

CHARITON COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

## Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14-15
Governmental Fund Financial Statements:		
Balance Sheet	C	16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	17
Statement of Revenues, Expenditures and Changes in Fund Balances	E	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	19
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	20
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	21
Statement of Cash Flows	I	22
Notes to Financial Statements		23-33
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		34-35
Budget to GAAP Reconciliation		36
Notes to Required Supplementary Information - Budgetary Reporting		37
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	39
Schedule of Changes in Student Activity Accounts	3	40-41
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	42
Schedule of Expenditures of Federal Awards	5	43-44
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		45-46
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance		47-48
Schedule of Findings and Questioned Costs		49-54

Chariton Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2003 Election)</b>		
Nick Hunter	President	2005
Denny Bisgard	Vice President	2003
Chuck Crabtree	Board Member	2005
Ann Moon	Board Member	2004
Dave Rich	Board Member	2003

<b>Board of Education (After September 2003 Election)</b>		
Denny Bisgard	President	2006
Dave Rich	Vice President	2006
Nick Hunter	Board Member	2005
Chuck Crabtree	Board Member	2005
Ann Moon	Board Member	2004

**School Officials**

Dr. Robert Newsum	Superintendent	2004
Melissa Johnson	District Secretary	2004
Paul Goldsmith	Attorney	2004

**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  
Chariton Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Chariton Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 6 to the financial statements, management has not recorded certain capital assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require those general capital assets be capitalized and depreciated, which would increase the assets and expenses of the governmental activities. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effect of the matter discussed in the preceding paragraph the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of Chariton Community School District at June 30, 2004 and the respective changes in financial and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

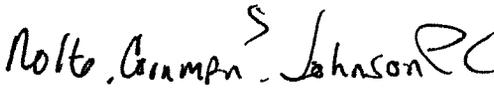
As described in Note 11 to the financial statements, during the year ended June 30, 2004, Chariton Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison

Schedule - Perspective Differences; and Interpretation No. 6,  
Recognition and Measurement of Certain Liabilities and Expenditures in  
Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated May 24, 2005, on our consideration of the Chariton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Chariton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

May 24, 2005

---

---

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

---

---

Chariton 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, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

### **2004 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$9,463,448 in fiscal 2003 to \$9,694,759 in fiscal 2004, while General Fund expenditures also increased from \$9,898,298 in fiscal 2003 to \$10,069,149 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$1,089,109 in fiscal 2003 to a balance of \$714,719 in fiscal 2004, a 34% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state and federal sources during fiscal 2004. The increase in expenditures was due to an increase in instruction expenses during fiscal 2004.

### **USING THIS ANNUAL REPORT**

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Chariton 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 Chariton 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 Chariton Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

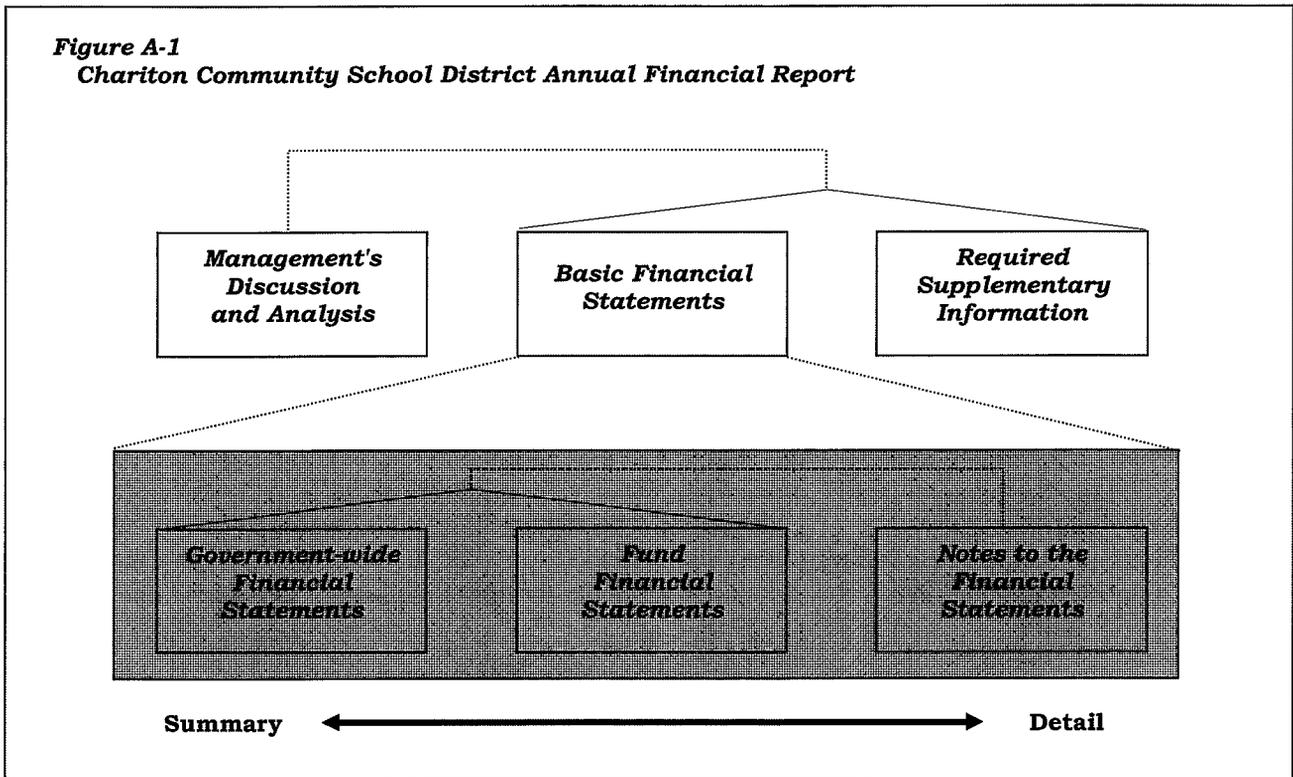


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
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
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
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

---

## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

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

### **Fund Financial Statements**

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

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

The District has two 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, Capital Projects Fund and the Debt Service Fund.

