

**CHARLES CITY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007**

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Introductory Section

Board of Education and School District Officials

At June 30, 2007

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

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, 2007, 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, 2007, 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 November 26, 2007 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 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 three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on Pages 37 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
November 26, 2007

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, 2007. 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 \$12,698,105 in fiscal 2006 to \$13,813,044 in fiscal 2007, while General Fund expenditures increased from \$12,583,192 in fiscal 2006 to \$13,851,282 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$1,809,374 in fiscal 2006 to \$1,774,243 in fiscal 2007, a 1.9% decrease from the prior year.
- The General Fund revenue increased 8.8%. Local, state and federal revenue increased by 8.7%, 9.2% and 3.0%, respectively. The local property tax revenue and state financial aid revenue increased because school funding is based upon the number of students and the revenue generated per student, and both increased in 2006-07. In addition, local revenue increased when the voters approved an increase in the Instructional Support Levy rate from 4% to 7% and state revenue increased due to additional money received from the state to improve teacher compensation.
- General Fund expenditures increased by 10.1%. Overall salaries and benefits increased 7.9% or approximately \$804,000. Besides an average 4.9% salary and benefit increase, the additional revenue received to improve teacher salaries was expended. Purchased services increased 11.1% or approximately \$41,000. Tuition paid to other educational institutions increased by 28.7% or approximately \$145,000 due to increases in the number of students tuitioned out and to the increase in community college class offerings at the High School. Supplies and equipment expenditures increased by 18.1% or approximately \$277,000 due to a reduction in carryover funds and a one-time additional expense allocation to allow the purchase of educational supplies and equipment.
- The October 2006 and October 2005 certified enrollment increased by 8.2 students and 40.6 students, respectively. During the previous eight years, however, the District's certified enrollment had declined 350 students, an average decline of 35.0 students per year. Enrollment numbers are significant due to the state funding formula, which uses certified enrollment to determine the amount of General Fund money the District has available to spend.
- The District currently has in place 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.

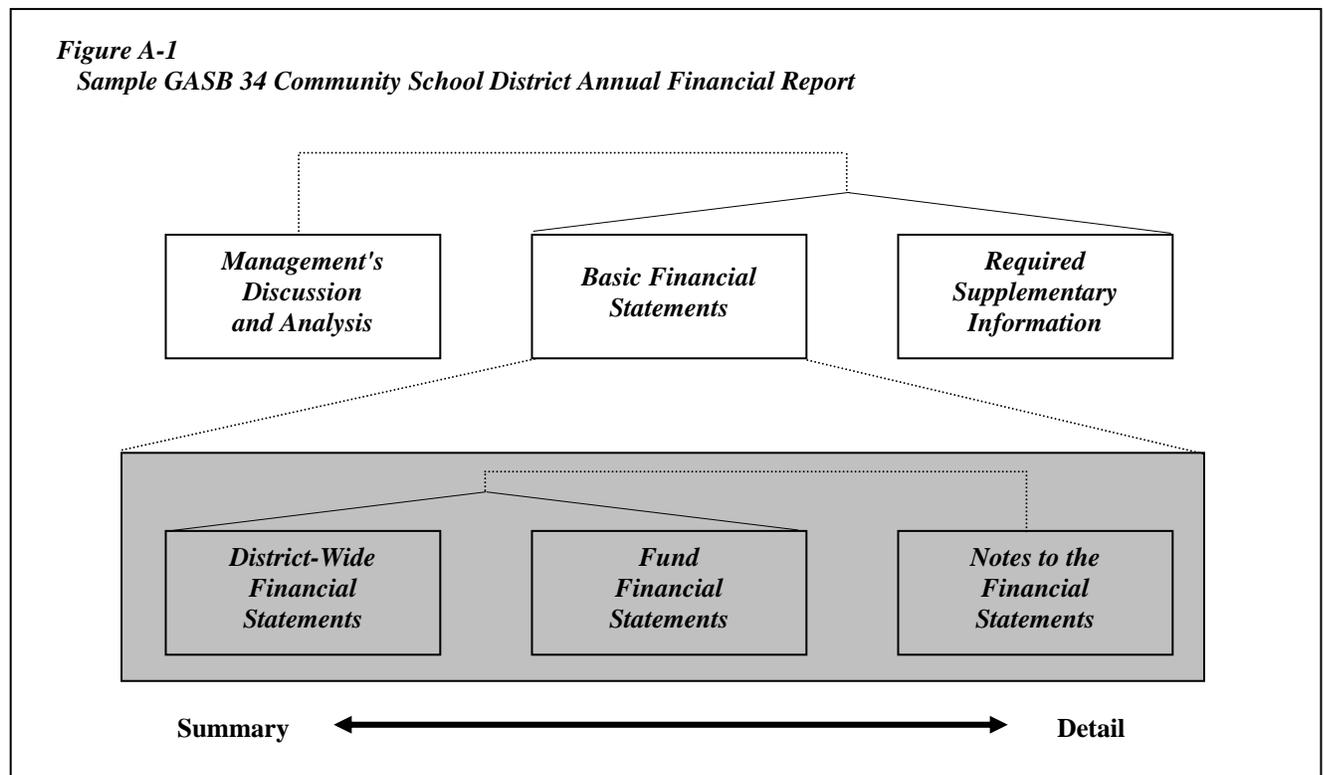


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

Schools are required to have some funds 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 three proprietary funds, the School Nutrition Fund and two Internal Service Funds.

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.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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, 2007 compared to 2006.

| FIGURE A-3 CONDENSED STATEMENT OF NET ASSETS | | | | | | | |
|--|-------------------------|--------------|--------------------------|-----------|-----------------------|--------------|-----------------|
| | Governmental Activities | | Business-Type Activities | | Total School District | | Total Change |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2006-07 |
| Current and other assets | \$ 9,913,975 | \$ 9,288,024 | \$136,314 | \$151,709 | \$ 10,050,289 | \$ 9,439,733 | 6.5% |
| Capital assets | 5,245,848 | 4,707,055 | 34,520 | 39,425 | 5,280,368 | 4,746,480 | 11.2% |
| Total assets | 15,159,823 | 13,995,079 | 170,834 | 191,134 | 15,330,657 | 14,186,213 | 8.1% |
| Long-term obligations | 530,160 | 790,680 | - | - | 530,160 | 790,680 | -33.0% |
| Other liabilities | 7,147,949 | 6,411,174 | 53,086 | 40,743 | 7,201,035 | 6,451,917 | 11.6% |
| Total liabilities | 7,678,109 | 7,201,854 | 53,086 | 40,743 | 7,731,195 | 7,242,597 | 6.7% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 4,530,848 | 3,777,055 | 34,520 | 39,425 | 4,565,368 | 3,816,480 | 19.6% |
| Restricted | 885,610 | 909,898 | — | — | 885,610 | 909,898 | -2.7% |
| Unrestricted | 2,065,256 | 2,106,272 | 83,228 | 110,966 | 2,148,484 | 2,217,238 | 3.1% |
| Total net assets | \$ 7,481,714 | \$ 6,793,225 | \$117,748 | \$150,391 | \$ 7,599,462 | \$ 6,943,616 | 9.4% |

The District's combined net assets were 9.4% greater at June 30, 2007 than June 30, 2006. The increase occurred in the governmental activities as a result of approximately \$754,000 increase in investments in capital assets, net of related debt. During the year, approximately \$671,000 was added for Washington Elementary improvements and the geothermal construction. The project was completed November 2007.

Restricted net assets remained relatively stable, a decrease of 2.7% or approximately \$24,000.

Unrestricted net assets remained relatively stable with a 3.1% decrease or approximately \$69,000. The largest change was in early retirement benefits, there were no retirements in 2005-06 and five in 2006-07. This liability at year end 2007 was approximately \$177,000.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2007.

