

**CHARLES CITY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

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Introductory Section

Board of Education and School District Officials

At June 30, 2008

Name	Title	Term Expires
Board of Education		
(Before September, 2007 Election)		
Ralph Smith	President	2008
Matt Spading	Vice President	2008
Bill Fenholt	Member	2009
Randy Heitz	Member	2009
Sam Offerman	Member	2007
(After September, 2007 Election)		
Ralph Smith	President	2008
Matt Spading	Vice President	2008
Bill Fenholt	Member	2009
Randy Heitz	Member	2009
Mark G. Miller	Member	2009
Officials		
David Bradley	Superintendent (resigned 6/30/08)	2008
Terri O'Brien	District Secretary and Treasurer/Business Manager	2008
Brian Gruhn	Attorney	2008

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, 2008, 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, 2008, 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 December 31, 2008 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 35 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, 2007 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on Pages 36 through 44, 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
December 31, 2008

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, 2008. 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 \$13,813,044 in fiscal 2007 to \$14,321,857 in fiscal 2008, while General Fund expenditures increased from \$13,851,282 in fiscal 2007 to \$14,386,259 in fiscal 2008. This resulted in a decrease in the District's General Fund balance from \$1,774,243 in fiscal 2007 to \$1,709,598 in fiscal 2008, a 3.8% decrease from the prior year.
- The General Fund revenue increased 3.7%. Local revenue decreased by 2.6% but state and federal revenue increased by 7.7% and 0.5%, respectively. The local property tax revenue decreased because of lower tuition in and interest revenues. State revenue increased because the revenue generated per student increased 4%, funding for increased teacher pay increased, and a one-year award.
- General Fund expenditures increased by 3.9%. Overall salaries and benefits increased 6.5% or approximately \$714,000. Besides an average 4.9% salary and benefit increase, the additional revenue received to improve teacher salaries was expended. Purchased services increased 9.6% or approximately \$40,000. Supplies and equipment expenditures decreased by 12.4% or approximately \$224,000. The prior year supplies and equipment expenditures were greater than normal due to a one-time additional expense allocation. The 2007-08 supplies and equipment expenditure are 3.5% higher than 2005-06 expenditures.
- The certified enrollment decreased an average of 30.1 students per year over the last 10 years. 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. The Board does not levy for 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.

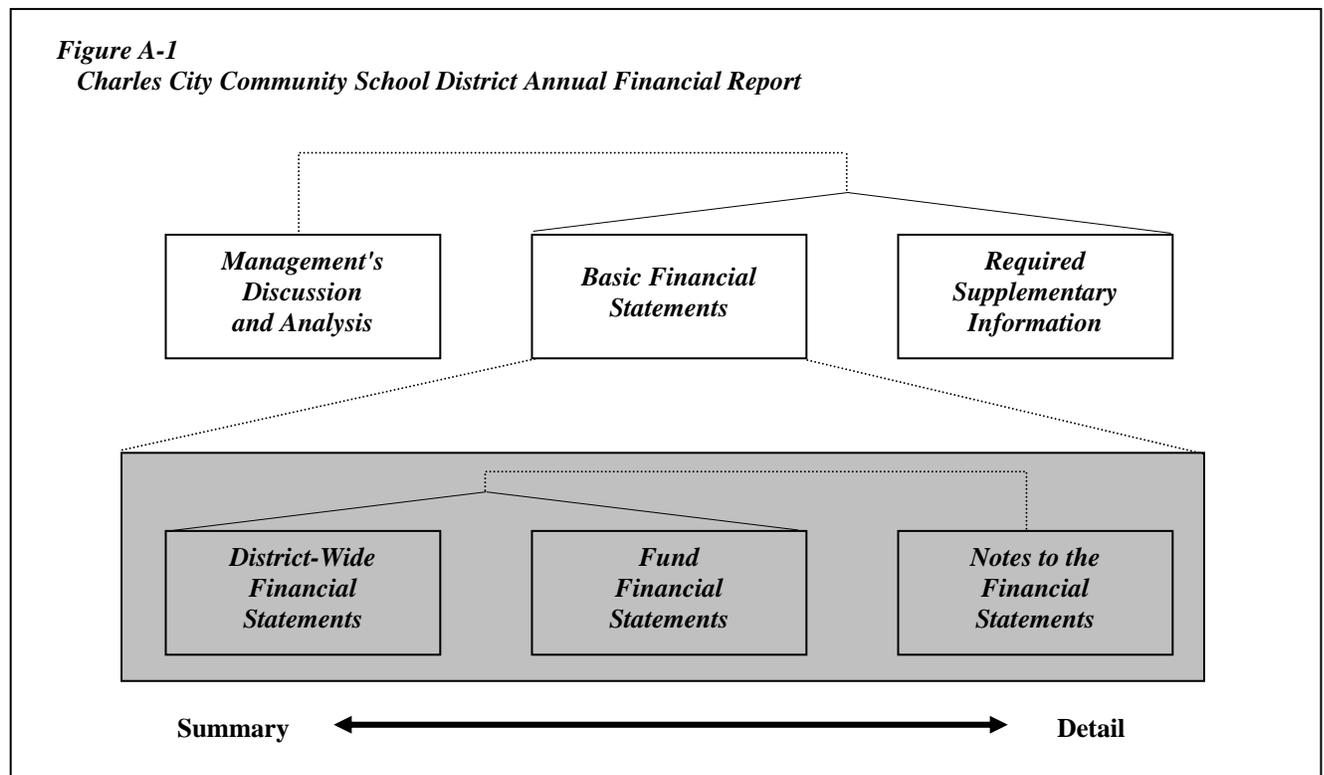


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents 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, 2008 compared to 2007.

FIGURE A-3 CONDENSED STATEMENT OF NET ASSETS							
	Governmental Activities		Business-Type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 9,830,191	\$ 9,913,975	\$ 112,916	\$ 136,314	\$ 9,943,107	\$ 10,050,289	(1.1%)
Capital assets	5,224,721	5,245,848	43,961	34,520	5,268,682	5,280,368	(0.2%)
Total assets	15,054,912	15,159,823	156,877	170,834	15,211,789	15,330,657	(0.8%)
Long-term obligations	263,760	530,160	—	—	263,760	530,160	(50.2%)
Other liabilities	6,487,182	7,147,949	58,751	53,086	6,545,933	7,201,035	(9.1%)
Total liabilities	6,750,942	7,678,109	58,751	53,086	6,809,693	7,731,195	(11.9%)
Net assets:							
Invested in capital assets, net of related debt	4,734,721	4,530,848	43,961	34,520	4,778,682	4,565,368	4.7%
Restricted	1,351,349	885,610	—	—	1,351,349	885,610	52.6%
Unrestricted	2,217,900	2,065,256	54,165	83,228	2,272,065	2,148,484	5.8%
Total net assets	\$ 8,303,970	\$ 7,481,714	\$ 98,126	\$ 117,748	\$ 8,402,096	\$ 7,599,462	10.6%

The District's combined net assets were 10.6% greater at June 30, 2008 than June 30, 2007. The increase occurred in the restricted net assets as a result of approximately \$346,000 increase in the PPEL and LOSST fund balances. These funds are restricted use for major costs related to real property and equipment.

