

**CHARLES CITY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004**

Table of Contents

Board of Education and School District Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-13
BASIC FINANCIAL STATEMENTS	
District-Wide Financial Statements	
Statement of Net Assets	14
Statement of Activities.....	15
Governmental Fund Financial Statements	
Balance Sheet.....	16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets ...	17
Statement of Revenue, Expenditures and Changes in Fund Balances.....	18
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statements of Activities.....	19
Proprietary Fund Financial Statements	
Balance Sheet.....	20
Statement of Revenue, Expenses and Changes in Net Assets	21
Statement of Cash Flows	22
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	23
Statement of Changes in Fiduciary Net Assets	24
Notes to the Financial Statements	25-34
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Budgetary Comparison of Receipts, Disbursements and Changes in Balances - Budget to Actual (Cash Basis) - All Governmental Funds and Proprietary Fund	35
Schedule of Budgetary Comparison - Budget to GAAP Reconciliation	36
OTHER SUPPLEMENTARY INFORMATION	
Nonmajor Governmental Funds	
Combining Balance Sheet.....	37
Combining Schedule of Revenue, Expenditures and Changes in Fund Balances	38
Schedule of Changes in Individual Student Activity Accounts.....	39-40
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	41
Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis).....	42
Schedule of Expenditures of Federal Awards	43
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	44-45
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance	46-47
Schedule of Findings and Questioned Costs	48-50

Introductory Section

Board of Education and School District Officials

At June 30, 2004

Name	Title	Term Expires
Board of Education		
Dean Tjaden	President	2006
Scott Dight	Vice President	2005
Patti Emmel	Member	2005
Sam Offerman	Member	2004
Susan Ayers	Member	2006
Officials		
Marty Lucas	Superintendent	2004
Terri O'Brien	District Secretary and Treasurer/Business Manager	2004
Charles McManigal	Attorney	2004

Financial Section

Independent Auditor's Report

Board of Education
Charles City Community School District
Charles City, Iowa

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 Charles City Community School District at 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 the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Charles City Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated September 14, 2004 on our consideration of the Charles City Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. These 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 Page 4 through 13 and 35 and 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charles City 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 four years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on Pages 35 through 43, including the Schedule of Expenditures of Federal Awards required by the 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.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
September 14, 2004

Basic Financial Statements

Statement of Net Assets

At June 30, 2004

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and cash equivalents.....	\$ 4,047,060	\$ 161,203	\$ 4,208,263
Receivables			
Property Taxes, Net			
Current year delinquent.....	50,314	—	50,314
Succeeding year	4,286,530	—	4,286,530
Other.....	1,325	—	1,325
Due from other governments	390,145	—	390,145
Inventories.....	—	20,889	20,889
Capital assets, net of accumulated depreciation	<u>4,222,867</u>	<u>37,501</u>	<u>4,260,368</u>
Total Assets	<u>\$ 12,998,241</u>	<u>\$ 219,593</u>	<u>\$ 13,217,834</u>
Liabilities			
Accounts payable.....	\$ 782,686	\$ 563	\$ 783,249
Salaries and benefits payable.....	1,294,175	34,211	1,328,386
Due to other governments	84,901	—	84,901
Accrued interest payable	6,271	—	6,271
Deferred Revenue			
Succeeding year property taxes.....	4,286,530	—	4,286,530
Other.....	140,335	—	140,335
Long-Term Liabilities			
Portion Due Within One Year			
Notes payable	210,156	—	210,156
Compensated absences.....	70,715	—	70,715
Portion Due After One Year			
Notes payable	<u>1,135,000</u>	<u>—</u>	<u>1,135,000</u>
Total Liabilities	<u>8,010,769</u>	<u>34,774</u>	<u>8,045,543</u>
Net Assets			
Invested in capital assets, net of related debt .	2,877,711	37,501	2,915,212
Restricted For			
Capital Project Fund.....	147,151	—	147,151
State Class Size Reduction.....	76,759	—	76,759
Special Ed supplement	57,853	—	57,853
PPEL	185,786	—	185,786
Student activities.....	138,434	—	138,434
Management.....	77,784	—	77,784
Unrestricted.....	<u>1,425,994</u>	<u>147,318</u>	<u>1,573,312</u>
Total Net Assets	<u>4,987,472</u>	<u>184,819</u>	<u>5,172,291</u>
Total Liabilities and Net Assets	<u>\$ 12,998,241</u>	<u>\$ 219,593</u>	<u>\$ 13,217,834</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenue			Net (Expenses), Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
Instruction							
Regular instruction	\$ 5,379,670	\$ 248,219	\$ 941,585	\$ —	\$ (4,189,866)	\$ —	\$ (4,189,866)
Special instruction	2,423,236	242,870	210,130	—	(1,970,236)	—	(1,970,236)
Other instruction	906,658	313,292	152,830	—	(440,536)	—	(440,536)
Total Instruction	8,709,564	804,381	1,304,545	—	(6,600,638)	—	(6,600,638)
Support Services							
Student services	396,530	—	—	—	(396,530)	—	(396,530)
Instructional staff services	538,856	—	5,112	—	(533,744)	—	(533,744)
Administration services	1,339,793	—	—	—	(1,339,793)	—	(1,339,793)
Operation and maintenance of plant services	2,293,996	6,924	—	227,573	(2,059,499)	—	(2,059,499)
Transportation services	350,426	6,997	38,740	—	(304,689)	—	(304,689)
Total Support Services	4,919,601	13,921	43,852	227,573	(4,634,255)	—	(4,634,255)
Noninstructional Programs	4,135	—	—	—	(4,135)	—	(4,135)
Other Expenditures							
Long-term debt interest	83,610	—	—	—	(83,610)	—	(83,610)
AEA flow through	510,672	—	510,672	—	—	—	—
Total Other Expenditures	594,282	—	510,672	—	(83,610)	—	(83,610)
Total Governmental Activities	14,227,582	818,302	1,859,069	227,573	(11,322,638)	—	(11,322,638)
Business-Type Activities							
Noninstructional Programs							
Nutrition services	690,461	366,063	336,724	—	—	12,326	12,326
Total	\$ 14,918,043	\$ 1,184,365	\$ 2,195,793	\$ 227,573	(11,322,638)	12,326	(11,310,312)
General Revenue							
Property Taxes Levied For							
General purposes					4,387,096	—	4,387,096
Local option					591,038	—	591,038
Income surtax					311,140	—	311,140
Unrestricted federal and state grants					6,182,193	—	6,182,193
Unrestricted investment earnings					70,021	2,209	72,230
Miscellaneous					45,573	—	45,573
Total General Revenue					11,587,061	2,209	11,589,270
Change in Net Assets					264,423	14,535	278,958
Net Assets - Beginning of Year					4,723,049	170,284	4,893,333
Net Assets - End of Year					\$ 4,987,472	\$ 184,819	\$ 5,172,291

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2004

	General	Capital Projects LOSST	All Other Nonmajor	Total
Assets				
Cash and cash equivalents.....	\$ 2,716,754	\$ 411,598	\$ 497,768	\$ 3,626,120
Receivables				
Property Taxes, Net				
Current year delinquent.....	42,424	—	7,890	50,314
Succeeding year	3,604,140	—	682,390	4,286,530
Other.....	1,225	—	100	1,325
Due from other governments.....	<u>191,256</u>	<u>102,129</u>	<u>96,760</u>	<u>390,145</u>
Total Assets	<u>\$ 6,555,799</u>	<u>\$ 513,727</u>	<u>\$ 1,284,908</u>	<u>\$ 8,354,434</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 19,773	\$ 366,576	\$ 116,337	\$ 502,686
Salaries and benefits payable.....	1,221,476	—	72,699	1,294,175
Due to other governments	84,901	—	—	84,901
Deferred Revenue				
Succeeding year property taxes.....	3,604,140	—	682,390	4,286,530
Other.....	<u>140,335</u>	<u>—</u>	<u>—</u>	<u>140,335</u>
Total Liabilities	<u>5,070,625</u>	<u>366,576</u>	<u>871,426</u>	<u>6,308,627</u>
Fund Balances				
Reserved For				
Capital project fund.....	—	147,151	—	147,151
State Class Size Reduction.....	76,759	—	—	76,759
Special Ed supplement	57,853	—	—	57,853
Unreserved				
Designated by Board for future equipment	61,743	—	—	61,743
Undesignated.....	<u>1,288,819</u>	<u>—</u>	<u>413,482</u>	<u>1,702,301</u>
Total Fund Balances	<u>1,485,174</u>	<u>147,151</u>	<u>413,482</u>	<u>2,045,807</u>
Total Liabilities and Fund Balances	<u>\$ 6,555,799</u>	<u>\$ 513,727</u>	<u>\$ 1,284,908</u>	<u>\$ 8,354,434</u>

