

**CITY OF CHARITON**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2004**

**Peak & Gerdes, LLP**  
**Certified Public Accountants**  
**103 Benton Avenue East**  
**Albia, Iowa 52531**

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City of Chariton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	(Before January, 2004)	
Mary Stierwalt	Mayor	December, 2003
John Braid	Mayor ProTem	December, 2005
Katherine Wallace	Council Member	December, 2005
Joan Amos	Council Member	December, 2003
Bill Kerns	Council Member	December, 2005
Timothy Vick	Manager	Indefinite
Ruth Ryun	Clerk/Treasurer	December, 2003
Verle W. Norris	Attorney	December, 2003
	(After January, 2004)	
John Braid	Mayor	December, 2005
Bill Kerns	Council Member	December, 2005
Katherine Wallace	Council Member	December, 2005
Joan Amos	Council Member	December, 2007
June Spinler	Council Member	December, 2007
Timothy Vick	Manager	Indefinite
Ruth Ryun	Clerk/Treasurer	December, 2005
Verle W. Norris	Attorney	December, 2005

City of Chariton

PEAK & GERDES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
103 BENTON AVENUE EAST  
ALBIA, IOWA 52531

(641) 932-3295

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Chariton's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely preserved component unit, each major fund and the aggregate remaining fund information of the City of Chariton as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 15, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated July 16, 2004 on our consideration of the City of Chariton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Chariton's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP  
Certified Public Accountants

July 16, 2004

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Chariton 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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### **2004 Financial Highlights**

- Revenues of the City's governmental activities decreased 2.4%, or approximately \$77,000, from fiscal 2003 to fiscal 2004. Property tax revenues of the City remained steady at \$1,281,166 in fiscal 2004 as compared to \$1,282,678 in fiscal 2003. Tax Increment financing revenues increased by approximately 12.5%, or \$5,954 from fiscal 2003 to fiscal 2004.
- Disbursements of the City's governmental activities decreased 3.1%, or approximately \$88,000, in fiscal 2004 from fiscal 2003. All programs decreased in disbursements, except for community and economic development and general government, which increased approximately \$105,000 and \$47,000, respectively.
- The City's total cash basis net assets increased 1.3%, or by approximately \$60,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$294,000 and the assets of the business type activities decreased by approximately \$234,000.

### **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 City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City'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 the City's operation in more detail than the government-wide statement by providing information about the most significant funds.

Notes to 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 City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

### **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

### **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

#### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

The Statement of Activities and Net Assets present the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into three kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the airport, solid waste and the sanitary sewer system. These activities are financed primarily by user charges.
- The Component Unit includes the activities of the City's Municipal Waterworks. The City has included the Waterworks activities because its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at the year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Swimming Pool, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund, such as Cemetery Perpetual Care. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the sewer and airport funds, considered to be major funds of the City, and the solid waste fund, a non-major fund of the City. The Water Utility is contained within the City's financial statement as a discretely presented component unit. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

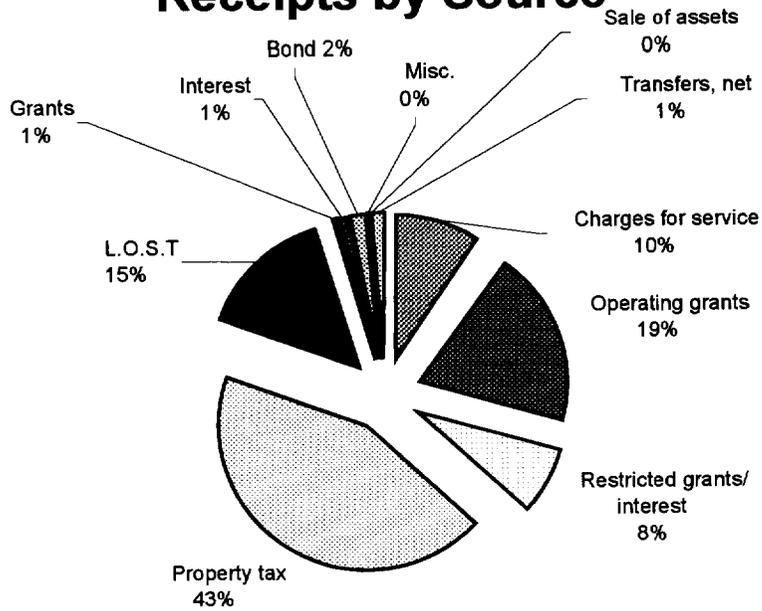
Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

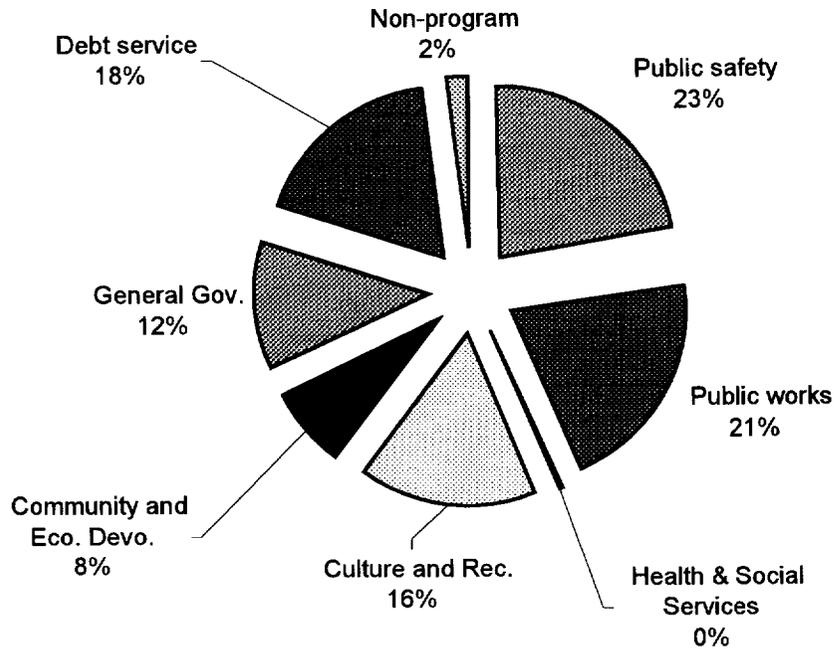
Net assets may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities increased from a year ago, increasing from \$3,825,637 to \$4,120,014. The analysis that follows focuses on the changes in cash balances for government activities.

Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	
	Year ended June 30, 2004
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 292
Operating grants, contributions and restricted interest	604
Capital grants, contributions and restricted interest	231
General receipts:	
Property tax	1,335
Local option sales tax	451
Grants and contributions not restricted to specific purposes	23
Unrestricted interest on investments	24
Bond proceeds	50
Miscellaneous	4
Sale of assets	4
Transfers, net	34
<b>TOTAL RECEIPTS AND TRANSFERS</b>	<b>3,052</b>
Disbursements:	
Public safety	613
Public works	592
Health and social services	7
Culture and recreation	452
Community and economic development	209
General government	335
Debt service	499
Non-program	51
<b>TOTAL DISBURSEMENTS</b>	<b>2,758</b>
<b>Increase in cash basis net assets</b>	<b>294</b>
<b>Cash basis net assets beginning of year</b>	<b>3,826</b>
<b>Cash basis net assets end of year</b>	<b>\$4,120</b>

## Receipts by Source



## Disbursements by Function



The City's total receipts for governmental activities decreased by 2.4%, or approximately \$77,000. The cost of all programs and services decreased by approximately \$88,000, or 3.1%, with no new programs added this year.

The City decreased the property tax rate from \$16.48995 in fiscal 2003 to \$16.26101 in fiscal 2004. The City has decreased the property tax rate each year for the past four years, with an average tax rate of \$16.4555. The City's taxable valuation has steadily increased by approximately 2.5% for the last three years.

The cost of all governmental activities this year was \$2.758 million. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$1.631 million because some of the cost was paid by those directly benefited from the programs (\$292,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$835,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, was approximately \$1.127 million. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,631,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2004
<b>Receipts:</b>	
Program receipts:	
Charges for service	\$449
Capital Grants, contributions and restricted interest	171
General receipts:	
Unrestricted interest on investments	11
Miscellaneous	11
<b>TOTAL RECEIPTS AND TRANSFERS</b>	<b>642</b>
<b>Disbursements and transfers:</b>	
Airport	215
Sewer	298
Other (Solid Waste)	328
Transfers (Net)	35
<b>TOTAL DISBURSEMENTS</b>	<b>876</b>
<b>(Decrease) in cash balance</b>	<b>(234)</b>
<b>Cash basis net assets beginning of year</b>	<b>808</b>
<b>Cash basis net assets end of year</b>	<b>574</b>

Total business type activities receipts for the fiscal year were \$642,000 compared to \$476,000 last year. The significant increase was due primarily to the receipt of \$171,000 in a federal grant for the airport. The cash balance decreased by approximately \$234,000 from the prior year because of the payoff of the solid waste bonds. Total disbursements and transfers for the fiscal year increased by 113.1% to total of \$876,000.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Chariton completed the year, its governmental funds reported a combined fund balance of \$4,155,932, an increase of more than \$299,000 above last years total of \$3,856,377. The following are the major reasons for the change in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$146,130 from the prior year to \$400,971. Approximately \$133,000 of this decrease is due to the State of Iowa not funding the state allocation monies.
- The Road Use Tax Fund cash balance decreased \$1,428 to \$17,199 during the fiscal year. While the City received an additional \$8,700 in funding this fiscal year, equipment purchases and snow removal costs eliminated any gain the City saw in the increase.
- The Swimming Pool Fund cash balance increased by \$250,263 to \$1,587,629. The increase is due to more receipts coming in than was appropriated. These funds are restricted by referendum for Swimming Pool construction and operation. The Swimming Pool currently has \$1,530,000 in Revenue Bond debt.
- The Debt Service Fund cash balance increased by \$133,461 to \$483,261 during the fiscal year. The City has planned expenditures in fiscal 2005 for the purchase of a piece of heavy equipment and street repairs which will decrease the cash balance substantially. Bond principal and interest payments decreased by \$44,550 in fiscal year 2004.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Airport Fund had an ending cash balance of \$(111,872), an increase of \$1,427. Capital improvements were completed this past fiscal year including paving of the airport driveway and the installation of new security fencing.
- The Sewer Fund cash balance increased by \$35,485 to \$523,739. Future capital projects scheduled for fiscal 2005, including updating lift-stations and repairs to the sanitary sewer lines, will decrease this balance.

## **BUDGETARY HIGHLIGHTS**

This past year the City of Chariton amended the budget on May 17, 2004. The amendment was reflective of a decrease in revenues due to low interest rates, cuts in state aid, and slow developmental growth. The amendment also approved an increase in operating disbursements of \$621,546 for fire equipment purchases, construction at the Municipal Airport, Economic Development Grant to the Lucas County Arts Council for the CB&Q Freighthouse, and an Economic Development Grant to the Lucas County Development Corporation for the purchase of more land for the Development Park. The City financed these projects through existing cash balances, bonds, and federal grants.

## **DEBT ADMINISTRATION**

As of June 30, 2004, the City had approximately \$3,019,000 in outstanding bonds and other long-term debt. This is a reduction of approximately \$623,000 from June 30, 2003.

