

**CHARLES CITY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006**

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Introductory Section

Board of Education and School District Officials

At June 30, 2006

Name	Title	Term Expires
Board of Education		
(Before September, 2005 Election)		
Dean Tjaden	President	2006
Scott Dight	Vice President	2005
Patti Emmel	Member	2005
Sam Offerman	Member	2007
Susan Ayers	Member	2006
(After September, 2005 Election)		
Dean Tjaden	President	2006
Susan Ayers	Vice President	2006
Sam Offerman	Member	2007
Ralph Smith	Member	2009
Matt Spading	Member	2009
Officials		
David Bradley	Superintendent	2006
Terri O'Brien	District Secretary and Treasurer/Business Manager	2006
Brian Gruhn	Attorney	2006

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 as of and for the year ended June 30, 2006, 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 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, 2006, and the respective changes in financial position and cash flows, where applicable, 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 5, 2006 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 36 and 37 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 six years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on Pages 38 through 45, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, 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 5, 2006

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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow. The comparisons will explain the District's financial position and results of operations.

Financial Highlights

- General Fund revenue increased from \$12,720,474 in fiscal 2005 to \$12,698,105 in fiscal 2006, while General Fund expenditures increased from \$12,491,797 in fiscal 2005 to \$12,583,192 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$1,682,161 in fiscal 2005 (as restated) to \$1,809,374 in fiscal 2006, a 7.6% increase from the prior year.
- The General Fund revenue decreased slightly (0.2%). Local and state revenue increased by 0.3% and 1.3%, respectively, but were offset by a 17.2% decrease in federal revenue. The Even Start grant was not approved by the state in 2005-06, which accounted for most of the decline in federal revenue.
- General Fund expenditures increased by 0.7% due primarily to an increase in expenditures for supplies. In order to fund the negotiated salary increases for staff, the District reduced or absorbed four staff positions and increased funding through a 3% increase in the Instructional Support Levy to be used for salaries and benefits. Overall salaries and benefits decreased 0.4% or approximately \$36,000. Purchased services increased 3.3% or approximately \$27,700. Supplies and equipment expenditures increased by 10.5% or approximately \$96,700 due to an increase in diesel, natural gas and textbook expenditures. The Board carried over Instructional Support Levy revenue from 2004-05 to 2005-06 for the purchase of elementary reading textbooks.
- The September 2005 certified enrollment increased by 40.6 students. During the previous ten years, however, the District's certified enrollment had declined 375 students, an average decline of 37.5 students per year. Enrollment numbers are significant due to the state funding formula, which uses certified enrollment to determine the amount of money the District has available to spend. The October 2006 certified enrollment resulted in an increase of 8.2 students. Some of the increase in enrollment in October 2006 may be temporary due to a large construction project temporarily moving families to Charles City.
- In 2005-06 the District's budget was prepared on the cash basis. The 2006-07 budget was prepared using the accrual basis. The change in methods of budgeting did not cause an adverse effect to the District's financial position since the state held districts harmless for the conversion.
- The District is currently receiving a \$1.34 Physical Plant and Equipment Levy (PPEL) and a one-cent Local Option Sales and Services Tax (LOSST) for facility and equipment needs. The voted PPEL will expire on June 30, 2010 and LOSST will expire on June 30, 2013. As part of the LOSST proposal, the Board made a commitment to not levy the Board-approved PPEL of \$0.33.

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.

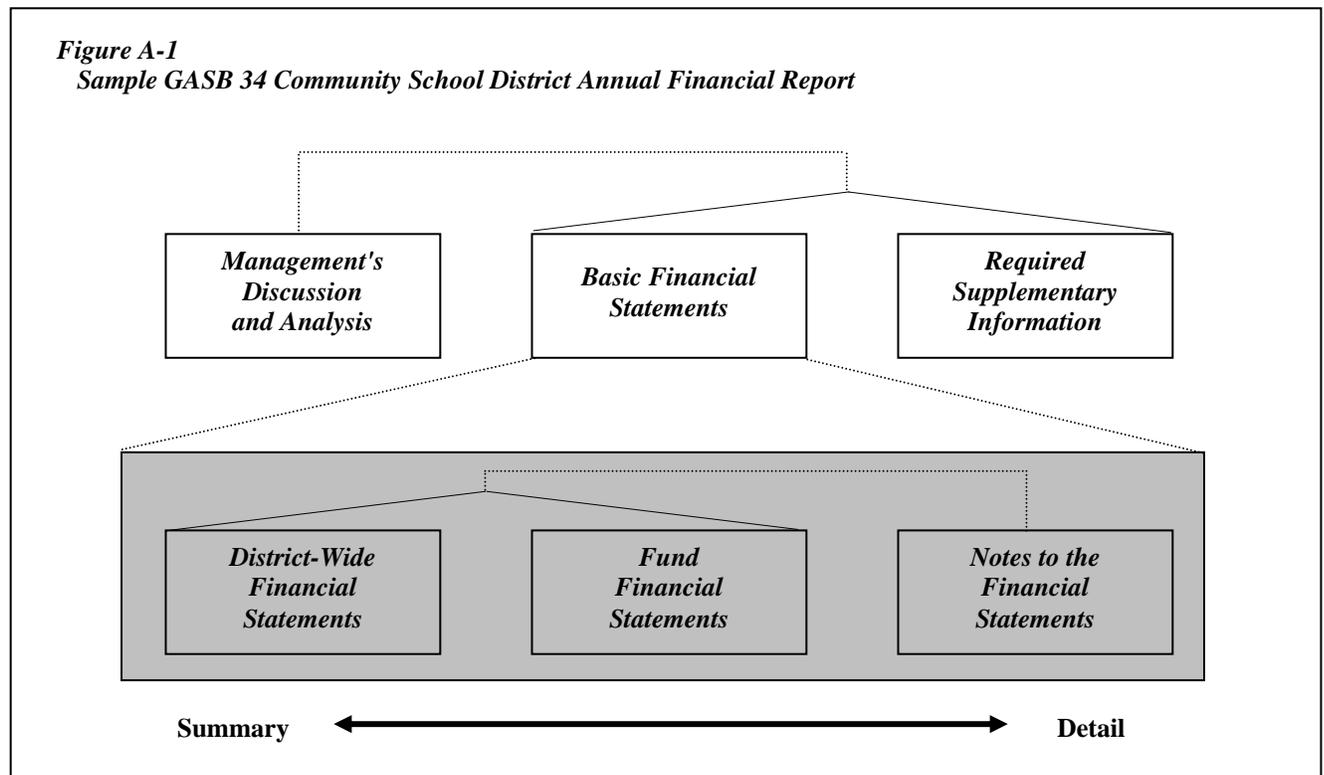


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents 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 revenue, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenue, 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 revenue and expenses during year, regardless of when cash is received or paid	Revenue 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 revenue 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 revenue 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 revenue 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 revenue collected and expended on behalf of others.

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, 2006 compared to 2005.

