Disability and Death Benefits** - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

**Contributions** - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the District contributed 8.93 percent for a total rate of 14.88 percent.

The District's contributions to IPERS for the year ended June 30, 2015 were \$413,008.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the District reported a liability of \$2,592,724 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the District's collective proportion was .064064 percent, which was an increase of .001839 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$213,696. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 28,178	\$ -
Changes of assumptions	114,423	-
Net difference between projected and actual earnings on pension plan investments	-	988,790
Changes in proportion and differences between District contributions and proportionate share of contributions	84,051	-
District contributions subsequent to the measurement date	413,008	-
<b>Total</b>	<b>\$ 639,660</b>	<b>\$ 988,790</b>

\$413,008 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (194,241)
2017	(194,241)
2018	(194,241)
2019	(194,241)
2020	14,828
	<u>\$ (762,136)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	2	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentagepoint higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 4,898,879	\$ 2,592,724	\$ 646,090

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payables to the Pension Plan - At June 30, 2015, the District reported payables to the defined benefit pension plan of \$58,428 for legally required employer contributions and \$38,930 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**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. Retired 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, 2015, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 65,437
Interest on net OPEB obligation	4,533
Adjustment to annual required contribution	(12,371)
Annual OPEB cost	<u>57,599</u>
Contributions made	(9,221)
Increase in net OPEB obligation	<u>48,378</u>
Net OPEB obligation beginning of year	<u>181,315</u>
Net OPEB obligation end of year	<u><u>\$ 229,693</u></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, 2015.

For the year ended June 30, 2015, the District contributed \$9,221 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, 2015 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	54,044	17.8%	136,884
2014	54,379	18.3%	181,315
2015	57,599	16.0%	229,693

**Funded Status and Funding Progress** - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$310,662, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$310,662. The covered payroll (annual payroll of active employees covered by the plan) was \$3,163,048 and the ratio of the UAAL to covered payroll was 9.8%. As of June 30, 2015, 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 \$595,425 at June 30, 2015 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, 2015.

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 \$285,675 for the year ended June 30, 2015 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, 2015 is comprised of the following programs:

Program	Amount
At-risk supplemental weighting	\$ 10,234
Gifted and talented	44,362
Dropout prevention	88,719
Beginning teacher mentoring and induction	1,347
Professional development for model core curriculum	62,609
Professional development	23,720
Teacher leadership grants	20,031
Total	<u>\$ 251,022</u>

**Note 11. Deficit Unrestricted and Total Net Position**

At June 30, 2015, the District had a deficit unrestricted net position of \$70,194, and a total deficit net position of \$28,379 in its business type activities, and a deficit unrestricted net position of \$145,941 in its governmental activities.

**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, 2015, expenditures exceeded the amount budgeted in the other expenditures functional area.

**Note 13. Construction Commitment**

As of June 30, 2015, costs of \$118,045 had been incurred by the District for a bus barn roofing project. Once the project is completed the costs of the project will be added to the District’s capital assets listing.

**Note 14. 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	Management Levy	Unassigned/ Restricted Balances
<b>Fund Balance (Exhibit C)</b>	\$ -	342,040	2,461,669
Capital assets, net of accumulated depreciation	7,651,120	-	-
Land purchase contract capitalized indebtedness	(92,434)	-	-
Termination benefits payable	-	(87,137)	-
Computer lease payable	-	-	(176,980)
Internal service fund balance	-	-	595,425
Net pension liability	-	-	(2,535,684)
Deferred outflows of resources	-	-	625,918
Deferred inflows of resources	-	-	(967,037)
Net OPEB liability	-	-	(224,222)
Income surtax	-	-	79,919
Accrued interest payable	-	-	(4,949)
<b>Net position(Exhibit A)</b>	<b>\$ 7,558,686</b>	<b>254,903</b>	<b>(145,941)</b>

**Note 15. Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Governmental Activities	Business Type Activities
Net position June 30, 2014, as previously reported	\$ 11,238,010	\$ 27,204
Net pension liability at June 30, 2014	(3,445,671)	(77,510)
Deferred outflows of resources related to the contributions made after the June 30, 2013 measurement date	373,611	8,404
Net position July 1, 2014, as restated	<b>\$ 8,165,950</b>	<b>\$ (41,902)</b>