Investments in capital assets, net of related debt, increased 4.7% or approximately \$213,000.

Unrestricted net assets increased 5.8% or approximately \$124,000. The Internal Services Funds unrestricted fund balance increased by 23.4% or approximately \$153,000. These funds are available to pay self-insured health claims and the flex plan benefit claims.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2008.

FIGURE A-4
CHANGES IN NET ASSETS

	Governmental Activities	Business-Type Activities	Total School District
	2008	2008	2008
REVENUE:			
Program revenue:			
Charges for services and sales	\$ 732,091	\$ 372,635	\$ 1,104,726
Operating grants and contributions	2,488,320	405,284	2,893,604
Capital grants and contributions	—	18,679	18,679
General revenue:			
Property tax	4,490,444	—	4,490,444
Local option	937,321	—	937,321
Income surtax	640,997	—	640,997
Unrestricted federal and state grants	7,066,444	—	7,066,444
Unrestricted investment earnings	147,278	2,861	150,139
Miscellaneous	186,132	—	186,132
TOTAL REVENUE	16,689,027	799,459	17,488,486
PROGRAM EXPENSES:			
Governmental activities:			
Instruction	9,915,620	—	9,915,620
Support Services	5,351,445	—	5,351,445
Non-instructional programs	23,876	819,281	843,157
Other expenses	577,604	—	577,604
TOTAL EXPENSES	15,868,545	819,281	16,687,826
Other Financing Sources:			
Gain on sale of assets	1,774	200	1,974
CHANGE IN NET ASSETS	\$ 822,256	(\$ 19,622)	\$ 802,634

Property tax, local option sales tax, income surtax and unrestricted federal and state grants account for 75.1% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91.5% of the total expenses.

Governmental Activities

Revenue for governmental activities was \$16,689,027, expenses were \$15,868,545 and other financing sources were \$1,774, which amounted to an increase in net assets of \$822,256.

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	\$ 9,915,620	\$ 7,324,977
Support services	5,351,445	5,299,281
Non-instructional programs	23,876	23,876
Other expenses	577,604	—
Totals	\$ 15,868,545	\$ 12,648,134

- The cost financed by users of the District’s programs was \$732,091.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,488,320.
- The net cost of governmental activities was financed with \$4,490,444 in property tax, \$937,321 in local option sales tax, \$640,997 in income surtaxes, \$7,066,444 in state foundation aid and \$147,278 in interest income.

Business-Type Activities

Revenue of the District’s business-type activities was \$799,659 and expenses were \$819,281. 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 did not change in 2007-08 but had 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 \$2,927,273, or \$376,937 above last year’s ending fund balances of \$2,550,336.

General Fund unreserved fund balances decreased by approximately \$89,000 and designated and reserved fund balances increased by approximately \$24,000. All other nonmajor funds increased their fund balance by \$441,582.

Governmental Fund Highlights

- The District’s General Fund balance decreased 3.6%. This is comprised of a decrease in unreserved fund balance by 9.4% and increase in reserved fund balance by 22.1%. The District designated additional funds for the future purchase of equipment and carried over additional state reserved funding. While the District’s General Fund undesignated fund balance decreased, the Board of Directors is committed to maintaining, or improving, its financial position.

- The 2008-09 school tax rate for Charles City is 12.6248 per thousand. This ranks 71st out of 362 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 2007-08 the District collected 2% income surtax as part of the voted PPEL and also collected 6% income surtax as part of the funding mix for the Instructional Support Levy.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$117,748 at June 30, 2007 to \$98,126 at June 30, 2008, representing a decrease of 16.7% or \$19,622. The fund received revenue of \$780,980, a capital contribution of \$18,679 and expended \$819,281 resulting in the decrease to the fund balance. Revenue increased slightly or by 1.1%. The price of meals did not change in 2007-08. Expenses increased by 1.8% or approximately \$14,000. Salary and benefits and supplies increased 2.5% and 3.6%, respectively. Purchased services decreased by 53.0% or approximately \$9,000 in equipment repair expenses.

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 \$655,056 at June 30, 2007 to \$808,183 at June 30, 2008, representing a 23.3% increase which takes into account incurred but unpaid claims. Premiums increased 5.0% in 2007-08.

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.

Legal Budgetary Highlights

The District's total actual receipts were approximately \$104,000 more than the total budgeted receipts, a variance of 0.6%. The most significant differences resulted in the District receiving more state dollars but less local dollars than originally anticipated.

The District did not amend its 2007-08 budget, which was adopted on April 9, 2007. The adopted budget is 4.9% greater than in 2006-07. The budget for all expenditure categories were increased with the exception of other expenditures. Total expenditures were less than the adopted 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, 2008, the District had invested approximately \$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 \$370,000. The District's practice is to capitalize assets over \$2,000 with the exception of School Nutrition equipment which capitalizes assets over \$300.

The original cost of the District's capital assets was \$13.9 million. Governmental funds account for \$13.3 million with the remainder of \$0.6 million in the Proprietary, School Nutrition Funds. The District purchased or constructed capital assets of approximately \$360,000. The District's equipment purchases included \$69,000 for vehicle purchases, \$11,000 for computer equipment, \$21,000 for musical instruments, \$19,000 for kitchen equipment and \$18,000 for grounds equipment. The District's vehicle purchases included a bus and suburban. The District also spent approximately \$195,000 completing the construction of the Washington Geothermal Project.

FIGURE A-6
CAPITAL ASSETS, NET OF DEPRECIATION

	Governmental Activities	Business-Type Activities	Total School District
	2008	2008	2008
Land	\$ 325,000	\$ —	\$ 325,000
Buildings	4,302,062	—	4,302,062
Furniture and equipment	597,659	43,961	641,620
Totals	\$ 5,224,721	\$ 43,961	\$ 5,268,682

Long-Term Debt

At June 30, 2008, the District had \$490,000 in long-term debt outstanding. This represents a decrease of 31.5% 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 \$490,000 as of June 30, 2008. This is the only remaining long-term debt payable at year-end.