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Current and other assets	\$ 6,634,493	10,250	6,644,743
Capital assets	0	70,105	70,105
Total assets	6,634,493	80,355	6,714,848
Long-term obligations	2,173,717	0	2,173,717
Other liabilities	5,599,053	53,313	5,652,366
Total liabilities	7,772,770	53,313	7,826,083
Net assets:			
Invested in capital assets, net of related debt	0	70,105	70,105
Restricted	56,764	0	56,764
Unrestricted	(1,195,041)	(43,063)	(1,238,104)
Total net assets	\$ (1,138,277)	27,042	(1,111,235)

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4  
Changes of Net Assets

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
<b>Revenues:</b>			
<b>Program revenues:</b>			
Charges for services	\$ 882,684	197,558	1,080,242
Operating grants and contributions and restricted interest	1,281,118	258,086	1,539,204
Capital grants and contributions and restricted interest	193,750	0	193,750
<b>General revenues:</b>			
Property tax	3,176,519	0	3,176,519
Unrestricted state grants	5,257,227	0	5,257,227
Unrestricted investment earnings	16,166	97	16,263
<b>Total revenues</b>	<b>10,807,464</b>	<b>455,741</b>	<b>11,263,205</b>
<b>Program expenses:</b>			
<b>Governmental activities:</b>			
Instructional	7,422,361	0	7,422,361
Support services	2,821,565	0	2,821,565
Non-instructional programs	9,858	501,105	510,963
Other expenses	838,661	0	838,661
<b>Total expenses</b>	<b>11,092,445</b>	<b>501,105</b>	<b>11,593,550</b>
<b>Change in net assets</b>	<b>\$ (284,981)</b>	<b>(45,364)</b>	<b>(330,345)</b>

Property tax and unrestricted state grants account for approximately 75% of the total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 88% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$10,807,464 and expenses were \$11,092,445.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 7,422,361	5,601,118
Support services	2,821,565	2,809,206
Non-instructional	9,858	9,858
Other expenses	838,661	314,711
<b>Totals</b>	<b>\$ 11,092,445</b>	<b>8,734,893</b>

- 
- The cost financed by users of the District's programs was \$882,684.
  - Federal and state governments subsidized certain programs with grants and contributions totaling \$1,281,118.
  - The net cost of governmental activities was financed with \$3,176,519 in property and other taxes, \$5,257,227 in unrestricted state grants, and \$16,166 interest income.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$455,741 and expenses were \$501,105. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and interest income.

### **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Chariton 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 \$941,260, below last year's ending fund balance of a \$1,348,494.

### **Governmental Fund Highlights**

- The District's General Fund financial position is the product of many factors. Growth during the year in grants resulted in an increase in revenues. However, along with the increase in revenues, the General Fund also had an increase in expenditures. The General Fund balance decreased from \$1,089,109 in fiscal year 2003 to \$714,719 in fiscal year 2004, due in part to the large increase in instruction expenses for fiscal 2004.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets decreased from \$72,406 at June 30, 2003 to \$27,042 at June 30, 2004, representing a decrease of 63%.

### **BUDGETARY HIGHLIGHTS**

The District's receipts were \$25,325 more than budgeted receipts, a variance of .22%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were more than budgeted, primarily due 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 instruction, support services and non-instructional programs functional areas due to the timing of disbursements paid.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The District did not include capital assets for the governmental activities for reporting purposes. At June 30, 2004, the business-type capital assets totaled \$70,105 net of accumulated depreciation, which included machinery and equipment. (See Figure A-6) This amount represents a net increase of 56% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$12,412.

The original cost of the capital assets was \$137,131 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. This increase resulted from the purchase of a van and several computers during the fiscal year 2004.

Figure A-6  
Capital Assets, Net of Depreciation

	Business-type Activities 2004
Machinery and equipment	\$ 70,105
Total	<u>\$ 70,105</u>

### Long-Term Debt

At June 30, 2004, the District had \$2,173,717 in general obligation, and other long-term debt outstanding. This represents a decrease of 12% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 2,080,000	2,335,000	-10.9%
Early retirement	93,717	142,720	100.0%
Totals	<u>\$ 2,173,717</u>	<u>2,477,720</u>	<u>-12.3%</u>

---

## **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:

- A 2.5% across-the-board state cut did reduce revenues the District received during the 2003-2004 school year. This was due to a downward estimate in state revenues.
- The upcoming Iowa legislative session could again prove to be most challenging in respect to the state budget. The impact of state reductions to education is an unknown that we must be ready to address and compensate.

## **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 Melissa Johnson, Board Secretary/Business Manager, Chariton Community School District, 140 E. Albia Road, P.O. Box 738, Chariton, Iowa, 50049-0738.

