

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

JUNE 30, 2014

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**CHARITON**  
COMMUNITY SCHOOLS

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**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

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, Chariton Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**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 Chariton Community School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 42 through 44 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.

### *Supplementary Information*

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 third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. Other 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.

The Supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated February 6, 2015 on our consideration of Chariton Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that reports 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.



NOLTE, CORNMAN & JOHNSON, P.C.

February 6, 2015  
Newton, Iowa

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2014 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$13,743,091 in fiscal 2013 to \$13,593,792 in fiscal 2014 and General Fund expenditures increased from \$13,271,303 in fiscal 2013 to \$14,047,473 in fiscal 2014. The District's General Fund balance decreased from \$4,170,024 at June 30, 2013 to a balance of \$3,716,343 at June 30, 2014, a 10.88% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in local sources during fiscal 2014. The increase in expenditures was due primarily to an increase in the support services function during fiscal 2014.

### 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 Position 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.

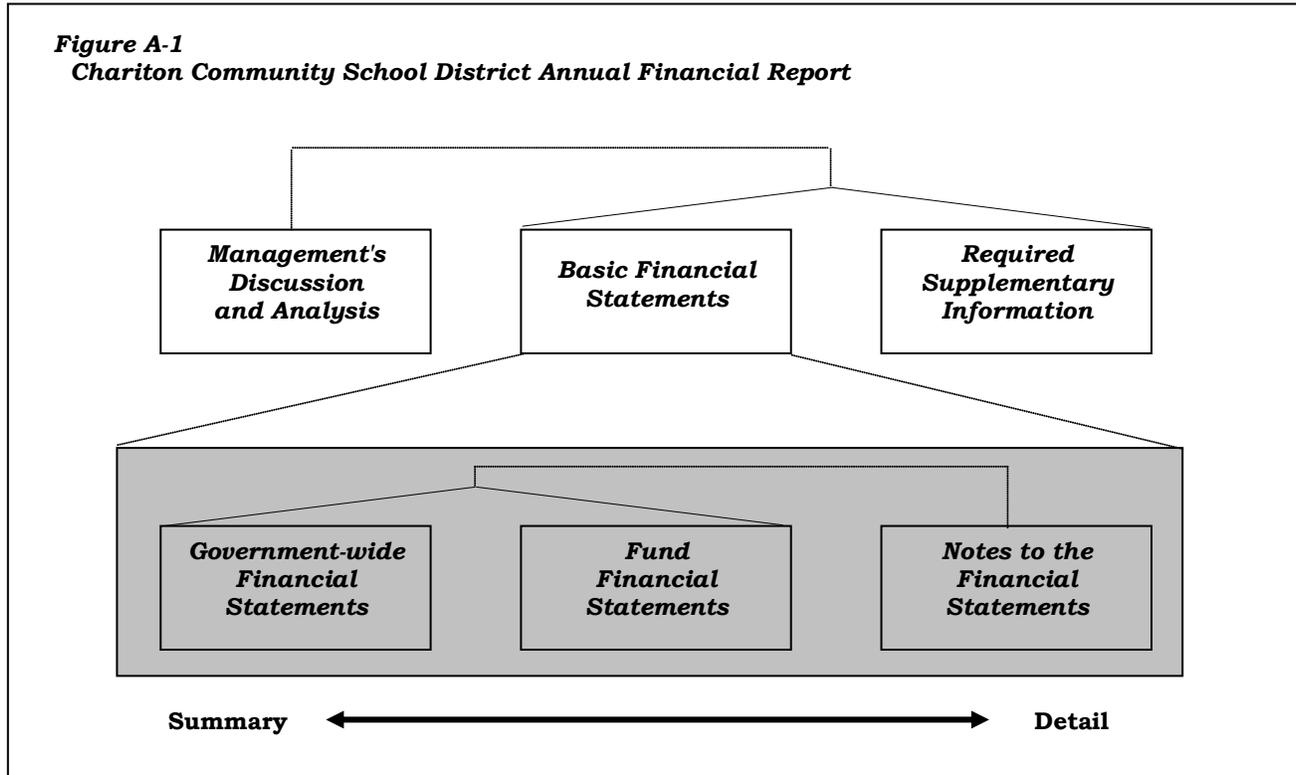
The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Chariton Community School District's operations in more detail than the government-wide statements by providing information about 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.

<b>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</b>				
	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"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and changes in fund net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
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 Position includes all of the District’s assets deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. 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.

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The two government-wide financial statements report the District's net position and how they have changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position is 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 required financial statements for the proprietary funds include a statement of net position, a statement of revenues, expenses and changes in fund net position 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 Position and the Statement of Changes in Fiduciary Net Position.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

*Figure A-3* below provides a summary of the District's net position at June 30, 2014 compared to June 30, 2013.

	Figure A-3 Condensed Statement of Net Position						
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Current and other assets	\$ 14,317,511	15,957,261	2,627	95,668	14,320,138	16,052,929	-10.79%
Capital assets	19,168,666	18,371,183	53,284	59,290	19,221,950	18,430,473	4.29%
Total assets	33,486,177	34,328,444	55,911	154,958	33,542,088	34,483,402	-2.73%
Long-term liabilities	10,380,844	10,920,120	10,306	8,143	10,391,150	10,928,263	-4.91%
Other liabilities	1,851,845	1,762,571	10,051	63,839	1,861,896	1,826,410	1.94%
Total liabilities	12,232,689	12,682,691	20,357	71,982	12,253,046	12,754,673	-3.93%
Deferred inflows of resources	3,982,557	4,066,869	-	-	3,982,557	4,066,869	-2.07%
Net position:							
Net investment in capital assets	9,391,026	8,811,844	53,284	59,290	9,444,310	8,871,134	6.46%
Restricted	4,814,623	4,613,172	-	-	4,814,623	4,613,172	4.37%
Unrestricted	3,065,282	4,153,868	(17,730)	23,686	3,047,552	4,177,554	-27.05%
Total net position	\$ 17,270,931	17,578,884	35,554	82,976	17,306,485	17,661,860	-2.01%

The District's combined net position decreased by 2.01% or \$355,375 from the prior year. The largest portion of the District's net position is 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 position represent resources subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net position increased \$201,451 or 4.37% from the prior year. The increase unrestricted net position was primarily a result of the increase in fund balance in the Capital Projects: Physical Plant and Equipment Levy Fund as compared to the previous year.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$1,130,002 or 27.05%. The decrease in unrestricted net position was primarily a result of the decrease in General Fund balance and decrease in Enterprise: Nutrition Fund balance as compared to the previous year.

**Figure A-4** shows the changes in net position for the year ended June 30, 2014 compared to the year ended June 30, 2013.