**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 FUND  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2015

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Actual
Revenues:						
Local sources	\$ 4,607,326	202,456	4,809,782	5,358,100	5,358,100	(548,318)
State sources	4,874,221	2,145	4,876,366	4,085,505	4,085,505	790,861
Federal sources	142,955	115,214	258,169	204,000	204,000	54,169
Total revenues	9,624,502	319,815	9,944,317	9,647,605	9,647,605	296,712
Expenditures/expenses:						
Instruction	5,668,913	-	5,668,913	5,724,400	5,900,000	231,087
Support services	2,417,279	-	2,417,279	2,563,000	2,600,000	182,721
Non-instructional programs	18,157	314,800	332,957	400,000	400,000	67,043
Other expenditures	1,023,221	-	1,023,221	608,695	750,000	(273,221)
Total expenditures/expenses	9,127,570	314,800	9,442,370	9,296,095	9,650,000	207,630
Excess(Deficiency) of revenues over(under) expenditures/expenses	496,932	5,015	501,947	351,510	(2,395)	504,342
Other financing sources, net	10,128	8,508	18,636	-	-	18,636
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	507,060	13,523	520,583	351,510	(2,395)	522,978
Balances beginning of year, as restated	3,417,820	(41,902)	3,375,918	3,185,078	3,185,078	190,840
Balances end of year	\$ 3,924,880	(28,379)	3,896,501	3,536,588	3,182,683	713,818

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2015

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 \$353,905.

During the year ended June 30, 2015, expenditures exceeded the amount budgeted in the other expenditures functional area.

HUDSON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
 YEAR ENDED JUNE 30, 2015  
 REQUIRED SUPPLEMENTARY INFORMATION

	2015
District's proportion of the net pension liability	0.064064%
District's proportionate share of the net pension liability	\$ 2,592,724
District's covered-employee payroll	\$ 4,624,947
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	56.06%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

**Note:** Only the current fiscal year is being presented using a June 30, 2014 measurement date because 10-year data is not yet available.

HUDSON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST TEN FISCAL YEARS  
REQUIRED SUPPLEMENTARY INFORMATION

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 413,008	381,960	348,924	304,371	285,877	272,982	248,974	230,740	220,612	214,307
Contributions in relation to the statutorily required contribution	<u>(413,008)</u>	<u>(381,960)</u>	<u>(348,924)</u>	<u>(304,371)</u>	<u>(285,877)</u>	<u>(272,982)</u>	<u>(248,974)</u>	<u>(230,740)</u>	<u>(220,612)</u>	<u>(214,307)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>								
District's covered-employee payroll	\$ 4,624,950	4,277,268	4,024,498	3,771,636	4,113,338	3,927,799	3,920,850	3,813,884	3,836,730	3,727,078
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.95%	6.35%	6.05%	5.75%	5.75%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION- PENSION LIABILITY  
YEAR ENDED JUNE 30, 2015

**Changes of benefit terms**

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

**Changes of assumptions**

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

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%
2015	July 1, 2012	-	\$ 310,662	310,662	0.0%	\$ 3,163,048	9.8%

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.

## **Supplementary Information**

HUDSON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2015

	Special Revenue		
	Student Activity	Management Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 121,643	340,691	462,334
Receivables:			
Property tax:			
Delinquent	-	1,313	1,313
Succeeding year	-	300,000	300,000
Accounts	105	-	105
Due from other governments	-	36	36
<b>Total Assets</b>	<b>\$ 121,748</b>	<b>642,040</b>	<b>763,788</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 3,958	-	3,958
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	300,000	300,000
Fund balances:			
Restricted for:			
Student activities	117,790	-	117,790
Management levy purposes	-	342,040	342,040
Total fund balances	117,790	342,040	459,830
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 121,748</b>	<b>642,040</b>	<b>763,788</b>