FIGURE A-7
OUTSTANDING LONG-TERM OBLIGATIONS

	Total School District	Total Change
	2008	2007-08
Notes payable	\$ 490,000	\$ 225,000

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 20.5 students in October 2008. Certified enrollment has declined an average of 29.4 students per year over 12 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 two-year salary agreements with their two associations during fiscal 2008 for fiscal 2009 and 2010. The fiscal year 2009 average settlement was a 4.6% total package increase. The certified staff settlement for fiscal year 2010 was a 4.6% total package increase. The 2008-09 settlements were funded through new state funding and a reduction of carryover fund balances. The District plans to make the necessary budget reductions in fiscal year 2010 to compensate for the 2009 and 2010 settlement increases.
- The District significantly increased meal prices in 2008-09 due to a steadily declining fund balance and increasing food and labor costs. Secondary lunch prices were increased 29.0% from \$1.55 per meal to \$2.00 per meal in 2008-09.
- 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 seven years. In fiscal year 2009 the rate will be 6.35%, an increase from 6.05% in 2008. The increased cost will be approximately \$33,000. This increase in benefit costs will be factored into the calculation when negotiating with employee groups.
- The District is starting a process of assessing its current attendance centers to look at long-term usefulness and sustainability. 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.
- The District is actively working to sell 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.

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, 2008

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,882,123	\$ 85,423	\$ 4,967,546
Receivables			
Property Taxes, Net			
Current year delinquent.....	82,713	—	82,713
Succeeding year	4,396,343	—	4,396,343
Other	295	—	295
Due from other governments.....	468,717	—	468,717
Due from other funds.....	—	200	200
Inventories	—	27,293	27,293
Capital assets, net of accumulated depreciation	<u>5,224,721</u>	<u>43,961</u>	<u>5,268,682</u>
Total Assets	<u>\$ 15,054,912</u>	<u>\$ 156,877</u>	<u>\$ 15,211,789</u>
Liabilities			
Accounts payable	\$ 146,833	\$ 10,150	\$ 156,983
Salaries and benefits payable	1,230,231	48,601	1,278,832
Due to other governments	93,510	—	93,510
Due to other funds.....	200	—	200
Accrued interest payable.....	2,226	—	2,226
Deferred Revenue			
Succeeding year property taxes	4,396,343	—	4,396,343
Other	34,034	—	34,034
Provision for self-insurance claims	193,584	—	193,584
Long-Term Liabilities			
Portion Due Within One Year			
Notes payable	240,000	—	240,000
Early retirement benefit.....	77,860	—	77,860
Compensated absences	72,361	—	72,361
Portion Due After One Year			
Notes payable	250,000	—	250,000
Early retirement benefit.....	<u>13,760</u>	<u>—</u>	<u>13,760</u>
Total Liabilities	<u>6,750,942</u>	<u>58,751</u>	<u>6,809,693</u>
Net Assets			
Invested in capital assets, net of related debt .	4,734,721	43,961	4,778,682
Restricted For			
State class size reduction	68,856	—	68,856
Special bequests.....	9,541	—	9,541
At risk/drop out.....	16,945	—	16,945
Professional development.....	21,393	—	21,393
Marketing factor	16,939	—	16,939
PPEL.....	249,835	—	249,835
Student activities.....	232,342	—	232,342
Management.....	270,370	—	270,370
LOSST	465,128	—	465,128
Unrestricted	<u>2,217,900</u>	<u>54,165</u>	<u>2,272,065</u>
Total Net Assets	<u>8,303,970</u>	<u>98,126</u>	<u>8,402,096</u>
Total Liabilities and Net Assets	<u>\$ 15,054,912</u>	<u>\$ 156,877</u>	<u>\$ 15,211,789</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenue			Net (Expenses), Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instruction							
Regular instruction	\$ 5,591,641	\$ 301,509	\$ 1,243,751	\$ —	\$ (4,046,381)	\$ —	\$ (4,046,381)
Special instruction	2,430,858	116,669	255,640	—	(2,058,549)	—	(2,058,549)
Other instruction	1,893,121	306,277	366,797	—	(1,220,047)	—	(1,220,047)
Total Instruction	<u>9,915,620</u>	<u>724,455</u>	<u>1,866,188</u>	<u>—</u>	<u>(7,324,977)</u>	<u>—</u>	<u>(7,324,977)</u>
Support Services							
Student	493,054	—	—	—	(493,054)	—	(493,054)
Instructional staff	612,793	—	—	—	(612,793)	—	(612,793)
Administration	1,599,540	—	—	—	(1,599,540)	—	(1,599,540)
Long-term debt Interest	39,619	—	—	—	(39,619)	—	(39,619)
Operation and maintenance of plant	2,137,120	—	—	—	(2,137,120)	—	(2,137,120)
Transportation	469,319	7,636	44,528	—	(417,155)	—	(417,155)
Total Support Services	<u>5,351,445</u>	<u>7,636</u>	<u>44,528</u>	<u>—</u>	<u>(5,299,281)</u>	<u>—</u>	<u>(5,299,281)</u>
Noninstructional Programs	23,876	—	—	—	(23,876)	—	(23,876)
Other Expenditures							
AEA flow through	577,604	—	577,604	—	—	—	—
Total Governmental Activities	15,868,545	732,091	2,488,320	—	(12,648,134)	—	(12,648,134)
Business-Type Activities							
Noninstructional Programs							
Food service operations	819,281	372,635	405,284	18,679	—	(22,683)	(22,683)
Total	\$ 16,687,826	\$ 1,104,726	\$ 2,893,604	\$ 18,679	(12,648,134)	(22,683)	(12,670,817)
General Revenue							
Property Taxes Levied For							
General purposes					4,490,444	—	4,490,444
Local option sales and services tax					937,321	—	937,321
Income surtax					640,997	—	640,997
Unrestricted federal and state grants					7,066,444	—	7,066,444
Unrestricted investment earnings					147,278	2,861	150,139
Miscellaneous					186,132	—	186,132
Total General Revenue					13,468,616	2,861	13,471,477
Change in Net Assets Before Other Financing Sources					820,482	(19,822)	800,660
Other Financing Sources							
Gain on sale of assets					1,774	200	1,974
Change in Net Assets					822,256	(19,622)	802,634
Net Assets - Beginning of Year					7,481,714	117,748	7,599,462
Net Assets - End of Year					\$ 8,303,970	\$ 98,126	\$ 8,402,096