	Figure A-4 Changes in Net Position						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2014	2013	2014	2013	2014	2013	2013-14
Revenues							
Program revenues:							
Charges for services	\$ 584,579	685,871	182,805	193,572	767,384	879,443	-12.74%
Operating grants and contributions and restricted interest	1,594,510	1,376,371	492,322	482,171	2,086,832	1,858,542	12.28%
Capital grants and contributions and restricted interest	80,321	-	-	-	80,321	-	100.00%
General revenues:							
Property tax	3,930,248	4,177,110	-	-	3,930,248	4,177,110	-5.91%
Income surtax	288,215	741,615	-	-	288,215	741,615	-61.14%
Statewide sales, services and use tax	1,195,122	1,165,936	-	-	1,195,122	1,165,936	2.50%
Unrestricted state grants	7,770,468	7,812,300	-	-	7,770,468	7,812,300	-0.54%
Nonspecific program federal grants	-	20,849	-	-	-	20,849	-100.00%
Unrestricted investment earnings	8,557	7,673	2	2	8,559	7,675	11.52%
Other	73,069	351,746	-	-	73,069	351,746	-79.23%
Total revenues	<u>15,525,089</u>	<u>16,339,471</u>	<u>675,129</u>	<u>675,745</u>	<u>16,200,218</u>	<u>17,015,216</u>	<u>-4.79%</u>
Program expenses:							
Governmental activities:							
Instruction	9,509,960	9,559,536	-	-	9,509,960	9,559,536	-0.52%
Support services	4,821,997	4,096,552	405	1,023	4,822,402	4,097,575	17.69%
Non-instructional programs	-	-	725,588	716,740	725,588	716,740	1.23%
Other expenses	1,497,643	1,277,896	-	-	1,497,643	1,277,896	17.20%
Total expenses	<u>15,829,600</u>	<u>14,933,984</u>	<u>725,993</u>	<u>717,763</u>	<u>16,555,593</u>	<u>15,651,747</u>	<u>5.77%</u>
Excess(Deficiency) of revenues over(under) expenses	(304,511)	1,405,487	(50,864)	(42,018)	(355,375)	1,363,469	-126.06%
Transfers	(3,442)	(12,120)	3,442	12,120	-	-	0.00%
Change in net position	(307,953)	1,393,367	(47,422)	(29,898)	(355,375)	1,363,469	-126.06%
Net position beginning of year	<u>17,578,884</u>	<u>16,185,517</u>	<u>82,976</u>	<u>112,874</u>	<u>17,661,860</u>	<u>16,298,391</u>	<u>8.37%</u>
Net position end of year	<u>\$ 17,270,931</u>	<u>17,578,884</u>	<u>35,554</u>	<u>82,976</u>	<u>17,306,485</u>	<u>17,661,860</u>	<u>-2.01%</u>

In fiscal 2014, property tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 84.92% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for nearly all of the revenue from business type activities.

The District's total revenues were approximately \$16.20 million, of which approximately \$15.53 million was for governmental activities and approximately \$0.67 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.79% decrease in revenues and a 5.77% increase in expenses. Decreased amounts received during the year in property tax and unrestricted state grants as compared to the previous year contributed to the decrease in revenues. The increase in expenses is primarily related to increased expenditures in the support services function as compared to the previous year.

### Governmental Activities

Revenues for governmental activities were \$15,525,089 and expenses were \$15,829,600 for the year ended June 30, 2014.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses for the year ended June 30, 2014 compared to the year ended June 30, 2013.

	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-14	2014	2013	Change 2013-14
Instruction	\$ 9,509,960	9,559,536	-0.52%	7,921,157	8,068,818	-1.83%
Support services	4,821,997	4,096,552	17.71%	4,710,511	4,068,219	15.79%
Other expenses	1,497,643	1,277,896	17.20%	938,522	734,705	27.74%
Totals	<u>\$ 15,829,600</u>	<u>14,933,984</u>	<u>6.00%</u>	<u>13,570,190</u>	<u>12,871,742</u>	<u>5.43%</u>

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$584,579.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,674,831.
- The net cost of governmental activities was financed with \$3,930,248 in property taxes, \$288,215 in income surtax, \$1,195,122 in statewide sales, services and use tax, \$7,770,468 in unrestricted state grants, \$8,557 of interest income and \$73,069 of other general revenues.

### Business Type Activities

Revenues of the District's business type activities were \$675,129 and expenses were \$725,993. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and interest income.

## 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 balances of \$8,497,201, below last year's ending combined fund balances of \$9,615,502.

### Governmental Fund Highlights

- The District's declining General Fund financial position is the product of many factors. Revenues decreasing by \$149,299 coupled with an increase in expenditures of \$776,170 as compared to the previous year contributed to the decrease in General Fund ending balance. For the year, the General Fund balance decreased by \$453,681 resulting in an ending fund balance of \$3,716,343.

- The Capital Projects Fund balance decreased from \$3,319,318 in fiscal year 2013 to \$2,701,226 in fiscal year 2014. The decrease in Capital Projects Fund balance is due to increased expenditures for the nearing completion of the renovations at the high school and the middle school HVAC project.

### Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$82,976 at June 30, 2013 to \$35,554 at June 30, 2014, representing a decrease of 57.15%.

## BUDGETARY HIGHLIGHTS

The District's receipts were \$309,316 more than budgeted receipts, a variance of 1.88%. The most significant variance resulted from the District receiving more from state 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 budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2014, the District had invested approximately \$19.22 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 an increase of 4.29% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$778,152.

The original cost of the District's capital assets was \$29,991,968. Governmental funds account for \$29,781,104 with the remainder of \$210,864 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the buildings and improvements category. The District's buildings and improvements totaled \$6,634,861 at June 30, 2013 compared to \$16,804,691 at June 30, 2014. The increase is related to the completion of the high school renovation and addition project being capitalized during the year.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Land	\$ 514,007	514,007	-	-	514,007	514,007	0.00%
Construction in progress	623,495	10,024,307	-	-	623,495	10,024,307	-93.78%
Land improvements	282,419	295,601	-	-	282,419	295,601	-4.46%
Buildings and improvements	16,804,691	6,634,861	-	-	16,804,691	6,634,861	153.28%
Machinery and equipment	944,054	902,407	53,284	59,290	997,338	961,697	3.71%
Total	\$ 19,168,666	18,371,183	53,284	59,290	19,221,950	18,430,473	4.29%

## Long-Term Debt

At June 30, 2014, the District had \$10,391,150 in total long-term debt outstanding. This represents a decrease of 4.91% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

At June 30, 2014, the District had total outstanding revenue bonds payable from the Capital Projects Fund of \$10,075,000.

The District had total outstanding Net OPEB liability of \$316,150 at June 30, 2014. Of this \$305,844 was attributable to the governmental activities with the remaining \$10,306 attributable to the business activities of the District.

Figure A-7 Outstanding Long-Term Obligations							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Revenue bonds	\$ 10,075,000	10,510,000	-	-	10,075,000	10,510,000	-4.14%
Termination benefits	-	168,483	-	-	-	168,483	-100.00%
Net OPEB liability	305,844	241,637	10,306	8,143	316,150	249,780	26.57%
Totals	\$ 10,380,844	10,920,120	10,306	8,143	10,391,150	10,928,263	-4.91%

## 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:

- Legislative topics are always a source of concern, as any changes can drastically effect the district's funding.
- Enrollment is always an important topic as the majority of our funding is based on it.