<b>Outstanding Debt at Year End</b>	
	June 30, 2004
<b>GENERAL OBLIGATION</b>	
3/1/1995-Streets GO Corporate Purpose - 275,000	\$ 35,000
9/1/1997 - Corporate Purpose - 550,000	330,000
11/1/1999 - Corporate Purpose & Refunding - 715,000	260,000
7/1/2001 - Corporate Purpose - 690,000	560,000
2/1/2003 - Corporate Purpose - 150,000	120,000
6/1/2004 - Economic Development Note - 50,000	50,000
<b>REVENUE BONDS</b>	
9/1/1992- Solid Waste Disposal Revolving - 675,000	0
<b>LOCAL OPTION SALES TAX REVENUE BONDS</b>	
12/1/1999 Aquatic Center - 1,980,000	1,530,000
<b>FmHA REVENUE NOTES</b>	
12/1/1989 - Hangar Note - 130,000	51,448
<b>LEASE PURCHASE AGREEMENT</b>	
6/15/2002 - Sweeper - 129,900	82,598
<b>TOTAL</b>	<b>\$3,019,046</b>

Debt decreased as a result of principal payments on all debt issues. The City pre-paid the September 1, 1992 Solid Waste Disposal Bonds with an existing cash balance in the Solid Waste Fund. This netted a savings of approximately \$30,000 in interest payments.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,355,000 is significantly below its constitutional debt limit of \$5,629,783.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Chariton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities.

The City's taxable value has slowly but steadily increased since 2001. However, fiscal 2005 will be the first year in the last five that the taxable value has declined. Part of the cause for the decline is the result of the residential rollback. The effect of the residential roll-back can be seen as the taxable valuations have increased by only 4.7%, but the total valuations have increased by more than 10.5% since fiscal 2001.

The City has had to budget during an uncertain period within the state. State funding cuts have presented future funding issues within the City's General Fund. During the fiscal 2004, all departments funded from the General Fund were required to review their department budgets and to either cut disbursements, or offset costs through higher revenues through fines, fees, or costs for services increases.

The City's expected receipts for fiscal 2005 is \$5,009,578, (including proposed debt issuance for the downtown resurfacing project of \$300,000), as opposed to fiscal 2004 budgeted receipts of \$5,782,962.

The City's expected disbursements for fiscal 2005 is \$4,866,596, as opposed to fiscal 2004 budgeted disbursements of \$5,480,583.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$142,982 to \$4,959,059 by the close of fiscal 2005.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Timothy J. Vick, City Manager, 115 South Main Street, Chariton, Iowa.

## Basic Financial Statements

City of Chariton

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions / Programs</b>				
Primary Government:				
Governmental activities:				
Public safety	\$ 613,475	10,592	40,619	88,765
Public works	591,697	49,358	380,874	1,477
Health and social services	7,457	-	-	-
Culture and recreation	451,638	121,468	35,812	-
Community and economic development	208,933	-	2,521	140,591
General government	335,003	110,726	144,150	-
Debt service	498,754	-	-	-
Capital projects	21	-	-	-
Non-program	50,820	-	-	-
Total governmental activities	2,757,798	292,144	603,976	230,833
Business type activities:				
Airport	215,236	16,444	-	170,861
Sewer	298,531	380,392	-	-
Other	328,096	52,378	-	-
Total business type activities	841,863	449,214	-	170,861
Total	\$ 3,599,661	741,358	603,976	401,694
Component unit:				
Water utility	\$ 1,103,614	996,835	-	-
<b>General Receipts:</b>				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Water Utility
(473,499)	-	(473,499)	-
(159,988)	-	(159,988)	-
(7,457)	-	(7,457)	-
(294,358)	-	(294,358)	-
(65,821)	-	(65,821)	-
(80,127)	-	(80,127)	-
(498,754)	-	(498,754)	-
(21)	-	(21)	-
(50,820)	-	(50,820)	-
(1,630,845)	-	(1,630,845)	-
-	(27,931)	(27,931)	-
-	81,861	81,861	-
-	(275,718)	(275,718)	-
-	(221,788)	(221,788)	-
(1,630,845)	(221,788)	(1,852,633)	-
-	-	-	(106,779)
985,425	-	985,425	-
53,680	-	53,680	-
295,741	-	295,741	-
450,734	-	450,734	-
22,707	-	22,707	-
23,877	11,127	35,004	6,573
50,000	-	50,000	-
4,127	10,764	14,891	32,264
4,350	-	4,350	-
34,581	(34,581)	-	-
1,925,222	(12,690)	1,912,532	38,837
294,377	(234,478)	59,899	(67,942)
3,825,637	808,519	4,634,156	815,780
\$ 4,120,014	574,041	4,694,055	747,838
\$ 17,199	-	17,199	-
68,533	-	68,533	-
697,335	17,342	714,677	391,255
1,535,611	-	1,535,611	-
1,801,336	556,699	2,358,035	356,583
\$ 4,120,014	574,041	4,694,055	747,838

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2004

	General	Special Revenue		Debt Service	Other Nonmajor Governmental Funds	Total
		Road Use Tax	Swimming Pool			
<b>Receipts:</b>						
Property tax	\$ 712,075	-	-	295,741	273,350	1,281,166
Tax increment financing collections	-	-	-	-	53,680	53,680
Other city tax	19,482	-	450,734	-	-	470,216
Licenses and permits	8,648	-	-	-	-	8,648
Use of money and property	25,497	-	15,704	-	109,206	150,407
Intergovernmental	154,509	380,874	-	-	133,610	668,993
Charges for service	176,839	-	-	-	-	176,839
Special assessments	-	-	-	4,992	21,127	26,119
Miscellaneous	76,627	-	-	-	50,549	127,176
Total receipts	1,173,677	380,874	466,438	300,733	641,522	2,963,244
<b>Disbursements:</b>						
<b>Operating:</b>						
Public safety	514,631	-	-	-	98,557	613,188
Public works	125,258	382,302	-	-	83,501	591,061
Health and social services	7,457	-	-	-	-	7,457
Culture and recreation	372,613	-	23,642	-	55,278	451,533
Community and economic development	73,683	-	-	-	135,250	208,933
General government	274,359	-	-	-	56,494	330,853
Debt service	-	-	192,533	306,221	-	498,754
Capital projects	-	-	-	-	21	21
Non-program	-	-	-	-	50,820	50,820
Total disbursements	1,368,001	382,302	216,175	306,221	479,921	2,752,620
Excess (deficiency) of receipts over (under) disbursements	(194,324)	(1,428)	250,263	(5,488)	161,601	210,624
<b>Other financing sources (uses):</b>						
Bond proceeds	50,000	-	-	-	-	50,000
Sale of capital assets	4,350	-	-	-	-	4,350
Operating transfers in	13,844	-	-	138,949	-	152,793
Operating transfers out	(20,000)	-	-	-	(98,212)	(118,212)
Total other financing sources (uses)	48,194	-	-	138,949	(98,212)	88,931
Net change in cash balances	(146,130)	(1,428)	250,263	133,461	63,389	299,555
Cash balances beginning of year	547,101	18,627	1,337,366	349,800	1,603,483	3,856,377
Cash balances end of year	\$ 400,971	17,199	1,587,629	483,261	1,666,872	4,155,932
<b>Cash Basis Fund Balances</b>						
<b>Reserved:</b>						
Debt service	\$ -	-	214,074	483,261	-	697,335
<b>Unreserved:</b>						
General fund	400,971	-	-	-	-	400,971
Special revenue funds	-	17,199	1,373,555	-	1,357,281	2,748,035
Capital projects fund	-	-	-	-	131,261	131,261
Permanent fund	-	-	-	-	178,330	178,330
Total cash basis fund balances	\$ 400,971	17,199	1,587,629	483,261	1,666,872	4,155,932