FIGURE A-3 CONDENSED STATEMENT OF NET ASSETS							
	Governmental Activities		Business-Type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 9,288,024	\$ 9,237,510	\$151,709	\$150,794	\$ 9,439,733	\$ 9,388,304	0.5%
Capital assets	4,707,055	4,117,897	39,425	46,034	4,746,480	4,163,931	14.0%
Total assets	13,995,079	13,355,407	191,134	196,828	14,186,213	13,552,235	4.7%
Long-term obligations	790,680	930,000	-	-	790,680	930,000	-15.0%
Other liabilities	6,411,174	6,235,909	40,743	46,388	6,451,917	6,282,297	2.7%
Total liabilities	7,201,854	7,165,909	40,743	46,388	7,242,597	7,212,297	0.4%
Net assets:							
Invested in capital assets, net of related debt	3,777,055	2,982,897	39,425	46,034	3,816,480	3,028,931	26.0%
Restricted	909,898	1,345,566	-	-	909,898	1,345,566	-32.4%
Unrestricted	2,106,272	1,861,035	110,966	104,406	2,217,238	1,965,441	12.8%
Total net assets	\$ 6,793,225	\$ 6,189,498	\$150,391	\$150,440	\$ 6,943,616	\$ 6,339,938	9.5%

The District's combined net assets were 9.5% greater at June 30, 2006 than June 30, 2005. The increase occurred primarily in the governmental activities as a result of approximately a \$794,000 increase in investments in capital assets, net of related debt. During the year, approximately \$738,000 construction in progress was added as a result of Phase I of the Washington Elementary geothermal construction. Phase II of the project should be completed by the summer of 2007. Restricted net assets decreased by approximately \$436,000 as a result of the District expending Local Option Sales Service Tax (LOSST) restricted net assets to partially finance Phase I of the Washington Elementary geothermal project.

The increase in unrestricted net assets was primarily due to the District not using its 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, 2006.

FIGURE A-4
CHANGES IN NET ASSETS

	Governmental Activities	Business-Type Activities	Total School District
	2006	2006	2006
REVENUE:			
Program revenue:			
Charges for services and sales	\$ 902,711	\$ 395,560	\$ 1,298,271
Operating grants and contributions	1,882,744	374,582	2,257,326
General revenue:			
Property tax	4,198,708	-	4,198,708
Local option	803,359	-	803,359
Income surtax	372,830	-	372,830
Unrestricted federal and state grants	6,267,933	-	6,267,933
Unrestricted investment earnings	204,583	4,780	209,363
Miscellaneous	84,270	-	84,270
TOTAL REVENUE	<u>14,717,138</u>	<u>774,922</u>	<u>15,492,060</u>
PROGRAM EXPENSES:			
Governmental activities:			
Instruction	8,610,610	-	8,610,610
Support Services	4,766,237	-	4,766,237
Non-instructional programs	820	774,900	775,720
Other expenses	563,939	-	563,939
TOTAL EXPENSES	<u>13,941,606</u>	<u>774,900</u>	<u>14,716,506</u>
Other Financing Sources (Uses):			
Gain (loss) on sale of assets	4,620	(71)	4,549
CHANGE IN NET ASSETS	<u>\$ 780,152</u>	<u>\$ (49)</u>	<u>\$ 780,103</u>

Property tax, local option sales tax, income surtax and unrestricted federal and state grants account for 75.2% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 90.9% of the total expenses.

Governmental Activities

Revenue for governmental activities was \$14,717,138, expenses were \$13,941,606 and other financing sources were \$4,620, which amounted to an increase in net assets of \$780,152.

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	\$ 8,610,610	\$ 6,391,604
Support services	4,766,237	4,702,860
Non-instructional programs	820	820
Other expenses	563,939	60,867
Totals	\$ 13,941,606	\$ 11,156,151

- The cost financed by users of the District’s programs was \$902,711.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,882,744.
- The net cost of governmental activities was financed with \$4,198,708 in property tax, \$803,359 in local option sales tax, \$372,830 in income surtaxes, \$6,267,933 in state foundation aid and \$204,583 in interest income.

Business-Type Activities

Revenue of the District’s business-type activities was \$774,922 and expenses and other financing uses were \$774,971. The District’s business-type activities include the School Nutrition Fund. Revenue of these activities was comprised of charges for service, federal and state reimbursements and investment income.

The price of meals was last increased in school year 2001-02.

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 \$2,562,389, or \$367,315 below last year’s ending fund balances of \$2,929,704. General Fund undesignated fund balances increased by approximately \$151,000 and designated or reserved fund balances decreased by approximately \$38,000. Capital Projects - LOSST fund balance decreased approximately \$628,000 to (\$45,380) at June 30, 2006. The fund balance was expended on the Washington Elementary geothermal project. All other non-major funds undesignated fund balance increased approximately \$134,000.

Governmental Fund Highlights

- The District’s General Fund balance increased 7.6%. The undesignated fund balance increased by 11.6% and the reserved or designated funds decreased by 16.9%. The designated fund balance decreased after the District’s purchase of a new elementary reading textbook series from carryover fund balance. The District financial condition continues to improve. The Board of Directors is committed to maintaining its financial position.

- The 2006-07 school tax rate for Charles City is 12.65223 per thousand. This ranks 79th out of 365 districts in Iowa, lowest to highest. This rate includes the General, Management and Voted PPEL levies. Two additional taxes are collected to help fund the District's programs. One is the one-cent local option sales tax that is used for facilities and the other is income surtax. In 2005-06 the District collected a 2% income surtax as part of the voted PPEL and also collected a 7% income surtax as part of the funding mix for the Instructional Support Levy.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$150,440 at June 30, 2005 to \$150,391 at June 30, 2006, representing a decrease of approximately 0.03% or \$49. The fund received revenue of \$774,922 and expended \$774,971 resulting in the decrease to the fund balance. Supply expenses increased by 6.4% due to lower commodities received, higher food prices and adding a summer food program. The summer food program which ran during the month of June was a success. The federally funded program resulted in a net profit of approximately \$2,300. Salary and benefit expenses remained fairly stable. The District did not increase meal prices in 2004-05 or in 2005-06 since management felt that it had sufficient reserves to avoid an increase for another year.

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 premiums are used to pay health care claims administered by an insurance company. The fund balance increased from \$336,133 at June 30, 2005 to \$646,879 at June 30, 2006, representing a 92.4% increase. Premiums were increased 5% effective July 1, 2005.

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 \$289,000 more than the total budgeted receipts, a variance of 1.9%. The most significant change resulted in the District receiving more local dollars than originally anticipated.

The District adopted one budget amendment increasing the non-instructional programs budget by \$60,000. Total expenditures were less than the amended budget 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, 2006, the District had invested \$4.7 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 \$293,000.

The original cost of the District's capital assets was \$12.9 million. Governmental funds account for \$12.3 million with the remainder of \$0.6 million in the Proprietary, School Nutrition Fund. The District increased capital assets by approximately \$884,000. The majority of the increase, approximately \$738,000, was for the Washington Elementary geothermal construction in progress. The District's equipment purchases included \$65,382 for vehicle purchases, \$20,125 for computer equipment, \$14,588 for musical instruments and \$13,379 for athletic equipment. The District's vehicle purchases included a bus and a car.

FIGURE A-6
CAPITAL ASSETS, NET OF DEPRECIATION

	Governmental Activities	Business-Type Activities	Total School District
	2006	2006	2006
Land	\$ 325,000	\$ -	\$ 325,000
Construction in progress	738,289	-	738,289
Buildings	3,129,306	-	3,129,306
Furniture and equipment	514,460	39,425	553,885
Totals	\$ 4,707,055	\$ 39,425	\$ 4,746,480

Long-Term Debt

At June 30, 2006, the District had \$930,000 in long-term debt outstanding. This represents a decrease of 18.1% 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 PPEL 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 to finance the project. The project was completed in fiscal year 2003. The District had a note payable from this project of \$930,000 as of June 30, 2006. This is the only remaining long-term debt payable at year-end.