## 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.

**CHARITON**  
COMMUNITY SCHOOLS

BASIC FINANCIAL STATEMENTS

CHARITON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 8,946,318	221,284	9,167,602
Receivables:			
Property tax:			
Delinquent	59,785	-	59,785
Succeeding year	3,982,557	-	3,982,557
Income surtax	199,586	-	199,586
Accounts	14,426	-	14,426
Due from other funds	235,313	(235,313)	-
Due from other governments	879,526	9,252	888,778
Inventories	-	7,404	7,404
Capital assets, net of accumulated depreciation	19,168,666	53,284	19,221,950
<b>TOTAL ASSETS</b>	<b>33,486,177</b>	<b>55,911</b>	<b>33,542,088</b>
<b>LIABILITIES</b>			
Accounts payable	176,010	-	176,010
Salaries and benefits payable	1,439,469	2,279	1,441,748
Advances from grantors	22,688	-	22,688
Accrued interest payable	213,678	-	213,678
Unearned revenues	-	7,772	7,772
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	435,000	-	435,000
Portion due after one year:			
Revenue bonds payable	9,640,000	-	9,640,000
Net OPEB liability	305,844	10,306	316,150
<b>TOTAL LIABILITIES</b>	<b>12,232,689</b>	<b>20,357</b>	<b>12,253,046</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable property tax revenue	3,982,557	-	3,982,557
<b>NET POSITION</b>			
Net investment in capital assets	9,391,026	53,284	9,444,310
Restricted for:			
Categorical funding	544,803	-	544,803
Debt service	1,144,566	-	1,144,566
Management levy purposes	563,488	-	563,488
Student activities	157,900	-	157,900
School infrastructure	737,871	-	737,871
Physical plant and equipment levy	1,665,995	-	1,665,995
Unrestricted	3,065,282	(17,730)	3,047,552
<b>TOTAL NET POSITION</b>	<b>\$ 17,270,931</b>	<b>35,554</b>	<b>17,306,485</b>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 5,401,726	211,167	381,837	-	(4,808,722)	-	(4,808,722)
Special	1,972,487	48,003	71,686	-	(1,852,798)	-	(1,852,798)
Other	2,135,747	325,409	550,701	-	(1,259,637)	-	(1,259,637)
	<u>9,509,960</u>	<u>584,579</u>	<u>1,004,224</u>	<u>-</u>	<u>(7,921,157)</u>	<u>-</u>	<u>(7,921,157)</u>
Support services:							
Student	234,624	-	26,173	-	(208,451)	-	(208,451)
Instructional staff	773,804	-	4,992	-	(768,812)	-	(768,812)
Administration	1,597,384	-	-	-	(1,597,384)	-	(1,597,384)
Operation and maintenance of plant	1,500,802	-	-	80,321	(1,420,481)	-	(1,420,481)
Transportation	715,383	-	-	-	(715,383)	-	(715,383)
	<u>4,821,997</u>	<u>-</u>	<u>31,165</u>	<u>80,321</u>	<u>(4,710,511)</u>	<u>-</u>	<u>(4,710,511)</u>
Long-term debt interest	435,380	-	-	-	(435,380)	-	(435,380)
Other expenditures:							
AEA flowthrough	559,121	-	559,121	-	-	-	-
Depreciation(unallocated)*	503,142	-	-	-	(503,142)	-	(503,142)
	<u>1,062,263</u>	<u>-</u>	<u>559,121</u>	<u>-</u>	<u>(503,142)</u>	<u>-</u>	<u>(503,142)</u>
Total governmental activities	<u>15,829,600</u>	<u>584,579</u>	<u>1,594,510</u>	<u>80,321</u>	<u>(13,570,190)</u>	<u>-</u>	<u>(13,570,190)</u>
Business type activities:							
Support services:							
Administration	405	-	-	-	-	(405)	(405)
Non-instructional programs:							
Food service operations	725,588	182,805	492,322	-	-	(50,461)	(50,461)
Total business type activities	<u>725,993</u>	<u>182,805</u>	<u>492,322</u>	<u>-</u>	<u>-</u>	<u>(50,866)</u>	<u>(50,866)</u>
Total	<u>\$ 16,555,593</u>	<u>767,384</u>	<u>2,086,832</u>	<u>80,321</u>	<u>(13,570,190)</u>	<u>(50,866)</u>	<u>(13,621,056)</u>
<b>General Revenues and Transfers:</b>							
Property tax levied for:							
General purposes				\$ 3,564,327	-		3,564,327
Capital outlay				365,921	-		365,921
Income surtax				288,215	-		288,215
Statewide sales, services and use tax				1,195,122	-		1,195,122
Unrestricted state grants				7,770,468	-		7,770,468
Unrestricted investment earnings				8,557	2		8,559
Other				73,069	-		73,069
Transfers				(3,442)	3,442		-
Total general revenues and transfers				<u>13,262,237</u>	<u>3,444</u>		<u>13,265,681</u>
Change in net position				(307,953)	(47,422)		(355,375)
Net position beginning of year				17,578,884	82,976		17,661,860
Net position end of year				<u>\$ 17,270,931</u>	<u>35,554</u>		<u>17,306,485</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, 2014

	General	Capital Projects	Nonmajor	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 4,676,198	2,195,305	2,074,815	8,946,318
Receivables:				
Property tax:				
Delinquent	49,654	5,555	4,576	59,785
Succeeding year	3,274,529	358,028	350,000	3,982,557
Income surtax	99,793	99,793	-	199,586
Accounts	14,084	-	342	14,426
Due from other funds	240,053	-	-	240,053
Due from other governments	314,975	564,551	-	879,526
<b>TOTAL ASSETS</b>	<b>\$ 8,669,286</b>	<b>3,223,232</b>	<b>2,429,733</b>	<b>14,322,251</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities:				
Due to other funds	\$ -	4,740	-	4,740
Accounts payable	116,464	59,445	101	176,010
Salaries and benefits payable	1,439,469	-	-	1,439,469
Advances from grantors	22,688	-	-	22,688
Total liabilities	1,578,621	64,185	101	1,642,907
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	3,274,529	358,028	350,000	3,982,557
Income surtax	99,793	99,793	-	199,586
Total deferred inflows of resources	3,374,322	457,821	350,000	4,182,143
Fund balances:				
Restricted for:				
Categorical funding	544,803	-	-	544,803
Debt service	-	-	1,358,244	1,358,244
Management levy purposes	-	-	563,488	563,488
Student activities	-	-	157,900	157,900
School infrastructure	-	1,035,231	-	1,035,231
Physical plant and equipment levy	-	1,665,995	-	1,665,995
Unassigned	3,171,540	-	-	3,171,540
Total fund balances	3,716,343	2,701,226	2,079,632	8,497,201
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 8,669,286</b>	<b>3,223,232</b>	<b>2,429,733</b>	<b>14,322,251</b>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2014

<b>Total fund balances of governmental funds(page 20)</b>	\$ 8,497,201
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	19,168,666
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period and, therefore, are recognized as deferred inflows of resources in the governmental funds.	199,586
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.	(213,678)
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.	<u>(10,380,844)</u>
<b>Net position of governmental activities(page 18)</b>	<u><u>\$ 17,270,931</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2014