See notes to financial statements.

City of Chariton

Exhibit C

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Statement of Activities and Net Assets -  
Governmental Funds  
As of and for the year ended June 30, 2004

<b>Total governmental funds cash balances (page 19)</b>	<b>\$ 4,155,932</b>
 <b><i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i></b>	
The Internal Service Fund is used by management to charge the costs of the central fuel facility to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	<u>(35,918)</u>
<b>Cash basis net assets of governmental activities (page 18)</b>	<b><u>\$ 4,120,014</u></b>
 <b>Net change in cash balances (page 19)</b>	 <b>\$ 299,555</b>
 <b><i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i></b>	
The Internal Service Fund is used by management to charge the costs of the central fuel facility to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.	<u>(5,178)</u>
<b>Change in cash balance of governmental activities (page 18)</b>	<b><u>\$ 294,377</u></b>

See notes to financial statements.

City of Chariton

Exhibit D

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds				Internal Service Fund
	Airport	Sewer	Other nonmajor Proprietary Fund Solid Waste	Total	Central Fuel
Operating receipts:					
Use of money and property	\$ 5,125	-	-	5,125	-
Charges for service	11,319	380,392	52,378	444,089	118,586
Miscellaneous	-	-	-	-	2,071
Total operating receipts	<u>16,444</u>	<u>380,392</u>	<u>52,378</u>	<u>449,214</u>	<u>120,657</u>
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	6,993
Public works	-	-	-	-	15,462
Culture and recreation	-	-	-	-	2,555
General government	-	-	-	-	97,683
Business type activities	204,490	298,393	13,835	516,718	3,280
Total operating disbursements	<u>204,490</u>	<u>298,393</u>	<u>13,835</u>	<u>516,718</u>	<u>125,973</u>
Excess (deficiency) of receipts over (under) operating disbursements	<u>(188,046)</u>	<u>81,999</u>	<u>38,543</u>	<u>(67,504)</u>	<u>(5,316)</u>
Non-operating receipts (disbursements):					
Intergovernmental	170,861	-	-	170,861	-
Interest on investments	-	6,661	4,466	11,127	-
Miscellaneous	9,358	1,406	-	10,764	-
Debt service	(10,746)	-	(314,261)	(325,007)	-
Total non-operating receipts (disbursements)	<u>169,473</u>	<u>8,067</u>	<u>(309,795)</u>	<u>(132,255)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(18,573)</u>	<u>90,066</u>	<u>(271,252)</u>	<u>(199,759)</u>	<u>(5,316)</u>
Operating transfers in (out)	<u>20,000</u>	<u>(54,581)</u>	<u>-</u>	<u>(34,581)</u>	<u>-</u>
Net change in cash balances	1,427	35,485	(271,252)	(234,340)	(5,316)
Cash balances beginning of year	<u>(113,299)</u>	<u>488,254</u>	<u>434,385</u>	<u>809,340</u>	<u>(31,561)</u>
Cash balances end of year	<u><u>\$(111,872)</u></u>	<u><u>523,739</u></u>	<u><u>163,133</u></u>	<u><u>575,000</u></u>	<u><u>(36,877)</u></u>
<b>Cash Basis Fund Balances</b>					
Reserved for debt service	\$ 17,342	-	-	17,342	-
Unreserved	<u>(129,214)</u>	<u>523,739</u>	<u>163,133</u>	<u>557,658</u>	<u>(36,877)</u>
Total cash basis fund balances	<u><u>\$(111,872)</u></u>	<u><u>523,739</u></u>	<u><u>163,133</u></u>	<u><u>575,000</u></u>	<u><u>(36,877)</u></u>

See notes to financial statements.

City of Chariton

Exhibit E

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Statement of Activities and Net Assets -  
Proprietary Funds  
As of and for the year ended June 30, 2004

**Total enterprise funds cash balances (page 21)** **\$ 575,000**

***Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of the the central fuel facility to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

(959)

**Cash basis net assets of business type activities (page 18)** **\$ 574,041**

**Net change in cash balances (page 21)** **\$ (234,340)**

***Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of the central fuel facility to individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

(138)

**Change in cash basis of business type activities (page 18)** **\$ (234,478)**

See notes to financial statements.

## City of Chariton

### Notes to Financial Statements June 30, 2004

#### (1) **Summary of Significant Accounting Policies**

The City of Chariton is a political subdivision of the State of Iowa located in Lucas County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Council-Manager form of government with the Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides sewer and airport services for its citizens.

##### A. Reporting Entity

For financial reporting purposes, the City of Chariton has included all funds, organizations, agencies, boards, commissions and authorities. The City 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 City are such that exclusion would cause the City'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 City 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 City.