FIGURE A-7
OUTSTANDING LONG-TERM OBLIGATIONS

	Total School District		Total Change
	2006	2005	2005-06
Notes payable	\$ 930,000	\$ 1,135,000	\$ (205,000)

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 increased by 8.2 and 40.6 students in October 2006 and September 2005, respectively, but had declined 375 students over the previous ten years, an average decline of 37.5 students per year. The October 2006 enrollment includes 32 new students associated with families who moved to the District for construction work on a new ethanol plant in Charles City. The District had also seen a large increase in Chicago area students in 2005, however, there were 20 fewer Chicago area students in 2006. Although the District recently experienced student growth, it is projected that enrollment will continue to decline. There are community initiatives 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, further expenditure reductions may be required in order to balance the budget.
- The District negotiated new salary agreements during fiscal 2006 for fiscal 2007, which were between 4.96% and 3.54% total package increases. The 2006-07 settlements were funded through "new money" and changes to the budget guarantee formula. The state legislature amended the budget guarantee phase down calculation, which positively impacted the District. The change resulted in \$134,204 additional funding in 2006-07.
- The District's 7% Instructional Support Program would have ended on June 30, 2007 without an election to renew the program. On September 12, 2006 the District called an election to submit the question of continued participation in the Instructional Support Program. The voters passed a measure to continue the Instructional Support Program at 7% for a period of five years. The ISL will generate approximately \$479,000 in 2006-07.
- High energy prices will likely continue to affect the District expenditures. The District has taken steps to lower costs including the implementation of an Energy Management program. This program, during the first six months beginning in February 2006, generated a 21% or \$31,606 cost avoidance for the District. The District is also in the process of constructing a geothermal heating and cooling system at Washington Elementary. Included in the five-year facility plan are three other heating and cooling system projects, which should generate additional energy savings to the District.
- The District is actively working to lease the vacated Jefferson Elementary building in order to reduce energy costs and to provide income for the District. The building was closed as part of a cost-saving measure at the end of the 2004-05 school year due to declining enrollment. The District does not have immediate plans to sell the building.
- The Early Elementary K-3 grant program at Lincoln Elementary began in 1998-99. The program is funded through the state and is designed to provide reading instruction to students in small groupings. Continued funding for this program is uncertain, however, so the District has set aside and is carrying forward State Class Size Reduction grant money to continue the program for at least one year if funding were to end.
- The District implemented a Home School Assistance Program in August 2006. The program is designed to help families who have chosen to home school their children. Students who are enrolled in this program are included in the certified enrollment at partial weighting. Through the additional enrollment and the resulting state funding, the District has recovered the full cost of the program and has additional funds available for other general fund expenditures. The District anticipates continued growth in this program.

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.

Basic Financial Statements

Statement of Net Assets

At June 30, 2006

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,410,853	\$ 120,069	\$ 4,530,922
Receivables			
Property Taxes, Net			
Current year delinquent.....	57,049	—	57,049
Succeeding year	4,310,557	—	4,310,557
Other	33,511	—	33,511
Due from other governments.....	476,054	8,834	484,888
Inventories	—	22,806	22,806
Capital assets, net of accumulated depreciation	<u>4,707,055</u>	<u>39,425</u>	<u>4,746,480</u>
Total Assets	<u>\$ 13,995,079</u>	<u>\$ 191,134</u>	<u>\$ 14,186,213</u>
Liabilities			
Accounts payable	\$ 493,280	\$ 11,082	\$ 504,362
Salaries and benefits payable	1,130,297	29,661	1,159,958
Due to other governments	98,124	—	98,124
Accrued interest payable	4,357	—	4,357
Deferred Revenue			
Succeeding year property taxes	4,310,557	—	4,310,557
Other	46,498	—	46,498
Long-Term Liabilities			
Portion Due Within One Year			
Notes payable	215,000	—	215,000
Early retirement benefit	41,440	—	41,440
Compensated absences	71,621	—	71,621
Portion Due After One Year			
Notes payable	715,000	—	715,000
Early retirement benefit	75,680	—	75,680
Total Liabilities	<u>7,201,854</u>	<u>40,743</u>	<u>7,242,597</u>
Net Assets			
Invested in capital assets, net of related debt .	3,777,055	39,425	3,816,480
Restricted For			
State class size reduction	100,202	—	100,202
Special bequests.....	10,613	—	10,613
Teacher compensation pay.....	688	—	688
PPEL.....	380,965	—	380,965
Student activities.....	197,295	—	197,295
Expendable trusts	4,006	—	4,006
Management	216,129	—	216,129
Unrestricted	<u>2,106,272</u>	<u>110,966</u>	<u>2,217,238</u>
Total Net Assets	<u>6,793,225</u>	<u>150,391</u>	<u>6,943,616</u>
Total Liabilities and Net Assets	<u>\$ 13,995,079</u>	<u>\$ 191,134</u>	<u>\$ 14,186,213</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenue		Net (Expenses), Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
Instruction						
Regular instruction	\$ 4,766,322	\$ 266,108	\$ 902,580	\$ (3,597,634)	\$ —	\$ (3,597,634)
Special instruction	2,122,215	294,538	233,405	(1,594,272)	—	(1,594,272)
Other instruction	1,722,073	330,059	192,316	(1,199,698)	—	(1,199,698)
Total Instruction	<u>8,610,610</u>	<u>890,705</u>	<u>1,328,301</u>	<u>(6,391,604)</u>	<u>—</u>	<u>(6,391,604)</u>
Support Services						
Student services	380,101	—	—	(380,101)	—	(380,101)
Instructional staff services	512,341	—	—	(512,341)	—	(512,341)
Administration services	1,298,700	—	—	(1,298,700)	—	(1,298,700)
Operation and maintenance of plant services	2,127,065	1,742	—	(2,125,323)	—	(2,125,323)
Transportation services	448,030	10,264	51,371	(386,395)	—	(386,395)
Total Support Services	<u>4,766,237</u>	<u>12,006</u>	<u>51,371</u>	<u>(4,702,860)</u>	<u>—</u>	<u>(4,702,860)</u>
Noninstructional Programs	<u>820</u>	<u>—</u>	<u>—</u>	<u>(820)</u>	<u>—</u>	<u>(820)</u>
Other Expenditures						
Long-term debt interest	60,867	—	—	(60,867)	—	(60,867)
AEA flow through	503,072	—	503,072	—	—	—
Total Other Expenditures	<u>563,939</u>	<u>—</u>	<u>503,072</u>	<u>(60,867)</u>	<u>—</u>	<u>(60,867)</u>
Total Governmental Activities	13,941,606	902,711	1,882,744	(11,156,151)	—	(11,156,151)
Business-Type Activities						
Noninstructional Programs						
Nutrition services	<u>774,900</u>	<u>395,560</u>	<u>374,582</u>	<u>—</u>	<u>(4,758)</u>	<u>(4,758)</u>
Total	\$ 14,716,506	\$ 1,298,271	\$ 2,257,326	(11,156,151)	(4,758)	(11,160,909)
General Revenue						
Property Taxes Levied For						
General purposes				4,198,708	—	4,198,708
Local option				803,359	—	803,359
Income surtax				372,830	—	372,830
Unrestricted federal and state grants				6,267,933	—	6,267,933
Unrestricted investment earnings				204,583	4,780	209,363
Miscellaneous				84,270	—	84,270
Total General Revenue				11,931,683	4,780	11,936,463
Other Financing Sources (Uses)						
Gain (loss) on sale of assets				<u>4,620</u>	<u>(71)</u>	<u>4,549</u>
Change in Net Assets				780,152	(49)	780,103
Net Assets - Beginning of Year, as Restated (Note 14)				<u>6,013,073</u>	<u>150,440</u>	<u>6,163,513</u>
Net Assets - End of Year				\$ 6,793,225	\$ 150,391	\$ 6,943,616