BASIC FINANCIAL STATEMENTS

CHARITON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents:			
ISCAP(Note 5)	\$ 1,267,250	0	1,267,250
Other	1,764,794	0	1,764,794
Receivables			
Property tax:			
Delinquent	53,449	0	53,449
Succeeding year	3,120,280	0	3,120,280
Income surtax	110,147	0	110,147
Interfund	157,684	0	157,684
Accounts	3,161	0	3,161
Accrued ISCAP interest(Note 5)	3,933	0	3,933
Due from other governments	153,795	0	153,795
Inventories	0	10,250	10,250
Capital assets, net of accumulated depreciation(Note 6)	0	70,105	70,105
<b>TOTAL ASSETS</b>	<b>6,634,493</b>	<b>80,355</b>	<b>6,714,848</b>
<b>LIABILITIES</b>			
Excess of warrants issued over bank balance	80,632	37,121	117,753
Accounts payable	698	2,686	3,384
Salaries and benefits payable	949,929	10,945	960,874
Interfund payable	155,123	2,561	157,684
ISCAP warrants payable(Note 5)	1,267,000	0	1,267,000
ISCAP accrued interest payable(Note 5)	5,963	0	5,963
ISCAP unamortized premium	3,461	0	3,461
Accrued interest payable	15,967	0	15,967
Deferred revenue:			
Succeeding year property tax	3,120,280	0	3,120,280
Other	0	0	0
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds payable	260,000	0	260,000
Early Retirement	23,362	0	23,362
Portion due after one year:			
General obligation bonds payable	1,820,000	0	1,820,000
Early Retirement	70,355	0	70,355
<b>TOTAL LIABILITIES</b>	<b>7,772,770</b>	<b>53,313</b>	<b>7,826,083</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	0	70,105	70,105
Restricted for:			
Early Intervention	30,194	0	30,194
Talented and Gifted	71,627	0	71,627
Management levy	74,563	0	74,563
Physical plant and equipment levy	(233,055)	0	(233,055)
Other special revenue purposes	113,435	0	113,435
Unrestricted	(1,195,041)	(43,063)	(1,238,104)
<b>TOTAL NET ASSETS</b>	<b>\$ (1,138,277)</b>	<b>27,042</b>	<b>(1,111,235)</b>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Governmental activities:</b>				
<b>Instruction:</b>				
Regular instruction	\$ 4,488,494	778,933	894,842	0
Special instruction	1,784,713	91,392	56,076	0
Other instruction	1,149,154	0	0	0
	<u>7,422,361</u>	<u>870,325</u>	<u>950,918</u>	<u>0</u>
<b>Support services:</b>				
Student services	123,432	0	0	0
Instructional staff services	305,229	0	0	0
Administration services	926,241	0	0	0
Operation and maintenance of plant services	916,623	0	0	0
Transportation services	371,026	12,359	0	0
Central services	57,175	0	0	0
Other support services	121,839	0	0	0
	<u>2,821,565</u>	<u>12,359</u>	<u>0</u>	<u>0</u>
Non-instructional programs	9,858	0	0	0
<b>Other expenditures:</b>				
Facilities acquisitions	403,221	0	0	193,750
Long-term debt interest	105,240	0	0	0
AEA flowthrough	330,200	0	330,200	0
	<u>838,661</u>	<u>0</u>	<u>330,200</u>	<u>193,750</u>
Total governmental activities	11,092,445	882,684	1,281,118	193,750
<b>Business-Type activities:</b>				
Non-instructional programs:				
Nutrition services	501,105	197,558	258,086	0
Total business-type activities	<u>501,105</u>	<u>197,558</u>	<u>258,086</u>	<u>0</u>
<b>Total</b>	<u>\$ 11,593,550</u>	<u>1,080,242</u>	<u>1,539,204</u>	<u>193,750</u>

**General Revenues:**

Property tax levied for:  
  General purposes  
  Debt service  
  Capital outlay  
Unrestricted state grants  
Unrestricted investment earnings

Total general revenues

Changes in net assets

Net assets beginning of year, as restated (Note 11)

Net assets end of year

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(2,814,719)	0	(2,814,719)
(1,637,245)	0	(1,637,245)
(1,149,154)	0	(1,149,154)
(5,601,118)	0	(5,601,118)
(123,432)	0	(123,432)
(305,229)	0	(305,229)
(926,241)	0	(926,241)
(916,623)	0	(916,623)
(358,667)	0	(358,667)
(57,175)	0	(57,175)
(121,839)	0	(121,839)
(2,809,206)	0	(2,809,206)
(9,858)		(9,858)
(209,471)	0	(209,471)
(105,240)	0	(105,240)
0	0	0
(314,711)	0	(314,711)
(8,734,893)	0	(8,734,893)
0	(45,461)	(45,461)
0	(45,461)	(45,461)
(8,734,893)	(45,461)	(8,780,354)
\$ 2,643,044	0	2,643,044
377,227	0	377,227
156,248	0	156,248
5,257,227	0	5,257,227
16,166	97	16,263
8,449,912	97	8,450,009
(284,981)	(45,364)	(330,345)
(853,296)	72,406	(780,890)
\$ (1,138,277)	27,042	(1,111,235)