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2008

	General	All Other Nonmajor	Total
Assets			
Cash and cash equivalents	\$ 2,736,241	\$ 1,136,499	\$ 3,872,740
Receivables			
Property Taxes, Net			
Current year delinquent.....	68,991	13,722	82,713
Succeeding year	3,843,810	552,533	4,396,343
Other	295	—	295
Due from other governments	<u>299,486</u>	<u>169,231</u>	<u>468,717</u>
Total Assets	<u>\$ 6,948,823</u>	<u>\$ 1,871,985</u>	<u>\$ 8,820,808</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 45,056	\$ 101,777	\$ 146,833
Salaries and benefits payable	1,222,615	—	1,222,615
Due to other governments	93,510	—	93,510
Due to other funds	200	—	200
Deferred Revenue			
Succeeding year property taxes	3,843,810	552,533	4,396,343
Other	<u>34,034</u>	<u>—</u>	<u>34,034</u>
Total Liabilities	<u>5,239,225</u>	<u>654,310</u>	<u>5,893,535</u>
Fund Balances			
Reserved For			
State class size reduction	68,856	—	68,856
Specific bequests.....	9,541	—	9,541
At risk/drop out.....	16,945	—	16,945
Professional development.....	21,393	—	21,393
Marketing factor	16,939	—	16,939
Unreserved			
Designated by Board for future equipment and supplies	129,940	—	129,940
Undesignated.....	<u>1,445,984</u>	<u>1,217,675</u>	<u>2,663,659</u>
Total Fund Balances	<u>1,709,598</u>	<u>1,217,675</u>	<u>2,927,273</u>
Total Liabilities and Fund Balances	<u>\$ 6,948,823</u>	<u>\$ 1,871,985</u>	<u>\$ 8,820,808</u>

See accompanying notes to the financial statements.

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

At June 30, 2008

Total Fund Balances for Governmental Funds (Page 16).....	\$ 2,927,273
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds	5,224,721
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	808,183
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	(91,620)
Compensated absences	(72,361)
Accrued interest payable.....	(2,226)
Notes payable	<u>(490,000)</u>
 Net Assets of Governmental Activities (Page 14)	 <u>\$ 8,303,970</u>

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

Year Ended June 30, 2008

	General	All Other Nonmajor	Total Governmental Funds
Revenue			
Local Sources			
Property taxes.....	\$ 4,215,157	\$ 916,285	\$ 5,131,442
Tuition	312,904	—	312,904
Other	291,121	1,394,346	1,685,467
State sources.....	8,864,494	739	8,865,233
Federal sources.....	638,181	55,800	693,981
Total Revenue.....	<u>14,321,857</u>	<u>2,367,170</u>	<u>16,689,027</u>
Expenditures			
Current			
Instruction			
Regular instruction	5,620,169	153,037	5,773,206
Special instruction.....	2,463,608	—	2,463,608
Other instruction.....	1,614,414	275,534	1,889,948
Total Instruction.....	<u>9,698,191</u>	<u>428,571</u>	<u>10,126,762</u>
Support Services			
Student services.....	491,372	1,682	493,054
Instructional staff services.....	519,298	100,543	619,841
Administration services	1,555,480	70,814	1,626,294
Interest and fiscal charges	—	40,537	40,537
Operation and maintenance of plant services	1,140,325	130,920	1,271,245
Transportation services.....	403,989	68,800	472,789
Total Support Services.....	<u>4,110,464</u>	<u>413,296</u>	<u>4,523,760</u>
Noninstructional Programs.....	—	28,421	28,421
Other Expenditures			
Facilities acquisition and construction.....	—	834,063	834,063
Long-Term Debt			
Principal	—	225,000	225,000
AEA flowthrough	577,604	—	577,604
Total Other Expenditures	<u>577,604</u>	<u>1,059,063</u>	<u>1,636,667</u>
Total Expenditures.....	<u>14,386,259</u>	<u>1,929,351</u>	<u>16,315,610</u>
Revenue Over (Under) Expenditures.....	<u>(64,402)</u>	<u>437,819</u>	<u>373,417</u>
Other Financing Sources (Uses)			
Operating transfers in.....	—	267,511	267,511
Operating transfers out.....	(3,763)	(263,748)	(267,511)
Sale of assets.....	3,520	—	3,520
Total Other Financing Sources (Uses)	<u>(243)</u>	<u>3,763</u>	<u>3,520</u>
Net Change in Fund Balances.....	<u>(64,645)</u>	<u>441,582</u>	<u>376,937</u>
Fund Balance - Beginning of Year.....	1,774,243	776,093	2,550,336
Fund Balance - End of Year.....	<u>\$ 1,709,598</u>	<u>\$ 1,217,675</u>	<u>\$ 2,927,273</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, 2008

Change in Fund Balances - Total Governmental Funds (Page 18) \$ 376,937

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.....	\$ 341,383	
Depreciation expense	(360,764)	
Net depreciated value of disposed assets	(1,746)	(21,127)

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		225,000
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due		918
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Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue of the internal service funds is reported with governmental activities		153,127
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement benefit.....	\$ 85,391	
Compensated absences	2,010	87,401

Change in Net Assets of Governmental Activities (Page 15) \$ 822,256

Balance Sheet - Proprietary Funds

At June 30, 2008

	Business-Type Activities - Enterprise Fund - School Nutrition	Governmental Activities - Internal Service Funds
Assets		
Cash and cash equivalents	\$ 85,423	\$ 1,009,383
Due from other funds.....	200	—
Inventories and prepaid items	27,293	—
Machinery and equipment	549,546	—
Less accumulated depreciation	<u>(505,585)</u>	<u>—</u>
Total Assets	<u>\$ 156,877</u>	<u>\$ 1,009,383</u>
Liabilities		
Accounts payable	\$ 10,150	193,583
Salaries and benefits payable	<u>48,601</u>	<u>7,617</u>
Total Liabilities	<u>58,751</u>	<u>201,200</u>
Net Assets		
Invested in capital assets, net of related debt	43,961	—
Unrestricted	<u>54,165</u>	<u>808,183</u>
Total Net Assets	<u>98,126</u>	<u>808,183</u>
Total Liabilities and Net Assets	<u>\$ 156,877</u>	<u>\$ 1,009,383</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2008