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2006

	General	Capital Projects LOSST	All Other Nonmajor	Total
Assets				
Cash and cash equivalents	\$ 2,760,909	\$ 58,870	\$ 825,929	\$ 3,645,708
Receivables				
Property Taxes, Net				
Current year delinquent.....	48,109	—	8,940	57,049
Succeeding year	3,747,495	—	563,062	4,310,557
Other	1,777	—	—	1,777
Due from other governments	<u>330,481</u>	<u>145,573</u>	<u>—</u>	<u>476,054</u>
Total Assets	<u>\$ 6,888,771</u>	<u>\$ 204,443</u>	<u>\$ 1,397,931</u>	<u>\$ 8,491,145</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 57,138	\$ 249,823	\$ 36,319	\$ 343,280
Salaries and benefits payable	1,130,142	—	155	1,130,297
Due to other governments	98,124	—	—	98,124
Deferred Revenue				
Succeeding year property taxes	3,747,495	—	563,062	4,310,557
Other	<u>46,498</u>	<u>—</u>	<u>—</u>	<u>46,498</u>
Total Liabilities	<u>5,079,397</u>	<u>249,823</u>	<u>599,536</u>	<u>5,928,756</u>
Fund Balances				
Reserved For				
State class size reduction	100,202	—	—	100,202
Specific bequests.....	10,613	—	—	10,613
Teacher compensation pay.....	688	—	—	688
Unreserved				
Designated by Board for future equipment and supplies	110,621	—	—	110,621
Undesignated.....	<u>1,587,250</u>	<u>(45,380)</u>	<u>798,395</u>	<u>2,340,265</u>
Total Fund Balances	<u>1,809,374</u>	<u>(45,380)</u>	<u>798,395</u>	<u>2,562,389</u>
Total Liabilities and Fund Balances	<u>\$ 6,888,771</u>	<u>\$ 204,443</u>	<u>\$ 1,397,931</u>	<u>\$ 8,491,145</u>

See accompanying notes to the financial statements.

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

At June 30, 2006

Total Fund Balances for Governmental Funds (Page 16)..... **\$ 2,562,389**

***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 4,707,055

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 646,879

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

Early retirement benefit	(117,120)
Compensated absences	(71,621)
Accrued interest payable.....	(4,357)
Notes payable	<u>(930,000)</u>

Net Assets of Governmental Activities (Page 14) **\$ 6,793,225**

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

Year Ended June 30, 2006

	General	Capital Projects LOSST	All Other Nonmajor	Total Govern- mental Funds
Revenue				
Local Sources				
Property taxes.....	\$ 3,760,887	\$ —	\$ 810,651	\$ 4,571,538
Tuition	460,364	—	—	460,364
Other	326,177	825,816	382,566	1,534,559
State sources.....	7,534,562	—	—	7,534,562
Federal sources.....	616,115	—	—	616,115
Total Revenue.....	<u>12,698,105</u>	<u>825,816</u>	<u>1,193,217</u>	<u>14,717,138</u>
Expenditures				
Current				
Instruction				
Regular instruction	4,878,251	—	102,678	4,980,929
Special instruction.....	2,188,725	—	—	2,188,725
Other instruction.....	1,415,393	—	306,001	1,721,394
Total Instruction.....	<u>8,482,369</u>	<u>—</u>	<u>408,679</u>	<u>8,891,048</u>
Support Services				
Student services.....	381,760	—	1,999	383,759
Instructional staff services.....	440,432	—	86,960	527,392
Administration services	1,342,194	—	8,198	1,350,392
Operation and maintenance of plant services	1,072,224	—	109,301	1,181,525
Transportation services.....	361,141	—	74,163	435,304
Total Support Services.....	<u>3,597,751</u>	<u>—</u>	<u>280,621</u>	<u>3,878,372</u>
Noninstructional Programs.....	<u>—</u>	<u>—</u>	<u>10,392</u>	<u>10,392</u>
Other Expenditures				
Facilities acquisition and construction	—	1,453,936	93,105	1,547,041
Long-Term Debt				
Principal	—	—	205,000	205,000
Interest and fiscal charges	—	—	61,828	61,828
AEA flowthrough	503,072	—	—	503,072
Total Other Expenditures	<u>503,072</u>	<u>1,453,936</u>	<u>359,933</u>	<u>2,316,941</u>
Total Expenditures.....	<u>12,583,192</u>	<u>1,453,936</u>	<u>1,059,625</u>	<u>15,096,753</u>
Revenue Over (Under) Expenditures ..	<u>114,913</u>	<u>(628,120)</u>	<u>133,592</u>	<u>(379,615)</u>
Other Financing Sources (Uses)				
Operating transfers in.....	—	—	266,828	266,828
Operating transfers out.....	—	—	(266,828)	(266,828)
Sale of assets	12,300	—	—	12,300
Total Other Financing Sources (Uses)	<u>12,300</u>	<u>—</u>	<u>—</u>	<u>12,300</u>
Net Change in Fund Balances	127,213	(628,120)	133,592	(367,315)
Fund Balance - Beginning of Year, as Restated (Note 14).....	<u>1,682,161</u>	<u>582,740</u>	<u>664,803</u>	<u>2,929,704</u>
Fund Balance - End of Year.....	<u>\$ 1,809,374</u>	<u>\$ (45,380)</u>	<u>\$ 798,395</u>	<u>\$ 2,562,389</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, 2006

Change in Fund Balances - Total Governmental Funds (Page 18) \$ (367,315)

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 the net depreciated value of disposed assets in the year are as follows:

Capital outlays.....	\$ 880,120	
Depreciation expense	(283,282)	
Net depreciated value of disposed assets	(7,680)	589,158

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.....		205,000
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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		961
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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		310,746
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement benefit.....	45,760	
Compensated absences	(4,158)	41,602

Change in Net Assets of Governmental Activities (Page 15) \$ 780,152

Balance Sheet - Proprietary Funds

At June 30, 2006

	Business-Type Activities - Enterprise Fund - School Nutrition	Governmental Activities - Internal Service Fund
Assets		
Cash and cash equivalents	\$ 120,069	\$ 765,145
Due from other governments.....	8,834	—
Receivable - other	—	31,734
Inventories and prepaid items	22,806	—
Machinery and equipment	545,312	—
Less accumulated depreciation	<u>(505,887)</u>	<u>—</u>
Total Assets	<u>\$ 191,134</u>	<u>\$ 796,879</u>
Liabilities		
Accounts payable	\$ 11,082	\$ 150,000
Salaries and benefits payable	<u>29,661</u>	<u>—</u>
Total Liabilities	<u>40,743</u>	<u>150,000</u>
Net Assets		
Invested in capital assets, net of related debt	39,425	—
Unrestricted	<u>110,966</u>	<u>646,879</u>
Total Net Assets	<u>150,391</u>	<u>646,879</u>
Total Liabilities and Net Assets	<u>\$ 191,134</u>	<u>\$ 796,879</u>

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

Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund - School Nutrition	Governmental Activities - Internal Service Fund
Operating Revenue		
Local Sources		
Charges for service	\$ 395,560	\$ —
Self-insurance contributions	<u>—</u>	<u>1,686,632</u>
Total Operating Revenue	<u>395,560</u>	<u>1,686,632</u>
Operating Expenses		
Noninstructional Programs		
Food Service Operations		
Salaries and benefits	369,402	—
Purchased services	12,959	—
Supplies	383,280	—
Depreciation	9,259	—
Self-insurance claims and fees	<u>—</u>	<u>1,375,886</u>
Total Operating Expenses	<u>774,900</u>	<u>1,375,886</u>
Income (Loss) From Operations	<u>(379,340)</u>	<u>310,746</u>
Nonoperating Revenue		
State sources	9,768	—
Federal sources	364,814	—
Interest on investments	<u>4,780</u>	<u>—</u>
Total Nonoperating Revenue	<u>379,362</u>	<u>—</u>
Other Financing Sources (Uses)		
Loss on disposal of capital assets	<u>(71)</u>	<u>—</u>
Change in Net Assets	(49)	310,746
Net Assets - Beginning of Year	<u>150,440</u>	<u>336,133</u>
Net Assets - End of Year	<u>\$ 150,391</u>	<u>\$ 646,879</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2006