FIGURE A-4
CHANGES IN NET ASSETS

| | Governmental Activities 2007 | Business-Type Activities 2007 | Total School District 2007 |
|---------------------------------------|------------------------------------|-------------------------------------|----------------------------------|
| REVENUE: | | | |
| Program revenue: | | | |
| Charges for services and sales | \$ 839,435 | \$ 394,627 | \$ 1,234,062 |
| Operating grants and contributions | 2,056,652 | 372,108 | 2,428,760 |
| General revenue: | | | |
| Property tax | 4,307,209 | — | 4,307,209 |
| Local option | 940,268 | — | 940,268 |
| Income surtax | 605,381 | — | 605,381 |
| Unrestricted federal and state grants | 6,801,986 | — | 6,801,986 |
| Unrestricted investment earnings | 239,308 | 5,728 | 245,036 |
| Miscellaneous | 64,849 | — | 64,849 |
| TOTAL REVENUE | 15,855,088 | 772,463 | 16,627,551 |
| PROGRAM EXPENSES: | | | |
| Governmental activities: | | | |
| Instruction | 9,667,332 | — | 9,667,332 |
| Support Services | 4,887,060 | — | 4,887,060 |
| Non-instructional programs | 8,466 | 805,106 | 813,572 |
| Other expenses | 592,758 | — | 592,758 |
| TOTAL EXPENSES | 15,155,616 | 805,106 | 15,960,722 |
| Other Financing Sources (Uses): | | | |
| Gain (loss) on sale of assets | (6,977) | — | (6,977) |
| CHANGE IN NET ASSETS | \$ 692,495 | \$ (32,643) | \$ 659,852 |

Property tax, local option sales tax, income surtax and unrestricted federal and state grants account for 76.1% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91.2% of the total expenses.

Governmental Activities

Revenue for governmental activities was \$15,855,088, expenses were \$15,155,616 and other financing uses were \$6,977, which amounted to an increase in net assets of \$692,495.

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 | \$ 9,667,332 | \$ 7,374,819 |
| Support services | 4,887,060 | 4,827,314 |
| Non-instructional programs | 8,466 | 8,466 |
| Other expenses | 592,758 | 48,930 |
| Totals | \$15,155,616 | \$12,259,529 |

- The cost financed by users of the District’s programs was \$839,435.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,056,652.
- The net cost of governmental activities was financed with \$4,307,209 in property tax, \$940,268 in local option sales tax, \$605,381 in income surtaxes, \$6,801,986 in state foundation aid and \$239,308 in interest income.

Business-Type Activities

Revenue of the District’s business-type activities was \$772,463 and expenses were \$805,106. The District’s business-type activities include the School Nutrition Fund. Revenue of this activity was comprised of charges for service, federal and state reimbursements and investment income.

The prices of meals were increased 10¢ in 2006-07.

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 \$2,550,336, or \$8,047 below last year’s reclassified ending fund balances of \$2,558,383.

General Fund undesignated fund balances increased by approximately \$8,351 and designated and reserved fund balances decreased by approximately \$43,482. All other nonmajor funds increased their fund balance by \$27,084.

Governmental Fund Highlights

- The District’s General Fund balance decreased 1.9%. This is comprised of an increase in undesignated fund balance by 0.5% and a decrease in designated and reserved funds. The designated fund balance decreased after the District purchased print shop copiers from designated funds. Even though the overall fund balance decreased, the District’s General Fund undesignated fund balance continues to improve. The Board of Directors is committed to maintaining, or improving, its financial position.

- The 2007-08 school tax rate for Charles City is 12.71891 per thousand. This ranks 78th out of 364 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 2006-07 the District collected 2% income surtax as part of the voted PPEL and also collected 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 \$150,391 at June 30, 2006 to \$117,748 at June 30, 2007, representing a decrease of 21.7% or \$32,643. The fund received revenue of \$772,463 and expended \$805,106 resulting in the decrease to the fund balance. Revenue was relatively unchanged. The increase in meal prices by 10¢ was offset by approximately 1,700 fewer paid meals served. Expenses increased by 3.9% or approximately \$30,000. The largest increase was in salary and benefits that increased 3.8% or approximately \$14,000. Supplies increased approximately \$12,000. The District increased the number of healthier meal options which subsequently resulted in increased food cost. The District did not increase meal prices in 2007-08 since management felt that it had sufficient reserves.

The District has a second Proprietary Fund for governmental activities, the Internal Service Funds, where revenue and expenses associated with the District's self-funded health care plan and flexible spending plan are accumulated. The District added the flexible spending plan effective July 1, 2006 which is solely funded by employee contributions. The health care plan is funded by District and employee contributions for health care premiums and is used to pay health care claims administered by an insurance company. The Internal Service Fund's net assets increased from \$646,879 at June 30, 2006 to \$655,056 at June 30, 2007, representing a 1.3% increase which takes into account incurred but unpaid claims. Premiums did not increase in 2006-07.

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 was prepared on a GAAP 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. The District converted its practice of budgeting from Cash to GAAP effective July 1, 2006 as required by the State Board of Education.

Legal Budgetary Highlights

The District's total actual receipts were approximately \$226,000 more than the total budgeted receipts, a variance of 1.4%. The most significant change resulted in the District receiving more local dollars than originally anticipated.

The District adopted one budget amendment, dated May 14, 2007, increasing the four disbursement functions combined by approximately \$295,000. The largest budget increase was in the other expenditures category, which was increased for summer 2007 facility projects that began prior to June 30. Total expenditures were less than the amended budget due primarily to the District's budget for the LOSST and PPEL Funds. It is the District's practice to budget expenditures at the total of revenues for the coming year plus any unused fund balance reserves. 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, 2007, the District had invested \$5.3 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was approximately \$334,000. The District's practice is to capitalize assets over \$2,000 with the exception of School Nutrition equipment which is \$300.

The original cost of the District's capital assets was \$13.6 million. Governmental funds account for \$13.1 million with the remainder of \$0.5 million in the Proprietary, School Nutrition Funds. The District increased capital assets by approximately \$879,000. The majority of the increase, approximately \$671,000, was for the Washington Elementary geothermal project. The District's equipment purchases included \$65,000 for vehicle purchases, \$23,000 for computer equipment, \$56,000 for business machines and \$18,000 for communications equipment. The District's vehicle purchases included a bus and dump truck.

FIGURE A-6
CAPITAL ASSETS, NET OF DEPRECIATION

| | Governmental Activities | Business-Type Activities | Total School District |
|--------------------------|----------------------------|-----------------------------|--------------------------|
| | 2007 | 2007 | 2007 |
| Land | \$ 325,000 | \$ — | \$ 325,000 |
| Construction in progress | 326,513 | — | 326,513 |
| Buildings | 4,009,243 | — | 4,009,243 |
| Furniture and equipment | 585,092 | 34,520 | 619,612 |
| Totals | \$5,245,848 | \$34,520 | \$5,280,368 |

Long-Term Debt

At June 30, 2007, the District had \$715,000 in long-term debt outstanding. This represents a decrease of 23.1% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 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 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 \$715,000 as of June 30, 2007. This is the only remaining long-term debt payable at year-end.

FIGURE A-7
OUTSTANDING LONG-TERM OBLIGATIONS

| | Total School District | Total Change |
|---------------|-----------------------|--------------|
| | 2007 | 2006-07 |
| Notes payable | \$715,000 | \$215,000 |

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 decreased by 31.2 students in October 2007. The October 2006 and October 2005 certified enrollment increased by 8.2 students and 40.6 students, respectively. Certified enrollment has declined an average of 30.2 students per year over 11 years. 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 2007 for fiscal 2008, which averaged 4.9% total package increases. The 2007-08 settlements were funded through "new money" to be received because of the increase in student in 2006-07 and the increase in funding per student.
- Public employees and their employers contribute to the Iowa Public Employees' Retirement System (IPERS) Trust Fund through payroll deductions. IPERS invests the contributions to grow the Fund to pay benefits when employees retire. Contributions rates which are set by the Iowa Legislature will be increasing. The employer contribution rates will increase 0.3% for each of the next eight years. In fiscal year 2008 the rate will be 6.05%, an increase from 5.75% in 2007. The increased cost will be approximately \$24,000. This increase in benefit costs will be factored into the calculation when negotiating with employee groups.
- 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 and the construction of a geothermal heating and cooling system at Washington Elementary. Included in the five-year facility plan are two 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, 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.

