

CHARITON COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012

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Chariton Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Expires</u>
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Board of Education

(Before September 2011 Election)

Dave Rich	President	2013
Sheila Laing	Vice-President	2013
Dr. Craig Scott	Board Member	2011
Duane Steenhoek	Board Member	2011
Brian Davis	Board Member	2011

(After September 2011 Election)

Dave Rich	President	2013
Dr. Craig Scott	Vice-President	2015
Sheila Laing	Board Member	2013
Kellie Gookin	Board Member	2015
Brian Davis	Board Member	2015

School Officials

Paula Wright	Superintendent	2012
Kelley Reece	Board Secretary/ Business Manager	2012
Michael Carpenter, Webber, Gaumer, & Emanuel, P.C.	Attorney	2012

CHARITON
COMMUNITY SCHOOLS

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Chariton Community School District, Chariton, Iowa as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Chariton Community School District at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2013 on our consideration of the Chariton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S generally accepted accounting principles require Management's Discussion and Analysis and the Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7

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through 16 and 44 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chariton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (which are not presented herein) and expressed a qualified opinion on those financial statements due to the lack of capital assets. The supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

March 20, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Chariton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$14,142,762 in fiscal 2011 to \$14,341,252 in fiscal 2012 and General Fund expenditures increased from \$13,154,450 in fiscal 2011 to \$13,259,613 in fiscal 2012. The District's General Fund balance increased from \$2,616,597 in fiscal 2011 to a balance of \$3,698,236 in fiscal 2012, a 41.34% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local sources during fiscal 2012. The increase in expenditures was due primarily to an increase in the support services function during fiscal 2012.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Chariton Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Chariton Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Chariton Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

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

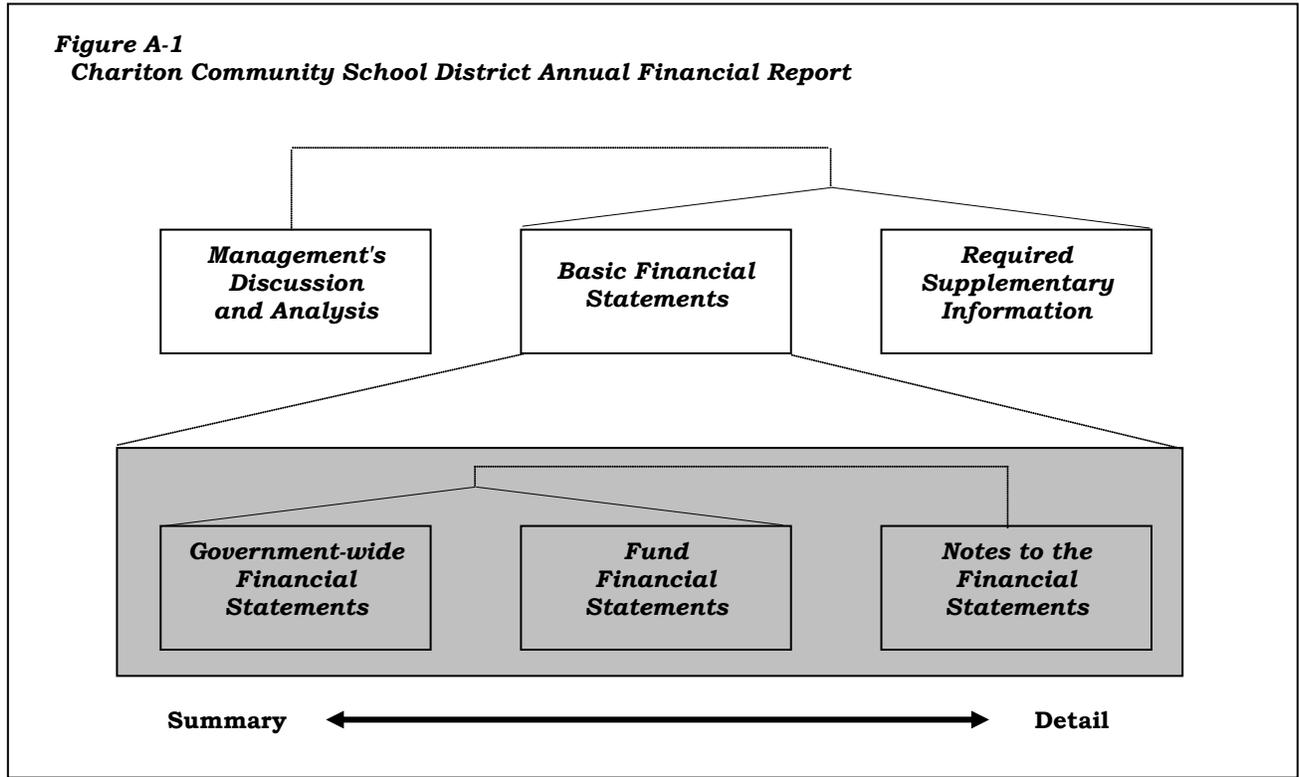


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-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 adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Capital Projects Fund and the Debt Service Fund.

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District's Internal Service Funds, one type of proprietary fund, are the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has one Internal Service Fund for the handling of the District's self funded insurance.

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds are the Private Purpose Trust Fund.

- Private Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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 government-wide financial statements because it cannot use these assets to finance its operations.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2012 compared to June 30, 2011.

Figure A-3 Condensed Statement of Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 15,011,641	16,347,343	119,283	191,909	15,130,924	16,539,252	-8.52%
Capital assets	18,109,425	16,492,398	56,650	41,061	18,166,075	16,533,459	9.87%
Total assets	<u>33,121,066</u>	<u>32,839,741</u>	<u>175,933</u>	<u>232,970</u>	<u>33,296,999</u>	<u>33,072,711</u>	<u>0.68%</u>
Long-term liabilities	10,976,677	11,319,261	4,435	25,917	10,981,112	11,345,178	-3.21%
Other liabilities	5,958,872	6,140,324	58,624	108,600	6,017,496	6,248,924	-3.70%
Total liabilities	<u>16,935,549</u>	<u>17,459,585</u>	<u>63,059</u>	<u>134,517</u>	<u>16,998,608</u>	<u>17,594,102</u>	<u>-3.38%</u>
Net assets:							
Invested in capital assets, net of related debt	8,366,880	8,560,167	56,650	41,061	8,423,530	8,601,228	-2.07%
Restricted	4,218,522	4,269,575	0	0	4,218,522	4,269,575	-1.20%
Unrestricted	3,600,115	2,550,414	56,224	57,392	3,656,339	2,607,806	40.21%
Total net assets	<u>\$ 16,185,517</u>	<u>15,380,156</u>	<u>112,874</u>	<u>98,453</u>	<u>16,298,391</u>	<u>15,478,609</u>	<u>5.30%</u>

The District's combined net assets increased by 5.30% or \$819,782 from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$51,053 or 1.20% from the prior year. The decrease was primarily a result of the decrease in the amount restricted for school infrastructure.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$1,048,533 or 40.21%. This increase was primarily a result of the increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011.