	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.....	\$ 395,560	\$ —
Cash received from assessments made to other funds	—	1,686,632
Cash payments to employees for services.....	(376,013)	—
Cash payments for insurance claims.....	—	(1,397,018)
Cash payments to suppliers for goods and services	<u>(339,152)</u>	<u>—</u>
Net Cash Provided by (Used in) Operating Activities	<u>(319,605)</u>	<u>289,614</u>
Cash Flows Provided by Noncapital Financing Activities		
State grants received.....	9,768	—
Federal grants received.....	<u>303,216</u>	<u>—</u>
Net Cash Provided by Noncapital Financing Activities	<u>312,984</u>	<u>—</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds from sale of assets	787	—
Acquisition of capital assets	<u>(3,508)</u>	<u>—</u>
Net Cash Used in Capital and Related Financing Activities.....	<u>(2,721)</u>	<u>—</u>
Cash Flows From Investment Activities		
Interest on investments	<u>4,780</u>	<u>—</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,562)	289,614
Cash and Cash Equivalents at Beginning of Year.....	<u>124,631</u>	<u>475,531</u>
Cash and Cash Equivalents at End of Year	<u>\$ 120,069</u>	<u>\$ 765,145</u>
Reconciliation of Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities		
Income (loss) from operations	\$ (379,340)	\$ 310,746
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided by (Used in) Operating Activities		
Commodities used.....	51,426	—
Depreciation.....	9,259	—
Changes in Assets and Liabilities		
Decrease in inventories and prepaid items	4,695	—
Increase (decrease) in accounts payable.....	966	(10,000)
Decrease in provision for self-insurance claims	—	(11,132)
Decrease in salaries and benefits payable.....	<u>(6,611)</u>	<u>—</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (319,605)</u>	<u>\$ 289,614</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2006, the District received \$52,764 of federal commodities.

During the year ended June 30, 2006, the District had a net loss of \$71 on the sale of assets.

See accompanying notes to the financial statements.

Statement of Fiduciary Net Assets - Fiduciary Fund

At June 30, 2006

	Private Purpose Trust - Scholarship	Agency
Assets		
Cash and cash equivalents	\$ 14,630	\$ 718
Investments	215,916	—
Accrued interest receivable	<u>1,503</u>	<u>—</u>
Total Assets	<u>\$ 232,049</u>	<u>\$ 718</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ —	\$ 718
Net Assets		
Reserved for scholarships	<u>232,049</u>	<u>—</u>
Total Liabilities and Net Assets	<u>\$ 232,049</u>	<u>\$ 718</u>

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

Year Ended June 30, 2006

	Private Purpose Trust - Scholarship
Additions	
Local Sources	
Interest	\$ 8,702
Deductions	
Support Services	
Scholarships awarded.....	<u>7,089</u>
Change in Net Assets	1,613
Net Assets - Beginning of Year	<u>230,436</u>
Net Assets - End of Year	<u>\$ 232,049</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 and special education pre-kindergarten. The geographic area served includes the City of Charles City, Iowa, and the surrounding predominate agricultural territory in Floyd and Chickasaw counties. 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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006; and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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, 2006, total inventories included government commodities valued at \$13,755 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 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 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 are 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, 2006. 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, 2006, 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, 2006 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 Transfers

The detail of interfund transfers for the year ended June 30, 2006 was as follows:

Transfer To	Transfer From	Amount
Debt Service	PPEL	<u>\$ 266,828</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, 2006 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	—	738,289	—	738,289
Total Capital Assets Not Being Depreciated.....	<u>325,000</u>	<u>738,289</u>	<u>—</u>	<u>1,063,289</u>
Capital Assets Being Depreciated				
Buildings and improvements	9,343,423	—	—	9,343,423
Furniture and equipment	<u>1,902,771</u>	<u>141,831</u>	<u>133,934</u>	<u>1,910,668</u>
Total Capital Assets Being Depreciated.....	<u>11,246,194</u>	<u>141,831</u>	<u>133,934</u>	<u>11,254,091</u>
Less Accumulated Depreciation For				
Buildings and improvements	6,065,075	149,042	—	6,214,117
Furniture and equipment	<u>1,388,222</u>	<u>134,240</u>	<u>126,254</u>	<u>1,396,208</u>
Total Accumulated Depreciation	<u>7,453,297</u>	<u>283,282</u>	<u>126,254</u>	<u>7,610,325</u>
Net Total Capital Assets Being Depreciated.....	<u>3,792,897</u>	<u>(141,451)</u>	<u>7,680</u>	<u>3,643,766</u>
Net Governmental Activities				
Capital Assets	<u>\$ 4,117,897</u>	<u>\$ 596,838</u>	<u>\$ 7,680</u>	<u>\$ 4,707,055</u>
Business-Type Activities				
Furniture and equipment	\$ 547,021	\$ 3,508	\$ 5,218	\$ 545,311
Less accumulated depreciation	<u>500,987</u>	<u>9,259</u>	<u>4,360</u>	<u>505,886</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 46,034</u>	<u>\$ (5,751)</u>	<u>\$ 858</u>	<u>\$ 39,425</u>

Depreciation expense was charged as follows:

Governmental Activities		
Instruction		
Regular		\$ 19,093
Other		14,058
Support Services		
Instructional staff services		4,096
Administrative services		7,687
Operation and maintenance of plant services		159,544
Transportation		78,804
Total Governmental Activities Depreciation Expense		<u>\$ 283,282</u>
Business-Type Activities		
Food Service		<u>\$ 9,259</u>

Notes to the Financial Statements

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Notes payable.....	\$ 1,135,000	\$ —	\$ 205,000	\$ 930,000	\$ 215,000
Compensated absences.....	67,463	71,621	67,463	71,621	71,621
Early retirement benefit	162,880	—	45,760	117,120	41,440
Total	<u>\$ 1,365,343</u>	<u>\$ 71,621</u>	<u>\$ 318,223</u>	<u>\$ 1,118,741</u>	<u>\$ 328,061</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 requires semi-annual interest payments at rates ranging from 5.3% to 5.5% and annual principal payments through June, 2010. The note is secured by tax levies enacted by the Board of Education.

Year Ending June 30,	<u>Ruan Securities Corporation</u>	
	Principal	Interest
2007.....	\$ 215,000	\$ 50,143
2008.....	225,000	38,747
2009.....	240,000	26,710
2010.....	250,000	13,750
Total	<u>\$ 930,000</u>	<u>\$ 129,350</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.

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, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$460,229, \$459,313 and \$427,556, respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(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 \$503,072 for the year ended June 30, 2006, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Early Retirement and Postretirement Health Care Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least 15 years of full-time service to the District and must have reached the age of 55 on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

Each early retiree, other than nurses, will receive an amount equal to \$250 per each year of service the employee has provided to the District. Nurses will receive an amount equal to \$225 per each year of service. In addition to the benefit amount based upon years of service, each participant will receive a flat benefit of \$9,600. These amounts will be paid in one lump sum to a tax-deferred account in January of the year after the employee retires from the District. At June 30, 2006, the District had no obligation for payment, since no employee requested early retirement.

In addition to the pension benefits described in Note 6, the District provides postretirement health care benefits for employees who retired prior to July 1, 2005. The District pays \$160 per month towards health insurance premiums (the total annual premium is \$9,600). This benefit terminates 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.

For the health insurance premium as of June 30, 2006, the District had obligations to 28 participants with a total liability of \$117,120. Annual early retirement benefits expenditures for the year ended June 30, 2006 totaled \$45,760.