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 3,810,480	640,185	300,734	4,751,399
Tuition	239,843	-	-	239,843
Other	282,075	4,958	336,427	623,460
State sources	8,765,078	1,195,122	-	9,960,200
Federal sources	483,123	-	-	483,123
Total revenues	<u>13,580,599</u>	<u>1,840,265</u>	<u>637,161</u>	<u>16,058,025</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,383,894	-	149,820	5,533,714
Special	1,959,611	-	-	1,959,611
Other	1,814,016	-	327,440	2,141,456
	<u>9,157,521</u>	<u>-</u>	<u>477,260</u>	<u>9,634,781</u>
Support services:				
Student	233,881	-	-	233,881
Instructional staff	746,814	26,130	-	772,944
Administration	1,590,124	-	-	1,590,124
Operation and maintenance of plant	1,221,730	3,442	199,877	1,425,049
Transportation	538,282	215,767	-	754,049
	<u>4,330,831</u>	<u>245,339</u>	<u>199,877</u>	<u>4,776,047</u>
Capital outlay	-	1,342,665	-	1,342,665
Long-term debt:				
Principal	-	-	435,000	435,000
Interest and fiscal charges	-	1,500	440,405	441,905
	<u>-</u>	<u>1,500</u>	<u>875,405</u>	<u>876,905</u>
Other expenditures:				
AEA flowthrough	559,121	-	-	559,121
Total expenditures	<u>14,047,473</u>	<u>1,589,504</u>	<u>1,552,542</u>	<u>17,189,519</u>
Excess(Deficiency)of revenues over(under)expenditures	(466,874)	250,761	(915,381)	(1,131,494)
Other financing sources(uses):				
Sale of capital assets	-	-	-	-
Transfer in	-	-	868,853	868,853
Transfer out	-	(868,853)	-	(868,853)
Insurance proceeds	13,193	-	-	13,193
Total other financing sources(uses)	<u>13,193</u>	<u>(868,853)</u>	<u>868,853</u>	<u>13,193</u>
Change in fund balances	(453,681)	(618,092)	(46,528)	(1,118,301)
Fund balance beginning of year	<u>4,170,024</u>	<u>3,319,318</u>	<u>2,126,160</u>	<u>9,615,502</u>
Fund balance end of year	<u>\$ 3,716,343</u>	<u>2,701,226</u>	<u>2,079,632</u>	<u>8,497,201</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, 2014

**Net change in fund balances - total governmental funds(page 22)** \$ (1,118,301)

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

Capital outlay 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 outlay and depreciation expense in the current year are as follows:

Capital outlay	\$ 1,566,187	
Depreciation expense	<u>(768,704)</u>	797,483

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 435,000

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. 6,525

Income surtax receivable is not considered available revenue and is recognized as deferred inflows of resources in the governmental funds. (532,936)

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:

Termination benefits	\$ 168,483	
Other postemployment benefits	<u>(64,207)</u>	<u>104,276</u>

**Change in net position of governmental activities(page 19)** \$ (307,953)

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2014

	Enterprise School Nutrition
<b>ASSETS</b>	
Current assets:	
Cash and pooled investments	\$ 221,284
Due from other governments	9,252
Inventories	7,404
Total current assets	237,940
Noncurrent assets:	
Capital assets, net of accumulated depreciation	53,284
<b>TOTAL ASSETS</b>	<b>291,224</b>
<b>LIABILITIES</b>	
Current liabilities:	
Due to other funds	235,313
Salaries & benefits payable	2,279
Unearned revenue	7,772
Total current liabilities	245,364
Noncurrent liabilities:	
Net OPEB liability	10,306
<b>TOTAL LIABILITIES</b>	<b>255,670</b>
<b>NET POSITION</b>	
Net investment in capital assets	53,284
Unrestricted	(17,730)
<b>TOTAL NET POSITION</b>	<b>\$ 35,554</b>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2014

	Enterprise School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 182,805
Operating expenses:	
Support services:	
Administration:	
Supplies	405
Non-instructional programs:	
Salaries	219,016
Benefits	93,594
Services	882
Supplies	402,648
Depreciation	9,448
	725,588
Total operating expenses	725,993
Operating loss	(543,188)
Non-operating revenues:	
State sources	5,797
Federal sources	486,525
Interest income	2
Total non-operating revenues	492,324
Deficiency of revenues under expenditures before other financing sources	(50,864)
Other financing sources:	
Capital contributions	3,442
Change in net position	(47,422)
Net position beginning of year	82,976
Net position end of year	\$ 35,554

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2014

	Enterprise School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 180,887
Cash payments to employees for services	(312,722)
Cash payments to suppliers for goods or services	(356,393)
Net cash used in operating activities	(488,228)
Cash flows from non-capital financing activities:	
Borrowings from General Fund	185,313
State grants received	5,797
Federal grants received	439,190
Net cash provided by non-capital financing activities	630,300
Cash flows from investing activities:	
Interest on investments	2
Net increase in cash and cash equivalents	142,074
Cash and cash equivalents at beginning of year	79,210
Cash and cash equivalents at end of year	\$ 221,284
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (543,188)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	45,512
Depreciation	9,448
Decrease in inventories	1,625
Decrease in salaries and benefits payable	(1,870)
Decrease in unearned revenue	(1,918)
Increase in other postemployment benefits	2,163
Net cash used in operating activities	\$ (488,228)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2014, the District received \$45,512 of federal commodities.

During the year ended June 30, 2014, the District received \$3,442 in contributed capital from the Capital Projects: Physical Plant and Equipment Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2014

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
<b>ASSETS</b>	
Cash and pooled investments	\$ 12,844
<b>LIABILITIES</b>	<u>-</u>
<b>NET POSITION</b>	
Restricted for scholarships	<u>\$ 12,844</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2014

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	<u>\$          17,200</u>
Deductions:	
Instruction:	
Other:	
Scholarships awarded	<u>                  18,250</u>
Change in net position	(1,050)
Net position beginning of year	<u>                  13,894</u>
Net position end of year	<u><u>\$          12,844</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

# CHARITON COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

### (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 Position 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 Position presents the District's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

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

*Restricted net position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has 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 fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net position and changes in net position. 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 position 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.

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, Deferred Inflows of Resources and Fund Balances**

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

Cash and Pooled Investments - 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, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2013.

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, 2014 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 Position. 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.

Advances from Grantors - Grant proceeds which have been received by the District but will be spent in a succeeding fiscal year.

Deferred Inflows of Resources - 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 inflows of resources 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 inflows of resources consist of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position 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 Position 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 Position.

Fund Balances - 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.

### **E. Budgeting and Budgetary Control**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, expenditures exceeded the amount budgeted in the other expenditures function.

#### **(2) Cash and Pooled Investments**

The District's deposits at June 30, 2014 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, 2014, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$5,037,289 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, 2014 is as follows:

Receivable Fund	Payable Fund	Amount
General	Enterprise: School Nutrition	\$ 235,313
	Capital Projects:	
General	Statewide Sales, Services, and Use Tax	4,740
Total		<u>\$ 240,053</u>

The Enterprise: School Nutrition Fund is repaying the General Fund for money borrowed to pay salaries and benefits from the current year and prior years.

The Capital Projects: Statewide Sales, Services and Use Tax Fund is repaying the General Fund for \$4,665 for Title I and \$75 for a state reimbursement for a teacher that was received to the wrong fund.

**(4) Transfers**

The detail of transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
	Capital Projects:	
Debt Service	Statewide Sales, Services, and Use Tax	<u>\$ 868,853</u>

The transfer from the Capital Projects: Statewide Sales, Services, and Use Tax Fund to the Debt Service Fund was needed for principal and interest payments on the District's revenue bond obligations.

