

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

JUNE 30, 2007

Peak & Gerdes, LLP  
Certified Public Accountants  
1051 Office Park Road  
West Des Moines, Iowa 50265

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City of Chariton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Braid	Mayor	December, 2009
Joan Amos	Council Member	December, 2007
June Spinler	Council Member	December, 2007
Brian Snuggs	Council Member	December, 2009
Roger Manser	Council Member	December, 2009
Nels Christensen	Manager	Indefinite
Ruth Ryun	Clerk/Treasurer	December, 2007
Verle W. Norris	Attorney	December, 2007

City of Chariton

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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, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa, as of and for the year ended June 30, 2007, 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 opinions on these financial statements based on our audit.

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

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.

The financial statements referred to above include only the primary government of the City of Chariton, which consists of all funds, organizations, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Chariton as of June 30, 2007, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

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, each major fund and the aggregate remaining fund information for the primary government of the City of Chariton as of June 30, 2007, 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.

In accordance with Government Auditing Standards, we have also issued our report dated July 23, 2007 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, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or 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.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 30 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 primary government financial statements for the four years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 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 23, 2007

## **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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2007 Financial Highlights**

- Receipts and transfers of the City's governmental activities increased 15%, or approximately \$454,000, from fiscal 2006 to fiscal 2007. Property tax and local option sales taxes increased approximately \$84,000 and \$16,000, respectively. In addition, the fire department received approximately \$390,000 in donations in fiscal 2007.
- Disbursements of the City's governmental activities increased 21.2%, or approximately \$705,000, in fiscal 2007 from fiscal 2006. Public safety, culture and recreation, and capital projects disbursements increased approximately \$60,000, \$68,000 and \$815,000, respectively. Non-program disbursements decreased approximately \$239,000.
- The City's total cash basis net assets decreased 10.3%, or approximately \$617,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased approximately \$564,000 and the assets of the business type activities decreased by approximately \$53,000.

### **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, and non-major proprietary 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 two 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.

### *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 fund, considered to be a major fund of the City, and the airport and solid waste funds, non-major funds of the City. 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 decreased from a year ago, decreasing from \$5.320 million to \$4.757 million. The analysis that follows focuses on the changes in cash balances for government activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2007	2006
<b>Receipts and transfers:</b>		
Program receipts:		
Charges for service	\$ 168	245
Operating grants, contributions and restricted interest	976	442
Capital grants, contributions and restricted interest	133	40
General receipts:		
Property tax	1,414	1,330
Local option sales tax	499	483
Grants and contributions not restricted to specific purposes	34	22
Unrestricted interest on investments	101	218
Debt proceeds	-	-
Miscellaneous	167	232
Sale of assets	-	1
Transfers, net	(20)	5
<b>TOTAL RECEIPTS AND TRANSFERS</b>	<b>3,472</b>	<b>3,018</b>
<b>Disbursements:</b>		
Public safety	669	609
Public works	757	779
Health and social services	8	6
Culture and recreation	536	468
Community and economic development	7	17
General government	334	298
Debt service	576	581
Capital projects	1,093	278
Non-program	55	294
<b>TOTAL DISBURSEMENTS</b>	<b>4,035</b>	<b>3,330</b>
<b>Increase (decrease) in cash basis net assets</b>	<b>(563)</b>	<b>(312)</b>
<b>Cash basis net assets beginning of year</b>	<b>5,320</b>	<b>5,632</b>
<b>Cash basis net assets end of year</b>	<b>\$4,757</b>	<b>5,320</b>

The City's total receipts and transfers for governmental activities increased by 15.0%, or approximately \$454,000. The cost of all programs and services increased by approximately \$705,000, or 21.2%, with no new programs added this year. The significant increase in receipts was primarily due to the fire department receiving approximately \$390,000 in donations in fiscal year 2007.

The City increased the property tax rate from \$16.2327 in fiscal 2006 to \$16.24382 in fiscal 2007. The City had decreased the property tax rate in fiscal 2005 and 2006. This increase in fiscal 2007, combined with an increase in the taxable valuation, raised the City's property tax receipts by approximately \$84,000 in fiscal 2007. The City's taxable valuation has decreased by approximately 1% in fiscal 2008 compared to fiscal 2007. The City's property tax rate in fiscal 2008 is 16.47215. As a result of the increase in the total tax levy, property tax receipts are budgeted to increase by approximately \$11,000 next year.