	Business-Type Activities - Enterprise Fund - School Nutrition	Governmental Activities - Internal Service Funds
Operating Revenue		
Local Sources		
Charges for service.....	\$ 372,635	\$ —
Self-insurance contributions	<u>—</u>	<u>1,878,171</u>
Total Operating Revenue	<u>372,635</u>	<u>1,878,171</u>
Operating Expenses		
Noninstructional Programs		
Food Service Operations		
Salaries and benefits.....	374,666	—
Purchased services.....	7,072	—
Supplies	403,770	—
Depreciation	8,744	—
Support Services		
Salaries and benefits.....	18,352	—
Purchased services.....	677	—
Supplies	6,000	—
Self-insurance claims and fees.....	<u>—</u>	<u>1,725,044</u>
Total Operating Expenses	<u>819,281</u>	<u>1,725,044</u>
Income (Loss) From Operations	<u>(446,646)</u>	<u>153,127</u>
Nonoperating Revenue		
State sources.....	9,709	—
Federal sources.....	395,575	—
Gain on sale of assets.....	200	—
Interest on investments	<u>2,861</u>	<u>—</u>
Total Nonoperating Revenue	<u>408,345</u>	<u>—</u>
Income (Loss) Before Capital Contributions	(38,301)	153,127
Capital contributions.....	<u>18,679</u>	<u>—</u>
Change in Net Assets	(19,622)	153,127
Net Assets - Beginning of Year	<u>117,748</u>	<u>655,056</u>
Net Assets - End of Year	<u>\$ 98,126</u>	<u>\$ 808,183</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2008

	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.....	\$ 372,635	\$ —
Cash received from assessments made to other funds	—	1,878,171
Cash payments to employees for services.....	(386,385)	—
Cash payments for insurance claims.....	—	(1,713,103)
Cash payments to suppliers for goods and services	<u>(365,062)</u>	<u>—</u>
Net Cash Provided by (Used in) Operating Activities	<u>(378,812)</u>	<u>165,068</u>
Cash Flows Provided by Noncapital Financing Activities		
State grants received.....	9,709	—
Federal grants received.....	343,915	—
Advance to other funds.....	<u>(200)</u>	<u>—</u>
Net Cash Provided by Noncapital Financing Activities	<u>353,424</u>	<u>—</u>
Cash Flows From Capital and Related Financing Activities		
Sale of capital assets.....	<u>694</u>	<u>—</u>
Cash Flows From Investment Activities		
Interest on investments	<u>2,861</u>	<u>—</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(21,833)	165,068
Cash and Cash Equivalents at Beginning of Year.....	<u>107,256</u>	<u>844,315</u>
Cash and Cash Equivalents at End of Year	<u>\$ 85,423</u>	<u>\$ 1,009,383</u>
Reconciliation of Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities		
Income (loss) from operations	\$ (446,646)	\$ 153,127
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided by (Used in) Operating Activities		
Commodities used.....	55,698	—
Depreciation.....	8,744	—
Changes in Assets and Liabilities		
Decrease in due from other government.....	—	3,213
Decrease in inventories and prepaid items	(2,273)	—
Decrease in accounts payable	(772)	—
Decrease in provision for self-insurance claims	—	8,728
Decrease in due to other governments	(196)	—
Increase in salaries and benefits payable	<u>6,633</u>	<u>—</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (378,812)</u>	<u>\$ 165,068</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2008, the District received \$55,698 of federal commodities.

The School Nutrition Fund received \$18,679 in contributed capital.

See accompanying notes to the financial statements.

Statement of Fiduciary Net Assets - Fiduciary Funds

At June 30, 2008

	Private Purpose Trust	Agency
Assets		
Cash and cash equivalents	\$ 26,322	\$ 2,412
Investments	225,147	—
Accrued interest receivable	<u>506</u>	<u>—</u>
Total Assets	<u>\$ 251,975</u>	<u>\$ 2,412</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 3,000	\$ 147
Other current liabilities.....	<u>—</u>	<u>2,265</u>
Total Liabilities	<u>3,000</u>	<u>2,412</u>
Net Assets		
Reserved for scholarships	244,969	—
Reserved for activities	<u>4,006</u>	<u>—</u>
Total Net Assets	<u>248,975</u>	<u>—</u>
Total Liabilities and Net Assets	<u>\$ 251,975</u>	<u>\$ 2,412</u>

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

Year Ended June 30, 2008

	Private Purpose Trust
Additions	
Local Sources	
Interest.....	\$ 12,256
Deductions	
Support Services	
Scholarships awarded.....	<u>11,622</u>
Change in Net Assets	634
Net Assets - Beginning of Year	<u>248,341</u>
Net Assets - End of Year	<u>\$ 248,975</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.

Jointly Governed Organization

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

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 from 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, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008; and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

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, 2008, total inventories included government commodities valued at \$19,606 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, 2008. 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, 2008, 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, 2008 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, 2008 was as follows:

Receivable Fund	Payable Fund	Amount
Nutrition	General Fund	\$200

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 was as follows:

Transfer To	Transfer From	Amount
Debt Service	PPEL	\$ 263,748
Student Activity	General	3,763
Total		<u>\$ 267,511</u>

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

Notes to the Financial Statements

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 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	<u>326,513</u>	<u>195,074</u>	<u>521,587</u>	<u>—</u>
Total Capital Assets Not Being Depreciated.....	<u>651,513</u>	<u>195,074</u>	<u>521,587</u>	<u>325,000</u>
Capital Assets Being Depreciated				
Buildings and improvements	10,401,779	521,587	—	10,923,366
Furniture and equipment	<u>2,009,402</u>	<u>146,309</u>	<u>93,457</u>	<u>2,062,254</u>
Total Capital Assets Being Depreciated.....	<u>12,411,181</u>	<u>667,896</u>	<u>93,457</u>	<u>12,985,620</u>
Less Accumulated Depreciation For				
Buildings and improvements	6,392,536	228,768	—	6,621,304
Furniture and equipment	<u>1,424,310</u>	<u>131,996</u>	<u>91,711</u>	<u>1,464,595</u>
Total Accumulated Depreciation	<u>7,816,846</u>	<u>360,764</u>	<u>91,711</u>	<u>8,085,899</u>
Net Total Capital Assets Being Depreciated.....	<u>4,594,335</u>	<u>307,132</u>	<u>1,746</u>	<u>4,899,721</u>
Net Governmental Activities				
Capital Assets	<u>\$ 5,245,848</u>	<u>\$ 502,206</u>	<u>\$ 523,333</u>	<u>\$ 5,224,721</u>
Business-Type Activities				
Furniture and equipment	\$ 541,325	\$ 18,679	\$ 10,458	\$ 549,546
Less accumulated depreciation	<u>506,805</u>	<u>8,744</u>	<u>9,964</u>	<u>505,585</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 34,520</u>	<u>\$ 9,935</u>	<u>\$ 494</u>	<u>\$ 43,961</u>

Depreciation expense was charged as follows:

Governmental Activities	
Instruction	
Regular	\$ 24,073
Other	13,359
Support Services	
Instructional staff services	4,458
Administrative services	6,137
Operation and maintenance of plant services	247,562
Transportation	65,175
Total Governmental Activities Depreciation Expense	<u>\$ 360,764</u>
Business-Type Activities	
Food Service	<u>\$ 8,744</u>

Notes to the Financial Statements

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Notes payable.....	\$ 715,000	\$ —	\$ 225,000	\$ 490,000	\$ 240,000
Compensated absences.....	74,371	72,361	74,371	72,361	72,361
Early retirement benefit	177,011	51,460	136,851	91,620	77,860
Total	<u>\$ 966,382</u>	<u>\$ 123,821</u>	<u>\$ 436,222</u>	<u>\$ 653,981</u>	<u>\$ 390,221</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
2009.....	\$ 240,000	\$ 26,710
2010.....	<u>250,000</u>	<u>13,750</u>
Total	<u>\$ 490,000</u>	<u>\$ 40,460</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 were required to contribute 3.7% of their annual covered salary and the District was required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007 and 2006. The plan member contribution rate increased to 3.9% and the District contribution rate increased to 6.05% on July 1, 2007. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$549,639, \$494,073 and \$460,229, respectively, equal to the required contributions for each year.

(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 \$577,604 for the year ended June 30, 2008, 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, 2008, two employees had requested early retirement and the District's obligation was \$51,460.

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, 2008, the District had obligations to 18 participants with a total liability of \$40,160. Annual early retirement benefits expenditures for the year ended June 30, 2008 totaled \$135,731.

Notes to the Financial Statements

(11) Commitments

The District has entered into various contracts totaling approximately \$84,800 for the High School's wiring project. At June 30, 2008, costs of approximately \$34,800 had been incurred against the contracts. The balance remaining at June 30, 2008 will be paid as work progresses on the projects.

The District has entered into a contract in the amount of approximately \$48,000 for carpeting at two school buildings. At June 30, 2008, 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 \$202,500 for the Middle School science lab renovation. At June 30, 2008, costs of approximately \$71,000 had been incurred against the contract. The balance remaining at June 30, 2008 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, 2008 was approximately \$1,768,000.

(13) Employee Health Care Plan

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

Claim costs are limited to \$50,000 per covered individual. Any amount in excess of \$50,000 is covered by a reinsurance policy. Additionally, the reinsurance policy covers claim costs in excess of 120% of the group's aggregated total claims exposure, which was approximately \$1,860,000 for the year ended June 30, 2008.

The District has included \$175,000 in its June 30, 2008 liabilities for the estimated costs of incurred but unsubmitted claims at that date, in addition to reinsurance premiums and actual claims accrued for a total of \$193,584.

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, 2008:

Estimated claims incurred but not reported - June 30, 2007	\$ 185,000
Claims incurred and reported and estimated costs incurred but not reported for the year ended June 30, 2008	1,347,635
Claims paid during the year ended June 30, 2008	<u>(1,357,635)</u>
Estimated Claims Incurred But Not Reported - June 30, 2008	<u>\$ 175,000</u>

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, 2008

	Governmental Fund Types - Actual	Proprietary Fund - Actual	Total	Budgeted Amounts Original and Final	Final to Actual Variance
Receipts					
Local sources	\$ 7,129,813	\$ 394,375	\$ 7,524,188	\$ 7,753,257	\$ (229,069)
State sources.....	8,865,233	9,709	8,874,942	8,581,390	293,552
Federal sources.....	693,981	395,575	1,089,556	1,050,000	39,556
Total Receipts	<u>16,689,027</u>	<u>799,659</u>	<u>17,488,686</u>	<u>17,384,647</u>	<u>104,039</u>
Disbursements					
Instruction.....	10,126,762	—	10,126,762	10,985,027	858,265
Support services.....	4,523,760	25,029	4,548,789	4,799,939	251,150
Noninstructional programs.....	28,421	794,252	822,673	993,131	170,458
Other expenditures....	1,636,667	—	1,636,667	2,267,924	631,257
Total Disbursements	<u>16,315,610</u>	<u>819,281</u>	<u>17,134,891</u>	<u>19,046,021</u>	<u>1,911,130</u>
Receipts Over (Under) Disbursements	373,417	(19,622)	353,795	(1,661,374)	(2,015,169)
Other Financing Sources, Net	<u>3,520</u>	<u>—</u>	<u>3,520</u>	<u>2,500</u>	<u>(1,020)</u>
Receipts and Other Financing Sources Over (Under) Disbursements	376,937	(19,622)	357,315	(1,658,874)	<u>\$ (2,016,189)</u>
Balance - Beginning of Year	<u>2,550,336</u>	<u>117,748</u>	<u>2,668,084</u>	<u>1,527,220</u>	
Balance - End of Year	<u>\$ 2,927,273</u>	<u>\$ 98,126</u>	<u>\$ 3,025,399</u>	<u>\$ 131,654</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.

Other Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2008

	Capital Projects LOSST	Special Revenue Funds			Total Nonmajor Govern- mental Funds
		Manage- ment Account	Student Account	PPEL Fund	
Assets					
Cash and cash equivalents	\$ 382,262	\$ 263,335	\$ 236,384	\$ 254,518	\$ 1,136,499
Receivables					
Property Taxes, Net					
Current year delinquent	—	7,025	—	6,697	13,722
Succeeding year	—	219,716	—	332,817	552,533
Due from other govern- ments	<u>169,212</u>	<u>10</u>	<u>—</u>	<u>9</u>	<u>169,231</u>
Total Assets	<u>\$ 551,474</u>	<u>\$ 490,086</u>	<u>\$ 236,384</u>	<u>\$ 594,041</u>	<u>\$ 1,871,985</u>
Liabilities and Equities					
Liabilities					
Accounts payable	\$ 86,346	\$ —	\$ 4,042	\$ 11,389	\$ 101,777
Deferred Revenue					
Succeeding year property taxes	<u>—</u>	<u>219,716</u>	<u>—</u>	<u>332,817</u>	<u>552,533</u>
Total Liabilities	<u>86,346</u>	<u>219,716</u>	<u>4,042</u>	<u>344,206</u>	<u>654,310</u>
Equities					
Unreserved, undesignated fund balance	<u>465,128</u>	<u>270,370</u>	<u>232,342</u>	<u>249,835</u>	<u>1,217,675</u>
Total Liabilities and Equities	<u>\$ 551,474</u>	<u>\$ 490,086</u>	<u>\$ 236,384</u>	<u>\$ 594,041</u>	<u>\$ 1,871,985</u>