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, 2015

	Special Revenue			Debt Service	Total Nonmajor Governmental Funds
	Student Activity	Management Levy	Total		
Revenues:					
Local sources:					
Local tax	\$ -	226,266	226,266	-	226,266
Other	385,565	81,162	466,727	-	466,727
State sources	-	2,090	2,090	-	2,090
Total revenues	385,565	309,518	695,083	-	695,083
Expenditures:					
Instruction:					
Regular	-	100,128	100,128	-	100,128
Other	414,857	-	414,857	-	414,857
Support services:					
Student	-	9,136	9,136	-	9,136
Administration	-	999	999	-	999
Operation and maintenance of plant	-	117,023	117,023	-	117,023
Transportation	-	20,237	20,237	-	20,237
Non-instructional programs:					
Food service operations	-	18,157	18,157	-	18,157
Long-term debt:					
Principal	-	-	-	189,411	189,411
Interest and fiscal charges	-	-	-	12,053	12,053
Total expenditures	414,857	265,680	680,537	201,464	882,001
Excess(Deficiency) of revenues over(under) expenditures	(29,292)	43,838	14,546	(201,464)	(186,918)
Other financing sources:					
Transfer in	-	-	-	201,464	201,464
Transfer out	-	(1,000)	(1,000)	-	(1,000)
Total other financing sources(uses)	-	(1,000)	(1,000)	201,464	200,464
Change in fund balances	(29,292)	42,838	13,546	-	13,546
Fund balances beginning of year	147,082	299,202	446,284	-	446,284
Fund balances end of year	\$ 117,790	342,040	459,830	-	459,830

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2015

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 461,916	200,846	662,762
Receivables:			
Property tax:			
Delinquent	-	1,927	1,927
Succeeding year	-	341,257	341,257
Accounts	960	-	960
Due from other governments	99,144	53	99,197
<b>Total Assets</b>	<b>\$ 562,020</b>	<b>544,083</b>	<b>1,106,103</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 11,980	507	12,487
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	341,257	341,257
Fund balances:			
Restricted for:			
School infrastructure	550,040	-	550,040
Physical plant and equipment	-	202,319	202,319
Total fund balances	550,040	202,319	752,359
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 562,020</b>	<b>544,083</b>	<b>1,106,103</b>

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, 2015

	Capital Projects		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Revenues:			
Local sources:			
Local tax	\$ -	334,568	334,568
Other	2,646	679	3,325
State sources	637,834	3,156	640,990
Total revenues	<u>640,480</u>	<u>338,403</u>	<u>978,883</u>
Expenditures:			
Current:			
Support services:			
Instructional staff	78,420	62,773	141,193
Administration	-	20,874	20,874
Operation and maintenance of plant	14,480	9,273	23,753
Transportation	80,482	23,985	104,467
Capital outlay	278,007	258,075	536,082
Total expenditures	<u>451,389</u>	<u>374,980</u>	<u>826,369</u>
Excess(Deficiency) of revenues over(under) expenditures	189,091	(36,577)	152,514
Other financing sources(uses):			
Transfer out	(100,702)	(100,762)	(201,464)
Insurance proceeds	4,253	-	4,253
Total other financing sources(uses)	<u>(96,449)</u>	<u>(100,762)</u>	<u>(197,211)</u>
Change in fund balances	92,642	(137,339)	(44,697)
Fund balances beginning year	<u>457,398</u>	<u>339,658</u>	<u>797,056</u>
Fund balances end of year	<u>\$ 550,040</u>	<u>202,319</u>	<u>752,359</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, 2015