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, 2007

| | Governmental Activities | Business- Type Activities | Total |
|--|-----------------------------|---------------------------------|-----------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 4,279,477 | \$ 107,256 | \$ 4,386,733 |
| Receivables | | | |
| Property Taxes, Net | | | |
| Current year delinquent..... | 74,947 | — | 74,947 |
| Succeeding year | 4,510,461 | — | 4,510,461 |
| Other | 2,394 | — | 2,394 |
| Due from other governments..... | 1,046,696 | 4,038 | 1,050,734 |
| Inventories | — | 25,020 | 25,020 |
| Capital assets, net of accumulated depreciation | <u>5,245,848</u> | <u>34,520</u> | <u>5,280,368</u> |
| Total Assets | <u>\$ 15,159,823</u> | <u>\$ 170,834</u> | <u>\$ 15,330,657</u> |
| Liabilities | | | |
| Accounts payable | \$ 88,679 | \$ 10,922 | \$ 99,601 |
| Salaries and benefits payable | 1,152,559 | 41,968 | 1,194,527 |
| Due to other governments | 169,318 | 196 | 169,514 |
| Accrued interest payable | 3,144 | — | 3,144 |
| Deferred Revenue | | | |
| Succeeding year property taxes | 4,510,461 | — | 4,510,461 |
| Other | 602,566 | — | 602,566 |
| Provision for self-insurance claims | 185,000 | — | 185,000 |
| Long-Term Liabilities | | | |
| Portion Due Within One Year | | | |
| Notes payable | 225,000 | — | 225,000 |
| Early retirement benefit | 136,851 | — | 136,851 |
| Compensated absences | 74,371 | — | 74,371 |
| Portion Due After One Year | | | |
| Notes payable | 490,000 | — | 490,000 |
| Early retirement benefit | <u>40,160</u> | <u>—</u> | <u>40,160</u> |
| Total Liabilities | <u>7,678,109</u> | <u>53,086</u> | <u>7,731,195</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt . | 4,530,848 | 34,520 | 4,565,368 |
| Restricted For | | | |
| State class size reduction | 80,788 | — | 80,788 |
| Special bequests..... | 15,021 | — | 15,021 |
| Mentoring | 1,826 | — | 1,826 |
| Professional development..... | 689 | — | 689 |
| Marketing factor | 11,193 | — | 11,193 |
| PPEL..... | 167,316 | — | 167,316 |
| Student activities..... | 221,793 | — | 221,793 |
| Management..... | 185,119 | — | 185,119 |
| LOSTT | 201,865 | — | 201,865 |
| Unrestricted | <u>2,065,256</u> | <u>83,228</u> | <u>2,148,484</u> |
| Total Net Assets | <u>7,481,714</u> | <u>117,748</u> | <u>7,599,462</u> |
| Total Liabilities and Net Assets | <u>\$ 15,159,823</u> | <u>\$ 170,834</u> | <u>\$ 15,330,657</u> |

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2007

| 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 | \$ 5,569,457 | \$ 283,408 | \$ 952,419 | \$ (4,333,630) | \$ — | \$ (4,333,630) |
| Special instruction | 2,414,510 | 205,503 | 247,558 | (1,961,449) | — | (1,961,449) |
| Other instruction | 1,683,365 | 337,849 | 265,776 | (1,079,740) | — | (1,079,740) |
| Total Instruction | <u>9,667,332</u> | <u>826,760</u> | <u>1,465,753</u> | <u>(7,374,819)</u> | <u>—</u> | <u>(7,374,819)</u> |
| Support Services | | | | | | |
| Student services | 455,475 | — | — | (455,475) | — | (455,475) |
| Instructional staff services | 642,445 | — | — | (642,445) | — | (642,445) |
| Administration services | 1,617,674 | — | — | (1,617,674) | — | (1,617,674) |
| Operation and maintenance of plant services | 1,721,506 | — | 3,776 | (1,717,730) | — | (1,717,730) |
| Transportation services | 449,960 | 12,675 | 43,295 | (393,990) | — | (393,990) |
| Total Support Services | <u>4,887,060</u> | <u>12,675</u> | <u>47,071</u> | <u>(4,827,314)</u> | <u>—</u> | <u>(4,827,314)</u> |
| Noninstructional Programs | <u>8,466</u> | <u>—</u> | <u>—</u> | <u>(8,466)</u> | <u>—</u> | <u>(8,466)</u> |
| Other Expenditures | | | | | | |
| Long-term debt interest | 48,930 | — | — | (48,930) | — | (48,930) |
| AEA flow through | 543,828 | — | 543,828 | — | — | — |
| Total Other Expenditures | <u>592,758</u> | <u>—</u> | <u>543,828</u> | <u>(48,930)</u> | <u>—</u> | <u>(48,930)</u> |
| Total Governmental Activities | 15,155,616 | 839,435 | 2,056,652 | (12,259,529) | — | (12,259,529) |
| Business-Type Activities | | | | | | |
| Noninstructional Programs | | | | | | |
| Nutrition services | <u>805,106</u> | <u>394,627</u> | <u>372,108</u> | <u>—</u> | <u>(38,371)</u> | <u>(38,371)</u> |
| Total | \$ 15,960,722 | \$ 1,234,062 | \$ 2,428,760 | (12,259,529) | (38,371) | (12,297,900) |
| General Revenue | | | | | | |
| Property Taxes Levied For | | | | | | |
| General purposes | | | | 4,307,209 | — | 4,307,209 |
| Local option | | | | 940,268 | — | 940,268 |
| Income surtax | | | | 605,381 | — | 605,381 |
| Unrestricted federal and state grants | | | | 6,801,986 | — | 6,801,986 |
| Unrestricted investment earnings | | | | 239,308 | 5,728 | 245,036 |
| Miscellaneous | | | | 64,849 | — | 64,849 |
| Total General Revenue | | | | 12,959,001 | 5,728 | 12,964,729 |
| Other Financing Sources (Uses) | | | | | | |
| Gain (loss) on sale of assets | | | | (6,977) | — | (6,977) |
| Change in Net Assets | | | | 692,495 | (32,643) | 659,852 |
| Net Assets - Beginning of Year, as Reclassified (Note 14) | | | | 6,789,219 | 150,391 | 6,939,610 |
| Net Assets - End of Year | | | | \$ 7,481,714 | \$ 117,748 | \$ 7,599,462 |

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2007

| | General | All Other Nonmajor | Total |
|--|----------------------------|----------------------------|----------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 2,823,549 | \$ 611,613 | \$ 3,435,162 |
| Receivables | | | |
| Property Taxes, Net | | | |
| Current year delinquent..... | 64,504 | 10,443 | 74,947 |
| Succeeding year | 3,732,050 | 778,411 | 4,510,461 |
| Other | 2,129 | 265 | 2,394 |
| Due from other funds | 50 | — | 50 |
| Due from other governments | <u>254,000</u> | <u>252,632</u> | <u>506,632</u> |
| Total Assets | <u>\$ 6,876,282</u> | <u>\$ 1,653,364</u> | <u>\$ 8,529,646</u> |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 23,598 | \$ 65,081 | \$ 88,679 |
| Salaries and benefits payable | 1,144,943 | 194 | 1,145,137 |
| Due to other governments | 168,655 | 663 | 169,318 |
| Deferred Revenue | | | |
| Succeeding year property taxes | 3,732,050 | 778,411 | 4,510,461 |
| Other | <u>32,793</u> | <u>32,922</u> | <u>65,715</u> |
| Total Liabilities | <u>5,102,039</u> | <u>877,271</u> | <u>5,979,310</u> |
| Fund Balances | | | |
| Reserved For | | | |
| State class size reduction | 80,788 | — | 80,788 |
| Specific bequests..... | 15,021 | — | 15,021 |
| Mentoring | 1,826 | — | 1,826 |
| Professional development..... | 689 | — | 689 |
| Marketing factor | 11,193 | — | 11,193 |
| Unreserved | | | |
| Designated by Board for future equipment and supplies | 69,125 | — | 69,125 |
| Undesignated..... | <u>1,595,601</u> | <u>776,093</u> | <u>2,371,694</u> |
| Total Fund Balances | <u>1,774,243</u> | <u>776,093</u> | <u>2,550,336</u> |
| Total Liabilities and Fund Balances | <u>\$ 6,876,282</u> | <u>\$ 1,653,364</u> | <u>\$ 8,529,646</u> |

See accompanying notes to the financial statements.