**(5) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2014 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
<b>Governmental activities:</b>					
Revenue Bonds	\$ 10,510,000	-	435,000	10,075,000	435,000
Termination Benefits	168,483	-	168,483	-	168,483
Net OPEB Liability	241,637	64,207	-	305,844	-
Total	<u>\$ 10,920,120</u>	<u>64,207</u>	<u>603,483</u>	<u>10,380,844</u>	<u>603,483</u>
<b>Business type activities:</b>					
Net OPEB Liability	\$ 8,143	2,163	-	10,306	-

**Revenue Bonds Payable**

Details of the District's June 30, 2014 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
2015	3.00	% \$	435,000	427,355	862,355
2016	4.00		455,000	414,305	869,305
2017	4.00		475,000	396,105	871,105
2018	4.00		495,000	377,105	872,105
2019	4.00		520,000	357,305	877,305
2020-2024	4.00-4.25		2,990,000	1,453,544	4,443,544
2025-2029	4.35-4.70		3,820,000	752,015	4,572,015
2,030	5		885,000	42,037	927,037
Total			<u>\$ 10,075,000</u>	<u>4,219,771</u>	<u>14,294,771</u>

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 72% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$14,294,771. For the current year, \$435,000 of principal and \$440,405 of interest was paid on the bonds and total statewide sales, services and use tax revenues were \$1,195,122.

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

- a) \$927,038 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) Monthly transfers will be made from the District's Capital Projects: Statewide Sales, Services and Use Tax Fund to a revenue account held by the paying agent.
- c) Payments to be made on the bonds will be transferred from the revenue account to the 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.

**(6) Capital Assets**

Capital assets activity for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Business type activities:</b>				
Machinery and equipment	\$ 209,422	3,442	2,000	210,864
Less accumulated depreciation	150,132	9,448	2,000	157,580
Business type activities capital assets, net	<u>\$ 59,290</u>	<u>(6,006)</u>	<u>-</u>	<u>53,284</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 514,007	-	-	514,007
Construction in progress	10,024,307	1,251,600	10,652,412	623,495
Total capital assets not being depreciated	<u>10,538,314</u>	<u>1,251,600</u>	<u>10,652,412</u>	<u>1,137,502</u>
Capital assets being depreciated:				
Land improvements	1,363,499	7,378	-	1,370,877
Buildings and improvements	12,905,188	10,652,412	-	23,557,600
Machinery and equipment	4,776,687	307,209	1,368,771	3,715,125
Total capital assets being depreciated	<u>19,045,374</u>	<u>10,966,999</u>	<u>1,368,771</u>	<u>28,643,602</u>
Less accumulated depreciation for:				
Land improvements	1,067,898	20,560	-	1,088,458
Buildings and improvements	6,270,327	482,582	-	6,752,909
Machinery and equipment	3,874,280	265,562	1,368,771	2,771,071
Total accumulated depreciation	<u>11,212,505</u>	<u>768,704</u>	<u>1,368,771</u>	<u>10,612,438</u>
Total capital assets being depreciated, net	<u>7,832,869</u>	<u>10,198,295</u>	<u>-</u>	<u>18,031,164</u>
Governmental activities capital assets, net	<u>\$ 18,371,183</u>	<u>11,449,895</u>	<u>10,652,412</u>	<u>19,168,666</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 20,974
Other	3,359
Support services:	
Instructional staff	2,099
Administration	2,028
Operation and maintenance of plant	12,522
Transportation	<u>224,580</u>
	265,562
Unallocated depreciation	<u>503,142</u>
Total governmental activities depreciation expense	<u>\$ 768,704</u>
Business type activities:	
Food services	<u>\$ 9,448</u>

## (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 5.95% of their annual covered salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$724,387, \$689,969 and \$641,713 respectively, equal to the required contributions for each year.

**(8) Other Postemployment Benefits(OPEB)**

Plan Description - The District operates a single-employer health benefit plan which provides medical and dental benefits for employees, retirees and their spouses. There are 157 active and 6 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, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 123,546
Interest on net OPEB obligation	11,240
Adjustment to annual required contribution	<u>(9,968)</u>
Annual OPEB cost	124,818
Contributions made	<u>(58,448)</u>
Increase in net OPEB obligation	66,370
Net OPEB obligation beginning of year	<u>249,780</u>
Net OPEB obligation end of year	<u><u>\$ 316,150</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, 2014.

For the year ended June 30, 2014, the District contributed \$58,448 to the medical plan. Plan 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, 2014 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 90,725	42.99%	166,112
2013	124,392	32.74%	249,780
2014	124,818	46.83%	316,150

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$1,253,878, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,253,878. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$6,952,546 and the ratio of the UAAL to covered payroll was 18.03%. As of June 30, 2014, 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, 2012 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 9.0% for the year ended June 30, 2014. 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 Healthy Generational Mortality Table with Projection Scale AA. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

Retiree premiums in the medical plan for the 2013-14 year were approximately \$485 monthly. 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, 2014 were \$92,322.

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 \$559,121 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Categorical Funding**

The District's restricted fund balance for categorical funding at June 30, 2014 is comprised of the following programs:

Program	Amount
Gifted and Talented Programs	\$ 67,367
Four-year-old Preschool State Aid	184,428
Home School Assistance Program	8,277
Teacher Salary Supplement	74,688
Market Factor	9,093
Professional Development for Model Core Curriculum	77,340
Professional Development	55,442
Market Factor Incentives	2,174
Teacher Leadership Grants	208
Successful Progression for Early Readers	16,321
Property Tax and State Aid Financed Weighted Limited English Proficient	49,465
Total	<u>\$ 544,803</u>

**(12) Construction Commitment**

The District has entered into various contracts totaling \$673,121 for renovations at the middle school. As of June 30, 2014, costs of \$623,495 had been incurred against the contracts. The balance remaining of \$49,626 at June 30, 2014 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.

**(13) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed the certified budget amounts. During the year ended June 30, 2014, expenditures in the other expenditures functional area exceeded the budgeted amount.

**(14) Deficit Unrestricted Net Position**

At June 30, 2014, the District had a deficit unrestricted net position of \$17,730 in the Enterprise: Nutrition Fund.