These financial statements present the City of Chariton (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

##### Discretely Presented Component Unit

The Chariton Municipal Waterworks is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Waterworks is governed by a three-member board appointed by the City Council and the Waterworks operating budget is subject to the approval of the City Council.

##### Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the boards of the Area XV Regional Planning Commission, Lucas County Assessor's Conference Board, South Central Iowa Solid Waste Commission and the Chariton Area Development Corporation.

##### B. Basis of Presentation

Government-wide Financial Statements- The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which 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 services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts 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 on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All tax receipts and other receipts 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 disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Swimming Pool Fund is used to account for the local option sales tax and the related costs and debt associated with the Pool.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long term debt.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

The Airport Fund accounts for the maintenance of the City's airport.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

#### C. Measurement Focus and Basis of Accounting

The City of Chariton maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U. S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety and community and economic development functions.

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

The City's deposits in banks at June 30, 2004 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 City 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 City Council; 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.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all category 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2004 consist of corporate stock, which has a carrying amount of \$2,160 and a fair value of \$7,025 at June 30, 2004.

In addition, the City had Deferred Compensation Plan investments with a fair value of \$853,745 at June 30, 2004 that is not subject to risk categorization.

#### (3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation notes, and revenue bonds are as follows:

Year Ended June 30,	General Obligation Notes		Local Option Sales and Services Tax Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 255,000	\$ 62,670	\$ 105,000	\$ 87,093	\$ 360,000	\$ 149,763
2006	230,000	51,039	110,000	81,528	340,000	132,567
2007	235,000	40,894	115,000	75,588	350,000	116,482
2008	250,000	30,286	125,000	69,320	375,000	99,606
2009	135,000	18,715	130,000	62,445	265,000	81,160
2010	140,000	11,905	135,000	55,230	275,000	67,135
2011	95,000	5,320	145,000	47,603	240,000	52,923
2012	5,000	752	155,000	39,265	160,000	40,017
2013	5,000	500	160,000	30,275	165,000	30,775
2014	5,000	250	170,000	20,915	175,000	21,165
2015	-	-	180,000	10,800	180,000	10,800
<b>Total</b>	<b>\$ 1,355,000</b>	<b>\$ 222,331</b>	<b>\$ 1,530,000</b>	<b>\$ 580,062</b>	<b>\$ 2,885,000</b>	<b>\$ 802,393</b>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the costs of the construction and equipping a municipal swimming pool. The bonds are payable solely from the proceeds of the local option sales tax revenues received by the City in accordance with Chapter 422B.12(3) of the Code of Iowa. The bonds are not a general obligation of the City. The debt, however, is subject to the constitutional debt limitation of the City.

The resolution providing for the issuance of the local option sales and services revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the local option sales tax revenues received by the City and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly cash transfers shall be made to the swimming pool revenue sinking account for the purpose of making the bond principal and interest payments when due.
- (c) \$198,000 shall be paid into a Swimming Pool Reserve Fund from the loan proceeds.

**(4) Farmers Home Administration Revenue Notes**

The City is indebted to the Farmers Home Administration for airport revenue notes. At June 30, 2004 the revenue notes had an outstanding balance of \$51,448. Annual debt service requirements to maturity for these revenue notes are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2005	\$ 8,336	\$ 2,860	\$ 11,196
2006	8,850	2,346	11,196
2007	9,396	1,800	11,196
2008	9,975	1,221	11,196
2009	10,591	605	11,196
2010	4,300	62	4,362
Total	<u>\$ 51,448</u>	<u>\$ 8,894</u>	<u>\$ 60,342</u>

The resolution providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity.
- (b) The City shall make monthly payments of \$933, including interest at 6% per year, to the Farmers Home Administration from January, 1990 through December, 2009, inclusive.
- (c) Monthly transfers in the amount of \$94 shall be deposited in a "Reserve Fund", until a balance of \$11,196 has been accumulated.

**(5) Lease Purchase Obligations**

The City is purchasing a Street Sweeper under a capital lease contract. Future payments in relation to this lease is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2005	\$ 26,544	\$ 2,552	\$ 29,096
2006	27,520	1,576	29,096
2007	28,534	562	29,096
Total	<u>\$ 82,598</u>	<u>\$ 4,690</u>	<u>\$ 87,288</u>

**(6) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for the police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$56,095, \$57,172 and \$56,099, respectively, equal to the required contributions for each year.

**(7) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is \$101,308.

This liability has been computed based on rates of pay as of June 30, 2004.

**(8) Deferred Compensation Plan**

The City offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows City employees to defer a portion of their current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are, until made available to the participant or other beneficiary, solely the property and rights of the City; without being restricted to the provision of benefits under the plan, subject only to the claims of the City's general creditors.

The City is responsible for due care in managing the investments and the participant or beneficiary assumes the risk of loss from decreases in the value of plan assets. At June 30, 2004 plan assets consisted entirely of annuities purchased from private insurance companies.

The City records the plan assets and related activity in a special revenue fund. Investments held by the deferred compensation plan administrator are reported at fair value.

**(9) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Enterprise: Sewer	<u>\$ 13,844</u>
Debt Service: General Obligation Bond	Special Revenue: Urban Renewal Tax Increment	98,212
	Enterprise: Sewer	<u>40,737</u>
		<u>138,949</u>
Enterprise: Airport	General	<u>20,000</u>
Total		<u><u>\$ 172,793</u></u>

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

**(10) Community Economic Betterment Account Grant**

A local business was awarded a Community Economic Betterment Account Grant of \$225,000, with the money for these grants passed through the City. Under the grant agreement, the business must meet certain employment goals within a specified period to have \$112,500 of the loans forgiven. The balance, or \$112,500, is to be amortized and paid back over a seven year period.

In the event of default, the City's liability is limited to the amount it can collect from the business. The City also has the responsibility to enforce the security interests against the business in the event of default.

**(11) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2004, disbursements in the public safety and community and economic development functions exceeded the amounts budgeted.

**(12) Industrial Development Revenue Bonds**

The City has issued a total of \$4,992,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

**(13) Risk Management**

The City of Chariton 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 City 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.