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

At June 30, 2007

Total Fund Balances for Governmental Funds (Page 16)..... **\$ 2,550,336**

***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 5,245,848

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 655,056

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 | (177,011) |
| Compensated absences | (74,371) |
| Accrued interest payable..... | (3,144) |
| Notes payable | <u>(715,000)</u> |

Net Assets of Governmental Activities (Page 14) **\$ 7,481,714**

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

Year Ended June 30, 2007

| | General | All Other Nonmajor | Total Governmental Funds |
|---|----------------------------|--------------------------|--------------------------------|
| Revenue | | | |
| Local Sources | | | |
| Property taxes..... | \$ 4,215,025 | \$ 697,565 | \$ 4,912,590 |
| Tuition | 396,504 | — | 396,504 |
| Other | 338,890 | 1,343,919 | 1,682,809 |
| State sources..... | 8,227,387 | 560 | 8,227,947 |
| Federal sources..... | 635,238 | — | 635,238 |
| Total Revenue..... | <u>13,813,044</u> | <u>2,042,044</u> | <u>15,855,088</u> |
| Expenditures | | | |
| Current | | | |
| Instruction | | | |
| Regular instruction | 5,469,637 | 98,531 | 5,568,168 |
| Special instruction | 2,416,275 | — | 2,416,275 |
| Other instruction..... | 1,355,114 | 318,883 | 1,673,997 |
| Total Instruction..... | <u>9,241,026</u> | <u>417,414</u> | <u>9,658,440</u> |
| Support Services | | | |
| Student services..... | 453,849 | 1,626 | 455,475 |
| Instructional staff services..... | 557,450 | 87,801 | 645,251 |
| Administration services | 1,566,166 | 13,320 | 1,579,486 |
| Operation and maintenance of plant services | 1,115,004 | 91,091 | 1,206,095 |
| Transportation services..... | 373,959 | 84,792 | 458,751 |
| Total Support Services..... | <u>4,066,428</u> | <u>278,630</u> | <u>4,345,058</u> |
| Noninstructional Programs..... | — | 9,210 | 9,210 |
| Other Expenditures | | | |
| Facilities acquisition and construction | — | 1,045,763 | 1,045,763 |
| Long-Term Debt | | | |
| Principal | — | 215,000 | 215,000 |
| Interest and fiscal charges | — | 50,143 | 50,143 |
| AEA flowthrough | 543,828 | — | 543,828 |
| Total Other Expenditures | <u>543,828</u> | <u>1,310,906</u> | <u>1,854,734</u> |
| Total Expenditures..... | <u>13,851,282</u> | <u>2,016,160</u> | <u>15,867,442</u> |
| Revenue Over (Under) Expenditures..... | <u>(38,238)</u> | <u>25,884</u> | <u>(12,354)</u> |
| Other Financing Sources (Uses) | | | |
| Operating transfers in..... | — | 265,143 | 265,143 |
| Operating transfers out..... | — | (265,143) | (265,143) |
| Sale of assets..... | 3,107 | 1,200 | 4,307 |
| Total Other Financing Sources (Uses) | <u>3,107</u> | <u>1,200</u> | <u>4,307</u> |
| Net Change in Fund Balances..... | <u>(35,131)</u> | <u>27,084</u> | <u>(8,047)</u> |
| Fund Balance - Beginning of Year, as Reclassified (Note 14)..... | 1,809,374 | 749,009 | 2,558,383 |
| Fund Balance - End of Year..... | <u>\$ 1,774,243</u> | <u>\$ 776,093</u> | <u>\$ 2,550,336</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, 2007

Change in Fund Balances - Total Governmental Funds (Page 18) \$ (8,047)

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..... | \$ 874,094 | |
| Depreciation expense | (324,017) | |
| Net depreciated value of disposed assets | <u>(11,284)</u> | 538,793 |

| | | |
|---|--|---------|
| 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..... | | 215,000 |
|---|--|---------|

| | | |
|---|--|-------|
| 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 | | 1,213 |
|---|--|-------|

| | | |
|---|--|-------|
| Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue of the internal service funds is reported with governmental activities | | 8,177 |
|---|--|-------|

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..... | \$ (59,891) | |
| Compensated absences | <u>(2,750)</u> | <u>(62,641)</u> |

Change in Net Assets of Governmental Activities (Page 15) \$ 692,495

Balance Sheet - Proprietary Funds

At June 30, 2007

| | Business-Type Activities - Enterprise Fund - School Nutrition | Governmental Activities - Internal Service Funds |
|---|--|---|
| Assets | | |
| Cash and cash equivalents | \$ 107,256 | \$ 844,315 |
| Due from other governments | 4,038 | 3,213 |
| Inventories and prepaid items | 25,020 | — |
| Machinery and equipment | 541,325 | — |
| Less accumulated depreciation | <u>(506,805)</u> | <u>—</u> |
| Total Assets | <u>\$ 170,834</u> | <u>\$ 847,528</u> |
| Liabilities | | |
| Accounts payable | \$ 10,922 | \$ 185,000 |
| Salaries and benefits payable | 41,968 | 7,422 |
| Due to other fund | — | 50 |
| Due to other governments | <u>196</u> | <u>—</u> |
| Total Liabilities | <u>53,086</u> | <u>192,472</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 34,520 | — |
| Unrestricted | <u>83,228</u> | <u>655,056</u> |
| Total Net Assets | <u>117,748</u> | <u>655,056</u> |
| Total Liabilities and Net Assets | <u>\$ 170,834</u> | <u>\$ 847,528</u> |

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

Year Ended June 30, 2007

| | Business-Type Activities - Enterprise Fund - School Nutrition | Governmental Activities - Internal Service Funds |
|--|---|---|
| Operating Revenue | | |
| Local Sources | | |
| Charges for service..... | \$ 394,627 | \$ — |
| Self-insurance contributions | <u>—</u> | <u>1,790,563</u> |
| Total Operating Revenue | <u>394,627</u> | <u>1,790,563</u> |
| Operating Expenses | | |
| Noninstructional Programs | | |
| Food Service Operations | | |
| Salaries and benefits..... | 383,246 | — |
| Purchased services..... | 16,503 | — |
| Supplies | 395,702 | — |
| Depreciation | 9,655 | — |
| Self-insurance claims and fees..... | <u>—</u> | <u>1,782,386</u> |
| Total Operating Expenses | <u>805,106</u> | <u>1,782,386</u> |
| Income (Loss) From Operations | <u>(410,479)</u> | <u>8,177</u> |
| Nonoperating Revenue | | |
| State sources..... | 9,764 | — |
| Federal sources..... | 362,344 | — |
| Interest on investments | <u>5,728</u> | <u>—</u> |
| Total Nonoperating Revenue | <u>377,836</u> | <u>—</u> |
| Change in Net Assets | (32,643) | 8,177 |
| Net Assets - Beginning of Year | <u>150,391</u> | <u>646,879</u> |
| Net Assets - End of Year | <u>\$ 117,748</u> | <u>\$ 655,056</u> |

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2007

| | Business-Type Activities - Enterprise Fund - School Nutrition | Governmental Activities - Internal Service Funds |
|---|---|---|
| Cash Flows From Operating Activities | | |
| Cash received from sale of lunches and breakfasts..... | \$ 394,627 | \$ — |
| Cash received from assessments made to other funds | — | 1,790,563 |
| Cash payments to employees for services..... | (370,939) | — |
| Cash payments for insurance claims..... | — | (1,711,393) |
| Cash payments to suppliers for goods and services..... | <u>(363,306)</u> | <u>—</u> |
| Net Cash Provided by (Used in) Operating Activities | <u>(339,618)</u> | <u>79,170</u> |
| Cash Flows Provided by Noncapital Financing Activities | | |
| State grants received..... | 9,764 | — |
| Federal grants received..... | <u>316,063</u> | <u>—</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>325,827</u> | <u>—</u> |
| Cash Flows From Capital and Related Financing Activities | | |
| Acquisition of capital assets | <u>(4,750)</u> | <u>—</u> |
| Cash Flows From Investment Activities | | |
| Interest on investments | <u>5,728</u> | <u>—</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (12,813) | 79,170 |
| Cash and Cash Equivalents at Beginning of Year..... | <u>120,069</u> | <u>765,145</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 107,256</u> | <u>\$ 844,315</u> |
| Reconciliation of Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities | | |
| Income (loss) from operations | \$ (410,479) | \$ 8,177 |
| Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided by (Used in) Operating Activities | | |
| Commodities used..... | 56,302 | — |
| Depreciation..... | 9,655 | — |
| Changes in Assets and Liabilities | | |
| Increase in due from other government | — | (3,213) |
| Decrease in inventories and prepaid items | (7,439) | — |
| Increase in accounts payable..... | 36 | 42,472 |
| Decrease in provision for self-insurance claims | — | 31,734 |
| Increase in salaries and benefits payable | <u>12,307</u> | <u>—</u> |
| Net Cash Provided by (Used in) Operating Activities | <u>\$ (339,618)</u> | <u>\$ 79,170</u> |

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2007, the District received \$51,077 of federal commodities.