(10) Deficit Fund Balance

The Special Revenue Fund - Student Activities, FFA account and the Capital Projects LOSST Fund had deficit balances at June 30, 2006. The deficit balances are expected to be eliminated through fund-raising activities and receipt of local option sales and services tax collections, respectively, in the 2006-2007 fiscal year.

Notes to the Financial Statements

(11) Commitments

The District has entered into various contracts totaling approximately \$1,074,000 for the Washington HVAC Geothermal - Phase I Project. At June 30, 2006, costs of approximately \$740,000 had been incurred against the contracts. The balance remaining at June 30, 2006 will be paid as work on the projects progress.

The District also has entered into a contract in the amount of \$60,651 for the purchase of a 2007 school bus.

(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, 2006 was approximately \$1,583,000.

(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 \$50,000 per covered individual. Any amount in excess of \$50,000 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 \$1,668,000 for the year ended June 30, 2006.

The District has included \$150,000 in its June 30, 2006 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, 2006:

Estimated claims incurred but not reported - June 30, 2005	\$ 160,000
Claims incurred and reported and estimated costs incurred but not reported for the year ended June 30, 2006	1,078,986
Claims paid during the year ended June 30, 2006	<u>(1,088,986)</u>
Estimated Claims Incurred But Not Reported - June 30, 2006	<u>\$ 150,000</u>

Notes to the Financial Statements

(14) Prior Period Adjustments

During the year ended June 30, 2006, management determined that it had incorrectly reported the following items due to required changes at the state level. The District received a refund of prior year state revenue which is required to be shown as a reduction in beginning fund balance. In addition, the District's Board had designated a portion of fund balance that the state has required to be reported as deferred revenue. The result of the above changes was to decrease the General Fund balance by \$13,545 at June 30, 2005.

Governmental Funds

	General	Capital Projects LOSST	All Other Nonmajor	Total Governmental Funds
Fund balance - beginning of year, as previously reported.....	\$ 1,695,706	\$ 582,740	\$ 664,803	\$ 2,943,249
Prior period adjustment	<u>(13,545)</u>	<u>—</u>	<u>—</u>	<u>(13,545)</u>
Fund Balance - Beginning of Year, as Restated	<u>\$ 1,682,161</u>	<u>\$ 582,740</u>	<u>\$ 664,803</u>	<u>\$ 2,929,704</u>

(15) Accounting Change

Governmental Accounting Standards Board (GASB) Statement 47 - Accounting for Termination Benefits was implemented during the year ended June 30, 2006. The interpretation establishes guidance on involuntary termination benefits and provides clarification on measurement issues concerning all termination benefits.

The District-wide financial statements split the District's programs between business-type and governmental activities. The beginning net assets amount for governmental activities has been restated for Early Retirement Benefit Liability at July 1, 2005 caused by the implementation of GASB Statement 47.

District-Wide Funds

	Governmental Activities	Business- Type Activities	Total
Net assets - beginning of year, as previously reported.....	\$ 6,189,498	\$ 150,440	\$ 6,339,938
Prior period adjustment - Note 14.....	(13,545)	—	(13,545)
GASB 47 Adjustments			
Early retirement benefit liability	<u>(162,880)</u>	<u>—</u>	<u>(162,880)</u>
Net Assets - Beginning of Year, as Restated	<u>\$ 6,013,073</u>	<u>\$ 150,440</u>	<u>\$ 6,163,513</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, 2006

	Governmental Fund Types - Actual	Proprietary Fund - Actual	Total	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Receipts						
Local sources	\$ 6,513,825	\$ 401,554	\$ 6,915,379	\$ 6,612,803	\$ 6,612,803	\$ 302,576
State sources	7,516,731	9,768	7,526,499	7,547,906	7,547,906	(21,407)
Federal sources	587,004	355,979	942,983	922,190	922,190	20,793
Total Receipts	<u>14,617,560</u>	<u>767,301</u>	<u>15,384,861</u>	<u>15,082,899</u>	<u>15,082,899</u>	<u>301,962</u>
Disbursements						
Instruction	9,059,482	—	9,059,482	9,301,000	9,301,000	241,518
Support services	3,904,684	—	3,904,684	4,682,900	4,682,900	778,216
Noninstructional programs	10,393	714,580	724,973	765,000	825,000	100,027
Other expenditures	2,137,879	—	2,137,879	2,213,132	2,213,132	75,253
Total Disbursements	<u>15,112,438</u>	<u>714,580</u>	<u>15,827,018</u>	<u>16,962,032</u>	<u>17,022,032</u>	<u>1,195,014</u>
Receipts Over (Under) Disbursements	(494,878)	52,721	(442,157)	(1,879,133)	(1,939,133)	1,496,976
Other Financing Sources	<u>12,300</u>	<u>—</u>	<u>12,300</u>	<u>1,500</u>	<u>1,500</u>	<u>10,800</u>
Receipts and Other Financing Sources Over (Under) Disbursements	(482,578)	52,721	(429,857)	(1,877,633)	(1,937,633)	<u>\$ 1,507,776</u>
Balance - Beginning of Year	4,122,410	155,300	4,277,710	4,254,361	4,254,361	
Balance - End of Year	<u>\$ 3,639,832</u>	<u>\$ 208,021</u>	<u>\$ 3,847,853</u>	<u>\$ 2,376,728</u>	<u>\$ 2,316,728</u>	

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar 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. 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 level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year, the District adopted one budget amendment increasing budget expenditures by \$60,000.

Schedule of Budgetary Comparison - Budget to GAAP Reconciliation ▬

Year Ended June 30, 2006

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenue	\$ 14,617,560	\$ 99,578	\$ 14,717,138
Expenditures.....	<u>15,112,438</u>	<u>(15,685)</u>	<u>15,096,753</u>
Net	(494,878)	115,263	(379,615)
Other financing sources (uses).....	12,300	—	12,300
Beginning fund balances, as restated (Note 15)	<u>4,122,410</u>	<u>(1,192,706)</u>	<u>2,929,704</u>
Ending Fund Balances.....	<u>\$ 3,639,832</u>	<u>\$ (1,077,443)</u>	<u>\$ 2,562,389</u>

	Proprietary Fund Types		
	Cash Basis	Enterprise Accrual Adjustments	Accrual Basis
Revenue	\$ 767,301	\$ 7,621	\$ 774,922
Expenses.....	<u>714,580</u>	<u>60,320</u>	<u>774,900</u>
Net	52,721	(52,699)	22
Other financing sources (uses).....	—	(71)	(71)
Beginning net assets	<u>155,300</u>	<u>(4,860)</u>	<u>150,440</u>
Ending Net Assets.....	<u>\$ 208,021</u>	<u>\$ (57,630)</u>	<u>\$ 150,391</u>

Other Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2006

	<u>Special Revenue Funds</u>				Total Nonmajor Govern- mental Funds
	Management Account	Student Account	PPEL Fund	Expend- able Trust Fund	
Assets					
Cash and cash equivalents ...	\$ 212,013	\$ 208,562	\$ 401,348	\$ 4,006	\$ 825,929
Receivables					
Property Taxes, Net					
Current year delinquent...	4,116	—	4,824	—	8,940
Succeeding year.....	<u>174,999</u>	<u>—</u>	<u>388,063</u>	<u>—</u>	<u>563,062</u>
Total Assets	<u>\$ 391,128</u>	<u>\$ 208,562</u>	<u>\$ 794,235</u>	<u>\$ 4,006</u>	<u>\$ 1,397,931</u>
Liabilities and Equities					
Liabilities					
Accounts payable	\$ —	\$ 11,112	\$ 25,207	\$ —	\$ 36,319
Salaries and benefits payable	—	155	—	—	155
Deferred Revenue					
Succeeding year property					
taxes	<u>174,999</u>	<u>—</u>	<u>388,063</u>	<u>—</u>	<u>563,062</u>
Total Liabilities.....	<u>174,999</u>	<u>11,267</u>	<u>413,270</u>	<u>—</u>	<u>599,536</u>
Equities					
Unreserved, undesignated fund balance	<u>216,129</u>	<u>197,295</u>	<u>380,965</u>	<u>4,006</u>	<u>798,395</u>
Total Liabilities and Equities	<u>\$ 391,128</u>	<u>\$ 208,562</u>	<u>\$ 794,235</u>	<u>\$ 4,006</u>	<u>\$ 1,397,931</u>