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

At June 30, 2004

Total Fund Balances for Governmental Funds (Page 16).... **\$ 2,045,807**

***Amounts reported for governmental activities in the
statement of net assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds..... 4,222,867

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets 140,940

Long-term liabilities, including notes payable, accrued interest and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Compensated absences.....	(70,715)
Accrued interest payable.....	(6,271)
Notes payable.....	<u>(1,345,156)</u>

Net Assets of Governmental Activities (Page 14) **\$ 4,987,472**

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2004

	General	Capital Projects LOSST	All Other Nonmajor	Total Govern- mental Funds
Revenue				
Local Sources				
Property taxes.....	\$ 3,877,075	\$ —	\$ 821,161	\$ 4,698,236
Tuition.....	371,529	—	—	371,529
Other.....	211,026	594,511	346,778	1,152,315
State sources	7,378,708	—	—	7,378,708
Federal sources.....	660,754	—	227,573	888,327
Total Revenue.....	<u>12,499,092</u>	<u>594,511</u>	<u>1,395,512</u>	<u>14,489,115</u>
Expenditures				
Current				
Instruction				
Regular instruction	5,280,422	—	144,364	5,424,786
Special instruction.....	2,442,470	—	—	2,442,470
Other instruction.....	568,095	—	332,148	900,243
Total Instruction.....	<u>8,290,987</u>	<u>—</u>	<u>476,512</u>	<u>8,767,499</u>
Support Services				
Student services.....	388,601	—	8,086	396,687
Instructional staff services	504,308	—	37,632	541,940
Administration services	1,310,619	5	4,890	1,315,514
Operation and maintenance of plant services	1,062,661	—	535,311	1,597,972
Transportation services	275,774	—	6,767	282,541
Total Support Services	<u>3,541,963</u>	<u>5</u>	<u>592,686</u>	<u>4,134,654</u>
Noninstructional Programs	—	—	6,436	6,436
Other Expenditures				
Facilities acquisition and construction	—	447,355	112,257	559,612
Long-Term Debt				
Principal	—	—	204,111	204,111
Interest and fiscal charges.....	—	—	84,514	84,514
AEA flowthrough	510,672	—	—	510,672
Total Other Expenditures.....	<u>510,672</u>	<u>447,355</u>	<u>400,882</u>	<u>1,358,909</u>
Total Expenditures	<u>12,343,622</u>	<u>447,360</u>	<u>1,476,516</u>	<u>14,267,498</u>
Revenue Over (Under) Expenditures ..	<u>155,470</u>	<u>147,151</u>	<u>(81,004)</u>	<u>221,617</u>
Other Financing Sources (Uses)				
Operating transfers in.....	—	—	288,625	288,625
Operating transfers out.....	16,239	—	272,386	288,625
Sale of assets.....	2,890	—	—	2,890
Total Other Financing Sources (Uses)	<u>(13,349)</u>	<u>—</u>	<u>16,239</u>	<u>2,890</u>
Net Change in Fund Balances	<u>142,121</u>	<u>147,151</u>	<u>(64,765)</u>	<u>224,507</u>
Fund Balance - Beginning of Year	1,343,053	—	478,247	1,821,300
Fund Balance - End of Year	<u>\$ 1,485,174</u>	<u>\$ 147,151</u>	<u>\$ 413,482</u>	<u>\$ 2,045,807</u>

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities ————

Year Ended June 30, 2004

Change in Fund Balances - Total Governmental Funds (Page 18) \$ 224,507

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays, depreciation expense and loss on the disposal of assets in the year are as follows:

Capital outlays.....	\$ 81,967	
Depreciation expense.....	(266,213)	
Loss on disposal	<u>(1,417)</u>	(185,663)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets 204,111

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 904

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities 91,279

Compensated absences are not paid from current financial resources and, therefore, were not accrued in the governmental funds. However, compensated absences are a liability on the statement of net assets and have been expensed in the statement of activities (70,715)

Change in Net Assets of Governmental Activities (Page 15) \$ 264,423

Balance Sheet - Proprietary Funds

At June 30, 2004

	Business-Type Activities - Enterprise Fund - School Nutrition	Governmental Activities - Internal Service Fund
Assets		
Cash and cash equivalents.....	\$ 161,203	\$ 420,940
Inventories and prepaid items.....	20,889	—
Machinery and equipment	577,535	—
Less accumulated depreciation	<u>(540,034)</u>	<u>—</u>
Total Assets	<u>\$ 219,593</u>	<u>\$ 420,940</u>
Liabilities		
Accounts payable	\$ 563	\$ 280,000
Salaries and benefits payable.....	<u>34,211</u>	<u>—</u>
Total Liabilities	<u>34,774</u>	<u>280,000</u>
Net Assets		
Invested in capital assets, net of related debt	37,501	—
Unrestricted.....	<u>147,318</u>	<u>140,940</u>
Total Net Assets	<u>184,819</u>	<u>140,940</u>
Total Liabilities and Net Assets	<u>\$ 219,593</u>	<u>\$ 420,940</u>

Statement of Revenue, Expenses and Changes in Net Assets - Proprietary Funds

Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund - School Nutrition	Governmental Activities - Internal Service Fund
Operating Revenue		
Local Sources		
Charges for service	\$ 366,063	\$ —
Self-insurance contributions	—	1,534,515
Total Operating Revenue	<u>366,063</u>	<u>1,534,515</u>
Operating Expenses		
Noninstructional Programs		
Food Service Operations		
Salaries and benefits	375,560	—
Purchased services	8,824	—
Supplies	295,941	—
Depreciation	8,598	—
Self-insurance claims and fees	—	1,443,236
Total Operating Expenses	<u>688,923</u>	<u>1,443,236</u>
Income (Loss) From Operations	<u>(322,860)</u>	<u>91,279</u>
Nonoperating Revenue		
State sources	12,115	—
Federal sources	324,609	—
Interest on investments	2,209	—
Total Nonoperating Revenue	<u>338,933</u>	<u>—</u>
Other Financing Uses		
Loss on disposal of capital assets	<u>(1,538)</u>	<u>—</u>
Change in Net Assets	14,535	91,279
Net Assets - Beginning of Year	<u>170,284</u>	<u>49,661</u>
Net Assets - End of Year	<u>\$ 184,819</u>	<u>\$ 140,940</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund - School Nutrition	Governmental Activities - Internal Service Fund
Cash Flows From Operating Activities		
Cash received from sale of lunches and breakfasts.....	\$ 366,063	\$ —
Cash received from assessments made to other funds.....	—	1,534,515
Cash payments to employees for services	(381,045)	—
Cash payments for insurance claims	—	(1,444,436)
Cash payments to suppliers for goods and services	<u>(255,301)</u>	<u>—</u>
Net Cash Provided by (Used in) Operating Activities	<u>(270,283)</u>	<u>90,079</u>
Cash Flows Provided by Noncapital Financing Activities		
State grants received.....	12,115	—
Federal grants received.....	<u>271,541</u>	<u>—</u>
Net Cash Provided by Noncapital Financing Activities	<u>283,656</u>	<u>—</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets.....	<u>(1,399)</u>	<u>—</u>
Cash Flows From Investment Activities		
Interest on investments	<u>2,209</u>	<u>—</u>
Net Increase in Cash and Cash Equivalents.....	14,183	90,079
Cash and Cash Equivalents at Beginning of Year	<u>147,020</u>	<u>330,861</u>
Cash and Cash Equivalents at End of Year.....	<u>\$ 161,203</u>	<u>\$ 420,940</u>
Reconciliation of Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities		
Income (loss) from operations.....	\$ (322,860)	\$ 91,279
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided by (Used in) Operating Activities		
Commodities used	52,903	—
Depreciation.....	8,598	—
Changes in Assets and Liabilities		
Increase in inventories and prepaid items.....	(3,479)	—
Increase in accounts payable	40	34,069
Decrease in provision for self-insurance claims	—	(35,269)
Decrease in salaries and benefits payable.....	<u>(5,485)</u>	<u>—</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (270,283)</u>	<u>\$ 90,079</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2004, the District received \$53,068 of federal commodities.