	Figure A-4						
	Changes in Net Assets						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues and Transfers							
Program revenues:							
Charges for services	\$ 665,894	724,115	208,504	202,076	874,398	926,191	-5.59%
Operating grants and contributions and restricted interest	1,398,198	1,781,007	455,312	436,609	1,853,510	2,217,616	-16.42%
Capital grants and contributions and restricted interest	11,576	0	25,524	0	37,100	0	100.00%
General revenues:							
Property tax	4,076,347	3,562,653	0	0	4,076,347	3,562,653	14.42%
Income surtax	730,201	1,081,616	0	0	730,201	1,081,616	-32.49%
Statewide sales, services and use tax	1,011,148	1,080,824	0	0	1,011,148	1,080,824	-6.45%
Unrestricted state grants	8,114,342	7,973,118	0	0	8,114,342	7,973,118	1.77%
Nonspecific program federal grants	249,409	199,010	0	0	249,409	199,010	25.32%
Unrestricted investment earnings	10,985	41,916	0	116	10,985	42,032	-73.87%
Other	124,762	135,764	10	1,343	124,772	137,107	-9.00%
Transfers	0	(11,623)	0	11,623	0	0	0.00%
Total revenues and transfers	<u>16,392,862</u>	<u>16,568,400</u>	<u>689,350</u>	<u>651,767</u>	<u>17,082,212</u>	<u>17,220,167</u>	<u>-0.80%</u>
Program expenses:							
Governmental activities:							
Instruction	9,607,592	9,665,008	0	0	9,607,592	9,665,008	-0.59%
Support services	4,506,568	3,357,037	1,313	0	4,507,881	3,357,037	34.28%
Non-instructional programs	0	2,984	673,616	608,520	673,616	611,504	10.16%
Other expenses	1,473,341	1,318,734	0	0	1,473,341	1,318,734	11.72%
Total expenses	<u>15,587,501</u>	<u>14,343,763</u>	<u>674,929</u>	<u>608,520</u>	<u>16,262,430</u>	<u>14,952,283</u>	<u>8.76%</u>
Change in net assets	805,361	2,224,637	14,421	43,247	819,782	2,267,884	-63.85%
Net assets beginning of year	<u>15,380,156</u>	<u>13,155,519</u>	<u>98,453</u>	<u>55,206</u>	<u>15,478,609</u>	<u>13,210,725</u>	<u>17.17%</u>
Net assets end of year	<u>\$ 16,185,517</u>	<u>15,380,156</u>	<u>112,874</u>	<u>98,453</u>	<u>16,298,391</u>	<u>15,478,609</u>	<u>5.30%</u>

In fiscal 2012, property tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 84.99% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 96.30% of the revenue from business type activities.

The District's total revenues were approximately \$17.08 million, of which approximately \$16.39 million was for governmental activities and approximately \$.69 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 0.80% decrease in revenues and an 8.76% increase in expenses.

Governmental Activities

Revenues for governmental activities were \$16,392,862 and expenses were \$15,587,501 for the year ended June 30, 2012.

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 for the year ended June 30, 2012 compared to the year ended June 30, 2011.

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 9,607,592	9,665,008	-0.59%	8,110,301	7,786,008	4.17%
Support services	4,506,568	3,357,037	34.24%	4,475,007	3,337,532	34.08%
Non-instructional	0	2,984	-100.00%	0	2,984	-100.00%
Other expenses	1,473,341	1,318,734	11.72%	926,525	712,117	30.11%
Totals	<u>\$ 15,587,501</u>	<u>14,343,763</u>	<u>8.67%</u>	<u>13,511,833</u>	<u>11,838,641</u>	<u>14.13%</u>

For the year ended June 30, 2012:

- The cost financed by users of the District's programs was \$665,894.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,409,774.
- The net cost of governmental activities was financed with \$4,076,347 in property taxes, \$730,201 in income surtax, \$1,011,148 in statewide sales, services and use tax, \$8,114,342 in unrestricted state grants, \$249,409 in nonspecific program federal grants, \$10,985 of interest income and \$124,762 of other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$689,350 and expenses were \$674,929. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, interest income, and capital contributions.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Chariton Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$8,538,728, below last year's ending fund balance of a \$9,697,237.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Revenues increased due to the increase from local sources. The District's General Fund balance increased by \$1,081,639.
- The Capital Projects Fund balance decreased from \$5,303,285 in fiscal year 2011 to \$3,033,052 in fiscal year 2012, due primarily to the construction continuing on the District's high school renovation project.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$98,453 at June 30, 2011 to \$112,874 at June 30, 2012, representing an increase of 14.65%.

BUDGETARY HIGHLIGHTS

The District's receipts were \$229,072 more than budgeted receipts, a variance of 1.36%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

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

In spite of the District's practice, The District exceeded its budgeted expenditures in the other expenditures functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested approximately \$18.17 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) This amount represents a net increase of 9.87% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$730,996.

The original cost of the District's capital assets was \$29,080,252. Governmental funds account for \$28,882,950 with the remainder of \$197,302 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress is related to the high school renovation project.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 514,007	514,007	0	0	514,007	514,007	0.00%
Construction in progress	9,680,468	8,622,569	0	0	9,680,468	8,622,569	12.27%
Land improvements	231,616	236,994	0	0	231,616	236,994	-2.27%
Buildings and improvements	6,883,992	6,425,646	0	0	6,883,992	6,425,646	7.13%
Machinery and equipment	799,342	693,182	56,650	41,061	855,992	734,243	16.58%
Total	<u>\$ 18,109,425</u>	<u>16,492,398</u>	<u>56,650</u>	<u>41,061</u>	<u>18,166,075</u>	<u>16,533,459</u>	<u>9.87%</u>

Long-Term Debt

At June 30, 2012, the District had \$10,981,112 in total long-term debt outstanding. This represents a decrease of 3.21% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

At June 30, 2012, the District had total outstanding revenue bonds payable from the Capital Projects Fund of \$10,815,000.

The District had total outstanding Net OPEB liability of \$166,112 at June 30, 2012.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2012	2011	2011-12
Revenue bonds	\$ 10,815,000	11,105,000	0	0	10,815,000	11,105,000	-2.61%
Early retirement	0	102,930	0	22,861	0	125,791	-100.00%
Net OPEB liability	161,677	111,331	4,435	3,056	166,112	114,387	45.22%
Totals	<u>\$ 10,976,677</u>	<u>11,319,261</u>	<u>4,435</u>	<u>25,917</u>	<u>10,981,112</u>	<u>11,345,178</u>	<u>-3.21%</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The upcoming Iowa legislative session could again prove to be most challenging in respect to the state budget. The impact of state reductions to education is an unknown that we must be ready to address and compensate.
- On July 1, 2012, the IPERS increase to 8.67% will increase the Chariton Community Schools employer benefit costs during fiscal 2013. An additional increase to 8.93% is anticipated for FY14.

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 Kelley Reece, Board Secretary/Business Manager, Chariton Community School District, 140 E. Albia Road, P.O. Box 738, Chariton, Iowa, 50049-0738.