CHARITON COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	General	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP	\$ 1,267,250	0	1,267,250
Other	1,313,585	451,209	1,764,794
Receivables:			
Property tax:			
Delinquent	41,664	11,785	53,449
Succeeding year	2,491,878	628,402	3,120,280
Income surtax	110,147	0	110,147
Interfund	157,684	0	157,684
Accounts	3,161	0	3,161
Accrued ISCAP interest	3,933	0	3,933
Due from other governments	153,795	0	153,795
<b>TOTAL ASSETS</b>	<b>\$ 5,543,097</b>	<b>1,091,396</b>	<b>6,634,493</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Excess of warrants issued over bank balance	\$ 0	80,632	80,632
Accounts payable	0	698	698
Salaries and benefits payable	949,929	0	949,929
Interfund payable	0	155,123	155,123
ISCAP warrants payable	1,267,000	0	1,267,000
ISCAP accrued interest payable	5,963	0	5,963
ISCAP unamortized premium	3,461	0	3,461
Deferred revenue:			
Succeeding year property tax	2,491,878	628,402	3,120,280
Income surtax	110,147	0	110,147
Total liabilities	<b>4,828,378</b>	<b>864,855</b>	<b>5,693,233</b>
Fund balances:			
Reserved for:			
Early Intervention	30,194	0	30,194
Talented and Gifted	71,627	0	71,627
Debt Service	0	177,881	177,881
Unreserved:			
Undesignated	612,898	48,660	661,558
Total fund balances	714,719	226,541	941,260
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,543,097</b>	<b>1,091,396</b>	<b>6,634,493</b>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2004

<b>Total fund balances of governmental funds (page 16)</b>	\$ 941,260
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	110,147
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.	(15,967)
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(2,173,717)</u>
<b>Net assets of governmental activities (page 13)</b>	<u><u>\$ (1,138,277)</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2004

	General	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 2,678,617	681,480	3,360,097
Tuition	362,761	0	362,761
Other	114,836	421,053	535,889
Intermediate sources	200	0	200
State sources	5,959,825	0	5,959,825
Federal sources	578,520	193,750	772,270
Total revenues	<u>9,694,759</u>	<u>1,296,283</u>	<u>10,991,042</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular instruction	4,502,109	21,536	4,523,645
Special instruction	1,798,565	0	1,798,565
Other instruction	728,691	420,463	1,149,154
	<u>7,029,365</u>	<u>441,999</u>	<u>7,471,364</u>
Support services:			
Student services	123,432	0	123,432
Instructional staff services	305,229	0	305,229
Administration services	926,241	0	926,241
Operation and maintenance of plant services	916,623	0	916,623
Transportation services	371,026	0	371,026
Central services	57,175	0	57,175
Other support services	0	121,839	121,839
	<u>2,699,726</u>	<u>121,839</u>	<u>2,821,565</u>
Non-instructional programs	9,858	0	9,858
Other expenditures:			
Facilities acquisitions	0	403,221	403,221
Long-term debt:			
Principal	0	255,000	255,000
Interest and fiscal charges	0	107,068	107,068
AEA flowthrough	330,200	0	330,200
	<u>330,200</u>	<u>765,289</u>	<u>1,095,489</u>
Total expenditures	<u>10,069,149</u>	<u>1,329,127</u>	<u>11,398,276</u>
Excess (deficiency) of revenues over (under) disbursements	(374,390)	(32,844)	(407,234)
Other financing sources (uses):			
Transfers in	0	272,037	272,037
Transfers out	0	(272,037)	(272,037)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balances	(374,390)	(32,844)	(407,234)
Fund balance beginning of year	1,089,109	259,385	1,348,494
Fund balance end of year	<u>\$ 714,719</u>	<u>226,541</u>	<u>941,260</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2004

<b>Net change in fund balances - total governmental funds (page 18)</b>	<b>\$ (407,234)</b>
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
<p>Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments were as follows:</p>	
Repaid	255,000
<p>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.</p>	
	1,828
<p>Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.</p>	
	(183,578)
<p>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:</p>	
Early retirement	<u>49,003</u>
<b>Changes in net assets of governmental activities (page 15)</b>	<b><u>\$ (284,981)</u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2004

	School Nutrition
<b>ASSETS</b>	
Inventories	\$ 10,250
Capital assets, net of accumulated depreciation	70,105
Total assets	80,355
 <b>LIABILITIES</b>	
Excess of warrants issued over bank balance	37,121
Accounts Payable	2,686
Salaries and benefits payable	10,945
Interfund payable	2,561
Total liabilities	53,313
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	70,105
Unrestricted	(43,063)
Total net assets	\$ 27,042

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2004

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 197,558
TOTAL OPERATING REVENUES	197,558
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	174,545
Benefits	70,050
Services	5,621
Supplies	238,477
Depreciation	12,412
TOTAL OPERATING EXPENSES	501,105
OPERATING LOSS	(303,547)
NON-OPERATING REVENUES:	
State sources	7,633
Federal sources	250,453
Interest income	97
TOTAL NON-OPERATING REVENUES	258,183
Change in net assets	(45,364)
Net assets beginning of year	72,406
Net assets end of year	\$ 27,042

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 187,881
Cash received from miscellaneous operating activities	9,677
Cash payments to employees for services	(243,958)
Cash payments to suppliers for goods or services	(222,292)
Net cash used in operating activities	(268,692)
Cash flows from non-capital financing activities:	
State grants received	7,633
Federal grants received	231,333
Net cash provided by non-capital financing activities	238,966
Cash flows from capital and related financing activities:	
Purchase of capital assets	(37,641)
Net cash used in capital and related financing activities	(37,641)
Cash flows from investing activities:	
Interest on investments	97
Net cash provided by investing activities	97
Net decrease in cash and cash equivalents	(67,270)
Cash and cash equivalents at beginning of year	30,149
Cash and cash equivalents at end of year	\$ (37,121)
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (303,547)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	19,120
Depreciation	12,412
Increase in accounts payable	2,686
Increase in salaries and benefits payable	637
Net cash used in operating activities	\$ (268,692)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ (37,121)
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2004, the District received Federal commodities valued at \$19,120.