See accompanying notes to the financial statements.

Statement of Fiduciary Net Assets - Fiduciary Fund

At June 30, 2007

| | Private Purpose Trust | Agency |
|---|-----------------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 20,147 | \$ 979 |
| Investments | 226,364 | — |
| Accrued interest receivable | <u>1,830</u> | <u>—</u> |
| Total Assets | <u>\$ 248,341</u> | <u>\$ 979</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | <u>\$ —</u> | <u>\$ 979</u> |
| Net Assets | | |
| Reserved for scholarships | 244,335 | — |
| Reserved for activities | <u>4,006</u> | <u>—</u> |
| Total Net Assets | <u>248,341</u> | <u>—</u> |
| Total Liabilities and Net Assets | <u>\$ 248,341</u> | <u>\$ 979</u> |

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

Year Ended June 30, 2007

| | Private Purpose Trust |
|--|--------------------------------------|
| Additions | |
| Local Sources | |
| Interest..... | \$ 10,869 |
| Contributions..... | <u>12,184</u> |
| | 23,053 |
| Deductions | |
| Support Services | |
| Scholarships awarded..... | <u>10,767</u> |
| Change in Net Assets | 12,286 |
| Net Assets - Beginning of Year, as reclassified (Note 14)..... | <u>236,055</u> |
| Net Assets - End of Year | <u>\$ 248,341</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 District's proprietary funds are the Enterprise, School Nutrition Fund and the internal service funds. The Nutrition Fund is used to account for the food service operations of the District. The internal service funds are used to account for the self-funded insurance plan operated by the District and is the flexible spending fund for employees.

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

Private-Purpose Trust Funds are used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship and activities 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 accrual basis.

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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007; and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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, 2007, total inventories included government commodities valued at \$18,980 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, 2007. 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, 2007, 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, 2007 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) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2007 was as follows:

| Receivable Fund | Payable Fund | Amount |
|------------------------|-----------------------|---------------|
| General | Internal Service Fund | \$50 |

The Internal Service Fund is repaying the General Fund for flex benefits withheld incorrectly from an employee. The balance was repaid in July, 2007.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 was as follows:

| Transfer To | Transfer From | Amount |
|--------------------|----------------------|---------------|
| Debt Service | PPEL | \$265,143 |

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

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 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 | 326,513 | 738,289 | 326,513 |
| Total Capital Assets Not Being Depreciated..... | <u>1,063,289</u> | <u>326,513</u> | <u>738,289</u> | <u>651,513</u> |
| Capital Assets Being Depreciated | | | | |
| Buildings and improvements | 9,343,423 | 1,082,626 | 24,270 | 10,401,779 |
| Furniture and equipment | 1,910,668 | 203,244 | 104,510 | 2,009,402 |
| Total Capital Assets Being Depreciated..... | <u>11,254,091</u> | <u>1,285,870</u> | <u>128,780</u> | <u>12,411,181</u> |
| Less Accumulated Depreciation For | | | | |
| Buildings and improvements | 6,214,117 | 202,689 | 24,270 | 6,392,536 |
| Furniture and equipment | 1,396,208 | 121,328 | 93,226 | 1,424,310 |
| Total Accumulated Depreciation | <u>7,610,325</u> | <u>324,017</u> | <u>117,496</u> | <u>7,816,846</u> |
| Net Total Capital Assets Being Depreciated..... | <u>3,643,766</u> | <u>961,853</u> | <u>11,284</u> | <u>4,594,335</u> |
| Net Governmental Activities | | | | |
| Capital Assets | <u>\$ 4,707,055</u> | <u>\$ 1,288,366</u> | <u>\$ 749,573</u> | <u>\$ 5,245,848</u> |
| Business-Type Activities | | | | |
| Furniture and equipment | \$ 545,311 | \$ 4,750 | \$ 8,736 | \$ 541,325 |
| Less accumulated depreciation | 505,886 | 9,655 | 8,736 | 506,805 |
| Net Business-Type Activities | | | | |
| Capital Assets | <u>\$ 39,425</u> | <u>\$ (4,905)</u> | <u>\$ —</u> | <u>\$ 34,520</u> |

Depreciation expense was charged as follows:

| | |
|---|--------------------------|
| Governmental Activities | |
| Instruction | |
| Regular | \$ 21,656 |
| Other | 13,664 |
| Support Services | |
| Instructional staff services | 4,238 |
| Administrative services | 7,270 |
| Operation and maintenance of plant services | 220,314 |
| Transportation | 56,875 |
| Total Governmental Activities Depreciation Expense | <u>\$ 324,017</u> |
| Business-Type Activities | |
| Food Service | <u>\$ 9,655</u> |

Notes to the Financial Statements

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|--------------------------------|---------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Notes payable..... | \$ 930,000 | \$ — | \$ 215,000 | \$ 715,000 | \$ 225,000 |
| Compensated absences..... | 71,621 | 74,371 | 71,621 | 74,371 | 74,371 |
| Early retirement benefit | 117,120 | 101,331 | 41,440 | 177,011 | 136,851 |
| Total | <u>\$ 1,118,741</u> | <u>\$ 175,702</u> | <u>\$ 328,061</u> | <u>\$ 966,382</u> | <u>\$ 436,222</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 5.35% 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 |
| 2008..... | \$ 225,000 | \$ 38,747 |
| 2009..... | 240,000 | 26,710 |
| 2010..... | <u>250,000</u> | <u>13,750</u> |
| Total | <u>\$ 715,000</u> | <u>\$ 79,207</u> |

(7) 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, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$494,073, \$460,229 and \$459,313, respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(8) 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.

(9) 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 \$543,828 for the year ended June 30, 2007, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Early Retirement and Postretirement Health Care Benefits

The District offers a voluntary early retirement plan to its teachers and administrators. 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.

Teachers, including librarians and guidance counselors, 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. Administrative early retirees will receive an amount equal to a percent of the administrator's current salary. 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, 2007, five employees had requested early retirement and the District's obligation was \$101,331.

In addition to the pension benefits described in Note 7, the District provides postretirement health care benefits for teachers 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, 2007, the District had obligations to 21 participants with a total liability of \$75,680. Annual early retirement benefits expenditures for the year ended June 30, 2007 totaled \$41,440.

(11) Commitments

The District has entered into various contracts totaling approximately \$509,000 for the Washington HVAC Geothermal - Phase II Project. At June 30, 2007, costs of approximately \$294,000 had been incurred against the contracts. The balance remaining at June 30, 2007 will be paid as work progresses on the projects.

Notes to the Financial Statements

(11) Commitments

The District has entered into a contract in the amount of approximately \$400,000 for the High School's parking lot project. At June 30, 2007, no costs had been incurred against the contracts. The contracted amount will be paid as work on the project progresses.

The District also has entered into a contract in the amount of \$55,800 for the fire alarm system at Washington Elementary School. At June 30, 2007, costs of approximately \$33,000 had been incurred against the contract. The balance remaining at June 30, 2007 will be paid as the work is completed.

(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, 2007 was approximately \$1,653,800.

(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 \$1,699,000 for the year ended June 30, 2007.