BASIC FINANCIAL STATEMENTS

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 9,274,999	104,957	9,379,956
Receivables:			
Property tax:			
Delinquent	77,847	0	77,847
Succeeding year	4,146,318	0	4,146,318
Income surtax	738,819	0	738,819
Accounts	337	0	337
Due from other funds	50,000	0	50,000
Due from other governments	723,321	5,972	729,293
Inventories	0	8,354	8,354
Capital assets, net of accumulated depreciation	18,109,425	56,650	18,166,075
TOTAL ASSETS	33,121,066	175,933	33,296,999
LIABILITIES			
Due to other funds	0	50,000	50,000
Accounts payable	135,949	147	136,096
Salaries and benefits payable	1,430,978	0	1,430,978
Accrued interest payable	224,778	0	224,778
Deferred revenue:			
Succeeding year property tax	4,146,318	0	4,146,318
Other	20,849	0	20,849
Unearned revenues	0	8,477	8,477
Long-term liabilities:			
Portion due within one year:			
Revenue bonds	305,000	0	305,000
Portion due after one year:			
Revenue bonds	10,510,000	0	10,510,000
Net OPEB liability	161,677	4,435	166,112
TOTAL LIABILITIES	16,935,549	63,059	16,998,608
NET ASSETS			
Invested in capital assets, net of related debt	8,366,880	56,650	8,423,530
Restricted for:			
Categorical funding	450,485	0	450,485
Debt service	1,305,066	0	1,305,066
Management levy purposes	353,946	0	353,946
Student activities	148,428	0	148,428
School infrastructure	811,476	0	811,476
Physical plant and equipment levy	1,149,121	0	1,149,121
Unrestricted	3,600,115	56,224	3,656,339
TOTAL NET ASSETS	\$ 16,185,517	112,874	16,298,391

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
		for Services	Interest	Interest			
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 5,589,329	234,445	231,044	0	(5,123,840)	0	(5,123,840)
Special	1,995,936	136,474	77,577	0	(1,781,885)	0	(1,781,885)
Other	2,022,327	294,975	522,776	0	(1,204,576)	0	(1,204,576)
	<u>9,607,592</u>	<u>665,894</u>	<u>831,397</u>	<u>0</u>	<u>(8,110,301)</u>	<u>0</u>	<u>(8,110,301)</u>
Support services:							
Student	260,827	0	0	0	(260,827)	0	(260,827)
Instructional staff	558,618	0	12,064	0	(546,554)	0	(546,554)
Administration	1,446,383	0	0	0	(1,446,383)	0	(1,446,383)
Operation and maintenance of plant	1,367,827	0	7,921	11,576	(1,348,330)	0	(1,348,330)
Transportation	872,913	0	0	0	(872,913)	0	(872,913)
	<u>4,506,568</u>	<u>0</u>	<u>19,985</u>	<u>11,576</u>	<u>(4,475,007)</u>	<u>0</u>	<u>(4,475,007)</u>
Long-term debt interest	453,904	0	0	0	(453,904)	0	(453,904)
Other expenditures:							
AEA flowthrough	546,816	0	546,816	0	0	0	0
Depreciation (unallocated)*	472,621	0	0	0	(472,621)	0	(472,621)
	<u>1,019,437</u>	<u>0</u>	<u>546,816</u>	<u>0</u>	<u>(472,621)</u>	<u>0</u>	<u>(472,621)</u>
Total governmental activities	<u>15,587,501</u>	<u>665,894</u>	<u>1,398,198</u>	<u>11,576</u>	<u>(13,511,833)</u>	<u>0</u>	<u>(13,511,833)</u>
Business Type activities:							
Support services:							
Administration	1,313	0	0	0	0	(1,313)	(1,313)
Non-instructional programs:							
Food service operations	673,616	208,504	455,312	25,524	0	15,724	15,724
Total business type activities	<u>674,929</u>	<u>208,504</u>	<u>455,312</u>	<u>25,524</u>	<u>0</u>	<u>14,411</u>	<u>14,411</u>
Total	<u>\$ 16,262,430</u>	<u>874,398</u>	<u>1,853,510</u>	<u>37,100</u>	<u>(13,511,833)</u>	<u>14,411</u>	<u>(13,497,422)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 3,898,278	0	3,898,278
Capital outlay					178,069	0	178,069
Income surtax					730,201	0	730,201
Statewide sales, services and use tax					1,011,148	0	1,011,148
Unrestricted state grants					8,114,342	0	8,114,342
Nonspecific program federal grants					249,409	0	249,409
Unrestricted investment earnings					10,985	0	10,985
Other					124,762	10	124,772
Total general revenues					<u>14,317,194</u>	<u>10</u>	<u>14,317,204</u>
Changes in net assets					805,361	14,421	819,782
Net assets beginning of year					15,380,156	98,453	15,478,609
Net assets end of year					<u>\$ 16,185,517</u>	<u>112,874</u>	<u>16,298,391</u>

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 4,802,118	2,665,856	1,807,025	9,274,999
Receivables:				
Property tax:				
Delinquent	68,696	3,404	5,747	77,847
Succeeding year	3,521,898	204,420	420,000	4,146,318
Income surtax	492,546	246,273	0	738,819
Accounts	0	0	337	337
Due from other funds	54,665	0	0	54,665
Due from other governments	344,237	379,084	0	723,321
TOTAL ASSETS	\$ 9,284,160	3,499,037	2,233,109	15,016,306
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 0	4,665	0	4,665
Accounts payable	119,653	10,627	5,669	135,949
Salaries and benefits payable	1,430,978	0	0	1,430,978
Deferred revenue:				
Succeeding year property tax	3,521,898	204,420	420,000	4,146,318
Income surtax	492,546	246,273	0	738,819
Other	20,849	0	0	20,849
Total liabilities	5,585,924	465,985	425,669	6,477,578
Fund balances:				
Restricted for:				
Categorical funding	450,485	0	0	450,485
School infrastructure	0	811,476	0	811,476
Construction	0	1,072,455	0	1,072,455
Physical plant and equipment levy	0	1,149,121	0	1,149,121
Management levy purposes	0	0	353,946	353,946
Student activities	0	0	148,428	148,428
Debt service	0	0	1,305,066	1,305,066
Unassigned	3,247,751	0	0	3,247,751
Total fund balances	3,698,236	3,033,052	1,807,440	8,538,728
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,284,160	3,499,037	2,233,109	15,016,306

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2012

Total fund balances of governmental funds (page 20) \$ 8,538,728

**Amounts reported for governmental activities in the
 Statement of Net Assets are different because:**

Capital assets used in governmental activities are not
 financial resources and, therefore, are not reported as
 assets in the governmental funds. 18,109,425

Accounts receivable income surtax, are not yet available
 to finance expenditures of the current fiscal period. 738,819

Accrued interest payable on long-term liabilities is not
 due and payable in the current period and, therefore, is
 not reported as a liability in the governmental funds. (224,778)

Long-term liabilities, including revenue bonds payable
 and other postemployment benefits payable are not due
 and payable in the current period and, therefore, are
 not reported in the governmental funds. (10,976,677)