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(1) **Summary of Significant Accounting Policies**

The Chariton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Chariton, Iowa, and the predominate agricultural territory in Lucas and Marion Counties. 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, Chariton Community School District has included all funds, organizations, account groups, 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 Chariton Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do 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 Chariton County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that 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 nonmajor governmental funds.

The District reports the following major governmental funds:

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

The District reports the following major proprietary funds:

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

#### C. Measurement Focus and Basis of Accounting

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

using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Equity

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

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

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, 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, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable

governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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
-------------	--------

Machinery and equipment:	
School Nutrition Fund equipment	\$ 500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Machinery and equipment	12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and

regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**E. Budgeting and Budgetary Control**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the instruction, support services and non-instructional functional areas exceeded the amounts budgeted.

**(2) Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool 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.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$95,153 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

**(3) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General	PPEL	\$ 155,123
General	Nutrition	2,561
Total		<u>\$ 157,684</u>

**(4) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Capital Projects	PPEL	\$ 272,037

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

**(5) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	722,889	0	718,000	0
2004-05A	6/30/04	6/30/05	544,361	3,933	549,000	5,963
Total			\$ 1,267,250	3,933	1,267,000	5,963

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ 0	800,000	800,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04B	2.000%	1.392%
2004-05A	3.000%	2.463%

**(6) Capital Assets**

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 99,490	37,641	0	137,131
Less accumulated depreciation	54,614	12,412	0	67,026
Business-type activities capital assets, net	<u>\$ 44,876</u>	<u>25,229</u>	<u>0</u>	<u>70,105</u>

Depreciation expense was charged by the District as follows:

Business-type activities:	
Food services	\$ 12,412
Total business-type activities depreciation expense	<u>\$ 12,412</u>

The District has not implemented GASB 34 requirements, management has not recorded certain capital assets in governmental activities and, accordingly has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require those general capital assets be capitalized and depreciated, which would increase the assets and expenses of the governmental activities. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable.

The District had previously recorded fixed assets within the fixed assets account group. The balance in that account group including land, building and equipment at July 1, 2003, was \$13,189,933.

**(7) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation Bonds	2,335,000	0	255,000	2,080,000	260,000
Early Retirement	142,720	26,649	75,652	93,717	23,362
Total	<u>\$ 2,477,720</u>	<u>26,649</u>	<u>330,652</u>	<u>2,173,717</u>	<u>283,362</u>

General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue dated May 1, 1998			
	Interest Rates	Principal	Interest	Total
2005	4.40	\$ 260,000	95,802	355,802
2006	4.50	265,000	84,363	349,363
2007	4.50	280,000	72,437	352,437
2008	4.50	300,000	59,838	359,838
2009	4.65	315,000	46,337	361,337
2010	4.75	320,000	31,690	351,690
2011	4.85	340,000	16,490	356,490
Total		\$ 2,080,000	406,957	2,486,957

#### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-six and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal the lessor of \$18,000 (before deductions) or 40% of the licensed employee's current salary (before deductions) less supplemental pay or extended contract pay plus the cost to the school district for providing continuing coverage under the school district's group insurance plan until the licensed employee reaches age sixty-five. The incentive shall be paid out in one lump sum payment upon retirement. Early retirement benefits paid during the year ended June 30, 2004, totaled \$75,652.

#### **(8) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$340,235, \$317,434, \$307,229 respectively, equal to the required contributions for each year.

#### **(9) Risk Management**

Chariton Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed in July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and

protection in the following categories: Dental.

Each members' contributions to the ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$89,406.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004 no liability has been recorded in the District's financial statements. As of June 30, 2004 settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

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

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$330,200 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Accounting Change and Restatements**

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absences and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund		
	General	Other Nonmajor Governmental Funds	Total
Net assets, June 30, 2003, as previously reported	\$ 1,089,109	259,385	1,348,494
GASB Interpretation 6 adjustments	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 1,089,109</u>	<u>259,385</u>	<u>1,348,494</u>
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation			0
Long-term liabilities:			
Bonds		2,335,000	
Early retirement		<u>142,720</u>	(2,477,720)
Accrued interest payable			(17,795)
Income surtax			<u>293,725</u>
Net assets, July 1, 2003, as restated			<u>\$ (853,296)</u>

**(12) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, disbursements in the instruction, support services and non-instructional functional program areas exceeded the amount budgeted.

**(13) Deficit Fund Balance**

The Special Revenue - Physical Plant and Equipment Fund (PPEL) had a deficit undesignated fund balance of \$233,055 at June 30, 2004.