Statement of Fiduciary Net Assets - Fiduciary Fund

At June 30, 2004

	Private Purpose Trust - Scholarship	Agency
Assets		
Cash and cash equivalents.....	\$ 230,741	\$ 294
Accrued interest receivable	<u>1,325</u>	<u>—</u>
Total Assets	<u>\$ 232,066</u>	<u>\$ 294</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ —	\$ 294
Net Assets		
Reserved for scholarships	<u>232,066</u>	<u>—</u>
Total Liabilities and Net Assets	<u>\$ 232,066</u>	<u>\$ 294</u>

Statement of Changes in Fiduciary Net Assets - Fiduciary Fund ---

Year Ended June 30, 2004

	Private Purpose Trust - Scholarship
Additions	
Local Sources	
Interest.....	\$ 8,260
Contributions.....	<u>5,000</u>
Total Additions.....	<u>13,260</u>
Deductions	
Support Services	
Scholarships awarded.....	<u>6,321</u>
Change in Net Assets	6,939
Net Assets - Beginning of Year.....	<u>225,127</u>
Net Assets - End of Year	<u>\$ 232,066</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The Charles City Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Charles City, Iowa, and the surrounding predominate agricultural territory in Floyd County. The District is governed by a Board of Education whose members are elected on a nonpartisan 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.

Reporting Entity

For financial reporting purposes, the Charles City 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 Charles City Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

District-Wide Financial Statements

The statement of net assets and the statement of activities report information on all 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 revenue, are reported separately for business-type activities, which rely to a significant extent on fees and charges for service.

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

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

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

Unrestricted net assets consist of net assets 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.

(1) Summary of Significant Accounting Policies

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (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 revenue are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

General fund is the general operating fund of the District. All general tax revenue 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 *capital projects fund (LOSST)* is used to account for all resources used in the acquisition, construction and maintenance of capital facilities.

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

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The *Private-Purpose Trust Fund* is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The *Agency Fund* is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus." The District-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenue is 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

Property tax, intergovernmental revenue (shared revenue, 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 revenue. 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 revenue.

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 revenue and expenses from nonoperating items. Operating revenue 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 revenue 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 revenue and expenses not meeting this definition are reported as nonoperating revenue 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.

Assets, Liabilities and Fund Equity

Cash and Cash Equivalents

The District's cash is held at a local bank in interest-bearing accounts.

Investments are stated at fair value which approximates cost and consists of certificates of deposit.

For purposes of the statement of cash flows, all short-term capital 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Property Taxes Receivable

Property taxes in the governmental funds are accounted for using the modified accrual basis of accounting.

Property taxes receivable are 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 taxes receivable represent unpaid taxes for the current and prior years. The succeeding year property taxes receivable represent 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 taxes receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1-1/2% monthly 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 revenue, grants and reimbursements from other governments.

Food and Supplies Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. At June 30, 2004, total inventories included government commodities valued at \$11,880 which were on hand. General fund supplies inventory is accounted for under the consumption method. Expenditures are recognized when the inventory is used.

Capital Assets

Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost 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.

Land.....	\$2,000
Buildings	2,000
Improvements other than buildings.....	2,000
Furniture and Equipment	
School Nutrition Fund equipment	300
Other furniture and equipment.....	2,000

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

Buildings	50 Years
Improvements other than buildings.....	20 - 50 Years
Furniture and Equipment	
School Nutrition Fund equipment	12 Years
Other furniture and equipment.....	5 - 20 Years

Salaries and Benefits Payable

Payroll and related expenditures for teachers and staff 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 revenue is measurable, it is 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 represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property taxes receivable and other receivables not collected within 60 days after year end.

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

Compensated Absences

District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at July 1, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Obligations

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances

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

Restricted Net Assets

In the District-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash and Cash Equivalents

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvements certificates of a drainage district.

(3) Interfund

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

Transfer To	Transfer From	Amount
Debt Service	General	\$ 16,239
Debt Service	PPEL	<u>272,386</u>
Total		<u>\$ 288,625</u>

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

Notes to the Financial Statements

(4) Capital Assets

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

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 325,000	\$ —	\$ —	\$ 325,000
Construction in progress	—	17,996	—	17,996
Total Capital Assets Not Being Depreciated.....	<u>325,000</u>	<u>17,996</u>	<u>—</u>	<u>342,996</u>
Capital Assets Being Depreciated				
Buildings and improvements	9,343,423	—	—	9,343,423
Furniture and equipment	<u>1,850,924</u>	<u>63,971</u>	<u>80,715</u>	<u>1,834,180</u>
Total Capital Assets Being Depreciated.....	<u>11,194,347</u>	<u>63,971</u>	<u>80,715</u>	<u>11,177,603</u>
Less Accumulated Depreciation For				
Buildings and improvements	5,766,989	149,044	—	5,916,033
Furniture and equipment	<u>1,343,828</u>	<u>117,169</u>	<u>79,298</u>	<u>1,381,699</u>
Total Accumulated Depreciation.....	<u>7,110,817</u>	<u>266,213</u>	<u>79,298</u>	<u>7,297,732</u>
Net Total Capital Assets Being Depreciated.....	<u>4,083,530</u>	<u>(202,242)</u>	<u>1,417</u>	<u>3,879,871</u>
Net Governmental Activities				
Capital Assets	<u>\$ 4,408,530</u>	<u>\$ (184,246)</u>	<u>\$ 1,417</u>	<u>\$ 4,222,867</u>
Business-Type Activities				
Furniture and equipment.....	\$ 598,573	\$ 1,399	\$ 22,437	\$ 577,535
Less accumulated depreciation	<u>552,335</u>	<u>8,598</u>	<u>20,899</u>	<u>540,034</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 46,238</u>	<u>\$ (7,199)</u>	<u>\$ 1,538</u>	<u>\$ 37,501</u>

Depreciation expense was charged as follows:

Governmental Activities	
Instruction	
Regular	\$ 15,547
Special	360
Other.....	13,215
Support Services	
Instructional staff services	4,480
Administrative services.....	8,584
Operation and maintenance of plant services.....	157,123
Transportation.....	66,904
Total Governmental Activities Depreciation Expense	<u>\$ 266,213</u>
Business-Type Activities	
Food Service.....	<u>\$ 8,598</u>

Notes to the Financial Statements

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Notes payable	\$ 1,549,267	\$ —	\$ 204,111	\$ 1,345,156	\$ 210,156
Compensated absences....	<u>—</u>	<u>70,715</u>	<u>—</u>	<u>70,715</u>	<u>70,715</u>
Total.....	<u>\$ 1,549,267</u>	<u>\$ 70,715</u>	<u>\$ 204,111</u>	<u>\$ 1,415,871</u>	<u>\$ 280,871</u>

Notes Payable

In order to finance improvements to Lincoln Elementary School, the District has entered into a capital loan note agreement with Ruan Securities Corporation. The agreement required semi-annual interest payments at rates ranging from 5.4% to 5.8% and annual principal payments through June, 2010. The note is secured by tax levies enacted by the Board of Education.