(14) **Deficit Fund Balance**

At June 30, 2004, the City had deficit balances as follows:

Enterprise Funds - Airport	\$ 111,872
Internal Service Fund - Central Fuel Facility	36,877
Special Revenue Fund – CEBA and Daycare Grant	917

The Enterprise Funds - Airport deficit should be eventually eliminated by rents received, profit from fuel sold, and transfers from the General Fund.

The Internal Service Fund - Central Fuel Facility deficit should be eventually eliminated from the profit received from the fuel sold.

The Special Revenue Fund - CEBA and Daycare Grant deficit will be eliminated through a transfer from the General Fund.

(15) **Accounting Change and Restatements**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for the individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City's governmental and business type activities. Beginning net assets have been restated to include the allocation of the Internal Service Fund.

	Governmental Activities	Business Type Activities
Cash basis net assets June 30, 2003, as previously reported	\$ 3,843,016	822,701
Reclassification of assets between funds	13,361	(13,361)
Internal Service Fund	(30,740)	(821)
Cash basis net assets July 1, 2003, as restated	<u>\$ 3,825,637</u>	<u>808,519</u>

## Required Supplementary Information

City of Chariton

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds - Primary Government

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net	Budgeted Original	Amounts Final	Final to Net Variance
<b>Receipts:</b>							
Property tax	\$ 1,281,166	-	-	1,281,166	1,210,846	1,210,846	70,320
Tax increment financing collections	53,680	-	-	53,680	75,000	50,000	3,680
Other city tax	470,216	-	-	470,216	656,220	475,627	(5,411)
Licenses and permits	8,648	-	-	8,648	9,320	9,320	(672)
Use of money and property	150,407	16,252	-	166,659	134,150	122,250	44,409
Intergovernmental	668,993	170,861	-	839,854	820,560	781,560	58,294
Charge for service	176,839	562,675	118,586	620,928	1,168,836	916,750	(295,822)
Special assessments	26,119	-	-	26,119	56,908	56,908	(30,789)
Miscellaneous	127,176	12,835	2,071	137,940	48,000	251,900	(113,960)
Total receipts	<u>2,963,244</u>	<u>762,623</u>	<u>120,657</u>	<u>3,605,210</u>	<u>4,179,840</u>	<u>3,875,161</u>	<u>(269,951)</u>
<b>Disbursements:</b>							
Public safety	613,188	6,993	6,993	613,188	430,252	530,252	(82,936)
Public works	591,061	15,462	15,462	591,061	681,222	681,222	90,161
Health and social services	7,457	-	-	7,457	7,400	10,400	2,943
Culture and recreation	451,533	2,555	2,555	451,533	426,900	476,900	25,367
Community and economic development	208,933	-	-	208,933	16,500	41,500	(167,433)
General government	330,853	97,683	97,683	330,853	337,775	337,775	6,922
Debt service	498,754	-	-	498,754	501,469	501,469	2,715
Capital projects	21	-	-	21	-	182,720	182,699
Business type activities	-	845,005	3,280	841,725	985,944	1,246,770	405,045
Non-program	50,820	-	-	50,820	-	-	(50,820)
Total disbursements	<u>2,752,620</u>	<u>967,698</u>	<u>125,973</u>	<u>3,594,345</u>	<u>3,387,462</u>	<u>4,009,008</u>	<u>414,663</u>
Excess (deficiency) of receipts over (under) disbursements	210,624	(205,075)	(5,316)	10,865	792,378	(133,847)	144,712
Other financing sources, net	88,931	(34,581)	-	54,350	-	50,000	4,350
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	299,555	(239,656)	(5,316)	65,215	792,378	(83,847)	149,062
Balances beginning of year	<u>3,856,377</u>	<u>777,779</u>	<u>(31,561)</u>	<u>4,665,717</u>	<u>3,941,428</u>	<u>4,513,698</u>	<u>152,019</u>
Balances end of year	<u>\$ 4,155,932</u>	<u>538,123</u>	<u>(36,877)</u>	<u>4,730,932</u>	<u>4,733,806</u>	<u>4,429,851</u>	<u>301,081</u>

See accompanying independent auditor's report.

City of Chariton

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget amendment increased budgeted disbursements by \$621,546. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety and community and economic development functions.

## Other Supplementary Information

City of Chariton

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Special				Urban	CEBA and
	Revolving Loan Fund	Section 8 Interest Housing	Employee Benefits	CDBG Housing	Renewal Tax Increment	Daycare Grant
Receipts:						
Property tax	\$ -	-	273,350	-	-	-
Tax increment financing collections	-	-	-	-	53,680	-
Use of money and property	1,349	1,172	-	-	-	-
Intergovernmental	-	-	-	133,610	-	-
Special assessments	-	-	-	-	-	-
Miscellaneous	-	-	8	6,981	-	-
Total receipts	1,349	1,172	273,358	140,591	53,680	-
Disbursements:						
Operating:						
Public safety	-	-	98,557	-	-	-
Public works	-	-	83,501	-	-	-
Culture and recreation	-	-	55,278	-	-	-
Community and economic development	-	-	-	135,250	-	-
General government	-	-	56,494	-	-	-
Capital projects	-	-	-	-	-	-
Non-program	-	-	-	-	-	-
Total disbursements	-	-	293,830	135,250	-	-
Excess (deficiency) of receipts over (under) disbursements	1,349	1,172	(20,472)	5,341	53,680	-
Other financing uses:						
Operating transfers out	-	-	-	-	(98,212)	-
Net change in cash balances	1,349	1,172	(20,472)	5,341	(44,532)	-
Cash balances beginning of year	108,513	71,840	68,230	14,933	113,065	(917)
Cash balances end of year	\$ 109,862	73,012	47,758	20,274	68,533	(917)
<b>Cash Basis Fund Balances</b>						
Unreserved:						
Special revenue funds	\$ 109,862	73,012	47,758	20,274	68,533	(917)
Capital project fund	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-
Total cash basis fund balances	\$ 109,862	73,012	47,758	20,274	68,533	(917)

See accompanying independent auditor's report.