The District has included \$185,000 in its June 30, 2007 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, 2007:

| | |
|--|--------------------------|
| Estimated claims incurred but not reported - June 30, 2006 | \$ 150,000 |
| Claims incurred and reported and estimated costs incurred but not reported for the year ended June 30, 2007 | 1,495,524 |
| Claims paid during the year ended June 30, 2007 | (1,460,524) |
| Estimated Claims Incurred But Not Reported - June 30, 2007 | <u>\$ 185,000</u> |

Notes to the Financial Statements

(14) Reclassification of Beginning Nonmajor Governmental Fund Balances

The Expendable Trust Fund was reclassified from Special Revenue to Private Purpose Trust fund type so it would more accurately reflect the activity and purpose of the fund. The changes to beginning fund balances are shown below. This reclassification also had an effect on the District-wide beginning fund balances as shown below.

| | Nonmajor Governmental Fund | | | | | Total | Private Purpose Trust | | |
|--|------------------------------|----------------------------|--------------------|------------------|----------------------------------|------------------|-----------------------|-----------------|------------------|
| | Special Revenue Funds | | | | | | Scholar- ships | Activ- ities | Total |
| | Capital Projects LOSST | Manage- ment Account | Student Account | PPEL Fund | Expend- able Trust Fund | | | | |
| Fund Balance - Beginning of Year, as previously reported | \$ (45,380) | \$216,129 | \$197,295 | \$380,965 | \$ 4,006 | \$753,015 | \$232,049 | \$ — | \$232,049 |
| Reclassify non- expendable trust to private purpose trust..... | — | — | — | — | (4,006) | (4,006) | — | 4,006 | 4,006 |
| Fund Balance - Beginning of Year, as Reclassified..... | \$ (45,380) | \$216,129 | \$197,295 | \$380,965 | \$ — | \$749,009 | \$232,049 | \$ 4,006 | \$236,055 |

Reclassification of beginning District-wide fund balance:

| | Governmental Activities | Business- Type Activities | Total |
|--|----------------------------|---------------------------------|---------------------|
| Net assets - Beginning of Year, as previously reported | \$ 6,793,225 | \$ 150,391 | \$ 6,943,616 |
| Reclassify nonexpendable trust to private purpose trust... | (4,006) | — | (4,006) |
| Net Assets - Beginning of Year, as Reclassified | \$ 6,789,219 | \$ 150,391 | \$ 6,939,610 |

Required Supplementary Information

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

Year Ended June 30, 2007

| | Governmental Fund Types - Actual | Proprietary Fund - Actual | Total | Budgeted Amounts | | Final to Actual Variance |
|---|--|---------------------------------|----------------------------|----------------------------|----------------------------|--------------------------------|
| | | | | Original | Final | |
| Receipts | | | | | | |
| Local sources | \$ 6,991,903 | \$ 400,355 | \$ 7,392,258 | \$ 7,220,861 | \$ 7,220,861 | \$ 171,397 |
| State sources | 8,227,947 | 9,764 | 8,237,711 | 8,180,894 | 8,180,894 | 56,817 |
| Federal sources | 635,238 | 362,344 | 997,582 | 1,000,000 | 1,000,000 | (2,418) |
| Total Receipts | <u>15,855,088</u> | <u>772,463</u> | <u>16,627,551</u> | <u>16,401,755</u> | <u>16,401,755</u> | <u>225,796</u> |
| Disbursements | | | | | | |
| Instruction | 9,658,440 | — | 9,658,440 | 9,990,000 | 10,050,000 | 391,560 |
| Support services | 4,345,058 | — | 4,345,058 | 4,326,900 | 4,400,000 | 54,942 |
| Noninstructional programs | 9,210 | 805,106 | 814,316 | 865,000 | 900,000 | 85,684 |
| Other expenditures | 1,854,734 | — | 1,854,734 | 2,673,412 | 2,800,000 | 945,266 |
| Total Disbursements | <u>15,867,442</u> | <u>805,106</u> | <u>16,672,548</u> | <u>17,855,312</u> | <u>18,150,000</u> | <u>1,477,452</u> |
| Receipts Under Disbursements | (12,354) | (32,643) | (44,997) | (1,453,557) | (1,748,245) | (1,703,248) |
| Other Financing Sources, Net | <u>4,307</u> | <u>—</u> | <u>4,307</u> | <u>20,500</u> | <u>20,500</u> | <u>16,193</u> |
| Receipts and Other Financing Sources Under Disbursements | (8,047) | (32,643) | (40,690) | (1,433,057) | (1,727,745) | <u>\$(1,687,055)</u> |
| Balance - Beginning of Year | <u>2,558,383</u> | <u>150,391</u> | <u>2,708,774</u> | <u>3,254,965</u> | <u>3,254,965</u> | |
| Balance - End of Year | <u>\$ 2,550,336</u> | <u>\$ 117,748</u> | <u>\$ 2,668,084</u> | <u>\$ 1,821,908</u> | <u>\$ 1,527,220</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.

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 a GAAP basis.

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 \$294,688.

Other Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2007

| | Capital Projects LOSST | Special Revenue Funds | | | Total Nonmajor Govern- mental Funds |
|---|------------------------------|----------------------------|--------------------------|--------------------------|---|
| | | Manage- ment Account | Student Account | PPEL Fund | |
| Assets | | | | | |
| Cash and cash equivalents | \$ 23,015 | \$ 182,225 | \$ 233,225 | \$ 173,148 | \$ 611,613 |
| Receivables | | | | | |
| Property Taxes, Net | | | | | |
| Current year delinquent | — | 3,012 | — | 7,431 | 10,443 |
| Succeeding year | — | 379,999 | — | 398,412 | 778,411 |
| Other | — | — | 265 | — | 265 |
| Due from other govern- ments | <u>219,703</u> | <u>2</u> | <u>—</u> | <u>32,927</u> | <u>252,632</u> |
| Total Assets | <u>\$ 242,718</u> | <u>\$ 565,238</u> | <u>\$ 233,490</u> | <u>\$ 611,918</u> | <u>\$ 1,653,364</u> |
| Liabilities and Equities | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 40,853 | \$ 120 | \$ 10,840 | \$ 13,268 | \$ 65,081 |
| Salaries and benefits payable | — | — | 194 | — | 194 |
| Due to other governments .. | — | — | 663 | — | 663 |
| Deferred Revenue | | | | | |
| Succeeding year property taxes | — | 379,999 | — | 398,412 | 778,411 |
| Other | — | — | — | 32,922 | 32,922 |
| Total Liabilities | <u>40,853</u> | <u>380,119</u> | <u>11,697</u> | <u>444,602</u> | <u>877,271</u> |
| Equities | | | | | |
| Unreserved, undesignated fund balance | <u>201,865</u> | <u>185,119</u> | <u>221,793</u> | <u>167,316</u> | <u>776,093</u> |
| Total Liabilities and Equities | <u>\$ 242,718</u> | <u>\$ 565,238</u> | <u>\$ 233,490</u> | <u>\$ 611,918</u> | <u>\$ 1,653,364</u> |