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

Year Ended June 30, 2008

	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	\$ —	\$ 378,426	\$ —	\$ 537,859	\$ —	\$ 916,285	
Other.....	1,044,541	28,400	310,616	10,789	—	1,394,346	
State sources	—	378	—	361	—	739	
Federal sources	—	—	—	55,800	—	55,800	
Total Revenue	<u>1,044,541</u>	<u>407,204</u>	<u>310,616</u>	<u>604,809</u>	<u>—</u>	<u>2,367,170</u>	
Expenditures							
Instruction							
Regular instruction	—	153,037	—	—	—	153,037	
Other instruction	—	—	275,534	—	—	275,534	
Total Instruction.....	—	153,037	275,534	—	—	428,571	
Support Services							
Student services	—	1,682	—	—	—	1,682	
Instructional staff services	—	3,282	—	97,261	—	100,543	
Administration services ..	—	47,123	23,291	400	—	70,814	
Interest and fiscal charges	1,789	—	—	—	38,748	40,537	
Operation and mainten- ance of plant services ...	—	87,129	1,263	42,528	—	130,920	
Transportation services ..	—	19,958	3,742	45,100	—	68,800	
Total Support Services	1,789	159,174	28,296	185,289	38,748	413,296	
Noninstructional Programs	—	9,742	—	18,679	—	28,421	
Other Expenditures							
Facilities acquisition and construction.....	779,489	—	—	54,574	—	834,063	
Long-Term Debt							
Principal	—	—	—	—	225,000	225,000	
Total Other Expenditures	779,489	—	—	54,574	225,000	1,059,063	
Total Expenditures	<u>781,278</u>	<u>321,953</u>	<u>303,830</u>	<u>258,542</u>	<u>263,748</u>	<u>1,929,351</u>	
Revenue Over (Under) Expenditures.....	<u>263,263</u>	<u>85,251</u>	<u>6,786</u>	<u>346,267</u>	<u>(263,748)</u>	<u>437,819</u>	
Other Financing Sources (Uses)							
Operating transfers in	—	—	3,763	—	263,748	267,511	
Operating transfers out	—	—	—	(263,748)	—	(263,748)	
Total Other Financing Sources (Uses)	<u>—</u>	<u>—</u>	<u>3,763</u>	<u>(263,748)</u>	<u>263,748</u>	<u>3,763</u>	
Net Change in Fund							
Balance.....	263,263	85,251	10,549	82,519	—	441,582	
Fund Balance - Beginning of Year	201,865	185,119	221,793	167,316	—	776,093	
Fund Balance - End of Year	<u>\$ 465,128</u>	<u>\$ 270,370</u>	<u>\$ 232,342</u>	<u>\$ 249,835</u>	<u>\$ —</u>	<u>\$ 1,217,675</u>	

Combining Statement of Fiduciary Net Assets - Private Purpose Trust Funds

Year Ended June 30, 2008

	Private Purpose Trust - Scholarships	Private Purpose Trust - Activities	Total
Assets			
Cash and cash equivalents	\$ 22,316	\$ 4,006	\$ 26,322
Investments	225,147	—	225,147
Accrued interest receivable	<u>506</u>	<u>—</u>	<u>506</u>
Total Assets	<u>\$ 247,969</u>	<u>\$ 4,006</u>	<u>\$ 251,975</u>
 Liabilities and Net Assets			
Liabilities	<u>\$ 3,000</u>	<u>\$ —</u>	<u>\$ 3,000</u>
 Net Assets			
Reserved for scholarships	244,969	—	244,969
Reserved for activities	<u>—</u>	<u>4,006</u>	<u>4,006</u>
Total Net Assets	<u>244,969</u>	<u>4,006</u>	<u>248,975</u>
 Total Liabilities and Net Assets	 <u>\$ 247,969</u>	 <u>\$ 4,006</u>	 <u>\$ 251,975</u>

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

At June 30, 2008

	Private Purpose Trust - Scholarships	Private Purpose Trust - Activities	Total
Additions			
Local Sources			
Interest.....	\$ 12,256	\$ —	\$ 12,256
Deductions			
Support Services			
Scholarships awarded.....	<u>11,622</u>	<u>—</u>	<u>11,622</u>
Change in Net Assets	634	—	634
Net Assets - Beginning of Year	<u>244,335</u>	<u>4,006</u>	<u>248,341</u>
Net Assets - End of Year	<u>\$ 244,969</u>	<u>\$ 4,006</u>	<u>\$ 248,975</u>

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2008

	Balance - Beginning of Year	Revenue and Transfers	Expenditures and Transfers	Balance - End of Year
Comet Drama	\$ 2,985	\$ 6,702	\$ 7,170	\$ 2,517
Speech Club	40	—	—	40
HS Musical Sales	2,266	5,839	4,008	4,097
Choir Robes.....	1,706	90	—	1,796
General Vocal Activity	14,629	4,796	2,983	16,442
Middle School Musical.....	10,585	417	491	10,511
Marching Band	3,843	10,576	8,692	5,727
Jazz Band.....	6,851	2,133	2,291	6,693
Music Uniform.....	6,164	476	1,123	5,517
High School Orchestra	61	430	341	150
Middle School Band/Orchestra.....	2,196	7,058	7,946	1,308
Sportsman's Park	5,582	18,333	18,088	5,827
Athletic Fund.....	39,684	76,550	63,607	52,627
Girls Cross Country	469	666	812	323
Boys Cross Country.....	100	2,127	2,144	83
Booster Club.....	38,715	64,044	65,957	36,802
Boys Basketball	887	2,040	1,792	1,135
Football Club	8,040	13,294	21,334	—
Baseball Club	4,605	5,288	2,788	7,105
Girls Basketball.....	3,885	499	61	4,323
Volleyball Fund.....	150	—	—	150
Girls Swimming Club	470	678	438	710
Annual	5,512	19,387	20,828	4,071
High School Cheerleaders.....	1,149	3,588	4,344	393
Alternative High School Annual.....	8	1,095	938	165
FFA.....	75	33,763	31,553	2,285
German Club	8,127	1,831	3,099	6,859
School Improvement Assistance				
Team.....	2,199	2,453	1,230	3,422
Cap and Gown Fund	2,475	3,130	3,910	1,695
Class of 2007.....	142	10	152	—
Class of 2008.....	734	1,547	1,363	918
Class of 2009.....	185	3,726	2,705	1,206
Class of 2010.....	100	—	—	100