The cost of all governmental activities this year was \$4.035 million. However, as shown in the Statement of Activities and Net Assets on page 16, the amount taxpayers ultimately financed for these activities was only \$2.759 million because some of the cost was paid by those directly benefited from the programs (\$168,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,108,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2007 from approximately \$.727 million to approximately \$1.276 million, principally due to donations received of approximately \$390,000 for the fire department. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2,759,000 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,	
	2007	2006
<b>Receipts and transfers:</b>		
Program receipts:		
Charges for service	\$457	462
Capital grants, contributions and restricted interest	-	14
General receipts:		
Unrestricted interest on investments	18	21
Miscellaneous	10	15
Sale of assets	12	-
Transfers (Net)	20	(5)
<b>TOTAL RECEIPTS AND TRANSFERS</b>	<b>517</b>	<b>507</b>
<b>Disbursements:</b>		
Airport	129	90
Sewer	427	403
Other (Solid Waste)	15	16
<b>TOTAL DISBURSEMENTS</b>	<b>571</b>	<b>509</b>
<b>Increase (decrease) in cash basis net assets</b>	<b>(54)</b>	<b>(2)</b>
<b>Cash basis net assets beginning of year</b>	<b>679</b>	<b>681</b>
<b>Cash basis net assets end of year</b>	<b>\$625</b>	<b>679</b>

Total business type activities receipts and transfers for the fiscal year were \$517,000 compared to \$507,000 last year. The increase was due primarily to the amount of transfers to the business type activities funds.

The cash balance decreased by approximately \$54,000 from the prior year because the Sewer Fund fees charged exceeded the operating costs of this fund. Total disbursements for the fiscal year increased by 12% to a total of \$571,000.

### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Chariton completed the year, its governmental funds reported a combined fund balance of \$4,748,850, a decrease of approximately \$596,000 below last years total of \$5,344,928. 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 increased \$22,756 from the prior year to \$1,147,789. The increase can be attributed to an approximate \$390,000 donation to the fire department. Without this donation, the cash balance of the General Fund would have decreased approximately \$367,000. The City continues to spend more out of the General Fund in normal operating costs than what it receives from property taxes, charges for services, and other miscellaneous receipts.
- The Special Revenue, Road Use Tax Fund cash balance decreased by \$41,416 to (\$16,838) during the fiscal year. While the City did not receive any more funding this fiscal year, increased fuel prices, equipment purchases, and snow removal costs significantly decreased the financial condition of this fund.
- The Special Revenue, Swimming Pool Fund cash balance decreased by \$644,902 to \$1,593,322. The decrease is due primarily to reconstruction of the pool. The sales tax monies deposited to this fund are restricted by referendum for Swimming Pool construction and operation. The Swimming Pool currently has \$1,200,000 in Revenue Bond debt.
- The Debt Service Fund cash balance decreased by \$99,618 to \$197,180 during the fiscal year. The decrease in cash is primarily due to bond principal and interest payments exceeding the property tax receipts.

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

- The Sewer Fund cash balance decreased by \$43,131 to \$539,459, due primarily to costs exceeding income during the year. An increase in sewer rates will help offset future capital projects scheduled for fiscal 2008, including updating lift stations and repairs to the sanitary sewer plant and lines.

## **BUDGETARY HIGHLIGHTS**

This past year the City of Chariton amended the budget on May 21, 2007. The amendment approved an increase in operating disbursements of \$382,861 for equipment purchases and capital improvements. The City financed these increased costs through existing cash balances.

Even with the budget amendments, the City exceeded the amounts budgeted in the health and social services, general government, and debt service functions for the year ended June 30, 2007.

## **DEBT ADMINISTRATION**

As of June 30, 2007, the City had approximately \$2,155,000 in outstanding bonds and other long-term debt, compared to approximately \$2,640,000 last year, as shown below.

	Outstanding Debt at Year End	
	(Expressed in Thousands)	
	June 30,	
	2007	2006
General obligation bonds and notes	\$930	1,260
Revenue bonds	1,200	1,315
FMHA revenue notes	25	34
Lease purchase agreement	-	31
<b>TOTAL</b>	<b>\$2,155</b>	<b>2,640</b>

Debt decreased because no new debt was issued during the fiscal year, and the scheduled debt payments were made.

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 \$930,000 is significantly below its constitutional debt limit of \$6,926,000.

## **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 2008 budget, tax rates, and fees that will be charged for various City activities.

The City's taxable value has slowly but steadily increased from 2001-2004. However, in fiscal 2005 and 2006 the taxable value has declined. Part of the cause for the decline is the result of the residential rollback. In 2007, the taxable value increased again primarily due to new construction in the community. However, in 2008, the taxable value declined by approximately 1%.