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

Year Ended June 30, 2007

| | Capital Projects LOSST | Special Revenue Funds | | | | Debt Service | Total Nonmajor Govern- mental Funds |
|--|------------------------------|----------------------------|--------------------|-------------------|------------------|-------------------|---|
| | | Manage- ment Account | Student Account | PPEL Fund | | | |
| Revenue | | | | | | | |
| Local Sources | | | | | | | |
| Local Taxes | | | | | | | |
| Property taxes..... | \$ — | \$ 174,842 | \$ — | \$ 522,723 | \$ — | \$ 697,565 | |
| Other | 948,866 | 26,974 | 343,381 | 24,698 | — | 1,343,919 | |
| State sources..... | — | 186 | — | 374 | — | 560 | |
| Total Revenue | 948,866 | 202,002 | 343,381 | 547,795 | — | 2,042,044 | |
| Expenditures | | | | | | | |
| Instruction | | | | | | | |
| Regular instruction | — | 98,531 | — | — | — | 98,531 | |
| Other instruction | — | — | 318,883 | — | — | 318,883 | |
| Total Instruction..... | — | 98,531 | 318,883 | — | — | 417,414 | |
| Support Services | | | | | | | |
| Student services..... | — | 1,626 | — | — | — | 1,626 | |
| Instructional staff services | — | 3,165 | — | 84,636 | — | 87,801 | |
| Administration services .. | — | 12,920 | — | 400 | — | 13,320 | |
| Operation and mainten- ance of plant services ... | — | 87,925 | — | 3,166 | — | 91,091 | |
| Transportation services .. | — | 19,635 | — | 65,157 | — | 84,792 | |
| Total Support Services | — | 125,271 | — | 153,359 | — | 278,630 | |
| Noninstructional Programs | — | 9,210 | — | — | — | 9,210 | |
| Other Expenditures | | | | | | | |
| Facilities acquisition and construction..... | 701,621 | — | — | 344,142 | — | 1,045,763 | |
| Long-Term Debt | | | | | | | |
| Principal | — | — | — | — | 215,000 | 215,000 | |
| Interest and fiscal charges | — | — | — | — | 50,143 | 50,143 | |
| Total Other Expenditures | 701,621 | — | — | 344,142 | 265,143 | 1,310,906 | |
| Total Expenditures | 701,621 | 233,012 | 318,883 | 497,501 | 265,143 | 2,016,160 | |
| Revenue Over (Under) | | | | | | | |
| Expenditures..... | 247,245 | (31,010) | 24,498 | 50,294 | (265,143) | 25,884 | |
| Other Financing Sources (Uses) | | | | | | | |
| Operating transfers in | — | — | — | — | 265,143 | 265,143 | |
| Operating transfers out | — | — | — | (265,143) | — | (265,143) | |
| Sale of assets..... | — | — | — | 1,200 | — | 1,200 | |
| Total Other Financing Sources (Uses) | — | — | — | (263,943) | 265,143 | 1,200 | |
| Net Change in Fund | | | | | | | |
| Balance..... | 247,245 | (31,010) | 24,498 | (213,649) | — | 27,084 | |
| Fund Balance - Beginning of Year, as Reclassified (Note 14)..... | (45,380) | 216,129 | 197,295 | 380,965 | — | 749,009 | |
| Fund Balance - End of Year | \$ 201,865 | \$ 185,119 | \$ 221,793 | \$ 167,316 | \$ — | \$ 776,093 | |

Combining Statement of Fiduciary Net Assets - Private Purpose Trust Funds

Year Ended June 30, 2007

| | Private Purpose Trust - Scholarships | Private Purpose Trust - Activities | Total |
|---|---|---|------------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 16,141 | \$ 4,006 | \$ 20,147 |
| Investments | 226,364 | — | 226,364 |
| Accrued interest receivable | <u>1,830</u> | <u>—</u> | <u>1,830</u> |
| Total Assets | <u>\$ 244,335</u> | <u>\$ 4,006</u> | <u>\$ 248,341</u> |
| Liabilities and Net Assets | | | |
| Liabilities | \$ — | \$ — | \$ — |
| Net Assets | | | |
| Reserved for scholarships | 244,335 | — | 244,335 |
| Reserved for activities | <u>—</u> | <u>4,006</u> | <u>4,006</u> |
| Total Net Assets | <u>244,335</u> | <u>4,006</u> | <u>248,341</u> |
| Total Liabilities and Net Assets | <u>\$ 244,335</u> | <u>\$ 4,006</u> | <u>\$ 248,341</u> |

Combining Statement of Changes in Fiduciary Net Assets - Private Purpose Trust Funds

At June 30, 2007

| | Private Purpose Trust - Scholarships | Private Purpose Trust - Activities | Total |
|--|---|---|--------------------------|
| Additions | | | |
| Local Sources | | | |
| Interest..... | \$ 10,869 | \$ — | \$ 10,869 |
| Contributions..... | <u>12,184</u> | <u>—</u> | <u>12,184</u> |
| Total Local Sources | <u>23,053</u> | <u>—</u> | <u>23,053</u> |
| Deductions | | | |
| Support Services | | | |
| Scholarships awarded..... | <u>10,767</u> | <u>—</u> | <u>10,767</u> |
| Change in Net Assets..... | 12,286 | — | 12,286 |
| Net Assets - Beginning of Year, as reclassified (Note 14) | <u>232,049</u> | <u>4,006</u> | <u>236,055</u> |
| Net Assets - End of Year | <u>\$ 244,335</u> | <u>\$ 4,006</u> | <u>\$ 248,341</u> |

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2007

| | Balance - Beginning of Year | Revenue and Transfers | Expenditures and Transfers | Balance - End of Year |
|-------------------------------------|-----------------------------------|-----------------------------|----------------------------------|--------------------------|
| Comet Drama | \$ 4,465 | \$ 8,945 | \$ 10,425 | \$ 2,985 |
| Speech Club | 299 | — | 259 | 40 |
| HS Musical Sales | 4,373 | 234 | 2,341 | 2,266 |
| Comet Connection..... | 3,247 | 187 | 3,434 | — |
| Concert Chorale | 5,717 | 15,369 | 21,086 | — |
| Choir Robes..... | 2,196 | 106 | 596 | 1,706 |
| 9th Grade Vocal Music..... | 2,967 | 171 | 3,138 | — |
| General Vocal Activity | 4,871 | 10,641 | 883 | 14,629 |
| Middle School Musical..... | 9,800 | 1,249 | 464 | 10,585 |
| Marching Band | 1,465 | 6,701 | 4,323 | 3,843 |
| Jazz Band..... | 7,223 | 2,655 | 3,027 | 6,851 |
| Music Uniform..... | 5,828 | 336 | — | 6,164 |
| High School Orchestra | 137 | — | 76 | 61 |
| Middle School Band/Orchestra..... | 7,276 | 10,357 | 15,437 | 2,196 |
| Sportsman's Park | 3,619 | 16,560 | 14,597 | 5,582 |
| Athletic Fund..... | 32,859 | 90,157 | 83,332 | 39,684 |
| Girls Cross Country | 430 | 1,016 | 977 | 469 |
| Boys Cross Country..... | 561 | 911 | 1,372 | 100 |
| Booster Club..... | 31,479 | 55,342 | 48,106 | 38,715 |
| Boys Basketball..... | 622 | 2,026 | 1,761 | 887 |
| Football Club | 2,311 | 14,855 | 9,126 | 8,040 |
| Baseball Club | 3,651 | 2,006 | 1,052 | 4,605 |
| Girls Basketball..... | 2,584 | 1,406 | 105 | 3,885 |
| Volleyball Fund..... | 517 | 161 | 528 | 150 |
| Girls Swimming Club | 15 | 907 | 452 | 470 |
| Annual | 9,048 | 17,792 | 21,328 | 5,512 |
| Art Club..... | 150 | — | 150 | — |
| High School Cheerleaders..... | 700 | 7,218 | 6,769 | 1,149 |
| Journalism/Spirit..... | — | 388 | 388 | — |
| Alternative High School Annual..... | 148 | 347 | 487 | 8 |
| FFA..... | (2,115) | 30,402 | 28,212 | 75 |
| German Club | 5,980 | 7,068 | 4,921 | 8,127 |
| MU Alpha Theta..... | 98 | 106 | 204 | — |

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2007

| | Balance - Beginning of Year | Revenue and and Transfers | Expenditures and Transfers | Balance - End of Year |
|--|-----------------------------------|------------------------------|-------------------------------|--------------------------|
| National Honor Society..... | \$ 10 | \$ 52 | \$ 62 | \$ — |
| Spanish Club | 256 | — | 256 | — |
| School Improvement Assistance Team..... | 2,143 | 2,904 | 2,848 | 2,199 |
| Post Prom..... | 5 | — | 5 | — |
| SADD..... | 52 | — | 52 | — |
| Cap and Gown Fund | 2,548 | 2,828 | 2,901 | 2,475 |
| Class of 2007..... | 1,237 | 925 | 2,020 | 142 |
| Class of 2008..... | — | 4,113 | 3,379 | 734 |
| Class of 2009..... | 45 | 140 | — | 185 |
| Class of 2010..... | — | 100 | — | 100 |
| Industrial Technology | 937 | 170 | 483 | 624 |
| FCS Club..... | 691 | 150 | 249 | 592 |
| High School Activity/Interest..... | 6,498 | 3,773 | 3,611 | 6,660 |
| Biology Class..... | 187 | 80 | 267 | — |
| FCCLA..... | — | 2,713 | 2,352 | 361 |
| Middle School Newspaper..... | 4,074 | 2,545 | 1,921 | 4,698 |
| Middle School Student Council..... | 2,204 | 7,304 | 6,485 | 3,023 |
| Middle School Activity/Interest..... | 4,349 | 11,257 | 10,859 | 4,747 |
| Middle School Band Uniform Cleaning Fund..... | 6,442 | 372 | — | 6,814 |
| Middle School Parent Organization | — | 340 | 64 | 276 |
| Lincoln School Activity..... | 681 | 3,347 | 2,701 | 1,327 |
| Washington School Activity | 7,443 | 5,073 | 4,902 | 7,614 |
| Pool Support Fund..... | 1,881 | 2,490 | — | 4,371 |
| High School Wrestling | 100 | — | — | 100 |
| Marching Band - Student Fees..... | 2,991 | 3,221 | 245 | 5,967 |
| Boys Track..... | — | 225 | 225 | — |
| | <u>\$ 197,295</u> | <u>\$ 359,741</u> | <u>\$ 335,243</u> | <u>\$ 221,793</u> |