REQUIRED SUPPLEMENTAL INFORMATION

CHARITON COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 4,268,537	197,655
Intermediate sources	200	0
State sources	5,946,404	7,633
Federal sources	728,144	250,453
Total receipts	<u>10,943,285</u>	<u>455,741</u>
Disbursements:		
Instruction	7,470,037	0
Support services	3,037,788	0
Non-instructional programs	8,907	523,011
Other expenditures	1,095,489	0
Total disbursements	<u>11,612,221</u>	<u>523,011</u>
Excess(deficiency) of receipts over(under) disbursements	(668,936)	(67,270)
Balance beginning of year	<u>2,355,659</u>	<u>27,588</u>
Balance end of year	<u>\$ 1,686,723</u>	<u>(39,682)</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
4,466,192	4,706,978	4,706,978	(240,786)
200	0	0	200
5,954,037	6,079,723	6,079,723	(125,686)
978,597	587,000	587,000	391,597
<u>11,399,026</u>	<u>11,373,701</u>	<u>11,373,701</u>	<u>25,325</u>
7,470,037	7,120,539	7,120,539	(349,498)
3,037,788	2,843,058	2,843,058	(194,730)
531,918	397,512	397,512	(134,406)
1,095,489	1,142,115	1,142,115	46,626
<u>12,135,232</u>	<u>11,503,224</u>	<u>11,503,224</u>	<u>(632,008)</u>
(736,206)	(129,523)	(129,523)	606,683
<u>2,383,247</u>	<u>1,303,651</u>	<u>1,303,651</u>	<u>1,079,596</u>
<u>1,647,041</u>	<u>1,174,128</u>	<u>1,174,128</u>	<u>1,686,279</u>

CHARITON COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2004

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 10,943,285	47,757	10,991,042
Expenditures	11,612,221	(213,945)	11,398,276
Net	(668,936)	261,702	(407,234)
Other financing sources, net	0	0	0
Beginning fund balances	2,355,659	(1,007,165)	1,348,494
Ending fund balances	\$ 1,686,723	(745,463)	941,260

	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 455,741	0	455,741
Expenditures	523,011	(21,906)	501,105
Net	(67,270)	21,906	(45,364)
Other financing sources, net	0	0	0
Beginning fund balances	27,588	44,818	72,406
Ending fund balances	\$ (39,682)	66,724	27,042

CHARITON COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2004

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 cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The 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 ended June 30, 2004, disbursements in the instruction, support services and non-instructional functional program areas exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

CHARITON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2004

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
ASSETS						
Cash and pooled investments	\$ 165,714	114,133	0	279,847	171,362	451,209
Receivables:						
Property tax:						
Current year delinquent	2,566	0	2,700	5,266	6,519	11,785
Succeeding year	100,000	0	163,402	263,402	365,000	628,402
TOTAL ASSETS	\$ 268,280	114,133	166,102	548,515	542,881	1,091,396
LIABILITIES AND FUND EQUITY						
Liabilities:						
Excess of warrants issued over bank balance	\$ 0	0	80,632	80,632	0	80,632
Accounts payable	0	698	0	698	0	698
Interfund payable	0	0	155,123	155,123	0	155,123
Deferred revenue:						
Succeeding year property tax	100,000	0	163,402	263,402	365,000	628,402
Total Liabilities	100,000	698	399,157	499,855	365,000	864,855
Fund equity:						
Fund balances:						
Reserved for:						
Debt Service	0	0	0	0	177,881	177,881
Unreserved:						
Undesignated	168,280	113,435	(233,055)	48,660	0	48,660
Total fund balances	168,280	113,435	(233,055)	48,660	177,881	226,541
TOTAL LIABILITIES AND FUND EQUITY	\$ 268,280	114,133	166,102	548,515	542,881	1,091,396

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2004

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Capital Projects	
<b>REVENUES:</b>							
Local sources:							
Local tax	\$ 148,005	0	156,248	304,253	377,227	0	681,480
Other	2,750	417,808	256	420,814	239	0	421,053
Federal sources	0	0	193,750	193,750	0	0	193,750
<b>TOTAL REVENUES</b>	<b>150,755</b>	<b>417,808</b>	<b>350,254</b>	<b>918,817</b>	<b>377,466</b>	<b>0</b>	<b>1,296,283</b>
<b>EXPENDITURES:</b>							
Current:							
Instruction:							
Regular instruction	21,536	0	0	21,536	0	0	21,536
Other instruction	0	420,463	0	420,463	0	0	420,463
Support services:							
Other support services	121,839	0	0	121,839	0	0	121,839
Other expenditures:							
Facilities acquisitions	0	0	334,761	334,761	0	68,460	403,221
Long-term debt:							
Principal	0	0	0	0	255,000	0	255,000
Interest and fiscal charges	0	0	0	0	107,068	0	107,068
<b>TOTAL EXPENDITURES</b>	<b>143,375</b>	<b>420,463</b>	<b>334,761</b>	<b>898,599</b>	<b>362,068</b>	<b>68,460</b>	<b>1,329,127</b>
<b>EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES</b>	<b>7,380</b>	<b>(2,655)</b>	<b>15,493</b>	<b>20,218</b>	<b>15,398</b>	<b>(68,460)</b>	<b>(32,844)</b>
<b>OTHER FINANCING SOURCES (USES):</b>							
Transfers in	0	0	0	0	0	272,037	272,037
Transfers out	0	0	(272,037)	(272,037)	0	0	(272,037)
Total other financing sources (uses)	0	0	(272,037)	(272,037)	0	272,037	0
<b>EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES</b>	<b>7,380</b>	<b>(2,655)</b>	<b>(256,544)</b>	<b>(251,819)</b>	<b>15,398</b>	<b>203,577</b>	<b>(32,844)</b>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<b>160,900</b>	<b>116,090</b>	<b>23,489</b>	<b>300,479</b>	<b>162,483</b>	<b>(203,577)</b>	<b>259,385</b>
<b>FUND BALANCE END OF YEAR</b>	<b>\$ 168,280</b>	<b>113,435</b>	<b>(233,055)</b>	<b>48,660</b>	<b>177,881</b>	<b>0</b>	<b>226,541</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Thespians	\$ (467)	2,195	109	1,619
Speech	56	0	56	0
Vocal Music	41	0	25	16
Band	39	4,268	4,118	189
Middle School Band	1,004	2,388	2,701	691
Flag Team	339	0	0	339
Co-Ed Athletics	10,675	113,661	96,756	27,580
Girls Soccer	(77)	670	712	(119)
Boys Soccer	23	224	0	247
Boys Track	293	365	356	302
Cross Country	472	0	48	424
Girls Tennis	(51)	617	614	(48)
Boys Basketball	744	6,489	6,950	283
Football	6,284	15,448	19,990	1,742
Baseball	1,434	4,965	5,186	1,213
Wrestling	221	1,482	963	740
Weight Room	1,516	1,350	595	2,271
Golf	416	101	265	252
Girls Basketball	1,324	1,370	1,263	1,431
Volleyball	1,441	1,900	2,523	818
Softball	146	1,375	1,461	60
Class of 2001	928	0	928	0
Class of 2002	164	0	164	0
Class of 2003	944	0	944	0
Class of 2004	5,766	1,606	5,673	1,699
Class of 2005	0	22,931	16,518	6,413
Class of 2006	634	0	146	488
Class of 2007	0	620	0	620
Contingency	697	8,770	7,617	1,850
Concessions	6,662	44,189	66,157	(15,306)
Student Council	2,357	11,921	13,300	978
Life	82	0	0	82
Scholarship Club	(81)	4,361	0	4,280
Grads	200	0	0	200
Spanish Club	2,970	3,364	3,459	2,875
Art Service	745	262	296	711
C Club	603	535	501	637
SSI	398	0	0	398
FFA	5,535	13,509	12,079	6,965
FBLA	0	2,370	2,038	332
SES Club	422	3,454	2,878	998
Communic Club	172	0	0	172