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2008

	Balance - Beginning of Year	Revenue and and Transfers	Expenditures and Transfers	Balance - End of Year
Class of 2011.....	\$ —	\$ 100	\$ 67	\$ 33
Industrial Technology	624	—	28	596
FCS Club	592	182	25	749
High School Activity/Interest.....	6,660	1,839	6,964	1,535
FCCLA.....	361	1,781	1,158	984
Middle School Newspaper.....	4,698	2,426	2,711	4,413
Middle School Student Council.....	3,023	5,393	5,579	2,837
Middle School Activity/Interest.....	4,747	11,653	13,718	2,682
Middle School Band Uniform Cleaning Fund.....	6,814	270	—	7,084
Middle School Parent Organization	276	—	—	276
Lincoln School Activity	1,327	1,771	937	2,161
Washington School Activity	7,614	758	2,983	5,389
Pool Support Fund.....	4,371	8,285	—	12,656
High School Wrestling	100	—	41	59
Marching Band - Student Fees.....	5,967	329	405	5,891
	<u>\$ 221,793</u>	<u>\$ 327,353</u>	<u>\$ 316,804</u>	<u>\$ 232,342</u>

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

Year Ended June 30, 2008

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Cash	<u>\$ 979</u>	<u>\$ 8,844</u>	<u>\$ 7,411</u>	<u>\$ 2,412</u>
Accounts payable	\$ 979	\$ 6,579	\$ 7,411	\$ 147
Other current liabilities.....	<u>—</u>	<u>2,265</u>	<u>—</u>	<u>2,265</u>
Total Liabilities	<u>\$ 979</u>	<u>\$ 8,844</u>	<u>\$ 7,411</u>	<u>\$ 2,412</u>

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

Years Ended June 30, 2008, 2007, 2006 and 2005

	2008	2007	2006	2005
Revenue				
Local Sources				
Property taxes.....	\$ 5,131,442	\$ 4,912,590	\$ 4,571,538	\$ 4,619,362
Tuition	312,904	396,504	460,364	459,662
Other	1,685,467	1,682,809	1,534,559	1,522,336
State sources.....	8,865,233	8,227,947	7,534,562	7,440,199
Federal sources.....	<u>693,981</u>	<u>635,238</u>	<u>616,115</u>	<u>747,219</u>
Total	<u>\$ 16,689,027</u>	<u>\$ 15,855,088</u>	<u>\$ 14,717,138</u>	<u>\$ 14,788,778</u>
 Expenditures				
Instruction				
Regular instruction	\$ 5,773,206	\$ 5,568,168	\$ 4,980,929	\$ 4,922,245
Special instruction.....	2,463,608	2,416,275	2,188,725	2,225,711
Other instruction.....	1,889,948	1,673,997	1,721,394	1,609,656
Support Services				
Student services	493,054	455,475	383,759	388,134
Instructional staff services.....	619,841	645,251	527,392	504,465
Administration services	1,626,294	1,579,486	1,350,392	1,351,384
Interest and other charges	40,537	—	—	—
Operation and maintenance				
of plant services	1,271,245	1,206,095	1,181,525	1,241,632
Transportation services.....	472,789	458,751	435,304	450,365
Noninstructional programs.....	28,421	9,210	10,392	6,257
Other Expenditures				
Facilities acquisition and construction	834,063	1,045,763	1,547,041	399,303
Long-Term Debt				
Principal.....	225,000	215,000	205,000	210,157
Interest and other charges	—	50,143	61,828	73,381
AEA flowthrough.....	<u>577,604</u>	<u>543,828</u>	<u>503,072</u>	<u>501,216</u>
Total	<u>\$ 16,315,610</u>	<u>\$ 15,867,442</u>	<u>\$ 15,096,753</u>	<u>\$ 13,883,906</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass- Through Number	Federal Expenditures
Direct			
U.S. Department of Health and Human Services			
Drug-Free Communities Support Program Grants	93.276	FY 2008	<u>\$ 85,296</u>
Indirect			
U.S. Department of Agriculture			
Pass-Through From Iowa Department of Education			
Child and Adult Care Food Program	10.558	FY 2008	<u>12,250</u>
Child Nutrition Cluster			
School Breakfast Program	10.553	FY 2008	47,658
National School Lunch Program.....	10.555	FY 2008	335,668
Summer Food Service Program for Children	10.559	FY 2008	<u>5,364</u>
Total Nutrition Expenditures.....			<u>388,690</u>
Total U.S. Department of Agriculture			<u>400,940</u>
U.S. Department of Justice			
Pass-Through From Iowa Department of Education			
Juvenile Justice and Delinquency Prevention Allocation to States	16.540	FY 2008	<u>40,985</u>
U.S. Department of Education			
Pass-Through From Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	1116-6	263,045
Title I Grants to Local Educational Agencies	84.010	1116-6C	<u>13,677</u>
			<u>276,722</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 2008	<u>12,855</u>
Fund for the Improvement of Education.....	84.215	FY 2008	<u>55,800</u>
Tech-Prep Education	84.243	FY 2008	<u>9,702</u>
State Grants for Innovative Programs.....	84.298	FY 2008	<u>3,066</u>
Improving Teacher Quality State Grants.....	84.367	FY 2008	<u>90,152</u>
Grants for State Assessments and Related Activities	84.369	FY 2008	<u>11,284</u>
Total Pass-Through Iowa Department of Education			<u>459,581</u>
Pass-Through From AEA 267			
Special Education Grants to States	84.027	FY 2008	<u>102,165</u>
Total U.S. Department of Education.....			<u>561,746</u>
Total			<u>\$ 1,088,967</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, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 31, 2008. 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 08-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*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Charles City Community School District's operations for the year ended June 30, 2008 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
December 31, 2008

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, 2008. The Charles City Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of 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, 2008.

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 purpose 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 08-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
December 31, 2008

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

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

10.555

School Breakfast Program

10.559

National School Lunch Program

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, 2008

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 08-II-IC-1 and 08-II-IC-2.

08-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.

08-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, 2008

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 08-III-IC-1:

All Programs Displayed on the Schedule of Expenditures of Federal Awards

08-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 08-II-IC-1 for additional information.

Part IV: Other Findings Related to Statutory Reporting:

- 08-IV-A Certified Budget** - Disbursements during the year ended June 30, 2008 did not exceed the amounts budgeted.
- 08-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.
- 08-IV-C Travel Expense** - No expenditures of District money for travel expenses of spouses of District officials or employees were noted.
- 08-IV-D Business Transactions** - No business transactions between the District and District officials or employees were noted.
- 08-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.
- 08-IV-F Board Minutes** - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 08-IV-G Certified Enrollment** - No variances in the basic enrollment data certified to the Department of Education were noted other than corrections by the District which were also properly reported.
- 08-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.
- 08-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.