The District has a loan agreement with First Security Bank and Trust for the purchase of a boiler system for the high school building. The agreement requires semi-annual interest payments of 4.99% and varying annual principal installments through June, 2005. The note is secured by the boiler system.

To pay for costs associated with asbestos removal, the District has entered into a loan agreement with the United States Environmental Protection Agency (EPA). The agreement requires semi-annual payments of \$4,688 through 2005, with no interest. Imputed interest on this note was immaterial.

Year Ending June 30,	Ruan Securities Corporation		First Security Bank and Trust		EPA		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 190,000	\$ 72,656	\$ 15,468	\$ 772	\$ 4,688	\$ —	\$ 210,156	\$ 73,428
2006	205,000	61,827	—	—	—	—	205,000	61,827
2007	215,000	50,143	—	—	—	—	215,000	50,143
2008	225,000	38,747	—	—	—	—	225,000	38,747
2009-2010	490,000	40,460	—	—	—	—	490,000	40,460
Total.....	<u>\$ 1,325,000</u>	<u>\$ 263,833</u>	<u>\$ 15,468</u>	<u>\$ 772</u>	<u>\$ 4,688</u>	<u>\$ —</u>	<u>\$ 1,345,156</u>	<u>\$ 264,605</u>

(6) Pension Plan

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.

Notes to the Financial Statements

(6) Pension Plan

Plan members are required to contribute 3.7% 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 \$427,556, \$423,304 and \$459,462, respectively, equal to the required contributions for each year.

(7) Risk Management

The Charles City 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.

(8) Area Education Agency Support

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 \$510,672 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.

(9) Early Retirement

The District offers a voluntary early retirement plan to its certified employees who are at least age 55 and have at least 15 years of service with the District. The early retirement benefit for each eligible certified employee is based on the employee's years of service with the District. The retiring employee receives \$250 for each year of service. Early retirement benefits expense for the year ended June 30, 2004 totaled \$72,212.

(10) Postretirement Health Care Benefits

In addition to the pension benefits described in Note 6, the District provides postretirement health care benefits, in accordance with the District's early retirement incentive plan, to all certified employees who retire early under the incentive plan as described in Note 9. Currently, 26 retirees meet the eligibility requirements. The District pays monthly toward the health care premiums of early retirees terminating the earlier of five years after retirement, the retiree's death, the date the retiree obtains new employment which provides health care benefits or reaches Medicare eligibility. Expenditures for postretirement health care benefits are recognized as monthly premiums are paid. During the year, expenditures of \$45,425 were recognized for postretirement health care benefits.

Notes to the Financial Statements

(11) Construction Commitments

The District has entered into various contracts totaling approximately \$690,000 for various high school and middle school remodeling and other projects. At June 30, 2004, costs of approximately \$491,000 had been incurred against the contracts. The balance remaining at June 30, 2004 will be paid as work on the projects progress.

(12) Contingent Liability for Sick Leave Time

District employees accumulate sick leave hours for subsequent use. These accumulations do not vest and therefore are not recognized as liabilities of the District until used by employees. The District's contingent liability for employee sick leave at June 30, 2004 was approximately \$1,537,315.

(13) Employee Health Care Plan

The District currently sponsors a partially self-funded health care plan. Under this plan, employees contribute a portion of their compensation, retirees contribute part of the cost and COBRA participants contribute the total cost, toward the cost of maintaining the plan. The District contracts with an insurance company to administer the plan.

Claim costs are limited to \$35,000 per covered individual. Any amount in excess of \$35,000 is covered by a reinsurance policy. Additionally, the reinsurance policy covers claim costs in excess of 120% of the group's aggregated total claims exposure, which was approximately \$1,528,000 for the year ended June 30, 2004.

The District has included \$250,000 in its June 30, 2004 liabilities for the estimated costs of incurred but unsubmitted claims at that date.

The District has established an Internal Service Fund to account for these activities to facilitate accountability and management control.

The following is a summary of the claims activity for the year ended June 30, 2004:

Estimated claims incurred but not reported - June 30, 2003	\$ 255,000
Claims incurred and reported and estimated costs incurred but not reported for the year ended June 30, 2004.....	1,088,518
Claims paid during the year ended June 30, 2004.....	(1,093,518)
Estimated Claims Incurred But Not Reported - June 30, 2004	<u>\$ 250,000</u>

Required Supplementary Information

Schedule of Budgetary Comparison of Receipts, Disbursements and Changes in Balances - Budget to Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Year Ended June 30, 2004

	Governmental Fund Types - Actual	Proprietary Fund - Actual	Total	Original and Final Budget	Over (Under) Budget
Receipts					
Local sources	\$ 6,282,465	\$ 368,272	\$ 6,650,737	\$ 6,626,619	\$ 24,118
State sources	7,384,458	11,631	7,396,089	7,609,605	(213,516)
Federal sources.....	701,349	325,093	1,026,442	1,041,813	(15,371)
Total Receipts	<u>14,368,272</u>	<u>704,996</u>	<u>15,073,268</u>	<u>15,278,037</u>	<u>(204,769)</u>
Disbursements					
Instruction.....	8,747,960	—	8,747,960	9,673,100	(925,140)
Support services.....	4,295,649	—	4,295,649	4,550,631	(254,982)
Noninstructional programs	6,436	699,549	705,985	746,382	(40,397)
Other expenditures.....	992,339	—	992,339	1,724,117	(731,778)
Total Disbursements....	<u>14,042,384</u>	<u>699,549</u>	<u>14,741,933</u>	<u>16,694,230</u>	<u>(1,952,297)</u>
Receipts Over (Under) Disbursements	325,888	5,447	331,335	(1,416,193)	(1,747,528)
Other Financing Sources	<u>2,890</u>	<u>—</u>	<u>2,890</u>	<u>1,500</u>	<u>1,390</u>
Receipts and Other Financing Financing Sources Over (Under) Disbursements	328,778	5,447	334,225	(1,414,693)	<u>\$ (1,748,918)</u>
Balance - Beginning of Year	<u>3,297,342</u>	<u>126,185</u>	<u>3,423,527</u>	<u>3,846,656</u>	
Balance - End of Year.....	<u>\$ 3,626,120</u>	<u>\$ 131,632</u>	<u>\$ 3,757,752</u>	<u>\$ 2,431,963</u>	

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 and 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, noninstructional 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.

Schedule of Budgetary Comparison - Budget to GAAP Reconciliation ▬▬▬

Year Ended June 30, 2004

	<u>Governmental Fund Types</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
Revenue.....	\$ 14,368,272	\$ 120,843	\$ 14,489,115
Expenditures	<u>14,042,384</u>	<u>225,114</u>	<u>14,267,498</u>
Net.....	325,888	(104,271)	221,617
Other financing sources.....	2,890	—	2,890
Beginning fund balances	<u>3,297,342</u>	<u>(1,476,042)</u>	<u>1,821,300</u>
Ending Fund Balances	<u>\$ 3,626,120</u>	<u>\$ (1,580,313)</u>	<u>\$ 2,045,807</u>

	<u>Proprietary Fund Types</u>		
	<u>Enterprise</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenue.....	\$ 704,996	\$ —	\$ 704,996
Expenses	<u>699,549</u>	<u>(9,088)</u>	<u>690,461</u>
Net.....	5,447	9,088	14,535
Beginning net assets	<u>126,185</u>	<u>44,099</u>	<u>170,284</u>
Ending Net Assets	<u>\$ 131,632</u>	<u>\$ 53,187</u>	<u>\$ 184,819</u>