Net assets of governmental activities (page 18) \$ 16,185,517

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 4,081,171	1,433,227	300,615	5,815,013
Tuition	346,588	0	0	346,588
Other	255,111	8,465	314,525	578,101
State sources	8,868,357	0	0	8,868,357
Federal sources	782,120	0	0	782,120
Total revenues	<u>14,333,347</u>	<u>1,441,692</u>	<u>615,140</u>	<u>16,390,179</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,497,386	0	102,931	5,600,317
Special	1,919,070	0	0	1,919,070
Other	1,631,139	0	316,572	1,947,711
	<u>9,047,595</u>	<u>0</u>	<u>419,503</u>	<u>9,467,098</u>
Support services:				
Student	185,689	0	0	185,689
Instructional staff	443,253	36,438	0	479,691
Administration	1,345,984	18,231	0	1,364,215
Operation and maintenance of plant	1,096,001	5,232	168,703	1,269,936
Transportation	594,275	320,202	0	914,477
	<u>3,665,202</u>	<u>380,103</u>	<u>168,703</u>	<u>4,214,008</u>
Capital outlay	0	2,580,417	0	2,580,417
Long-term debt:				
Principal	0	0	290,000	290,000
Interest and fiscal charges	0	0	458,254	458,254
	<u>0</u>	<u>0</u>	<u>748,254</u>	<u>748,254</u>
Other expenditures:				
AEA flowthrough	546,816	0	0	546,816
Total expenditures	<u>13,259,613</u>	<u>2,960,520</u>	<u>1,336,460</u>	<u>17,556,593</u>
Excess (Deficiency) of revenues over (under) expenditures	1,073,734	(1,518,828)	(721,320)	(1,166,414)
Other financing sources (uses):				
Sale of capital assets	7,850	0	0	7,850
Transfer in	55	0	751,405	751,460
Transfer out	0	(751,405)	0	(751,405)
Total other financing sources (uses)	<u>7,905</u>	<u>(751,405)</u>	<u>751,405</u>	<u>7,905</u>
Net changes in fund balances	1,081,639	(2,270,233)	30,085	(1,158,509)
Fund balance beginning of year	<u>2,616,597</u>	<u>5,303,285</u>	<u>1,777,355</u>	<u>9,697,237</u>
Fund balance end of year	<u>\$ 3,698,236</u>	<u>3,033,052</u>	<u>1,807,440</u>	<u>8,538,728</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds (page 22) \$ (1,158,509)

**Amounts reported for governmental activities in the
 Statement of Activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays, depreciation expense and loss on disposal in the year are as follows:

Capital outlays	\$ 2,416,815	
Depreciation expense	(721,061)	
Loss on disposal	(78,727)	1,617,027

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 290,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 4,350

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (2,774)

Income surtax receivable is not available to finance expenditures of the current year period in the governmental funds. 2,683

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	102,930	
Other postemployment benefits	(50,346)	52,584

Changes in net assets of governmental activities (page 19) \$ 805,361

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

		Business Type Activities: Enterprise Fund
		School Nutrition
ASSETS		
Cash and cash equivalents	\$	104,957
Due from other governments		5,972
Inventories		8,354
Capital assets, net of accumulated depreciation		56,650
Total assets		175,933
LIABILITIES		
Due to other funds		50,000
Accounts payable		147
Unearned revenue		8,477
Net OPEB liability		4,435
Total liabilities		63,059
NET ASSETS		
Invested in capital assets		56,650
Unrestricted		56,224
Total net assets	\$	112,874

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012

	Business Type	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
Operating revenues:		
Local sources:		
Charges for services	\$ 208,504	0
Miscellaneous	10	0
Total operating revenues	<u>208,514</u>	<u>0</u>
Operating expenses:		
Support services:		
Administration:		
Supplies	1,313	0
Non-instructional programs:		
Salaries	211,412	0
Benefits	59,637	2,719
Services	355	0
Supplies	392,277	0
Depreciation	9,935	0
	<u>673,616</u>	<u>2,719</u>
Total operating expenses	<u>674,929</u>	<u>2,719</u>
Operating loss	<u>(466,415)</u>	<u>(2,719)</u>
Non-operating revenues:		
State sources	6,000	0
Federal sources	449,312	0
Total non-operating revenues	<u>455,312</u>	<u>0</u>
Change in net assets before other financing sources(uses)	(11,103)	(2,719)
Other financing sources(uses):		
Capital contributions	25,524	0
Transfer out	0	(55)
Total other financing sources(uses)	<u>25,524</u>	<u>(55)</u>
Change in net assets	14,421	(2,774)
Net assets beginning of year	<u>98,453</u>	<u>2,774</u>
Net assets end of year	<u>\$ 112,874</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012

	Business Type	
	Enterprise Fund	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 208,744	0
Cash received from miscellaneous operating activities	10	1,993
Cash payments to employees for services	(292,531)	(2,719)
Cash payments to suppliers for goods or services	(349,534)	0
Net cash used in operating activities	<u>(433,311)</u>	<u>(726)</u>
Cash flows from non-capital financing activities:		
Transfer to the General Fund	0	(55)
Repayment of interfund borrowing	(50,000)	0
State grants received	6,000	0
Federal grants received	407,452	0
Net cash provided by (used in) non-capital financing activities	<u>363,452</u>	<u>(55)</u>
Net decrease in cash and cash equivalents	(69,859)	(781)
Cash and cash equivalents at beginning of year	<u>174,816</u>	<u>781</u>
Cash and cash equivalents at end of year	<u>\$ 104,957</u>	<u>0</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (466,415)	(2,719)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	41,989	0
Depreciation	9,935	0
Decrease in inventories	2,275	0
Decrease in accounts receivable	363	1,993
Increase in accounts payable	147	0
Decrease in unearned revenue	(123)	0
Decrease in early retirement payable	(22,861)	0
Increase in net OPEB liability	1,379	0
Net cash used in operating activities	<u>\$ (433,311)</u>	<u>(726)</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received \$41,989 of federal commodities.

During the year ended June 30, 2012, the District received \$25,524 in contributed capital from the General Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2012

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 17,819
LIABILITIES	<u>0</u>
NET ASSETS	
Restricted for scholarships	<u>\$ 17,819</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2012

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Gifts and contributions	\$ 14,420
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	8,535
Change in net assets	5,885
Net assets beginning of year	11,934
Net assets end of year	\$ 17,819

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies

Chariton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Chariton, Iowa, and the predominate agricultural territory in Lucas and Marion Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Chariton Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Chariton Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lucas and Marion County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

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

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

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.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The District reports the following nonmajor proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded insurance of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds are as follows:

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

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

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

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

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

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

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

Due From and Due to Other Funds - During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2011 balances of interfund accounts receivable or payable balance have been recorded.

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

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

Capital Assets - Capital assets, which include property, machinery, and equipment and intangibles, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings and improvements	1,500
Land improvements	1,500
Intangibles	100,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings and improvements	50 years
Land improvements	20 years
Intangibles	2 or more years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers 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 revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements 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 tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected in the Statement of Net Assets in the Proprietary, School Nutrition Fund.

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

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012 expenditures in the other expenditures functional area exceeded amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2012 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 improvement certificates of a drainage district.

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$3,826,805 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2012 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Enterprise, School Nutrition	\$ 50,000
	Capital Projects:	
	Statewide Sales,	
General	Services, and Use Tax	4,665
Total		<u>\$ 54,665</u>

The Enterprise, School Nutrition Fund is repaying the General Fund for money borrowed for cash flow purposes during the year.

The Capital Projects: Statewide Sales, Services and Use Tax Fund is repaying the General Fund for money receipted into the wrong fund during the year.

(4) Transfers

The detail of transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
	Capital Projects:	
	Statewide Sales,	
Debt Service	Services, and Use Tax	\$ 751,405
General	Internal Service	55
Total		<u>\$ 751,460</u>

The Capital Projects, Sales Tax Fund transferred monies to the Debt Service Fund for the payment of principal and interest on revenue bonds.