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intrafund Transfers	Balance End of Year
Vocal Music	\$ -	1,267	2,805	1,538	-
Vocal Music Trip	1,109	-	-	-	1,109
Physics Club	28	-	-	(28)	-
Photography	33	-	-	(33)	-
National Honor Society	944	3,021	3,169	-	796
Prom Account	-	8,973	7,628	-	1,345
Instrumental Music	-	5,571	5,352	-	219
Band Uniform	689	660	-	-	1,349
Instrumental Music Trip	1,658	-	-	-	1,658
Athletic Adm.	(3,681)	80,332	35,688	(33,889)	7,074
Track	(545)	4,235	8,459	4,769	-
Cross Country	-	-	893	893	-
Soccer	-	325	2,675	2,350	-
Golf	-	1,125	2,263	1,138	-
Basketball	-	-	7,714	7,714	-
Elem. Boys Basketball Camp	15	-	-	(15)	-
Boys Soccer Camp	3,346	-	-	(3,346)	-
Football	(70)	436	6,384	6,018	-
Baseball	-	720	7,659	6,939	-
Baseball Softball Concessions	282	-	-	(282)	-
Wrestling	-	1,841	5,056	3,215	-
Dugout Club	310	-	300	(10)	-
Volleyball	-	520	3,611	3,091	-
Softball	-	240	146	(94)	-
Interest	1,959	971	1,217	-	1,713
Annual	6,192	12,864	10,198	-	8,858
FFA Chapter	16,570	30,911	25,486	-	21,995
Sr. High Student Council	3,919	4,336	3,572	-	4,683
7-8 Student Council	1,386	2,784	3,062	-	1,108
5-6 Student Council	10,335	670	682	-	10,323
Show Choir Concert	-	-	32	32	-
Cheerleaders	-	1,015	913	-	102
Fall Play/Musical	3,088	-	-	-	3,088
Vocal Music Production	1,839	6,909	6,505	-	2,243
MS Show Choir	1,735	459	720	-	1,474
Spanish Club Trip	1,077	-	-	-	1,077
Class of 2014	137	-	-	-	137
Class of 2015	1,685	-	225	-	1,460
Athletic Fundraising	70,869	197,202	243,024	-	25,047
Music Fundraising	22,173	18,178	19,419	-	20,932
<b>Total</b>	<b>\$ 147,082</b>	<b>385,565</b>	<b>414,857</b>	<b>-</b>	<b>117,790</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT  
INTERNAL SERVICE FUNDS  
COMBINING SCHEDULE OF NET POSITION  
JUNE 30, 2015

	Governmental Activities- Internal Service Funds		
	Self-Insured Heath Plan	Self-Insured Dental Plan	Total
<b>Assets</b>			
Cash and pooled investments	\$ 619,720	60,221	679,941
Accounts receivable	5,066	-	5,066
<b>Total assets</b>	<u>624,786</u>	<u>60,221</u>	<u>685,007</u>
<b>Liabilities</b>			
Accounts payable	44,138	444	44,582
Incurred but not reported claims	45,000	-	45,000
<b>Total liabilities</b>	<u>89,138</u>	<u>444</u>	<u>89,582</u>
<b>Net Position</b>			
Unrestricted	<u>\$ 535,648</u>	<u>59,777</u>	<u>595,425</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT  
INTERNAL SERVICE FUND  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND NET POSITION  
YEAR ENDED JUNE 30, 2015

	Governmental Activities: Internal Service Funds		
	Self-Insured Health Plan	Self-Insured Dental Plan	Total
Operating revenues:			
Local sources:			
Miscellaneous	\$ 633,286	39,455	672,741
Operating expenses:			
Non-instructional programs:			
Other enterprise operations:			
Benefits	646,939	49,198	696,137
Services	100	-	100
Other	2,864	-	2,864
Total operating expenses	649,903	49,198	699,101
Operating loss	(16,617)	(9,743)	(26,360)
Non-operating revenues:			
Interest income	2,374	298	2,672
Change in net position	(14,243)	(9,445)	(23,688)
Net position beginning of year	549,891	69,222	619,113
Net position end of year	\$ 535,648	59,777	595,425

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT  
INTERNAL SERVICE FUND  
COMBINING SCHEDULE OF CASH FLOWS  
YEAR ENDED JUNE 30, 2015