Other Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2004

	Special Revenue Funds				Total Nonmajor Govern- mental Funds
	Management Account	Student Account	PPEL Fund	Expend- able Trust Fund	
Assets					
Cash and cash equivalents...	\$ 147,045	\$ 144,158	\$ 194,948	\$ 11,617	\$ 497,768
Receivables					
Property Taxes, Net					
Current year delinquent ..	3,451	—	4,439	—	7,890
Succeeding year.....	300,000	—	382,390	—	682,390
Other	—	100	—	—	100
Due from other governments.....	—	—	96,760	—	96,760
Total Assets	<u>\$ 450,496</u>	<u>\$ 144,258</u>	<u>\$ 678,537</u>	<u>\$ 11,617</u>	<u>\$ 1,284,908</u>
Liabilities and Equities					
Liabilities					
Accounts payable	\$ 500	\$ 5,337	\$ 110,361	\$ 139	\$ 116,337
Salaries and benefits payable	72,212	487	—	—	72,699
Deferred Revenue					
Succeeding year property taxes.....	300,000	—	382,390	—	682,390
Total Liabilities.....	<u>372,712</u>	<u>5,824</u>	<u>492,751</u>	<u>139</u>	<u>871,426</u>
Equities					
Unreserved, undesignated fund balance.....	<u>77,784</u>	<u>138,434</u>	<u>185,786</u>	<u>11,478</u>	<u>413,482</u>
Total Liabilities and Equities	<u>\$ 450,496</u>	<u>\$ 144,258</u>	<u>\$ 678,537</u>	<u>\$ 11,617</u>	<u>\$ 1,284,908</u>

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

Year Ended June 30, 2004

	Special Revenue Funds					Debt Service	Capital Projects	Total Nonmajor Govern- mental Funds
	Manage- ment Account	Student Account	PPEL Fund	Expend- able Trust Fund	Total			
Revenue								
Local Sources								
Local Taxes								
Property taxes	\$ 298,158	\$ —	\$ 523,003	\$ —	\$ 821,161	\$ —	\$ —	\$ 821,161
Other	1,142	317,213	18,325	8,453	345,133	—	1,645	346,778
Federal Sources...	—	—	227,573	—	227,573	—	—	227,573
Total Revenue	<u>299,300</u>	<u>317,213</u>	<u>768,901</u>	<u>8,453</u>	<u>1,393,867</u>	<u>—</u>	<u>1,645</u>	<u>1,395,512</u>
Expenditures								
Instruction								
Regular instruction	144,364	—	—	—	144,364	—	—	144,364
Other instruction .	—	332,148	—	—	332,148	—	—	332,148
Total Instruction	<u>144,364</u>	<u>332,148</u>	<u>—</u>	<u>—</u>	<u>476,512</u>	<u>—</u>	<u>—</u>	<u>476,512</u>
Support services								
Student services	813	—	—	7,273	8,086	—	—	8,086
Instructional staff services	8,696	—	28,936	—	37,632	—	—	37,632
Administration services	4,590	—	300	—	4,890	—	—	4,890
Operation and maintenance of plant services....	96,819	—	438,492	—	535,311	—	—	535,311
Transportation services	6,767	—	—	—	6,767	—	—	6,767
Total Support Services	<u>117,685</u>	<u>—</u>	<u>467,728</u>	<u>7,273</u>	<u>592,686</u>	<u>—</u>	<u>—</u>	<u>592,686</u>
Noninstructional Programs.....								
Other Expenditures	6,436	—	—	—	6,436	—	—	6,436
Facilities acquisition and construction								
Long-Term Debt Principal.....	—	—	—	—	—	—	112,257	112,257
Interest and fiscal charges ..	—	—	—	—	—	84,514	—	84,514
Total Other Expenditures	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>288,625</u>	<u>112,257</u>	<u>400,882</u>
Total Expend- itures	<u>268,485</u>	<u>332,148</u>	<u>467,728</u>	<u>7,273</u>	<u>1,075,634</u>	<u>288,625</u>	<u>112,257</u>	<u>1,476,516</u>
Revenue Over (Under) Expenditures	<u>30,815</u>	<u>(14,935)</u>	<u>301,173</u>	<u>1,180</u>	<u>318,233</u>	<u>(288,625)</u>	<u>(110,612)</u>	<u>(81,004)</u>
Other Financing Sources (Uses)								
Operating transfers in	—	—	—	—	—	288,625	—	288,625
Operating transfers out.....	—	—	272,386	—	272,386	—	—	272,386
Total Other Financing Sources (Uses)	<u>—</u>	<u>—</u>	<u>(272,386)</u>	<u>—</u>	<u>(272,386)</u>	<u>288,625</u>	<u>—</u>	<u>16,239</u>
Net Change in Fund Balance	30,815	(14,935)	28,787	1,180	45,847	—	(110,612)	(64,765)
Fund Balance - Beginning of Year								
	46,969	153,369	156,999	10,298	367,635	—	110,612	478,247
Fund Balance - End of Year	<u>\$ 77,784</u>	<u>\$ 138,434</u>	<u>\$ 185,786</u>	<u>\$ 11,478</u>	<u>\$ 413,482</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 413,482</u>

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2004

	Balance - Beginning of Year	Revenue	Expenditures	Balance - End of Year
Comet Drama	\$ 3,986	\$ 12,011	\$ 6,678	\$ 9,319
Speech Club	180	5,081	4,659	602
HS Music Sales	2,519	4,604	4,330	2,793
Comet Connection	3,107	—	117	2,990
Concert Chorale	3,700	3,541	2,547	4,694
Choir Robes	1,607	333	623	1,317
9 th Grade Vocal	2,680	52	—	2,732
General Vocal Activity	7,847	1,164	1,806	7,205
MS Music	5,377	1,329	—	6,706
Band Color Guard	490	150	599	41
Marching Band	6,399	25,256	30,599	1,056
Jazz Band	2,777	4,502	4,220	3,059
Music Uniform	1,544	2,316	1,605	2,255
HS Orchestra	218	—	119	99
MS Band/Orchestra	9,426	13,624	13,390	9,660
Sportsman's Park	—	9,740	9,713	27
Athletic Fund	35,700	127,760	141,784	21,676
Girls Cross Country	625	35	63	597
Boys Basketball	101	—	—	101
Football Club	1,558	4,035	3,707	1,886
Baseball Club	1,070	328	—	1,398
Girls Basketball	—	1,350	—	1,350
Girls Swimming Club	225	—	175	50
Annual	7,803	15,344	22,746	401
Art Club	150	—	—	150
HS Cheerleaders	901	3,351	2,969	1,283
Journalism/Spirit	34	125	99	60
Alternative HS Annual	129	273	120	282
FFA	1,608	17,490	18,671	427
German Club	1,913	6,462	4,354	4,021
Mu Alpha Theta	84	—	—	84
National Honor Society	516	—	327	189
Spanish Club	431	1,456	1,500	387

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2004

	Balance - Beginning of Year	Revenue and and Transfers	Expenditures and Transfers	Balance - End of Year
HS Student Council	\$ 589	\$ 3,970	\$ 3,670	\$ 889
Post Prom	5	—	—	5
SADD	52	—	—	52
Caps and Gowns.....	1,735	3,016	3,024	1,727
Class of 2007	—	100	—	100
Class of 2002	971	—	971	—
Class of 2003	2,062	6	100	1,968
Class of 2004	1,730	190	75	1,845
Class of 2005	80	4,014	3,549	545
Class of 2006	100	—	—	100
Industrial Technology	2,701	1,111	2,793	1,019
Horticulture Club.....	671	909	525	1,055
Comet Creations	76	252	153	175
HS Interest	5,893	2,875	2,472	6,296
HS Activity.....	13	971	—	984
Biology Class.....	153	—	—	153
MS Newspaper.....	639	2,723	46	3,316
MS Student Council.....	2,200	6,090	7,838	452
MS Interest.....	1,814	167	—	1,981
MS Activity	6,022	11,796	12,464	5,354
MS Orchestra	1,048	—	—	1,048
MS Band Uniform Cleaning	4,894	576	462	5,008
Jefferson School Activity.....	6,880	4,480	4,608	6,752
Lincoln School Activity.....	4,309	5,382	5,866	3,825
Washington School Activity	3,996	6,228	6,894	3,330
Marching Band - Student Fees	<u>31</u>	<u>1,874</u>	<u>347</u>	<u>1,558</u>
	<u>\$ 153,369</u>	<u>\$ 318,442</u>	<u>\$ 333,377</u>	<u>\$ 138,434</u>