The Internal Service Fund transferred money to the General Fund to close the Internal Service Fund during the year.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 514,007	0	0	514,007
Construction in progress	8,622,569	1,960,833	902,934	9,680,468
Total capital assets not being depreciated	9,136,576	1,960,833	902,934	10,194,475
Capital assets being depreciated:				
Land improvements	1,256,668	22,655	0	1,279,323
Buildings and improvements	11,981,851	902,934	0	12,884,785
Machinery and equipment	4,748,223	433,327	657,183	4,524,367
Total capital assets being depreciated	17,986,742	1,358,916	657,183	18,688,475
Less accumulated depreciation for:				
Land improvements	1,019,674	28,033	0	1,047,707
Buildings and improvements	5,556,205	444,588	0	6,000,793
Machinery and equipment	4,055,041	248,440	578,456	3,725,025
Total accumulated depreciation	10,630,920	721,061	578,456	10,773,525
Total capital assets being depreciated, net	7,355,822	637,855	78,727	7,914,950
Governmental activities capital assets, net	\$ 16,492,398	2,598,688	981,661	18,109,425
Business type activities:				
Machinery and equipment	\$ 171,778	25,524	0	197,302
Less accumulated depreciation	130,717	9,935	0	140,652
Business type activities capital assets, net	\$ 41,061	15,589	0	56,650

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 20,080
Support services:	
Instructional staff	3,287
Administration	935
Operation and maintenance of plant	19,597
Transportation	204,541
	<u>248,440</u>
Unallocated depreciation	<u>472,621</u>
Total governmental activities depreciation expense	<u>\$ 721,061</u>
Business type activities:	
Food services	\$ 9,935

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
Revenue Bonds	\$ 11,105,000	0	290,000	10,815,000	305,000
Early Retirement	102,930	0	102,930	0	0
Net OPEB Liability	111,331	50,346	0	161,677	0
Total	\$ 11,319,261	50,346	392,930	10,976,677	305,000

Business type activities:

Early Retirement	\$ 22,861	0	22,861	0	0
Net OPEB Liability	3,056	1,379	0	4,435	0
Total	\$ 25,917	1,379	22,861	4,435	0

Revenue Bonds Payable

Details of the District's June 30, 2012 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue dated March 23, 2010			
	Interest Rates	Principal	Interest	Total
2013	3.00	% \$ 305,000	449,555	754,555
2014	3.00	435,000	440,405	875,405
2015	3.00	435,000	427,355	862,355
2016	3.00	455,000	414,305	869,305
2017	4.00	475,000	396,105	871,105
2018-2022	4.00	2,725,000	1,677,525	4,402,525
2023-2027	4.00-4.38	3,455,000	1,062,139	4,517,139
2028-2030	4.50-4.75	2,530,000	242,342	2,772,342
Total		\$ 10,815,000	5,109,731	15,924,731

The District has pledged future statewide sales, services and use tax revenues to repay the \$11,330,000 of bonds issued in March 2010. The bonds were issued to finance the high school renovation project. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 75% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$15,924,731. For the current year, \$290,000 of principal and \$458,255 of interest was paid on the bonds and total statewide sales, services and use tax revenues were \$1,011,148.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$927,037.50 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales and services tax shall be placed in a revenue account.
- c) The District shall make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Early Retirement

During the year ended June 30, 2011 the District offered a voluntary early retirement plan to its certified employees. Eligible employees must have been at least age fifty-six and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee was equal to \$100 per year of service with a maximum of of \$1,500 (before deductions) plus the difference between the salary schedule base and the licensed employee's current salary (before deductions) less supplemental pay or extended contract pay. The incentive can be received as cash or the school district will provide continuing coverage under the school district's group insurance plan until the licensed employee reaches age sixty-five or when the incentive benefit runs out (whichever occurs first). If the retiree still has a balance in escrow for insurance at age sixty-five, the District shall pay the remainder balance to the retiree (net taxes). Early retirement benefits paid during the year ended June 30, 2012, totaled \$125,791.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$641,713, \$554,738 and \$560,122 respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and dental benefits for retirees and their spouses. There are 178 active and 7 retired members in the plan. Participants must be age 55 or older at age of retirement.

The medical benefits are provided through a fully-insured plan with Mercer and dental benefits are provided by Delta Dental. Retirees under age 65 pay the same premium for the medical/dental benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 90,000
Interest on net OPEB obligation	5,147
Adjustment to annual required contribution	(4,422)
Annual OPEB cost	<u>90,725</u>
Contributions made	(39,000)
Increase in net OPEB obligation	<u>51,725</u>
Net OPEB obligation beginning of year	<u>114,387</u>
Net OPEB obligation end of year	<u><u>\$ 166,112</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District contributed \$39,000 to the medical plan. Retired members eligible for the plan contributed \$0 or 0% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 90,000	32.22%	\$ 61,000
2011	90,387	40.94%	114,387
2012	90,725	42.99%	166,112

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$776,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$776,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$7,951,834 and the ratio of the UAAL to covered payroll was 9.76%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions include a 4.50% discount rate based on the District's funding policy. The projected annual health care cost trend rate starts at 11% for the year ended June 30, 2010. The trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate in 2022.

Mortality rates are from the RP-2000 Combined Mortality Rates for Male and Female, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

Projected claim costs of the medical plan are \$559 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Risk Management

The District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various

schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: dental and long-term disability. District contributions to ISEBA for the year ended June 30, 2012 were \$104,997.

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$546,816 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Budget Overexpenditure

Per the code of Iowa, expenditures may not legally exceed budget appropriations at the functional area level. During the year ended June 30, 2012 expenditures in the other expenditures functional area exceeded amount budgeted.

(12) Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2012 is comprised of the following programs:

Program	Amount
Gifted and Talented Programs	\$ 54,611
Returning Dropouts and Dropout Prevention Programs	34,526
Four-year-old Preschool State Aid	104,387
Home School Assistance Program	12,123
Teacher Salary Supplement	76,529
Market Factor	10,233
Professional Development for Model Core Curriculum	53,646
Professional Development	47,583
Market Factor Incentives	5,070
Property Tax and State Aid Financed Weighted Limited English Proficient	51,777
Total	<u><u>\$ 450,485</u></u>

(13) Construction Commitment

The District has entered into various contracts totaling \$10,226,331 for a renovations at the high school. As of June 30, 2012, costs of \$9,487,822 had been incurred against the contracts. The balance of \$738,509 remaining at June 30, 2012 will be paid as work on the project progresses. The total cost of the improvements will be added to the District's fixed asset listing upon completion.