	Governmental Activities- Internal Service Funds		
	Self-Insured Health Plan	Self-Insured Dental Plan	Total
Cash flows from operating activities:			
Cash received from miscellaneous	628,220	39,455	667,675
Cash paid to suppliers for goods or services	(605,765)	(48,754)	(654,519)
Net cash provided by (used in) operating activities	22,455	(9,299)	13,156
Cash flows from investing activities:			
Interest on investments	2,374	298	2,672
Net increase (decrease) in cash and pooled investments	24,829	(9,001)	15,828
Cash and pooled investments beginning of year	594,891	69,222	664,113
Cash and pooled investments end of year	\$ 619,720	60,221	679,941
<b>Reconciliation of operating loss to net cash provided by(used in) operating activities:</b>			
Operating loss	\$ (16,617)	(9,743)	(26,360)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Increase in accounts receivable	(5,066)	-	(5,066)
Increase in accounts payable	44,138	444	44,582
Net cash provided by (used in) operating activities	\$ 22,455	(9,299)	13,156

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUDSON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2015

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<b>ASSETS</b>				
Cash and pooled investments	\$ 62,707	45,006	107,713	-
<b>LIABILITIES</b>				
Due to other groups	\$ 62,707	45,006	107,713	-

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,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenues:										
Local sources:										
Local tax	\$ 3,279,603	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
Tuition	693,033	707,185	628,632	580,702	597,051	611,994	633,213	677,276	663,168	677,476
Other	634,690	624,405	504,469	562,174	525,109	605,381	471,187	541,920	528,820	515,841
State sources	4,874,221	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
Federal sources	142,955	140,597	129,922	163,601	344,656	476,555	188,431	108,884	122,792	112,791
Total	\$ 9,624,502	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
Expenditures:										
Instruction:										
Regular	\$ 3,697,306	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
Special	1,068,655	976,182	996,279	749,091	781,817	783,930	687,056	672,961	781,517	697,962
Other	902,952	910,027	878,967	949,554	886,105	932,197	740,710	766,902	730,849	778,639
Support services:										
Student	336,882	320,827	293,853	295,475	310,099	312,994	364,071	294,284	315,422	330,175
Instructional staff	332,046	285,823	272,495	272,213	285,201	204,256	133,693	238,329	266,776	213,238
Administration	751,180	752,284	696,507	673,194	836,017	787,642	780,876	780,442	798,082	681,123
Operation and maintenance of plant	657,566	651,635	628,552	578,227	662,812	664,552	626,065	593,511	615,933	542,427
Transportation	339,605	339,755	192,129	175,925	169,639	247,638	260,766	217,277	233,505	170,876
Non-instructional programs	18,157	13,563	12,526	11,186	10,837	8,720	7,210	6,826	11,306	26,036
Capital outlay	536,082	566,113	437,385	205,305	279,588	333,191	252,450	153,605	106,363	285,841
Long-term debt:										
Principal	189,411	195,092	365,000	360,000	1,220,000	595,000	555,000	545,000	510,000	500,000
Interest	12,053	8,387	7,443	11,625	47,798	66,009	90,900	112,050	129,388	148,300
Other expenditures:										
AEA flow-through	285,675	281,100	255,500	264,296	292,178	284,723	240,610	235,478	230,506	209,842
Total	\$ 9,127,570	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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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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, 2015, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 12, 2016.

**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 significant deficiencies.

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 deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-15 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-15 and I-C-15 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, 2015 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.

January 12, 2016  
Newton, Iowa

HUDSON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2015

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-15 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-15 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 utilizes a counter punch system for gate admission. With the limited staff available to take tickets, it is difficult to implement a system to properly utilize pre-numbered tickets effectively. We currently have the administrator on duty verify the counter punch and initial on the reconciliation form before the ticket taker counts his/her money. However, we are always looking at ways to improve controls and will continue to develop procedures that maximize internal controls while minimizing cost.

Conclusion – Response accepted.

I-C-15 Supporting Documentation for Credit Card Purchases - We noted during our audit several instances of purchases on the District credit card that lacked an invoice or detailed receipt to be used as supporting documentation beyond the credit card statement.

Recommendation - The District should review its procedures in place to ensure that all bills are supported, approved, and paid from an invoice. The District should adopt processes and procedures to use when an invoice may not be available, such as requiring additional approval or supporting documentation other than the invoice.