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund —

Year Ended June 30, 2004

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Cash.....	<u>\$ 11,986</u>	<u>\$ 74,344</u>	<u>\$ 86,036</u>	<u>\$ 294</u>
Accounts Payable.....	<u>\$ 11,986</u>	<u>\$ 74,344</u>	<u>\$ 86,036</u>	<u>\$ 294</u>

Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis)

Years Ended June 30, 2004, 2003, 2002 and 2001

	2004	2003	2002	2001
Revenue				
Local Sources				
Property taxes.....	\$ 4,698,236	\$ 5,380,782	\$ 5,044,318	\$ 4,103,733
Tuition.....	371,529	411,057	350,932	361,431
Other.....	1,152,315	649,151	329,513	817,430
State sources	7,378,708	7,379,685	7,544,084	7,541,834
Federal sources.....	<u>888,327</u>	<u>618,746</u>	<u>651,809</u>	<u>488,590</u>
Total	<u>\$ 14,489,115</u>	<u>\$ 14,439,421</u>	<u>\$ 13,920,656</u>	<u>\$ 13,313,018</u>
Expenditures				
Instruction				
Regular instruction	\$ 5,424,786	\$ 5,638,456	\$ 5,507,917	\$ 5,358,592
Special instruction.....	2,442,470	2,451,812	2,443,104	2,399,268
Other instruction.....	900,243	880,408	825,838	826,098
Support Services				
Student services	396,687	375,504	362,618	379,073
Instructional staff services.....	541,940	535,326	457,362	451,282
Administration services	1,315,514	1,298,973	1,265,647	1,184,714
Operation and maintenance of plant services	1,597,972	1,599,005	1,506,376	1,440,280
Transportation services.....	282,541	314,789	331,802	349,221
Noninstructional programs.....	6,436	6,191	12,674	22,630
Other Expenditures				
Facilities acquisition and construction.....	559,612	249,055	635,485	1,090,979
Long-Term Debt				
Principal	204,111	240,635	274,168	309,826
Interest and other charges.....	84,514	97,470	113,955	164,910
AEA flowthrough.....	<u>510,672</u>	<u>533,712</u>	<u>537,198</u>	<u>540,496</u>
Total	<u>\$ 14,267,498</u>	<u>\$ 14,221,336</u>	<u>\$ 14,274,144</u>	<u>\$ 14,517,369</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass- Through Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through From Iowa Department of Education			
Food Donation (noncash).....	10.550	FY 2004	<u>\$ 53,068</u>
Child Nutrition Cluster			
School Breakfast Program.....	10.553	FY 2004	40,206
National School Lunch Program.....	10.555	FY 2004	231,335
Total Cash Expenditures.....			<u>271,541</u>
Total U.S. Department of Agriculture.....			<u>324,609</u>
U.S. Department of Education			
Pass-Through From Iowa Department of Education			
Title I Grants to Local Education Agencies.....	84.010	1116-6	308,310
Title I Grants to Local Education Agencies.....	84.010	1116-6C	<u>18,564</u>
			<u>326,874</u>
Safe and Drug-Free Schools and Communities - State Grants.....	84.186	FY 2004	<u>11,018</u>
Fund for the Improvement of Education.....	84.215	FY 2004	<u>214,783</u>
Even Start - State-Wide Family Literacy Program....	84.314	FY 2004	<u>80,000</u>
Tech-Prep Education.....	84.243	FY 2004	<u>2,527</u>
Innovative Education Program Strategies.....	84.298	FY 2004	<u>13,980</u>
Class Size Reduction.....	84.340	FY 2004	<u>74,862</u>
Grants for State Assessment and Related Activities	84.369	FY 2004	<u>18,755</u>
Total Pass-Through Iowa Department of Education			<u>742,799</u>
Pass-Through From Northern Trails AEA			
Special Education Grants to States.....	84.027		<u>72,664</u>
Total U.S. Department of Education.....			<u>815,463</u>
Total.....			<u>\$ 1,140,072</u>

Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Charles City Community School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*.

Subrecipients

The Charles City Community School District provided no federal awards to subrecipients.

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

Board of Education
Charles City Community School District
Charles City, Iowa

We have audited the general-purpose financial statements of the Charles City Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 the Charles City 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Charles City Community School District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general-purpose financial statements of the Charles City Community School 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Charles City 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 Charles City Community School 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 Part II of 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 misstatements caused by error or fraud 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 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 in the Schedule of Findings and Questioned Costs, we believe item 04-II-R-1 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the Board of Education, management and others within the District, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
September 14, 2004

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance

Board of Education
Charles City Community School District
Charles City, Iowa

Compliance

We have audited the compliance of the Charles City Community School District with the types of compliance requirements described in the *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. The Charles City Community School District's major federal programs are identified in the summary of independent auditor's results section 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 the Charles City Community School District's management. Our responsibility is to express an opinion on the Charles City Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, 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 Nonprofit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 the Charles City Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Charles City Community School District's compliance with those requirements.

In our opinion, the Charles City 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 the Charles City Community School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Charles City 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 the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the Charles City Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in Part III of 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 noncompliance 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, in our judgment, item 04-III-R-1 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the Board of Education, management and others within the District, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
September 14, 2004

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weakness identified? yes no
Reportable condition identified not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:
Material weakness identified? yes no
Reportable condition identified not considered to be material weakness? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

10.553	Child Nutrition Cluster
10.555	Child Nutrition Cluster
84.010	Title I - Grants to Local Education Agencies
84.215	Fund for the Improvement of Education

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

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

Instances of Noncompliance:

There were no prior or current year instances of noncompliance noted.

Reportable Conditions:

Prior year reportable conditions have been resolved except Item 04-II-R-1 below.

04-II-R-1 Segregation of Duties

Prior Year Finding and Recommendation - The limited number of personnel employed by the District in its accounting department makes it difficult to achieve adequate control procedures through the segregation of employee duties. The concentration of closely related duties and responsibilities, such as recording and preparing cash receipts, preparing and recording checks and preparation of journals and general financial information for posting makes it impossible to establish an adequate system of automatic internal checks on accounting record accuracy and reliability. This is not an unusual condition, but it is important that management be aware that the condition exists.

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.

Current Year Finding - We found that the same conditions existed.

Auditor's Recommendation - We reiterate the prior year recommendation.

District's Response - We will monitor this situation and continue to segregate incompatible duties as efficiently as possible.

Auditor's Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Noncompliance:

There were no prior or current year instances of noncompliance noted.

Reportable Conditions:

The prior year reportable condition has not been resolved and is repeated below as Item 04-III-R-1.

All Programs Displayed on the Schedule of Expenditures of Federal Awards

04-III-R-1 Segregation of Duties Over Federal Revenue and Expenditures

Adequate control procedures through the segregation of employee duties is difficult to achieve due to the limited number of staff administering grants and performing accounting functions. See Finding 04-II-R-1 for additional information.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting:

There were no prior year statutory comments.

- 04-IV-A Official Depositories** - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- 04-IV-B Certified Budget** - Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- 04-IV-C Questionable Disbursements** - No disbursements were noted that may not meet the requirements as defined in an Attorney General's opinion dated April 25, 1979.
- 04-IV-D Travel Expense** - No expenditures of District money for travel expenses of spouses of District officials or employees were noted.
- 04-IV-E Business Transactions** - No business transactions between the District and District officials or employees were noted.
- 04-IV-F 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.
- 04-IV-G Board Minutes** - No transactions were found that we believe should have been included in the minutes but were not. Minutes of Board of Education proceedings were published within 15 days as required by Chapter 279.35 of the Code of Iowa.
- 04-IV-H Certified Enrollment** - No variances in the basic enrollment data certified to the Department of Education were noted.
- 04-IV-I Deposits and Investments** - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- 04-IV-J 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.