**(15) Reconciliation of Governmental Fund Balances to Net Position**

Reconciliation of certain governmental fund balances to net position are as follows:

	Net Investment in Capital Assets	School Infrastructure	Debt Service	Unassigned/ Unrestricted
<b>Fund balance (Exhibit C)</b>	\$ -	1,035,231	1,358,244	3,171,540
Capital assets, net of accumulated depreciation	19,168,666	-	-	-
Revenue bond capitalized indebtedness	(9,777,640)	-	-	-
Revenue bond proceeds not expended	-	(297,360)	-	-
Accrued interest payable	-	-	(213,678)	-
Income surtax receivable	-	-	-	199,586
Net OPEB liability	-	-	-	(305,844)
<b>Net position (Exhibit A)</b>	<u>\$ 9,391,026</u>	<u>737,871</u>	<u>1,144,566</u>	<u>3,065,282</u>

**(16) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

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, 2014**

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
<b>Revenues:</b>						
Local sources	\$ 5,614,702	182,807	5,797,509	6,665,147	6,665,147	(867,638)
Intermediate sources	-	-	-	6,000	6,000	(6,000)
State sources	9,960,200	5,797	9,965,997	8,527,691	8,527,691	1,438,306
Federal sources	483,123	486,525	969,648	1,225,000	1,225,000	(255,352)
<b>Total revenues</b>	<b>16,058,025</b>	<b>675,129</b>	<b>16,733,154</b>	<b>16,423,838</b>	<b>16,423,838</b>	<b>309,316</b>
<b>Expenditures/Expenses:</b>						
Instruction	9,634,781	-	9,634,781	9,830,000	9,930,000	295,219
Support services	4,776,047	405	4,776,452	4,651,500	5,151,500	375,048
Non-instructional programs	-	725,588	725,588	1,455,000	1,455,000	729,412
Other expenditures	2,778,691	-	2,778,691	1,478,576	2,000,000	(778,691)
<b>Total expenditures/expenses</b>	<b>17,189,519</b>	<b>725,993</b>	<b>17,915,512</b>	<b>17,415,076</b>	<b>18,536,500</b>	<b>620,988</b>
Excess(Deficiency) of revenues over(under) expenditures/expenses	(1,131,494)	(50,864)	(1,182,358)	(991,238)	(2,112,662)	930,304
Other financing sources, net	13,193	3,442	16,635	-	-	16,635
Excess(Deficiency)of revenues and other financing sources over(under) expenditures/expenses	(1,118,301)	(47,422)	(1,165,723)	(991,238)	(2,112,662)	946,939
Balance beginning of year	9,615,502	82,976	9,698,478	8,851,142	8,851,142	847,336
Balance end of year	\$ 8,497,201	35,554	8,532,755	7,859,904	6,738,480	1,794,275

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2014

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, the District adopted one budget amendment, increasing budget expenditures by \$1,121,424.

During the year ended June 30, 2014, expenditures in the other expenditures function exceeded the 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)	UAAL 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%
2013	July 1, 2012	0	1,253,878	1,253,878	0.0%	6,309,281	19.87%
2014	July 1, 2012	0	1,253,878	1,253,878	0.0%	6,952,546	18.03%

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, 2014

	Special Revenue				
	Manage- ment Levy	Student Activity	Total Special Revenue	Debt Service	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 558,912	157,659	716,571	1,358,244	2,074,815
Receivables:					
Property tax:					
Delinquent	4,576	-	4,576	-	4,576
Succeeding year	350,000	-	350,000	-	350,000
Accounts	-	342	342	-	342
<b>TOTAL ASSETS</b>	<b>\$ 913,488</b>	<b>158,001</b>	<b>1,071,489</b>	<b>1,358,244</b>	<b>2,429,733</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	-	101	101	-	101
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	350,000	-	350,000	-	350,000
Fund balances:					
Restricted for:					
Debt service	-	-	-	1,358,244	1,358,244
Management levy purposes	563,488	-	563,488	-	563,488
Student activities	-	157,900	157,900	-	157,900
Total fund balances	563,488	157,900	721,388	1,358,244	2,079,632
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 913,488</b>	<b>158,001</b>	<b>1,071,489</b>	<b>1,358,244</b>	<b>2,429,733</b>

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, 2014

	Special Revenue				
	Manage- ment Levy	Student Activity	Total Special Revenue	Debt Service	Total
Revenues:					
Local sources:					
Local tax	\$ 300,734	-	300,734	-	300,734
Other	10,478	325,898	336,376	51	336,427
Total revenues	311,212	325,898	637,110	51	637,161
Expenditures:					
Current:					
Instruction:					
Regular	149,820	-	149,820	-	149,820
Other	-	327,440	327,440	-	327,440
Support services:					
Operation and maintenance of plant	199,877	-	199,877	-	199,877
Long-term debt:					
Principal	-	-	-	435,000	435,000
Interest and fiscal charges	-	-	-	440,405	440,405
Total expenditures	349,697	327,440	677,137	875,405	1,552,542
Deficiency of revenues under expenditures	(38,485)	(1,542)	(40,027)	(875,354)	(915,381)
Other financing sources:					
Transfer in	-	-	-	868,853	868,853
Change in fund balances	(38,485)	(1,542)	(40,027)	(6,501)	(46,528)
Fund balances beginning of year	601,973	159,442	761,415	1,364,745	2,126,160
Fund balances end of year	\$ 563,488	157,900	721,388	1,358,244	2,079,632

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2014

	Capital Projects			Total
	Statewide Sales, Services and Use Tax	Construction Account	Physical Plant and Equipment Levy	
<b>ASSETS</b>				
Cash and pooled investments	\$ 237,505	297,360	1,660,440	2,195,305
Receivables:				
Property tax:				
Delinquent	-	-	5,555	5,555
Succeeding year	-	-	358,028	358,028
Income surtax	-	-	99,793	99,793
Due from other governments	564,551	-	-	564,551
<b>TOTAL ASSETS</b>	<b>\$ 802,056</b>	<b>297,360</b>	<b>2,123,816</b>	<b>3,223,232</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities:				
Due to other funds	\$ 4,740	-	-	4,740
Accounts payable	59,445	-	-	59,445
Total liabilities	64,185	-	-	64,185
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	-	-	358,028	358,028
Income surtax	-	-	99,793	99,793
Total deferred inflows of resources	-	-	457,821	457,821
Fund balances:				
Restricted for:				
School infrastructure	737,871	297,360	-	1,035,231
Physical plant and equipment	-	-	1,665,995	1,665,995
Total fund balances	737,871	297,360	1,665,995	2,701,226
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 802,056</b>	<b>297,360</b>	<b>2,123,816</b>	<b>3,223,232</b>

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, 2014

	Capital Projects			Total
	Statewide Sales, Services and Use Tax	Construction Account	Physical Plant and Equipment Levy	
Revenues:				
Local sources:				
Local tax	\$ -	-	640,185	640,185
Other	618	3,457	883	4,958
State sources	1,195,122	-	-	1,195,122
Total revenues	<u>1,195,740</u>	<u>3,457</u>	<u>641,068</u>	<u>1,840,265</u>
Expenditures:				
Current:				
Support services:				
Instructional staff	26,130	-	-	26,130
Operation and maintenance of plant	-	-	3,442	3,442
Transportation	-	-	215,767	215,767
Other expenditures:				
Capital outlay	643,661	656,758	42,246	1,342,665
Long-term debt:				
Interest and fiscal charges	1,500	-	-	1,500
Total expenditures	<u>671,291</u>	<u>656,758</u>	<u>261,455</u>	<u>1,589,504</u>
Excess(Deficiency) of revenues over(under) expenditures	524,449	(653,301)	379,613	250,761
Other financing uses:				
Transfer out	(868,853)	-	-	(868,853)
Change in fund balances	(344,404)	(653,301)	379,613	(618,092)
Fund balances beginning of year	<u>1,082,275</u>	<u>950,661</u>	<u>1,286,382</u>	<u>3,319,318</u>
Fund balances end of year	<u>\$ 737,871</u>	<u>297,360</u>	<u>1,665,995</u>	<u>2,701,226</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2014