REQUIRED SUPPLEMENTARY INFORMATION

CHARITON COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2012

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 6,739,702	208,514	6,948,216	6,888,566	6,888,566	59,650
State sources	8,868,357	6,000	8,874,357	9,056,367	9,056,367	(182,010)
Federal sources	782,120	449,312	1,231,432	880,000	880,000	351,432
Total revenues	16,390,179	663,826	17,054,005	16,824,933	16,824,933	229,072
Expenditures/Expenses:						
Instruction	9,467,098	0	9,467,098	11,203,477	11,203,477	1,736,379
Support services	4,214,008	1,313	4,215,321	5,735,000	5,735,000	1,519,679
Non-instructional programs	0	673,616	673,616	719,692	719,692	46,076
Other expenditures	3,875,487	0	3,875,487	1,609,287	1,609,287	(2,266,200)
Total expenditures/expenses	17,556,593	674,929	18,231,522	19,267,456	19,267,456	1,035,934
Deficiency of revenues under expenditures/expenses	(1,166,414)	(11,103)	(1,177,517)	(2,442,523)	(2,442,523)	1,265,006
Other financing sources, net	7,905	25,524	33,429	0	0	33,429
Excess(Deficiency)of revenues and other financing sources over(under) expenditures/expenses	(1,158,509)	14,421	(1,144,088)	(2,442,523)	(2,442,523)	1,298,435
Balance beginning of year	9,697,237	98,453	9,795,690	4,383,504	4,383,504	5,412,186
Balance end of year	\$ 8,538,728	112,874	8,651,602	1,940,981	1,940,981	6,710,621

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2012

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2012 expenditures in the other expenditures functional area exceeded amount budgeted.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ 0	\$ 776,000	776,000	0.0%	\$ 7,852,210	9.88%
2011	July 1, 2009	0	776,000	776,000	0.0%	7,514,243	10.33%
2012	July 1, 2009	0	776,000	776,000	0.0%	7,951,834	9.76%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

CHARITON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Total Special Revenue	Debt Service	
ASSETS					
Cash and pooled investments	\$ 348,199	153,760	501,959	1,305,066	1,807,025
Receivables:					
Property tax:					
Delinquent	5,747	0	5,747	0	5,747
Succeeding year	420,000	0	420,000	0	420,000
Accounts	0	337	337	0	337
TOTAL ASSETS	\$ 773,946	154,097	928,043	1,305,066	2,233,109
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 0	5,669	5,669	0	5,669
Deferred revenue:					
Succeeding year property tax	420,000	0	420,000	0	420,000
Total liabilities	420,000	5,669	425,669	0	425,669
Fund balances:					
Restricted for:					
Management levy purposes	353,946	0	353,946	0	353,946
Student activities	0	148,428	148,428	0	148,428
Debt service	0	0	0	1,305,066	1,305,066
Total fund balances	353,946	148,428	502,374	1,305,066	1,807,440
TOTAL LIABILITIES AND FUND BALANCES	\$ 773,946	154,097	928,043	1,305,066	2,233,109

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2012

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Total Special Revenue	Debt Service	
Revenues:					
Local sources:					
Local tax	\$ 300,615	0	300,615	0	300,615
Other	19,550	294,975	314,525	0	314,525
Total revenues	320,165	294,975	615,140	0	615,140
Expenditures:					
Current:					
Instruction:					
Regular	102,931	0	102,931	0	102,931
Other	0	316,572	316,572	0	316,572
Support services:					
Operation and maintenance of plant	168,703	0	168,703	0	168,703
Long-term debt:					
Principal	0	0	0	290,000	290,000
Interest and fiscal charges	0	0	0	458,254	458,254
Total expenditures	271,634	316,572	588,206	748,254	1,336,460
Excess(Deficiency) of revenues over(under) expenditures	48,531	(21,597)	26,934	(748,254)	(721,320)
Other financing sources:					
Transfer in	0	0	0	751,405	751,405
Net change in fund balances	48,531	(21,597)	26,934	3,151	30,085
Fund balances beginning of year	305,415	170,025	475,440	1,301,915	1,777,355
Fund balances end of year	\$ 353,946	148,428	502,374	1,305,066	1,807,440

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2012

	Capital Projects			
	Statewide Sales, Services and Use Tax	Construction Account	Physical Plant and Equipment Levy	Total
ASSETS				
Cash and pooled investments	\$ 437,057	1,083,082	1,145,717	2,665,856
Receivables:				
Property tax:				
Delinquent	0	0	3,404	3,404
Succeeding year	0	0	204,420	204,420
Income surtax	0	0	246,273	246,273
Due from other governments	379,084	0	0	379,084
TOTAL ASSETS	\$ 816,141	1,083,082	1,599,814	3,499,037
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 4,665	0	0	4,665
Accounts payable	0	10,627	0	10,627
Deferred revenue:				
Succeeding year property tax	0	0	204,420	204,420
Income surtax	0	0	246,273	246,273
Total liabilities	4,665	10,627	450,693	465,985
Fund balances:				
Restricted for:				
School infrastructure	811,476	0	0	811,476
Construction	0	1,072,455	0	1,072,455
Physical plant and equipment	0	0	1,149,121	1,149,121
Total fund balances	811,476	1,072,455	1,149,121	3,033,052
TOTAL LIABILITIES AND FUND BALANCES	\$ 816,141	1,083,082	1,599,814	3,499,037

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2012

	Capital Projects			
	Statewide Sales, Services and Use Tax	Construction Account	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	\$ 1,011,148	0	422,079	1,433,227
Other	62	7,714	689	8,465
Total revenues	1,011,210	7,714	422,768	1,441,692
Expenditures:				
Current:				
Support services:				
Instructional staff	36,438	0	0	36,438
Administration	13,667	0	4,564	18,231
Operation and maintenance of plant	5,232	0	0	5,232
Transportation	0	0	320,202	320,202
Capital outlay	442,080	2,108,028	30,309	2,580,417
Total expenditures	497,417	2,108,028	355,075	2,960,520
Excess(Deficiency) of revenues over(under) expenditures	513,793	(2,100,314)	67,693	(1,518,828)
Other financing uses:				
Transfer out	(751,405)	0	0	(751,405)
Net change in fund balances	(237,612)	(2,100,314)	67,693	(2,270,233)
Fund balances beginning of year	1,049,088	3,172,769	1,081,428	5,303,285
Fund balances end of year	\$ 811,476	1,072,455	1,149,121	3,033,052

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2012

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Thespians	\$ 3,217	912	1,146	2,983
Speech	0	243	243	0
National honor society	0	629	629	0
Vocal Music	765	0	90	675
Band	1,260	1,342	1,782	820
Middle School Band	106	100	100	106
Flag Team	32	100	124	8
Co-Ed Athletics	20,716	83,716	97,907	6,525
Girls Soccer	17	0	7	10
Boys Soccer	125	767	586	306
Boys Track	576	415	359	632
Girls Track	689	836	798	727
Cross Country	291	1,231	423	1,099
Girls Tennis	13	0	0	13
Boys Tennis	96	325	377	44
Boys Basketball	0	3,130	2,493	637
Football	15,367	17,906	18,859	14,414
Baseball	4,827	14,646	17,897	1,576
Wrestling	1	3,411	3,379	33
Weight Room	1,152	656	1,599	209
Golf	0	200	200	0
Girls Basketball	170	585	239	516
Volleyball	3,356	1,200	1,907	2,649
Softball	0	18,106	14,443	3,663
Class of 2010	967	0	0	967
Class of 2011	1,219	0	0	1,219
Class of 2012	5,157	1,827	4,824	2,160
Class of 2013	140	16,015	14,492	1,663
Class of 2014	586	0	67	519
Class of 2015	0	53	53	0
Academiathon	1,016	775	545	1,246
Contingency	2,524	4,227	6,493	258
Concessions	21,115	42,784	33,628	30,271
Student Council	5,547	6,463	6,407	5,603
Life	32	0	0	32
Spanish Club	5,244	11,848	6,657	10,435
Art Service	0	24	24	0
C Club	959	0	111	848
FFA	1,804	954	1,291	1,467
FBLA	1,279	5,660	6,019	920