MANAGEMENT’S DISCUSSION AND ANALYSIS

Charles City 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.

The District implemented new reporting standards for the prior fiscal year with significant changes in content and structure. The comparisons will explain the District’s financial position and results of operations.

Financial Highlights

- General Fund revenues decreased from \$13,112,899 in fiscal 2003 to \$12,499,092 in fiscal 2004, while General Fund expenditures decreased from \$12,552,530 in fiscal 2003 to \$12,343,622 in fiscal 2004. This resulted in an increase in the District’s General Fund balance from \$1,343,053 in fiscal 2003 to \$1,485,174 in fiscal 2004, a 10.6% increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in property tax revenue in fiscal 2004, offset by an increase in federal revenue. The property tax decrease was mainly due to a decrease of \$300,000 cash reserve levy, \$197,000 special education deficit, \$40,000 tuition and \$47,000 other local revenue. The decrease in expenditures, 1.7%, was due primarily to decreases in purchased services and property, but was offset by an increase in net salary and benefit expenditures. Although some staffing reductions were made to limit the net salary and benefit expenditure increase to \$108,000, the remaining increase was offset by a larger decrease in purchased services and property expenditures. The District made reductions to open enrollment, tuition and equipment expenditures. Some equipment expenditures, such as a bus purchase, were moved to the Physical Plant and Equipment levy. Equipment expenditures were also reduced by a decrease in the amount of instructional support levy dollars spent on equipment. As a result, the District improved its General Fund balance by 10.6%.
- The District’s certified enrollment has declined 293 students over seven years for an average decline of 42 students per year. Due to the state funding formula, the amount of money the District has available to spend is dependent upon the number of students it has. In the past, the state has had a program to guarantee at least as much revenue as the District received the year prior, even with declining enrollment. In 2003-04 the state eliminated the “budget guarantee program” and will begin phasing this program out. This District anticipates continued declining enrollment.
- Effective July 1, 2003 the District began receiving 1% Local Option Sales and Services Tax (LOSST) revenue. The tax was approved by voters in Floyd and Chickasaw counties at special elections held on March 4, 2003 and December 17, 2002 respectively. The local sales and services tax revenue, which can be used for school infrastructure, will be in effect for a period of ten years until June 30, 2012.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

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

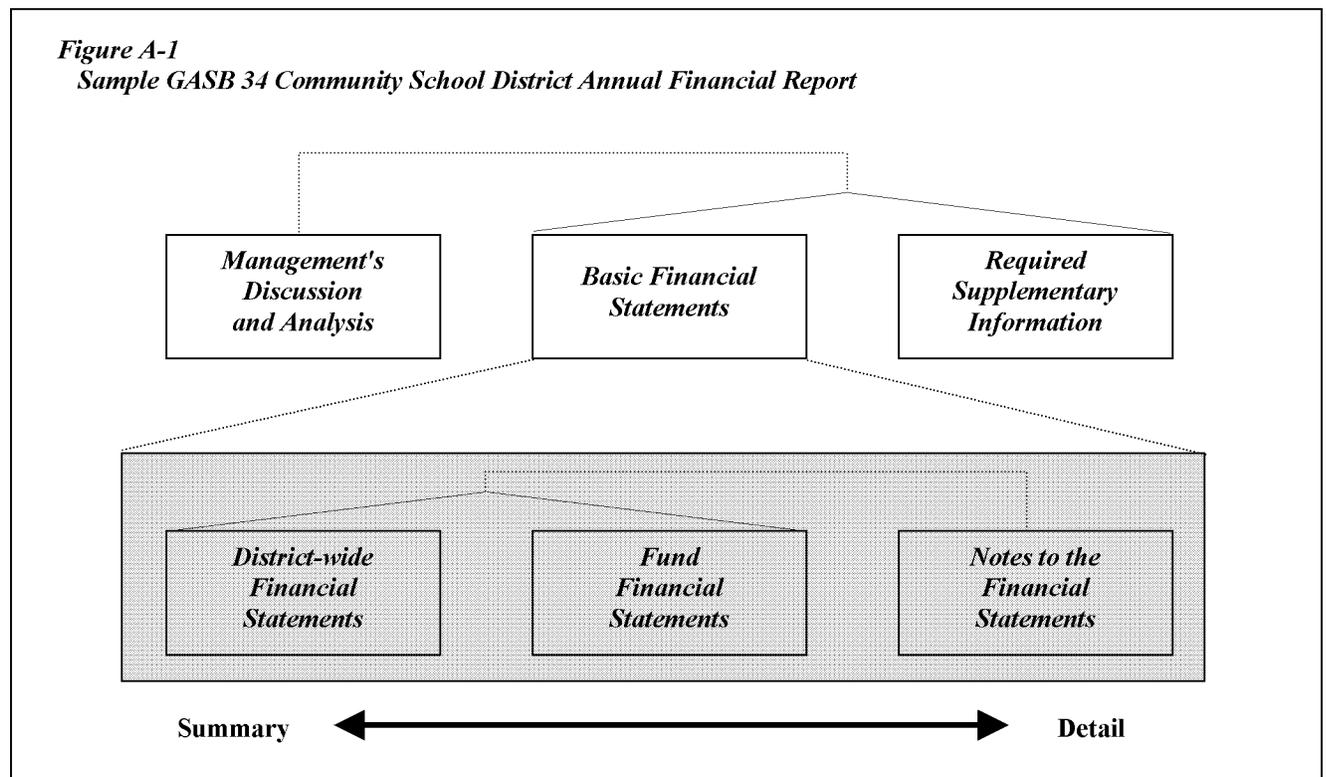


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2
Major Features of the District-Wide and Fund Financial Statements

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

District-wide Statements

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

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.
- The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
- The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two proprietary funds, the School Nutrition Fund and the Internal Service Fund.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.
- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to 2003.

FIGURE A-3
CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities		Business-type Activities		Total School District		Total
	2004	2003	2004	2003	2004	2003	Change 2003-04
Current and other assets	\$ 8,775,374	\$ 8,959,077	\$ 182,092	\$ 164,265	\$ 8,957,466	\$ 9,123,342	-1.8%
Capital assets	4,222,867	4,408,530	37,501	46,238	4,260,368	4,454,768	-4.4%
Total assets	12,998,241	13,367,607	219,593	210,503	13,217,834	13,578,110	-2.7%
Long-term obligations	1,135,000	1,345,157	-	-	1,135,000	1,345,157	-15.6%
Other liabilities	6,875,769	7,299,401	34,774	40,219	6,910,543	7,339,620	-5.8%
Total liabilities	8,010,769	8,644,558	34,774	40,219	8,045,543	8,684,777	-7.4%
Net assets:							
Invested in capital assets, net of related debt	2,877,711	2,859,263	37,501	46,238	2,915,212	2,905,501	0.3%
Restricted	683,767	515,654	-	-	683,767	515,654	32.6%
Unrestricted	1,425,994	1,348,132	147,318	124,046	1,573,312	1,472,178	6.9%
Total net assets	\$ 4,987,472	\$ 4,723,049	\$ 184,819	\$ 170,284	\$ 5,172,291	\$ 4,893,333	5.7%

The District's combined net assets were 5.7% greater at June 30, 2004 than June 30, 2003. The increase occurred primarily in the governmental funds as a result of \$168,000 increase in unexpended restricted funds. At year-end 2004, the District had an unrestricted special education surplus of \$59,000, which was the first surplus in many years. In addition, the District had increases in restricted net assets in the Capital Project Fund, State Class Size Reduction Grant, PPEL Fund and Management Fund due to the District not using restricted revenue to meet financial obligations during the year. These restricted funds will be carried over to next fiscal year. Only the Student Activities Fund generated a decrease in restricted funds.