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

Year Ended June 30, 2006

	Special Revenue Funds					Total Nonmajor Govern- mental Funds
	Manage- ment Account	Student Account	PPEL Fund	Expend- able Trust Fund	Debt Service	
Revenue						
Local Sources						
Local Taxes						
Property taxes.....	\$ 300,589	\$ —	\$ 510,062	\$ —	\$ —	\$ 810,651
Other	<u>14,543</u>	<u>343,528</u>	<u>24,495</u>	<u>—</u>	<u>—</u>	<u>382,566</u>
Total Revenue	<u>315,132</u>	<u>343,528</u>	<u>534,557</u>	<u>—</u>	<u>—</u>	<u>1,193,217</u>
Expenditures						
Instruction						
Regular instruction	102,678	—	—	—	—	102,678
Other instruction	<u>—</u>	<u>306,001</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>306,001</u>
Total Instruction.....	<u>102,678</u>	<u>306,001</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>408,679</u>
Support Services						
Student services.....	1,999	—	—	—	—	1,999
Instructional staff services	3,142	—	83,818	—	—	86,960
Administration services ..	7,798	—	400	—	—	8,198
Operation and mainten- ance of plant services ...	105,451	—	3,850	—	—	109,301
Transportation services ..	<u>8,781</u>	<u>—</u>	<u>65,382</u>	<u>—</u>	<u>—</u>	<u>74,163</u>
Total Support Services	<u>127,171</u>	<u>—</u>	<u>153,450</u>	<u>—</u>	<u>—</u>	<u>280,621</u>
Noninstructional Programs	<u>10,392</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,392</u>
Other Expenditures						
Facilities acquisition and construction.....	—	—	93,105	—	—	93,105
Long-Term Debt						
Principal	—	—	—	—	205,000	205,000
Interest and fiscal charges	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>61,828</u>	<u>61,828</u>
Total Other Expenditures	<u>—</u>	<u>—</u>	<u>93,105</u>	<u>—</u>	<u>266,828</u>	<u>359,933</u>
Total Expenditures	<u>240,241</u>	<u>306,001</u>	<u>246,555</u>	<u>—</u>	<u>266,828</u>	<u>1,059,625</u>
Revenue Over (Under) Expenditures.....	<u>74,891</u>	<u>37,527</u>	<u>288,002</u>	<u>—</u>	<u>(266,828)</u>	<u>133,592</u>
Other Financing Sources (Uses)						
Operating transfers in	—	—	—	—	266,828	266,828
Operating transfers out	<u>—</u>	<u>—</u>	<u>(266,828)</u>	<u>—</u>	<u>—</u>	<u>(266,828)</u>
Total Other Financing Sources (Uses)	<u>—</u>	<u>—</u>	<u>(266,828)</u>	<u>—</u>	<u>266,828</u>	<u>—</u>
Net Change in Fund Balance.....						
Fund Balance - Beginning of Year	141,238	159,768	359,791	4,006	—	664,803
Fund Balance - End of Year	<u>\$ 216,129</u>	<u>\$ 197,295</u>	<u>\$ 380,965</u>	<u>\$ 4,006</u>	<u>\$ —</u>	<u>\$ 798,395</u>

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2006

	Balance - Beginning of Year	Revenue and Transfers	Expenditures and Transfers	Balance - End of Year
Comet Drama	\$ 12,239	\$ 6,807	\$ 14,581	\$ 4,465
Speech Club	436	797	934	299
HS Musical Sales	1,212	7,217	4,056	4,373
Comet Connection.....	3,091	156	—	3,247
Concert Chorale	2,764	6,559	3,606	5,717
Choir Robes.....	1,692	504	—	2,196
9th Grade Vocal Music	2,824	143	—	2,967
General Vocal Activity	7,674	1,231	4,034	4,871
MS Musical	8,027	5,228	3,455	9,800
Band Color Guard.....	41	—	41	—
Marching Band	5,199	320	4,054	1,465
Jazz Band.....	6,366	2,512	1,655	7,223
Music Uniform.....	3,901	1,927	—	5,828
HS Orchestra.....	11	150	24	137
MS Band/Orchestra	8,180	2,206	3,110	7,276
Sportsman's Park	4,056	21,883	22,320	3,619
Athletic Fund.....	9,772	88,489	65,402	32,859
Girls Cross Country	497	121	188	430
Boys Cross Country.....	465	1,451	1,355	561
Booster Club.....	8,398	60,609	37,528	31,479
Boys Basketball.....	226	5,169	4,773	622
Football Club	5,293	13,969	16,951	2,311
Baseball Club	3,216	2,128	1,693	3,651
Girls Basketball.....	2,617	1,659	1,692	2,584
Volleyball Fund.....	5,055	771	5,309	517
Girls Swimming Club	15	—	—	15
Annual	540	17,039	8,531	9,048
Art Club.....	150	—	—	150
HS Cheerleaders	710	4,117	4,127	700
Journalism/Spirit.....	77	—	77	—
Alternative HS Annual	538	479	869	148
FBLA.....	—	486	486	—
FFA.....	1,439	27,501	31,055	(2,115)

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2006

	Balance - Beginning of Year	Revenue and and Transfers	Expenditures and Transfers	Balance - End of Year
German Club	\$ 4,586	\$ 5,482	\$ 4,088	\$ 5,980
Mu Alpha Theta	120	170	192	98
National Honor Society.....	47	—	37	10
Spanish Club	256	—	—	256
School improvement assistance team	1,201	2,510	1,568	2,143
Post Prom.....	5	—	—	5
SADD.....	52	—	—	52
Caps and Gowns	2,186	2,960	2,598	2,548
Class of 2007.....	100	4,068	2,931	1,237
Class of 2008.....	100	33	133	—
Class of 2006.....	1,012	1,633	2,645	—
Class of 2009.....	—	100	55	45
Industrial Technology	984	—	47	937
FCS Club	407	284	—	691
HS Activity/Interest	9,705	4,048	7,255	6,498
Biology Class.....	137	50	—	187
FCCLA.....	—	1,109	1,109	—
MS Newspaper	3,617	2,500	2,043	4,074
MS Student Council.....	1,246	7,365	6,407	2,204
MS Activity/Interest.....	7,506	11,840	14,997	4,349
MS Orchestra Trip	1,048	50	1,098	—
MS Band Uniform Cleaning	5,674	768	—	6,442
Jefferson School Activity	4,693	13	4,706	—
Lincoln School Activity.....	731	4,477	4,527	681
Washington School Activity	3,495	12,677	8,729	7,443
Pool Support Fund.....	—	10,743	8,862	1,881
HS Wrestling.....	—	100	—	100
Marching Band - Student Fees.....	4,138	1,580	2,727	2,991
	<u>\$ 159,767</u>	<u>\$ 356,188</u>	<u>\$ 318,660</u>	<u>\$ 197,295</u>

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

Year Ended June 30, 2006

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Cash.....	<u>\$ 457</u>	<u>\$ 8,466</u>	<u>\$ 8,205</u>	<u>\$ 718</u>
Accounts Payable.....	<u>\$ 457</u>	<u>\$ 8,466</u>	<u>\$ 8,205</u>	<u>\$ 718</u>