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Thespians	\$ 3,078	1,245	1,193	3,130
Speech	-	155	155	-
National Honor Society	-	747	747	-
Vocal Music	655	1,245	1,478	422
Band	1,137	565	1,632	70
Middle School Band	206	100	-	306
Flag Team	8	-	-	8
Co-Ed Athletics	11,074	106,293	105,763	11,604
Girls Soccer	-	100	25	75
Boys Soccer	201	200	-	401
Boys Track	614	950	1,292	272
Girls Track	717	360	494	583
Cross Country	1,052	180	83	1,149
Girls Tennis	13	851	864	-
Boys Tennis	44	-	-	44
Boys Basketball	1,433	1,616	475	2,574
Football	13,445	18,070	20,630	10,885
Baseball	1,074	14,521	13,352	2,243
Wrestling	-	10,448	9,347	1,101
Weight Room	537	1,115	883	769
Golf	-	165	165	-
Girls Basketball	545	473	492	526
Volleyball	4,506	6,397	5,157	5,746
Softball	762	10,349	11,054	57
Class of 2012	2,160	-	-	2,160
Class of 2013	186	-	-	186
Class of 2014	1,693	2,301	3,612	382
Class of 2015	319	13,113	11,123	2,309
Class of 2016	429	-	95	334
Class of 2017	-	70	70	-
Academiathon	1,468	780	555	1,693
Contingency	367	3,515	2,765	1,117
Concessions	38,232	50,761	50,685	38,308
Student Council	7,585	6,221	7,297	6,509
Life	5	-	-	5
Spanish Club	3,024	845	1,252	2,617
C Club	748	-	102	646
FFA	1,376	4,304	4,297	1,383
FBLA	1,985	10,485	10,351	2,119

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
SES Club	3,261	8,233	7,894	3,600
On Other Hand	1,231	465	509	1,187
Yearbook	6,859	3,799	8,377	2,281
Cap & Gown	281	2,292	2,413	160
Cheerleaders	1,028	5,057	4,560	1,525
Musical	4,037	8,029	2,560	9,506
Woods Club	494	-	259	235
Construction Club	820	-	604	216
Donations	1,400	-	-	1,400
MS Student Council	4,765	4,520	2,229	7,056
6th Grade	312	-	-	312
7th Grade	101	-	-	101
8th Grade	555	2,200	2,388	367
MS BLD Initiative	5,478	15,412	12,340	8,550
MS Yearbook Club	852	1,445	1,542	755
Columbus	20,093	2,595	7,431	15,257
Van Allen Elementary	7,197	3,311	6,849	3,659
Total	\$ 159,442	325,898	327,440	157,900

CHARITON COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 JUNE 30, 2014

	Shelton Law Scholarship	Alexander Scholarship	Orva Hibbs Scholarship	Chariton High School Scholarship	Jessica Luedtke Scholarship	Kandalynn Hall Scholarship	FCCLA/FEA Scholarship Award	Total
<b>ASSETS</b>								
Cash and pooled investments	\$ 1,000	4,825	3,000	436	900	183	2,500	12,844
<b>LIABILITIES</b>	-	-	-	-	-	-	-	-
<b>NET POSITION</b>								
Restricted for scholarships	\$ 1,000	4,825	3,000	436	900	183	2,500	12,844

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2014

	Shelton Law Scholarship	Helen Alexander Scholarship	Orva Krutsinger Scholarship	Chariton High Hibbs Scholarship	Jessica School Scholarship	Kandalynn Luedtke Scholarship	FFCCLA/FEA Hall Scholarship Award	Total	
Additions:									
Local sources:									
Gifts and contributions	\$ 1,000	7,200	-	4,500	1,000	1,000	-	2,500	17,200
Deductions:									
Instruction:									
Other:									
Scholarships awarded	1,000	7,200	-	6,000	1,250	300	-	2,500	18,250
Change in net position	-	-	-	(1,500)	(250)	700	-	-	(1,050)
Net position beginning of year	1,000	4,825	-	4,500	686	200	183	2,500	13,894
Net position end of year	\$ 1,000	4,825	-	3,000	436	900	183	2,500	12,844

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 TEN YEARS**

	Modified Accrual Basis									
	Years Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Local sources:										
Local tax	\$ 4,751,399	6,090,958	5,815,013	5,379,613	4,906,906	4,870,468	3,860,136	3,764,441	3,817,118	3,936,979
Tuition	239,843	327,540	346,588	353,197	337,392	275,381	724,286	611,828	640,590	439,979
Other	623,460	831,486	578,101	626,229	587,377	693,325	855,906	1,139,864	734,742	618,054
Intermediate sources	-	-	-	-	-	-	-	-	-	20,500
State sources	9,960,200	8,571,038	8,868,357	8,921,940	7,845,734	9,289,373	7,970,772	7,233,874	7,153,722	6,528,149
Federal sources	483,123	524,746	782,120	953,564	1,391,949	635,213	486,006	479,671	607,800	580,644
<b>Total</b>	<b>\$ 16,058,025</b>	<b>16,345,768</b>	<b>16,390,179</b>	<b>16,234,543</b>	<b>15,069,358</b>	<b>15,763,760</b>	<b>13,897,106</b>	<b>13,229,678</b>	<b>12,953,972</b>	<b>12,124,305</b>
Expenditures:										
Instruction:										
Regular	\$ 5,533,714	5,403,799	5,600,317	5,619,701	5,523,400	5,473,329	5,169,470	4,869,185	6,598,945	4,834,869
Special	1,959,611	2,029,859	1,919,070	2,027,491	2,070,714	1,904,943	1,706,515	1,498,964	672,165	1,818,441
Other	2,141,456	1,912,366	1,947,711	1,922,784	2,139,767	1,878,460	1,598,635	1,504,483	467,251	1,167,711
Support services:										
Student	233,881	184,853	185,689	175,644	151,018	138,676	228,310	246,285	237,994	164,689
Instructional staff	772,944	406,485	479,691	421,865	331,201	635,040	224,337	357,547	371,622	279,600
Administration	1,590,124	1,465,318	1,364,215	1,371,830	1,781,397	1,481,251	1,358,571	1,272,613	1,166,859	1,063,622
Operation and maintenance of plant	1,425,049	1,389,449	1,269,936	1,236,423	1,239,050	1,343,654	1,175,950	1,283,347	1,257,820	1,074,068
Transportation	754,049	785,847	914,477	704,419	697,197	741,812	643,887	566,057	443,514	506,022
Other	-	-	-	-	-	-	-	-	-	176,605
Non-instructional programs	-	-	-	2,984	2,693	4,364	9,191	4,477	4,593	13,806
Capital outlay	1,342,665	393,272	2,580,417	7,515,500	414,977	48,455	95,714	43,207	8,146	102,635
Long-term debt:										
Principal	435,000	305,000	290,000	225,000	660,000	315,000	300,000	280,000	265,000	260,000
Interest and fiscal charges	441,905	449,555	458,254	360,837	31,197	46,737	60,237	72,837	84,779	96,202
Other expenditures:										
AEA flow-through	559,121	543,191	546,816	606,617	603,840	561,531	479,075	450,033	434,917	401,808
<b>Total</b>	<b>\$ 17,189,519</b>	<b>15,268,994</b>	<b>17,556,593</b>	<b>22,191,095</b>	<b>15,646,451</b>	<b>14,573,252</b>	<b>13,049,892</b>	<b>12,449,035</b>	<b>12,013,605</b>	<b>11,960,078</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
U.S. DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 14	87,765
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 14	358,266 *
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 14	9,252
			<u>455,283</u>
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 14	<u>31,242</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1107-GC	46,088
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1107-G	270,685
			<u>316,773</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 14	<u>28,125</u>
RURAL EDUCATION ACHIEVEMENT PROGRAM	84.358	FY 14	<u>4,992</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 14	<u>61,306</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 14	<u>4,407</u>
ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 14	<u>749</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES	84.027	FY 14	<u>66,771</u>
TOTAL			<u>\$ 969,648</u>

\* -Includes \$45,512 of non-cash awards.