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
SES Club	3,928	8,864	8,678	4,114
On Other Hand	841	774	689	926
Yearbook	9,532	7,973	9,430	8,075
Cap & Gown	325	2,642	2,562	405
Cheerleaders	1,582	1,603	1,496	1,689
Musical	4,148	4,717	6,166	2,699
Woods Club	3,133	0	2,041	1,092
Construction Club	823	267	270	820
Donations	1,400	0	0	1,400
MS Student Council	2,541	1,215	750	3,006
6th Grade	393	0	81	312
7th Grade	156	1,132	1,187	101
8th Grade	557	2,420	2,402	575
MS BLD Initiative	7,804	13,355	14,846	6,313
MS Yearbook Club	785	742	568	959
Columbus	19,667	3,573	8,069	15,171
Van Allen Elementary	12,045	4,612	11,139	5,518
Total	\$ 170,025	294,975	316,572	148,428

CHARITON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2012

	Shelton Law Scholarship	Alexander Scholarship	Orva Hibbs Scholarship	Chariton High School Scholarship	Jessica Luedtke Scholarship	Kandalynn Hall Scholarship	FCCLA/FEA Scholarship Award	Total
ASSETS								
Cash and pooled investments	\$ 1,000	4,500	6,000	1,436	200	2,183	2,500	17,819
LIABILITIES								
	0	0	0	0	0	0	0	0
NET ASSETS								
Restricted for scholarships	\$ 1,000	4,500	6,000	1,436	200	2,183	2,500	17,819

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2012

	Shelton Law Scholarship	Alexander Scholarship	Orva Hibbs Scholarship	Chariton High School Scholarship	Jessica Luedtke Scholarship	Kandalynn Hall Scholarship	FFCCLA/FEA Scholarship Award	Total
Additions:								
Local sources:								
Contributions	\$ 1,000	4,500	6,000	720	200	0	2,000	14,420
Deductions:								
Instruction:								
Regular:								
Scholarships awarded	0	2,000	4,500	535	0	0	1,500	8,535
Change in net assets	1,000	2,500	1,500	185	200	0	500	5,885
Net assets beginning of year	0	2,000	4,500	1,251	0	2,183	2,000	11,934
Net assets end of year	\$ 1,000	4,500	6,000	1,436	200	2,183	2,500	17,819

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis								
	Years Ended June 30,								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 5,815,013	5,379,613	4,906,906	4,870,468	3,860,136	3,764,441	3,817,118	3,936,979	3,360,097
Tuition	346,588	353,197	337,392	275,381	724,286	611,828	640,590	439,979	362,761
Other	578,101	626,229	587,377	693,325	855,906	1,139,864	734,742	618,054	535,889
Intermediate sources	0	0	0	0	0	0	0	20,500	200
State sources	8,868,357	8,921,940	7,845,734	9,289,373	7,970,772	7,233,874	7,153,722	6,528,149	5,959,825
Federal sources	782,120	953,564	1,391,949	635,213	486,006	479,671	607,800	580,644	772,270
Total	\$ 16,390,179	16,234,543	15,069,358	15,763,760	13,897,106	13,229,678	12,953,972	12,124,305	10,991,042
Expenditures:									
Instruction:									
Regular	\$ 5,600,317	5,619,701	5,523,400	5,473,329	5,169,470	4,869,185	6,598,945	4,834,869	4,523,645
Special	1,919,070	2,027,491	2,070,714	1,904,943	1,706,515	1,498,964	672,165	1,818,441	1,798,565
Other	1,947,711	1,922,784	2,139,767	1,878,460	1,598,635	1,504,483	467,251	1,167,711	1,149,154
Support services:									
Student	185,689	175,644	151,018	138,676	228,310	246,285	237,994	164,689	123,432
Instructional staff	479,691	421,865	331,201	635,040	224,337	357,547	371,622	279,600	305,229
Administration	1,364,215	1,371,830	1,781,397	1,481,251	1,358,571	1,272,613	1,166,859	1,063,622	926,241
Operation and maintenance of plant	1,269,936	1,236,423	1,239,050	1,343,654	1,175,950	1,283,347	1,257,820	1,074,068	916,623
Transportation	914,477	704,419	697,197	741,812	643,887	566,057	443,514	506,022	371,026
Central	0	0	0	0	0	0	0	0	57,175
Other	0	0	0	0	0	0	0	176,605	121,839
Non-instructional programs	0	2,984	2,693	4,364	9,191	4,477	4,593	13,806	9,858
Capital outlay	2,580,417	7,515,500	414,977	48,455	95,714	43,207	8,146	102,635	403,221
Long-term debt:									
Principal	290,000	225,000	660,000	315,000	300,000	280,000	265,000	260,000	255,000
Interest and fiscal charges	458,254	360,837	31,197	46,737	60,237	72,837	84,779	96,202	107,068
Other expenditures:									
AEA flow-through	546,816	606,617	603,840	561,531	479,075	450,033	434,917	401,808	330,200
Total	\$ 17,556,593	22,191,095	15,646,451	14,573,252	13,049,892	12,449,035	12,013,605	11,960,078	11,398,276

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
DIRECT:			
U.S. DEPARTMENT OF EDUCATION:			
IMPACT AID - FACILITIES MAINTENANCE	84.040	FY 12	\$ 7,921
INDIRECT:			
U.S. DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 12	84,009
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 12	324,037 *
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 12	5,973
			<u>414,019</u>
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 12	<u>35,293</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1107-GC	38,437
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1107-G	261,763
TITLE I SCHOOLS IN NEED OF ASSISTANCE	84.010	FY 12	3,750
			<u>303,950 **</u>
ARRA - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 11	<u>18,938 **</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 12	<u>31,054</u>
READING FIRST STATE GRANTS	84.357	FY 12	<u>3,354</u>
TITLE III - ENGLISH LANGUAGE ACQUISITION	84.365	FY 12	<u>5,697</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 12	<u>63,544</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 12	<u>9,100</u>
EDUCATION JOB FUNDS	84.410	FY 11	<u>249,409</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES	84.027	FY 12	<u>77,577</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
IOWA DEPARTMENT OF HOMELAND SECURITY:			
PUBLIC ASSISTANCE GRANTS (FEMA DISASTER ASSISTANCE)	97.036	FY 12	<u>11,576</u>
TOTAL			<u>\$ 1,231,432</u>

* -Includes \$41,989 of non-cash awards.

** -Total for Title I Cluster \$323,443

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

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

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 Chariton Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 20, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards 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

The management of Chariton Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Chariton 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 Chariton Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Chariton 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned costs as items II-B-12 through II-D-12 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chariton 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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance 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 District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Chariton 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 Chariton 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 Chariton Community School District and other parties to whom Chariton Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Chariton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

March 20, 2013

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Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

To the Board of Education of
Chariton Community School District:

Compliance

We have audited Chariton Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Chariton Community School District's major federal programs for the year ended June 30, 2012. Chariton Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Chariton Community School District's management. Our responsibility is to express an opinion on Chariton Community School District's compliance based on our audit.

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

In our opinion, Chariton Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-B-12 to be a significant deficiency.