The increase in unrestricted net assets was primarily due to the District not using carryover fund balance to meet its financial obligations during the year.

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

FIGURE A-4 CHANGES IN NET ASSETS			
	Governmental Activities	Business-type Activities	Total School District
	2004	2004	2004
REVENUES:			
Program revenues:			
Charges for services and sales	\$ 818,302	\$ 366,063	\$ 1,184,365
Operating grants and contributions	1,859,069	336,724	2,195,793
Capital grants and contributions	227,573	-	227,573
General revenues:			
Property tax	4,387,096	-	4,387,096
Local option	591,038	-	591,038
Income surtax	311,140	-	311,140
Unrestricted federal and state grants	6,182,193	-	6,182,193
Unrestricted investment earnings	70,021	2,209	72,230
Miscellaneous	45,573	-	45,573
TOTAL REVENUES	<u>14,492,005</u>	<u>704,996</u>	<u>15,197,001</u>
PROGRAM EXPENSES:			
Governmental activities:			
Instruction	8,709,564	-	8,709,564
Support Services	4,919,601	-	4,919,601
Non-instructional programs	4,135	690,461	694,596
Other expenses	594,282	-	594,282
TOTAL EXPENSES	<u>14,227,582</u>	<u>690,461</u>	<u>14,918,043</u>
CHANGE IN NET ASSETS	<u>\$ 264,423</u>	<u>\$ 14,535</u>	<u>\$ 278,958</u>

Property tax, local option sales tax, income surtax, and unrestricted federal and state grants account for 75% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$14,492,005 and expenses were \$14,227,582, which amounted to an increase in net assets of \$264,423.

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	\$ 8,709,564	\$ 6,600,638
Support services	4,919,601	4,634,255
Non-instructional programs	4,135	4,135
Other expenses	594,282	83,610
Totals	<u>\$ 14,227,582</u>	<u>\$ 11,322,638</u>

- The cost financed by users of the District's programs was \$818,302.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,859,069.
- The net cost of governmental activities was financed with \$4,387,096 in property tax, \$591,038 local option sales tax, \$311,140 income surtaxes, \$6,182,193 in state foundation aid and \$70,021 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$704,996 and expenses were \$690,461. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The price of meals was last increased in school year 2001-2002.

Financial Analysis of the District's Funds

As previously noted, the Charles City 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 balances of \$2,045,807, above last year's ending fund balances of \$1,821,300. The primary reason for the increase in combined fund balances in fiscal 2004 is due to an increase in reserved/designated fund balances, which makes up 73% of the increase in combined fund balance. Additional money was reserved for capital project due to additional revenue generated through the LOSST Capital Projects fund. Also in the General Fund additional money was reserved for unexpended reserved money for state class size reduction, special education and an amount carried forward locally for future purchases.

Governmental Fund Highlights

- The District's increasing General Fund financial position is mainly due to the increase in reserved or designated fund balance. The undesignated portion of the fund balance increased only \$14,000. The state financing formula and the District's declining enrollment situation have resulted in little additional funding from the state and in order to finance negotiated salary increases the District has made budget cuts for the last several years.
- In early 2003, the voters of Floyd and Chickasaw counties, where the District is located, passed the one-cent local option sales tax to be used for school infrastructure. A 10-year infrastructure plan was developed to prioritize infrastructure needs. Effective July 1, 2003 the District began receiving LOSST revenue. In addition to the LOSST revenue, the District generates \$1.34 PPEL levy to be used for infrastructure and equipment needs. During the fiscal year some equipment purchases were switched from General Fund to PPEL Fund purchases.
- The District has received the Fire (life) safety grants for fiscal years 2002, 2003 and 2004. These funds were or will be used to complete some very needed projects including, the High School fire alarm replacement project, the High School electrical project and the Middle School fire alarm replacement project. The District has submitted an application for the 2005 grant.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$170,284 at June 30, 2003 to \$184,819 at June 30, 2004, representing an increase of approximately 8.5%. The fund received revenues of \$704,996 and expended \$690,461 resulting in an increase to the fund balance. Even without an increase in meal prices and with negotiated salary increase the fund balance improved.

The District has a second Proprietary Fund for Governmental activities, the Internal Service Fund, where revenue and expenses associated with the District's self-funded health care plan are accumulated. The District and employee contributions to this fund for health care premium are used to pay health care claims administered by an insurance company. The fund balance increased from \$49,661 at June 30, 2003 to \$140,940 at June 30, 2004, representing a 183.8% increase. Premiums were increased by 9% and 15% effective July 1, 2004 and July 1, 2003, respectively.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Legal Budgetary Highlights

The District's total actual receipts were approximately \$205,000 less than the total budgeted receipts, a variance of 1.4%. The most significant change resulted in the District receiving less in various components of state aid than originally anticipated.

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

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the District had invested \$4.3 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was approximately \$275,000.

The original cost of the District's capital assets was \$12.1 million. Governmental funds account for \$11.5 million with the remainder of \$0.6 million in the Proprietary, School Nutrition Fund. There were no significant changes to capital assets during the year. District's largest equipment purchases included \$17,222 in communication equipment for wireless internet access and \$15,162 in business equipment for two new copiers.

FIGURE A-6
Capital Assets, net of Depreciation

	Governmental Activities	Business-type Activities	Total School District
	2004	2004	2004
Land	\$ 325,000	\$ -	\$ 325,000
Construction in progress	17,996	-	17,996
Buildings	3,427,390	-	3,427,390
Improvements other than buildings	-	-	-
Furniture and equipment	452,481	37,501	489,982
Totals	\$ 4,222,867	\$ 37,501	\$ 4,260,368

Long-Term Debt

At June 30, 2004, the District had \$1,345,156 in long-term debt outstanding. This represents a decrease of 13.2% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

In September 1999, the District's voters adopted a \$1.34 per thousand of assessed valuation Physical Plant and Equipment Levy to be used in part to finance an addition to the Lincoln Elementary and demolish the oldest portion of the building. Loan notes of \$1,950,000 were issued to be repaid from the PPEL levy to finance the project. The project was completed in fiscal year 2003. The District had a note payable from this project of \$1,325,000 as of June 30, 2004.

The District also had an outstanding School Equipment Note payable from the General Fund for \$15,467 and another note payable from the Physical Plant and Equipment Levy for \$4,689 at June 30, 2004.

FIGURE A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	2003-04
Notes payable	\$ 1,345,156	\$ 1,549,267	\$ (204,111)

Factors Bearing on the District's Future

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

- The District's certified enrollment has declined 350 students over eight years from fiscal year ended 1997 through fiscal year 2004 for an average decline of 44 students per year. There are community initiatives being worked on to bring jobs and families into the District, but in the short term since the state financing formula is based upon the number of students enrolled in the District, it will be forced to make significant expenditure reductions in order to balance the budget.
- In the past, the state has had a program to guarantee at least as much revenue as the district received the year prior, even with declining enrollment. In 2003-04 the state eliminated the "budget guarantee program" and will begin phasing this program out. The District will have to reduce expenditures due to the elimination of the budget guarantee by \$208,000 in fiscal year ended 2006.

The District negotiated new salary agreements during fiscal 2004 for fiscal 2005, which were between 4.0% and 4.5% total package increases. Since settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance, the District expects additional expenditure reductions will be necessary to fund fiscal 2006 negotiated salary agreements.

With the combination of the elimination of the budget guarantee and anticipated salary increases, the District is planning on making significant reductions to expenses in 2005-06. Although the 2005-06 salary increases are not known, the amount of budget reductions is anticipated to be around \$500,000. One of the cost saving items being considered is the closing of one of five school buildings in Charles City. Although there are some difficult decisions that need to be made, the District remains committed to maintaining a quality school system and financial stability.

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 Terri O'Brien, District Secretary/Treasurer and Business Manager, Charles City Community School District, 500 N. Grand Ave., Charles City, Iowa, 50616.