**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)  
117 West 3<sup>rd</sup> Street North, Newton, Iowa 50208-3040  
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**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 in accordance with U.S. generally accepted auditing standard and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the 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, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 6, 2015.

**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 an 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 certain deficiencies in internal control over financial reporting we consider to be a material weakness.

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 misstatement 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-14 to be material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted no deficiencies that we consider to be a significant deficiency.

## **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, 2014 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 the Findings**

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.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

February 6, 2015  
Newton, Iowa

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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**Independent Auditor's Report on Compliance**  
**for Each Major Program and on Internal Control over Compliance**  
**Required by OMB Circular A-133**

To the Board of Education of  
Chariton Community School District:

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of Chariton Community School District 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, 2014. Chariton Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Chariton Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each of the major federal programs. Our audit does not provide a legal determination on Chariton Community School District's compliance with those requirements.

**Opinion on Each Major Federal Program**

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 to each of its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

The management of Chariton Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. 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 to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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 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-14 to be a material weakness.

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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



NOLTE, CORNMAN & JOHNSON, P.C.

February 6, 2015  
Newton, Iowa

CHARITON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was 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 material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is 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
  - Individual Program:***
    - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
- (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, 2014

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

II-A-14 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. One individual has control over each of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Disbursements - purchase order processing, check preparation, mailing and recording.
- 4) Capital assets - purchasing, recording and reconciling.
- 5) Wire transfers - processing and approving.
- 6) Transfers - preparing and approving.
- 7) Financial reporting - preparing, reconciling and approving.
- 8) Journal entries - writing, approving and posting.

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 continue to review procedures to obtain maximum internal control.

Conclusion - Response accepted.

CHARITON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014

**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: 2014  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies  
Federal Award Year: 2014  
U.S. Department of Education  
Passed through the Iowa Department of Education

III-A-14 Segregation of Duties - One important aspect of internal control is the segregation of (2014-001) duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over each of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Disbursements - purchase order processing, check preparation, mailing and recording.
- 3) Wire transfers - processing and approving.
- 4) Financial reporting - preparing, reconciling and approving.

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 continue to review procedures to obtain maximum internal control.

Conclusion - Response accepted.

CHARITON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2014

**Part IV: Other Findings Related to Required Statutory Reporting**

IV-A-14 Certified Budget - District disbursements for the year ended June 30, 2014 exceeded the amount budgeted 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 continue to monitor the budget and amend in accordance with Iowa Code in the future.

Conclusion - Response accepted.

IV-B-14 Questionable Disbursements - We noted during our audit the District is not always receiving itemized receipts for expenses charged on the District credit card. Board Policy 401.10 states in part “Board members, administrators and other employees using a District credit card must submit detailed documentation in addition to a credit card receipt indicating the date, purpose and nature of the expense for each claim item. Failure to provide proper receipts shall make the expense a personal expense.”

Recommendation - The District should review Board Policy 401.10 with employees and require detailed receipts of purchases made with the District’s credit card to be in compliance with board policy.

Response - The District will continue to communicate to staff that detailed receipts are needed for all purchases.

Conclusion - Response accepted.

IV-C-14 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-14 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 Owner of True Value	Supplies	\$ 5,756

In accordance with Iowa Code Section 279.7A, the above transactions with the Board Member for supplies, does appear to represent a conflict of interest due to the amount of the transactions is above the allowable \$2,500 threshold.

Recommendation - The District should review its purchasing procedures to ensure compliance with Iowa Code Section 279.7A.

Response - Due to the fact that 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 accepted.

IV-E-14 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-14 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. We did note that the board minutes did not name all institutions where the District had deposited money. Chapter 12C.2 of the Code of Iowa states the approval of an institution as a depository “shall be entered of record in the minutes of the approving board, and that shall distinctly name each depository approved.”

Recommendation - The District should review its procedures to ensure compliance with Chapter 12C.2 of the Code of Iowa.

Response - We will name ALL institution where the District has deposited money (including ISJIT/Banker’s Trust)

Conclusion - Response accepted.

IV-G-14 Certified Enrollment - No variances regarding the basic enrollment data certified to the Iowa Department of Education were noted.

IV-H-14 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-14 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-14 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-14 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-14 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, 2014, 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 2014 audit:

Beginning Balance		\$ 1,082,275
Revenues:		
Sales Tax Revenues	\$ 1,195,122	
Other Local Revenues	618	1,195,740
		<u>2,278,015</u>
Expenditures/transfer out:		
School infrastructure construction	78,867	
Equipment	26,130	
Other	566,294	
Transfers to Other Funds:		
Debt Service Fund	868,853	1,540,144
		<u>1,540,144</u>
Ending balance		<u>\$ 737,871</u>

For the year ended June 30, 2014, 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-14 Interfund Loans - We noted during our audit that the District has interfund loans that were on the balance sheet in the prior year and still on the current year balance sheets. As of June 30, 2014, the District has a loan between the General Fund and Nutrition Fund that has not been repaid and a loan between the Capital Projects: Statewide Service and Sales Tax Fund and the General 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 1<sup>st</sup> 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 evaluate alternatives and develop a plan to be in compliance with the Iowa Department of Education declaratory order dated April 11, 2008.

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

Conclusion - Response acknowledged. The District should develop a plan to be in compliance with the Iowa Department of Education declaratory order dated April 11, 2008.

IV-N-14 Student Activity Fund - In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the co-curricular and extracurricular activities offered as a part of the education program for students.

**Questionable Accounts:** We noted during our audit the Columbus and Van Allen Elementary accounts were used to pay for fieldtrips. We also noted a Cap & Gown account that is used to account for graduation expenses. These accounts do not appear to be co-curricular or extracurricular in nature and would appear to be more appropriate to a different fund.

Recommendation - The District should review the propriety of the revenues and expenses in these accounts to determine if they are appropriate to the Student Activity Fund.

Response - We will continue to review revenues/expenses to determine if they are appropriate in the activity funds.

Conclusion - Response accepted.

**Inactive accounts:** We noted numerous accounts in the Student Activity Fund that appear to be inactive.

Recommendation - The Board of Directors should review the inactive accounts to determine if the groups associated with the accounts are no longer in existence. If the accounts are no longer needed the Board of Directors should determine the appropriate use of the remaining funds.

Response - The Board will take action on determining the appropriate use of remaining funds in the inactive accounts.

Conclusion - Response accepted.