Chariton Community School District's responses to the 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 Chariton 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 Chariton Community School District and other parties to whom Chariton Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



NOLTE, CORNMAN & JOHNSON, P.C.

March 20, 2013

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency and a material weakness in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered Programs:
 - School Nutrition Cluster
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.559 - Summer Food Service Program for Children
 - Title I Cluster
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - CFDA Number 84.010 - Title I Schools in Need of Assistance
 - CFDA Number 84.389 - ARRA - Title I Grants to Local Educational Agencies, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Chariton Community School District did not qualify as a low-risk auditee.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-21 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person. We also noted that one individual has the ability to modify pay rates, process the payroll and generate payroll checks and direct deposits.

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

Response - We will continue to review procedures to obtain maximum internal control.

Conclusion - Response accepted.

II-B-12 Purchase Orders - We noted during our audit that the District currently uses purchase orders in the purchasing process, however we noted 4 instances out of 26 where a purchase order was completed after the product had been ordered and paid for by an employee in the Student Activity Fund. The employee was subsequently reimbursed for this purchase.

Recommendation - The advantage of using a purchase order system is that approvals of the items being purchased are noted prior to ordering of the items. In addition, when the items are approved and the purchase order is properly generated, it also reflects on the financial records as an outstanding order, which represents the amount as an obligation against the budget. When monitoring actual expenses, it can be helpful to know the outstanding orders which will be subsequently paid, therefore allowing the person who approves purchase orders the insight to know if there is still available funding to make the purchase.

Although districts are not required to use a purchase order system, the benefits to financial management make the system desirable. The District's current purchase order system should be reviewed and necessary changes made so that all disbursements are approved by the appropriate administrator before ordering of supplies takes place.

Response - The District will continue to work with all building/funds to achieve this.

Conclusion - Response accepted.

II-C-12 Student Lunch Account Balances - We noted during our audit that the District uses JMC software for the accounting of individual balances for lunch accounts. The District does not appear to reconcile the balance in the individual student accounts to the General Ledger.

Recommendation - The District would achieve better internal control by the reconciling the subsidiary ledger on a monthly basis and any adjustments made timely.

Response - The District will work with the Food Service Director to make sure this happens.

Conclusion - Response accepted.

II-D-12 Supporting Documentation - We noted during our audit instances of checks being written by the District which used statements as supporting documentation. In the absence of an itemized invoice the Board is not able to audit and approve all claims against the District.

Recommendation - The District should review their procedures that are in place to ensure that all bills are supported, approved, and paid from an invoice with a purchase order. The District should adopt processes and procedures to use when an invoice may not be available, such as requiring additional approval or support documentation other than the invoice.

Response - The District will review procedures and communicate to staff that invoices are needed for all purchases.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.559: Summer Food Service Program for Children
Federal Award Year: 2012
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
CFDA Number 84.010 - Title I Schools in Need of Assistance
CFDA Number 84.389: ARRA - Title I Grants to Local Educational Agencies, Recovery Act
Federal Award Year: 2011 and 2012
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. We also noted that one individual has the ability to modify pay rates, process the payroll and generate payroll checks and direct deposits.

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

Response - We will continue to review procedures to obtain maximum internal control.

Conclusion - Response accepted.

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.559: Summer Food Service Program for Children
Federal Award Year: 2012
U.S. Department of Agriculture
Passed through the Iowa Department of Education

III-B-12 Procurement Process - We noted during our audit that the District did not document the testing of the procurement with regard to the School Nutrition Cluster. The District entered into contracts through a bidding process, however, we were unable to determine that the District was comparing the bid pricing to the actual amounts billed.

Recommendation - In the future the District should document the determination made that the price from the bids agree with the amounts on the invoices.

Response - The Food Service Director has implemented procedures to verify prices match the bids on monthly billings.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-12 Certified Budget - District disbursements for the year ended June 30, 2012 exceeded the certified budget amounts in the other expenditures functional area.

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

Response - We will monitor the budget and amend if needed in the future.

Conclusion - Response accepted.

IV-B-12 Questionable Disbursements -

Clothing Items Purchased for Staff: We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are “public funds” the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - Coaches uniforms will not be purchased with Student Activity Funds in the future.

Conclusion - Response accepted.

IV-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-12 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dave Rich, Board Member	Supplies	\$6,413
Owner of True Value	Appliances per bid	\$5,232

In accordance with Iowa Code Section 279.7A, the above transactions with Dave Rich for supplies, do appear to be a conflict of interest by going over the maximum amount allowed by the Code of Iowa of \$2,500.

Recommendation - Chapter 279.7A of the Code of Iowa states that a board member cannot have a direct or indirect interest in the contract of goods of the school district where the board member would derive a benefit of over \$2,500.

In the future, the board of directors should limit the purchase of supplies, which the District does not receive bids for, to \$2,500.

Response - Due to the fact Chariton has limited availability for many of the supplies needed, we often times need to make purchases at True Value. We understand this could appear to be a conflict and we will continue to monitor.

Conclusion - Response acknowledged.

IV-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - The District understood there was a 15 day period. We will publish minutes within 14 days in the future.

Conclusion - Response accepted.

IV-G-12 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was understated by 0.44.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - The District's auditor will contact the Iowa Department of Education and Department of Management to resolve this matter. The District has corrected its aid and levy to show the adjustment.

Conclusion - Response accepted.

IV-H-12 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-12 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-12 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-12 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-12 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2012 audit:

Beginning Balance		\$ 1,049,088
Revenues:		
Sales Tax Revenues	\$ 1,011,148	
Other Local Revenues	62	1,011,210
		<u>2,060,298</u>
Expenditures/transfers out:		
School Infrastructure Construction	442,080	
Equipment	43,137	
Other	12,200	
Transfers to Other Funds:		
Debt Service Fund	751,405	1,248,822
		<u>1,248,822</u>
Ending balance		<u>\$ 811,476</u>

For the year ended June 30, 2012, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

IV-M-12 Interfund Loans - We noted during our audit that the District has an interfund loan that was on the balance sheet in the prior year and still on the current year balance sheets. As of June 30, 2012, the District has a loan between the General Fund and Nutrition Fund that has not been repaid.

According to a declaratory order issued by the Iowa Department of Education to the Auditor of State dated April 11, 2008, interfund loans on the District's year-end financial statements must be repaid to their respective funds on or before October 1st of the following fiscal year or the date of the District's Board of Directors organizational meeting, whichever is later. If the District is unable to repay the interfund loans by that time, the District must issue external loans to repay the interfund loans according to Iowa Code Chapter 74.

Recommendation - The District should issue external loans to repay the interfund loans to be in compliance with the declaratory order issued by the Iowa Department of Education to the Auditor of State and Iowa Code Chapter 74.

Response - The District is aware of the declaratory order issued by the Department of Education, but the District feels that, issuing external loans would impose unnecessary issuance and origination costs to the District.

Conclusion - Response acknowledged.

IV-N-12 Concession Contract - We noted during our audit that the Athletic Director entered into a contract on behalf of the District for the Band Boosters to staff the District's concession stands. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District to be in compliance with 291.1 of the Code of Iowa.

Response - In the future the Board President will sign all contracts.

Conclusion - Response accepted.

IV-O-12 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. For the Student Activity Fund checking account the District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The District will call the bank and obtain electronic copies as required.

Conclusion - Response accepted.