Schedule 1

Revenue				Capital Projects	Permanent	
Library Endowment	Deferred Compensation	Special Assessment	Donations	Demolition	Cemetery Perpetual Care	Total
-	-	-	-	-	-	273,350
-	-	-	-	-	-	53,680
1,163	104,045	-	-	1,477	-	109,206
-	-	-	-	-	-	133,610
-	-	21,127	-	-	-	21,127
-	39,233	-	1,632	-	2,695	50,549
1,163	143,278	21,127	1,632	1,477	2,695	641,522
-	-	-	-	-	-	98,557
-	-	-	-	-	-	83,501
-	-	-	-	-	-	55,278
-	-	-	-	-	-	135,250
-	-	-	-	-	-	56,494
-	-	-	-	21	-	21
-	50,136	-	684	-	-	50,820
-	50,136	-	684	21	-	479,921
1,163	93,142	21,127	948	1,456	2,695	161,601
-	-	-	-	-	-	(98,212)
1,163	93,142	21,127	948	1,456	2,695	63,389
94,677	760,603	63,760	3,339	129,805	175,635	1,603,483
95,840	853,745	84,887	4,287	131,261	178,330	1,666,872
95,840	853,745	84,887	4,287	-	-	1,357,281
-	-	-	-	131,261	-	131,261
-	-	-	-	-	178,330	178,330
95,840	853,745	84,887	4,287	131,261	178,330	1,666,872

City of Chariton  
Schedule of Indebtedness  
Year ended June 30, 2004

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Bonds and Interest Due and Unpaid
<b>General Obligation Bonds and Notes-</b>									
Corporate Purpose	March 1, 1995	4.99-5.60%	\$ 275,000	70,000	-	35,000	35,000	3,902	-
Corporate Purpose	September 1, 1997	4.20-4.90%	550,000	400,000	-	70,000	330,000	19,225	-
Corporate Purpose and Refunding	November 1, 1999	4.50-5.30%	715,000	295,000	-	35,000	260,000	15,083	-
Corporate Purpose	July 1, 2001	4.00-4.80%	690,000	625,000	-	65,000	560,000	27,955	-
Corporate Purpose	February 1, 2003	2.00-3.30%	150,000	150,000	-	30,000	120,000	4,005	-
Economic Development Note	June 1, 2004	4.93%	50,000	-	50,000	-	50,000	-	-
<b>Total</b>				<u>\$ 1,540,000</u>	<u>50,000</u>	<u>235,000</u>	<u>1,355,000</u>	<u>70,170</u>	<u>-</u>
<b>Revenue Bonds-</b>									
Solid Waste Disposal	September 1, 1992	4.00-6.25%	\$ 675,000	305,000	-	305,000	-	9,261	-
Local Option Sales and Service Tax	December 1, 1999	4.70-6.00%	1,980,000	1,630,000	-	100,000	1,530,000	92,293	-
<b>Total</b>				<u>\$ 1,935,000</u>	<u>-</u>	<u>405,000</u>	<u>1,530,000</u>	<u>101,554</u>	<u>-</u>
<b>FmHA Revenue Notes-</b>									
FmHA Airport Revenue Notes(Note 4)	December 1, 1989	6.00%	\$ 130,000	59,282	-	7,834	51,448	3,362	-
<b>Lease Purchase Agreement-</b>									
Equipment	June 15, 2002	4.50%	\$ 129,900	108,199	-	25,601	82,598	3,495	-

See accompanying independent auditors report.

City of Chariton

Schedule 3

Bond and Note Maturities

June 30, 2004

General Obligations Bonds and Notes

Year Ending June 30,	Corporate Purpose Issued March 1, 1995		Corporate Purpose Issued September 1, 1997		Corporate Purpose and Refunding Issued November 1, 1999		Corporate Purpose Issued July 1, 2001		Corporate Purpose Issued February 1, 2003		Economic Development Note Issued June 1, 2004		Total
	Interest		Interest		Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2005	5.60%	\$ 35,000	4.75%	\$ 75,000	5.00%	\$ 40,000	4.20%	\$ 70,000	2.35%	\$ 30,000	4.93%	\$ 5,000	\$ 255,000
2006	-	-	4.80%	80,000	5.05%	40,000	4.30%	75,000	2.70%	30,000	4.93%	5,000	230,000
2007	-	-	4.85%	85,000	5.10%	40,000	4.40%	75,000	3.00%	30,000	4.93%	5,000	235,000
2008	-	-	4.90%	90,000	5.15%	45,000	4.50%	80,000	3.30%	30,000	4.93%	5,000	250,000
2009	-	-	-	-	5.20%	45,000	4.60%	85,000	-	-	4.93%	5,000	135,000
2010	-	-	-	-	5.30%	50,000	4.70%	85,000	-	-	4.93%	5,000	140,000
2011	-	-	-	-	-	-	4.80%	90,000	-	-	4.93%	5,000	95,000
2012	-	-	-	-	-	-	-	-	-	-	4.93%	5,000	5,000
2013	-	-	-	-	-	-	-	-	-	-	4.93%	5,000	5,000
2014	-	-	-	-	-	-	-	-	-	-	4.93%	5,000	5,000
		<u>\$ 35,000</u>		<u>\$ 330,000</u>		<u>\$ 260,000</u>		<u>\$ 560,000</u>		<u>\$ 120,000</u>		<u>\$ 50,000</u>	<u>\$ 1,355,000</u>

Revenue Bonds

Local Options Sales  
and Services Tax

Year Ending June 30,	Issued December 1, 1999		Revenue Bonds Total
	Interest Rates	Amount	
2005	5.30%	\$ 105,000	\$ 105,000
2006	5.40%	110,000	110,000
2007	5.45%	115,000	115,000
2008	5.50%	125,000	125,000
2009	5.55%	130,000	130,000
2010	5.65%	135,000	135,000
2011	5.75%	145,000	145,000
2012	5.80%	155,000	155,000
2013	5.85%	160,000	160,000
2014	5.95%	170,000	170,000
2015	6.00%	180,000	180,000
		<u>\$ 1,530,000</u>	<u>\$ 1,530,000</u>

See accompanying independent auditor's report.