CHARITON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
On Other Hand	(281)	1,181	900	0
Yearbook	6,106	14,321	11,802	8,625
Cap & Gown	(11)	1,728	1,717	0
Cheerleaders	762	7,177	8,211	(272)
Drill Team	131	26,918	28,561	(1,512)
MS Cheerleaders	215	81	161	135
Musical	4,532	7,435	9,101	2,866
Horticulture	496	1,406	1,135	767
MOC	98	0	0	98
Med Cntr Fine	15	0	0	15
HS Ind Arts	1,126	176	176	1,126
Towel Fees	3,195	1,742	986	3,951
HS Home Ec	56	8	7	57
MS Home Ec	1,521	0	0	1,521
Math Grant	7	0	7	0
Woods Club	2,937	0	0	2,937
Club Construction	0	3,039	2,281	758
Baby Think	107	0	0	107
Donations	2,187	14,947	18,389	(1,255)
Ses Scholarship	356	0	0	356
MS Media Center	30	0	0	30
MS Student Council	1,120	3,814	3,875	1,059
6th Grade	97	366	0	463
7th Grade	695	0	106	589
8th Grade	896	382	996	282
MS Ind Tech	341	0	0	341
MS Pop	4,063	15,632	11,567	8,128
MS BLD Initiative	4,761	12,004	13,118	3,647
MS Yearbook Club	4,453	4,426	3,754	5,125
Lucas Elementary	13	0	13	0
Chariton Elementary	12,435	7,653	10,183	9,905
Van Allen Elementary	5,121	16,597	15,973	5,745
HS Band	3,439	15	55	3,399
Total	<u>\$ 116,090</u>	<u>417,808</u>	<u>420,463</u>	<u>113,435</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 3,360,097	3,350,539	3,258,504	3,025,234
Tuition	362,761	368,023	330,753	302,843
Other	535,889	608,218	569,843	590,237
Intermediate sources	200	52,100	10,096	11,377
State sources	5,959,825	5,816,608	6,641,249	5,598,536
Federal sources	772,270	408,962	362,167	301,668
Total	<u>\$ 10,991,042</u>	<u>10,604,450</u>	<u>11,172,612</u>	<u>9,829,895</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular instruction	\$ 4,523,645	4,323,320	3,810,190	4,272,432
Special instruction	1,798,565	1,646,312	1,358,922	696,955
Other instruction	1,149,154	1,171,125	1,107,447	879,284
Support services:				
Student services	123,432	127,710	129,158	115,371
Instructional staff services	305,229	247,057	233,251	216,569
Administration services	926,241	945,379	915,416	815,811
Operation and maintenance of plant services	916,623	935,210	784,242	866,364
Transportation services	371,026	492,041	360,812	699,096
Central services	57,175	51,357	4,572	2,880
Other support services	121,839	100,651	78,506	2,370
Non-instructional programs	9,858	27,129	11,121	8,968
Other expenditures:				
Facilities acquisitions	403,221	1,439,106	332,415	128,532
Long-term debt:				
Principal	255,000	235,000	230,000	240,000
Interest and other charges	107,068	117,082	126,731	193,304
AEA flow-through	330,200	391,768	384,433	384,238
Total	<u>\$ 11,398,276</u>	<u>12,250,247</u>	<u>9,867,216</u>	<u>9,522,174</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	\$ <u>19,120</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	48,174
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	<u>183,159</u>
			<u>231,333</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TECHNOLOGY LITERACY CHALLENGE			
FUND GRANTS	84.318	FY 03	517
TECHNOLOGY LITERACY CHALLENGE			
FUND GRANTS	84.318	FY 04	<u>11,771</u>
			<u>12,288</u>
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES			
	84.010	1107-G	<u>218,310</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 03	32,549
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	<u>4,743</u>
			<u>37,292</u>
READING FIRST STATE GRANTS	84.357	FY 04	<u>108,283</u>
EISENHOWER PROFESSIONAL DEVELOPMENT STATE GRANTS			
	84.281	FY 04	<u>2,697</u>
FUND FOR THE IMPROVEMENT OF EDUCATION(FIRE SAFETY GRANT)			
	84.215	FY 01	3,750
FUND FOR THE IMPROVEMENT OF EDUCATION(FIRE SAFETY GRANT)	84.215	FY 02	<u>100,000</u>
			<u>103,750</u>
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 04	<u>43,411</u>