Response – The District has reviewed and made the appropriate changes to our procedures to ensure that we receive detailed receipts.

Conclusion – Response accepted.

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-15 Certified Budget - Expenditures for the year ended June 30, 2015 exceeded the amended certified budget amount in the other expenditures functional area.

Recommendation - The District should amend the budget in accordance with Chapter 24.9 of the Code of Iowa before expenditures exceed the budget.

Response – In the future the District will monitor the budget closer and amend the budget before expenditures are exceeded.

Conclusion – Response accepted.

- II-B-15 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-15 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-15 Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-E-15 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-15 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-15 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- II-H-15 Supplementary Weighting - We noted variances regarding the supplementary weighting data certified to the Iowa Department of Education. The number certified to the Iowa Department of Education was understated by .514 students.

Recommendation - The District should contact the Department of Education and the Department of Management to resolve this matter.

Response – With the help of the auditors, the District will contact the Department of Education and the Department of Management to resolve the matter.

Conclusion – Response accepted.

- II-I-15 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-15 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-15 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- II-L-15 Financial Condition - We noted during our audit that the District had a deficit unrestricted net position of \$70,194, and a total deficit net position of \$28,379 in its business type activities, and a deficit unrestricted net position of \$145,941 in its governmental activities. The primary reason for these deficit net positions is due to the implementation of GASB Statements No. 68 and No. 71 during the year.

Recommendation - The District should take steps to ensure the District's administration and Board of Education understand this accounting change/restatement and how GASB Statements No. 68 and 71 will affect the District's financials moving forward.

Response – The primary reason for the deficit balances is due to the implementation of GASB No. 68 and No. 71. The District will monitor these funds closely.

Conclusion – Response accepted.

II-M-15 Physical Plant and Equipment Levy (PEEL) Expenditures - We noted during our audit that the District purchased replacement bulbs for projectors from the PEEL Fund which does not appear to be in compliance with Chapter 423 and 298.3 of the Code of Iowa. The purchase was for the amount of \$594.55.

Recommendation - Replacement bulbs do not qualify as a unit of technology and would be more appropriate from the General Fund. The District should review Chapter 423 and Chapter 298 of the Code of Iowa for allowable expenditures from the PEEL Fund. Since the District had allowable expenditures from the General Fund, we did not request a corrective transfer on the financial statements.

Response – The District will review procedures to ensure that expenditures are coded to the appropriate fund.

Conclusion – Response accepted.

II-N-15 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, 2015, the District reported the following information regarding the statewide sales, services and use tax revenue in the District’s CAR:

Beginning Balance		\$ 457,398
Revenues:		
Sales tax revenues	\$ 637,834	
Other local revenues	2,646	
Other	4,253	
		<u>644,733</u>
		1,102,131
Expenditures/transfer out:		
School infrastructure construction	211,307	
Equipment	209,984	
Other	30,098	
Transfer to another fund:		
Debt service fund	100,702	
		<u>552,091</u>
Ending Balance		<u>\$ 550,040</u>

For the year ended June 30, 2015, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

II-O-15 Early Retirement Payment - We noted during our audit that the District paid an early retirement benefit due to a fiscal year 2012 early retiree from the Management Levy Fund. The retiree’s benefits do not appear to be allowable from the Management Levy Fund because they did not meet the requirements of Chapter 279.46 of the Code of Iowa. At the time this employee retired, Chapter 279.46 of the Code of Iowa required successful early retirees to be “within the age range of 55 to 65” at the time of retirement for their subsequent payments to be allowable from the Management Levy Fund. The Code Section has since been amended to allow districts to pay for such a program through the management levy for

employees who are 55 years of age or older; however, the change only applies to retirement incentive programs in existence on or after July 1, 2013. We are requesting a corrective transfer from the General Fund to the Management Levy Fund of \$18,257.16.

Recommendation – The District should have the Board of Education approve a corrective transfer from the General Fund to the Management Levy Fund in the amount of \$18,257.16.

Response - The District will make the corrective transfer.

Conclusion – Response accepted.