City of Chariton

Schedule 4

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For The Last Two Years

	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$1,281,166	1,282,678
Tax increment financing collections	53,680	47,726
Other city tax	470,216	457,282
Licenses and permits	8,648	7,814
Use of money and property	150,407	53,503
Intergovernmental	668,993	711,316
Charges for service	176,839	170,532
Special assessments	26,119	48,773
Miscellaneous	127,176	198,841
	<u>\$2,963,244</u>	<u>2,978,465</u>
Disbursements:		
Operating:		
Public safety	\$ 613,188	673,094
Public works	591,061	653,954
Health and social services	7,457	10,640
Culture and recreation	451,533	491,819
Community and economic development	208,933	103,967
General government	330,853	287,664
Debt service	498,754	543,079
Capital projects	21	8,571
Non-program	50,820	72,883
	<u>\$2,752,620</u>	<u>2,845,671</u>

See accompanying independent auditor's report.

PEAK & GERDES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
103 BENTON AVENUE EAST  
ALBIA, IOWA 52531

(641) 932-3295

Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Chariton, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated July 16, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Chariton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. 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. Prior year statutory comments have been resolved except for items II-B-04, II-H-04, II-J-04 and II-K-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Chariton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Chariton's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weaknesses. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Chariton and other parties to whom the City of Chariton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Chariton 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.

Peak & Gerdes, LLP  
Certified Public Accountants

July 16, 2004

City of Chariton

Schedule of Findings  
Year Ended June 30, 2004

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

I-A-04 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. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person.

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

Response - We will consider this.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-04 Timely Deposit of Receipts - During our testing we noted that receipts were not always timely deposited to the bank.

Recommendation - Receipts should be deposited more timely, preferably daily.

Response - We will work on more timely deposits.

Conclusion - Response accepted.

I-C-04 Fuel Procedures - For the Airport and Central Fuel Fuelity, based on the quantity of fuel purchased during the year, the quantity of fuel on hand as of June 30, 2004 and 2003, and the mark up price, it is questionable whether all fuel has been accounted for properly.

Recommendation - The City implement procedures to insure all fuel is accounted for properly.

Response - We will review this and take action as necessary.

Conclusion - Response accepted.

City of Chariton

Schedule of Findings  
Year Ended June 30, 2004

**Part II: Other Findings Related to Statutory Reporting:**

II-A-04 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the public safety and community and economic development functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-04 Business Transactions - No business transactions between the City and City officials or employees were noted.

II-F-04 Bond Coverage - Surety bond coverage of City 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.

II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-H-04 Deposits and Investment - The City library has received stock as part of a bequest. This type of investment is not normally permitted by the Code of Iowa. However, the terms of the trust agreement prohibits the City from disposing of these investments.

The City cemetery owns stock which was purchased in previous years. This is not a permissible investment in accordance with the Code of Iowa, nor with the City's investment policy.

Recommendation - The City should continue its efforts to dispose of cemetery stock and reinvest in permissible investments as soon as possible.

Response - We have continued our efforts to dispose of the stock but the market value was so low that it was in the best interest of the City not to sell at that time. We will sell it in the future if the market improves.

Conclusion - Response accepted.

City of Chariton

Schedule of Findings  
Year Ended June 30, 2004

II-I-04 Revenue Bonds and Notes - The City has complied with the provisions of the revenue bond and note resolutions.

II-J-04 Financial Condition - The Enterprise Funds – Airport, Internal Service Fund – Central Fuel Facility, and the Special Revenue Funds – CEBA and Daycare Grant had deficit balances at June 30, 2004. The balance in the Debt Service Fund may be excessive.

Recommendation - The City should monitor these accounts in order to eliminate these deficits, and take steps to reduce the balance in the Debt Service Fund.

Response - The Enterprise Funds – Airport deficit should be eventually eliminated by rents received, profit from fuel sold, and through a transfer from the General Fund. The Internal Service Fund – Central Fuel Facility deficit should be eventually eliminated from the profit received from the fuel sold. The Special Revenue Funds - CEBA and Daycare Grant deficit will be eliminated through transfers from the General Fund. In addition, we will evaluate the balance in the Debt Service Fund to determine if the cash on hand is excessive.

Conclusion - Response accepted.

II-K-04 City Council Salaries - In one section of the City Code, council members compensation is set at \$300 per year, and in another section of the City Code, council members compensation is set at \$500 per year.

Recommendation - The City review this inconsistency with legal counsel to determine the appropriate course of action.

Response - We will discuss this with legal counsel.

Conclusion - Response accepted.

II-L-04 IRS Form 1099- We noted an instance in which the City failed to file an IRS 1099 – Misc. form.

Recommendation - The City implement procedures to ensure all IRS 1099 – Misc. forms are filed in the future.

Response - We will implement this recommendation.

Conclusion - Response accepted.

II-M-04 Transfer – At June 30, 2004, \$29,717 was due from the Debt Service Fund to the Special Revenue - Urban Renewal Tax Increment Fund.

Recommendation - The City make the above transfer.

Response - We will implement this recommendation.

Conclusion - Response accepted.

City of Chariton

Schedule of Findings  
Year Ended June 30, 2004

II-N-04 Compliance Issues – An instance was noted where an assessment was not certified to the County Treasurer for collection. As a result, the City did not receive these funds which were due to them. Overtime is currently paid for work in excess of 8 hours per day, even though the City policy requires overtime to be paid for work in excess of 40 hours per week. The library was unable to show where they spent all of the Gates grant money that they received.

Recommendation – The City ensure all assessments are certified to the County Treasurer for collection, overtime is paid pursuant to City policy, and the library review the status of the Gates grant with the grantor agency.

Response – We will implement these recommendations.

Conclusion – Response accepted.