CHARITON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
SPECIAL EDUCATION - GRANTS TO STATES (Success 4)	84.027	FY 04	2,750
SPECIAL EDUCATION - GRANTS TO STATES (Part B)	84.027	FY 04	53,326
			<u>56,076</u>
TOTAL			<u>\$ 832,560</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Chariton Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# NOLTE, CORNMAN & JOHNSON P.C.

## Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

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

We have audited the financial statements of Chariton Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated May 24, 2005, which was qualified because of the lack of fixed assets. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether Chariton Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 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. Prior year statutory comments have all been resolved except for item IV-A-04, IV-B-04, IV-I-04 and IV-K-04.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Chariton Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for items II-A-04, II-B-04, II-C-04, II-D-04 and II-E-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Chariton Community School District and other parties to whom Chariton Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Chariton 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.

May 24, 2005

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Board of Education of  
Chariton Community School District:

#### Compliance

We have audited the compliance of Chariton Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Chariton Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Chariton Community School District's management. Our responsibility is to express an opinion on Chariton Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chariton Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Chariton Community School District's compliance with those requirements.

In our opinion, Chariton Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

#### Internal Control Over Compliance

The management of Chariton Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Chariton Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

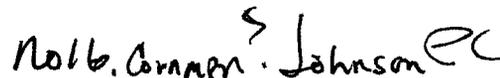
We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Chariton Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

Members American Institute & Iowa Society of Certified Public Accountants

The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-04 is a material weakness.

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

  
NOLTE, CORNMAN & JOHNSON, P.C.

May 24, 2005

CHARITON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) A qualified opinion was issued on the financial statements due to the lack of fixed assets.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
  - Clustered Programs:
    - CFDA Number 10.553 – School Breakfast Program
    - CFDA Number 10.555 – National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Chariton Community School District did not qualify as a low-risk auditee.

CHARITON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

II-B-04 Fixed Assets – A record of fixed asset acquisitions and disbursements are not kept up to date, therefore the District has not complied with GASB 34 requirements.

Recommendation – Fixed asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the amount of fixed assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The District should maintain a complete list of additions, deletions, and current assets, as well as depreciation of those assets to be in compliance with GASB 34 requirements.

Response – An appraisal has been done but is not available for the purpose of this audit

Conclusion - Response accepted.

II-C-04 Checks Outstanding – We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over one year.

Recommendation – The District should adopt a policy which would allow for the write off of outstanding checks after a reasonable length of time. The District should also report the unclaimed property to the Great Iowa Treasure Hunt.

Response – The District will adopt a policy to write off outstanding checks after twelve months. Any checks which have been outstanding for over one year will be reported to the Great Iowa Treasure Hunt.

Conclusion – Response accepted.

II-D-04 Grants – We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation – The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting Manual for Iowa LEAs and AEAs. The proper coding also allows the District to maintain accountability of the grants by matching the revenues to the expenditures.

Response – Each person in the district responsible for coding bills that correspond with a grant will be given the appropriate account numbers used for each grant.

Conclusion – Response accepted.

II-E-04 Timely Deposits – We noted during our audit that deposits for the Student Activity Fund were prepared, but may not be taken to the bank for deposit until several days later.

Recommendation – All receipts should be deposited when received. The District should review procedures to ensure that the deposits are made timely.

Response – All money will be deposited within one day of receipt.

Conclusion – Response accepted.

CHARITON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2004  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies  
Agency Number: 1107-G  
Federal Award Year: 2004  
U.S. Department of Education  
Passed through the Iowa Department of Education

III-A-04 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. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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 – We will investigate available alternatives and implement as soon as possible.

Conclusion – Response accepted.

CHARITON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

IV-A-04 Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

Recommendation - The district should increase their depository limits.

Response – The Board of Education will increase the depository limits.

Conclusion – Response accepted.

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the certified budget amounts in the instruction, support services and non-instructional program functional areas.

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

Response – The District will make every effort to avoid exceeding the certified budget amounts. If this should happen in the future, the District will amend the budget in accordance with Chapter 24.9

Conclusion – Response accepted.

IV-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-04 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dave Rich, Board Member Owner of True Value	Supplies	\$1,292

The above transactions do not appear to represent a conflict of interest in accordance with Chapter 279.7A of the Code of Iowa.

IV-F-04 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.

IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-I-04 Deposits and Investments – We noted 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. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificate of Deposit.

Recommendation – The District should contact the appropriate bank and rectify the situation.

Response – The District will contact the appropriate bank and correct the problem.

Conclusion – Response accepted.

IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-K-04 Financial Condition - The District had a deficit unreserved undesignated fund balance of \$233,055 in the Physical Plant and Equipment Levy (PPEL) Fund at June 30, 2004. The District also had several negative account balances in the Student Activity Fund at June 30, 2004.

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

Response – We will investigate alternatives to eliminate these deficits.

Conclusion – Response accepted.