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

Year Ended June 30, 2007

| | Balance - Beginning of Year | Additions | Deductions | Balance - End of Year |
|-----------------------|-----------------------------------|-----------------|-----------------|-----------------------------|
| Cash..... | <u>\$ 718</u> | <u>\$ 9,267</u> | <u>\$ 9,006</u> | <u>\$ 979</u> |
| Accounts Payable..... | <u>\$ 718</u> | <u>\$ 9,267</u> | <u>\$ 9,006</u> | <u>\$ 979</u> |

Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types

Years Ended June 30, 2007, 2006, 2005 and 2004

| | 2007 | 2006 | 2005 | 2004 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Revenue | | | | |
| Local Sources | | | | |
| Property taxes | \$ 4,912,590 | \$ 4,571,538 | \$ 4,619,362 | \$ 4,698,236 |
| Tuition | 396,504 | 460,364 | 459,662 | 371,529 |
| Other | 1,682,809 | 1,534,559 | 1,522,336 | 1,152,315 |
| State sources..... | 8,227,947 | 7,534,562 | 7,440,199 | 7,378,708 |
| Federal sources..... | <u>635,238</u> | <u>616,115</u> | <u>747,219</u> | <u>888,327</u> |
| Total | <u>\$ 15,855,088</u> | <u>\$ 14,717,138</u> | <u>\$ 14,788,778</u> | <u>\$ 14,489,115</u> |
| Expenditures | | | | |
| Instruction | | | | |
| Regular instruction | \$ 5,568,168 | \$ 4,980,929 | \$ 4,922,245 | \$ 5,424,786 |
| Special instruction..... | 2,416,275 | 2,188,725 | 2,225,711 | 2,442,470 |
| Other instruction..... | 1,673,997 | 1,721,394 | 1,609,656 | 900,243 |
| Support Services | | | | |
| Student services | 455,475 | 383,759 | 388,134 | 396,687 |
| Instructional staff services..... | 645,251 | 527,392 | 504,465 | 541,940 |
| Administration services | 1,579,486 | 1,350,392 | 1,351,384 | 1,315,514 |
| Operation and maintenance | | | | |
| of plant services | 1,206,095 | 1,181,525 | 1,241,632 | 1,597,972 |
| Transportation services..... | 458,751 | 435,304 | 450,365 | 282,541 |
| Noninstructional programs..... | 9,210 | 10,392 | 6,257 | 6,436 |
| Other Expenditures | | | | |
| Facilities acquisition and construction | 1,045,763 | 1,547,041 | 399,303 | 559,612 |
| Long-Term Debt | | | | |
| Principal..... | 215,000 | 205,000 | 210,157 | 204,111 |
| Interest and other charges | 50,143 | 61,828 | 73,381 | 84,514 |
| AEA flowthrough..... | <u>543,828</u> | <u>503,072</u> | <u>501,216</u> | <u>510,672</u> |
| Total | <u>\$ 15,867,442</u> | <u>\$ 15,096,753</u> | <u>\$ 13,883,906</u> | <u>\$ 14,267,498</u> |

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

| 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 2007 | <u>\$ 51,077</u> |
| Child Nutrition Cluster | | | |
| School Breakfast Program | 10.553 | FY 2007 | 48,056 |
| National School Lunch Program..... | 10.555 | FY 2007 | 259,174 |
| Summer Food Service Program for Children | 10.559 | FY 2007 | 4,037 |
| Total Cash Expenditures..... | | | <u>311,267</u> |
| Total U.S. Department of Agriculture | | | <u>362,344</u> |
| U.S. Department of Justice | | | |
| Pass-Through From Iowa Department of Education | | | |
| Juvenile Justice and Delinquency | | | |
| Prevention Allocation to States | 16.540 | FY 2007 | <u>51,206</u> |
| U.S. Department of Education | | | |
| Pass-Through From Iowa Department of Education | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 1116-6 | 254,566 |
| Title I Grants to Local Educational Agencies | 84.010 | 1116-6C | 10,918 |
| | | | <u>265,484</u> |
| Safe and Drug-Free Schools and Communities - | | | |
| State Grants | 84.186 | FY 2007 | <u>7,356</u> |
| Tech-Prep Education | 84.243 | FY 2007 | <u>14,800</u> |
| State Grants for Innovative Programs..... | 84.298 | FY 2007 | <u>2,997</u> |
| Improving Teacher Quality State Grants..... | 84.367 | FY 2007 | <u>103,558</u> |
| Grants for State Assessments and Related Activities | 84.369 | FY 2007 | <u>11,312</u> |
| Total Pass-Through Iowa Department of Education | | | <u>405,507</u> |
| Pass-Through From AEA 267 | | | |
| Special Education Grants to States | 84.027 | FY 2007 | <u>93,058</u> |
| Total U.S. Department of Education | | | <u>498,565</u> |
| U.S. Department of Health and Human Services | | | |
| Drug-Free Communities Support Program Grants | 93.276 | FY 2007 | <u>75,928</u> |
| Department of Homeland Security | | | |
| Pass-Through from Iowa Homeland Security and | | | |
| Emergency Management Division | | | |
| Disaster Grants - Public Assistance | | | |
| (Presidentially Declared Disasters)..... | 97.036 | FY 2007 | <u>3,775</u> |
| Total | | | <u>\$ 991,818</u> |

Basis of Presentation

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

Subrecipients

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

Independent Auditor's Report on 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, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 26, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Charles City Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charles City Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Charles City Community School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the Charles City Community School District's financial statements that is more than inconsequential will not be prevented or detected by the Charles City Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Charles City Community School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item 07-II-IC-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*.

Comments involving statutory and other legal matters about the Charles City Community School District's operations for the year ended June 30, 2007 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.

The Charles City Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit the Charles City Community School District's responses and, accordingly, we express no opinion on them.

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
November 26, 2007

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, 2007. 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, 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purposed described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency and a material weakness.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in Part III of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, and identified as item 07-III-IC-1 to be a material weakness.

The Charles City Community School District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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
November 26, 2007

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

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

Significant deficiency 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

Significant deficiency identified not considered to be material weakness?

yes none reported

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

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?

yes no

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

10.553

Clustered Programs

School Breakfast Program

10.555

National School Lunch Program

10.559

Summer Food Service Program for Children

84.010

Title I - Grants to Local Education Agencies

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

\$300,000

Auditee qualified as low-risk auditee?

yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

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

Instances of Noncompliance:

There were no current year instances of noncompliance noted.

Significant Deficiencies:

Prior year significant deficiencies have not been resolved and have been repeated below as items 07-II-IC-1 and 07-II-IC-2.

07-II-IC-1 Segregation of Duties

Prior Year 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.

07-II-IC-2 Fund-Raising Policy

Prior Year 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 have a draft policy and will continue to work towards establishing such a policy.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Noncompliance:

There were no current year instances of noncompliance noted.

Significant Deficiencies:

The prior year significant deficiency has not been resolved and has been repeated below as item 07-III-IC-1:

All Programs Displayed on the Schedule of Expenditures of Federal Awards

07-III-IC-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 07-II-IC-1 for additional information.

Part IV: Other Findings Related to Statutory Reporting:

- 07-IV-A Certified Budget** - Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.
- 07-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.
- 07-IV-C Travel Expense** - No expenditures of District money for travel expenses of spouses of District officials or employees were noted.
- 07-IV-D Business Transactions** - No business transactions between the District and District officials or employees were noted.
- 07-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.
- 07-IV-F Board Minutes** - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 07-IV-G Certified Enrollment** - No variances in the basic enrollment data certified to the Department of Education were noted.
- 07-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.
- 07-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.