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

Years Ended June 30, 2006, 2005, 2004, 2003, 2002, 2001 and 2000

	2006	2005	2004	2003	2002	2001	2000
Revenue							
Local Sources							
Property taxes	\$ 4,571,538	\$ 4,619,362	\$ 4,698,236	\$ 5,380,782	\$ 5,044,318	\$ 4,103,733	\$ 4,238,919
Tuition	460,364	459,662	371,529	411,057	350,932	361,431	440,555
Other	1,534,559	1,522,336	1,152,315	649,151	329,513	817,430	768,888
State sources	7,534,562	7,440,199	7,378,708	7,379,685	7,544,084	7,541,834	7,440,430
Federal sources	<u>616,115</u>	<u>747,219</u>	<u>888,327</u>	<u>618,746</u>	<u>651,809</u>	<u>488,590</u>	<u>586,376</u>
Total	<u>\$ 14,717,138</u>	<u>\$ 14,788,778</u>	<u>\$ 14,489,115</u>	<u>\$ 14,439,421</u>	<u>\$ 13,920,656</u>	<u>\$ 13,313,018</u>	<u>\$ 13,475,168</u>
Expenditures							
Instruction							
Regular instruction	\$ 4,980,929	\$ 4,922,245	\$ 5,424,786	\$ 5,638,456	\$ 5,507,917	\$ 5,358,592	\$ 5,119,603
Special instruction	2,188,725	2,225,711	2,442,470	2,451,812	2,443,104	2,399,268	2,404,058
Other instruction	1,721,394	1,609,656	900,243	880,408	825,838	826,098	848,384
Support Services							
Student services	383,759	388,134	396,687	375,504	362,618	379,073	361,254
Instructional staff services	527,392	504,465	541,940	535,326	457,362	451,282	485,099
Administration services	1,350,392	1,351,384	1,315,514	1,298,973	1,265,647	1,184,714	1,177,824
Operation and maintenance of plant services	1,181,525	1,241,632	1,597,972	1,599,005	1,506,376	1,440,280	1,592,945
Transportation services	435,304	450,365	282,541	314,789	331,802	349,221	295,935
Noninstructional programs	10,392	6,257	6,436	6,191	12,674	22,630	23,351
Other Expenditures							
Facilities acquisition and construction	1,547,041	399,303	559,612	249,055	635,485	1,090,979	139,757
Long-Term Debt							
Principal	205,000	210,157	204,111	240,635	274,168	309,826	343,816
Interest and other charges	61,828	73,381	84,514	97,470	113,955	164,910	33,905
AEA flowthrough	<u>503,072</u>	<u>501,216</u>	<u>510,672</u>	<u>533,712</u>	<u>537,198</u>	<u>540,496</u>	<u>530,445</u>
Total	<u>\$ 15,096,753</u>	<u>\$ 13,883,906</u>	<u>\$ 14,267,498</u>	<u>\$ 14,221,336</u>	<u>\$ 14,274,144</u>	<u>\$ 14,517,369</u>	<u>\$ 13,356,376</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

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 2006	<u>\$ 52,764</u>
Child Nutrition Cluster			
School Breakfast Program	10.553	FY 2006	48,492
National School Lunch Program.....	10.555	FY 2006	254,724
Summer Food Service Program for Children	10.559	FY 2006	<u>8,834</u>
Total Cash Expenditures.....			<u>312,050</u>
Total U.S. Department of Agriculture			<u>364,814</u>
U.S. Department of Justice			
Pass-Through From Iowa Department of Education			
Juvenile Accountability Incentive Block Grant	16.523	FY 2006	13,772
Juvenile Justice and Delinquency			
Prevention Allocation to States	16.540	FY 2006	4,979
Title V Delinquency Prevention Program	16.548	FY 2006	1,449
Enforcing Underage Drinking Laws Program.....	16.727	FY 2006	<u>200</u>
Total U.S. Department of Justice.....			<u>20,400</u>
U.S. Department of Education			
Pass-Through From Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	1116-6	276,656
Title I Grants to Local Educational Agencies	84.010	1116-6C	<u>24,216</u>
			<u>300,872</u>
Safe and Drug-Free Schools and Communities -			
State Grants	84.186	FY 2006	<u>11,152</u>
Tech-Prep Education	84.243	FY 2006	<u>6,932</u>
State Grants for Innovative Programs.....	84.298	FY 2006	<u>5,890</u>
Improving Teacher Quality State Grants.....	84.367	FY 2006	<u>91,639</u>
Grants for State Assessments and Related Activities	84.369	FY 2006	<u>9,438</u>
Total Pass-Through Iowa Department of Education			<u>125,051</u>
Pass-Through From AEA 267			
Special Education Grants to States	84.027	FY 2006	<u>95,443</u>
Total U.S. Department of Education.....			<u>521,366</u>
U.S. Department of Health and Human Services			
Drug-Free Communities Support Program Grants	93.276	FY 2006	<u>35,598</u>
Total			<u>\$ 942,178</u>

Schedule of Expenditures of Federal Awards ---

Year Ended June 30, 2006

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 Internal Control Over Financing Reporting and Other Matters

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Charles City Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 an opinion 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 06-II-R-1 is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Charles City Community School District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Charles City Community School District and other parties to whom the District may report, including federal awarding agencies and pass-through entities. This report 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 5, 2006

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, 2006. 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, 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, 2006.

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 a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect 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 reportable 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 caused by error or fraud 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 06-III-R-1 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Charles City Community School District and other parties to whom the District may report, including federal awarding agencies and pass-through entities. This report 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 5, 2006

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

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

10.553
 10.555
 10.559

84.010

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

Auditee qualified as low-risk auditee?

Name of Federal Program or Cluster

Clustered Programs
 School Breakfast Program
 National School Lunch Program
 Summer Food Service Program
 for Children
 Title I - Grants to Local Education
 Agencies

\$300,000

yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

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

Instances of Noncompliance:

There were no current year instances of noncompliance noted.

Reportable Conditions:

Current year reportable conditions are as follows:

06-II-R-1 Segregation of Duties

Finding - 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.

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.

Auditor's Recommendation - This is not an unusual condition, but it is important that management be aware that the condition exists.

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

Auditor's Conclusion - Response accepted.

06-II-R-2 Fund-Raising Policy

Finding - The District conducts a variety of fund-raising events during the year to raise funds for various student activities. We noted that there were no controls in place on the collection of cash from these events.

Auditor's Recommendation - The District should establish fund-raising policies to ensure consistent practices and to establish controls over cash collected.

District's Response - We will establish such a policy.

Auditor's Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Noncompliance:

There were no current year instances of noncompliance noted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Reportable Conditions:

The current year reportable condition is as follows:

All Programs Displayed on the Schedule of Expenditures of Federal Awards

06-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 06-II-R-1 for additional information.

Part IV: Other Findings Related to Statutory Reporting:

- 06-IV-A **Certified Budget** - Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.
- 06-IV-B **Questionable Expenditures** - No expenditures were noted that may not meet the requirements as defined in an Attorney General's opinion dated April 25, 1979.
- 06-IV-C **Travel Expense** - No expenditures of District money for travel expenses of spouses of District officials or employees were noted.
- 06-IV-D **Business Transactions** - No business transactions between the District and District officials or employees were noted.
- 06-IV-E **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.
- 06-IV-F **Board Minutes** - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 06-IV-G **Certified Enrollment** - No variances in the basic enrollment data certified to the Department of Education were noted.
- 06-IV-H **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.
- 06-IV-I **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.
- 06-IV-J **Deficit Balances** - One student activity account and the Capital Projects LOSST Fund had deficit balances at June 30, 2006.

Recommendation - The District should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

District's Response - The deficit balances will be eliminated through the collection of monies from fund-raising activities and local option sales and services taxes, respectively.

Auditor's Conclusion - Response accepted.