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. In 2007, the departments funded from the General Fund were required to review their department budgets and were instructed to either cut disbursements, or offset costs through higher revenues through fines, fees, or costs for services increases.

The City's expected receipts and other financing sources for fiscal 2008 is \$11,852,650, as opposed to fiscal 2007 budgeted receipts of \$7,419,575.

The City's expected disbursements and transfers out for fiscal 2008 is \$10,681,210, as opposed to fiscal 2007 budgeted disbursements of \$8,703,323.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$1,171,000 to \$6,612,417 by the close of fiscal 2008.

#### **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 Ruth A. Ryun, City Clerk, 115 South Main Street, Chariton, Iowa 50049.

## Basic Financial Statements

## Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2007

Functions / Programs	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating		Governmental Activities	Business Type Activities	Total
			Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest			
<b>Governmental activities:</b>							
Public safety	\$ 668,747	14,103	426,827	80,813	(147,004)	-	(147,004)
Public works	757,222	49,858	422,867	-	(284,497)	-	(284,497)
Health and social services	7,683	-	-	-	(7,683)	-	(7,683)
Culture and recreation	536,378	94,713	112,893	32,496	(296,276)	-	(296,276)
Community and economic development	7,203	-	6,686	18,235	17,718	-	17,718
General government	333,604	9,668	6,131	-	(317,805)	-	(317,805)
Debt service	576,161	-	-	1,136	(575,025)	-	(575,025)
Capital projects	1,092,852	-	-	-	(1,092,852)	-	(1,092,852)
Non-program	55,231	-	-	-	(55,231)	-	(55,231)
<b>Total governmental activities</b>	<b>4,035,081</b>	<b>168,342</b>	<b>975,404</b>	<b>132,680</b>	<b>(2,758,655)</b>	<b>-</b>	<b>(2,758,655)</b>
<b>Business type activities:</b>							
Airport	129,303	46,390	-	-	-	(82,913)	(82,913)
Sewer	426,541	357,296	-	-	-	(69,245)	(69,245)
Solid waste	14,801	53,638	-	-	-	38,837	38,837
<b>Total business type activities</b>	<b>570,645</b>	<b>457,324</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(113,321)</b>	<b>(113,321)</b>
<b>Total</b>	<b>\$ 4,605,726</b>	<b>625,666</b>	<b>975,404</b>	<b>132,680</b>	<b>(2,758,655)</b>	<b>(113,321)</b>	<b>(2,871,976)</b>
<b>General Receipts:</b>							
Property tax and other city tax levied for:							
General purposes					1,111,963	-	1,111,963
Tax increment financing					88,363	-	88,363
Debt service					212,996	-	212,996
Local option sales tax					499,241	-	499,241
Grants and contributions not restricted to specific purpose					34,480	-	34,480
Unrestricted interest on investments					101,325	17,426	118,751
Miscellaneous					166,681	10,482	177,163
Sale of assets					-	11,924	11,924
Transfers					(20,000)	20,000	-
<b>Total general receipts and transfers</b>					<b>2,195,049</b>	<b>59,832</b>	<b>2,254,881</b>
<b>Change in cash basis net assets</b>					<b>(563,606)</b>	<b>(53,489)</b>	<b>(617,095)</b>
<b>Cash basis net assets beginning of year, as restated</b>					<b>5,320,427</b>	<b>679,042</b>	<b>5,999,469</b>
<b>Cash basis net assets end of year</b>					<b>\$ 4,756,821</b>	<b>625,553</b>	<b>5,382,374</b>
<b>Cash Basis Net Assets</b>							
Restricted:							
Streets					\$ (16,838)	-	(16,838)
Urban renewal purposes					141,813	-	141,813
Debt service					411,315	20,726	432,041
Fire department					390,632	-	390,632
Other purposes					3,064,771	-	3,064,771
Unrestricted					765,128	604,827	1,369,955
<b>Total cash basis net assets</b>					<b>\$ 4,756,821</b>	<b>625,553</b>	<b>5,382,374</b>

See notes to financial statements.

## City of Chariton

Exhibit B

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

As of and for the year ended June 30, 2007

	Special Revenue					Total
	General	Road Use Tax	Swimming Pool	Debt Service	Nonmajor	
<b>Receipts:</b>						
Property tax	\$ 787,941	-	-	212,996	324,021	1,324,958
Tax increment financing	-	-	-	-	88,363	88,363
Other city tax	21,728	-	499,241	-	-	520,969
Licenses and permits	9,668	-	-	-	-	9,668
Use of money and property	103,625	-	86,554	-	123,584	313,763
Intergovernmental	121,031	381,136	-	-	7,415	509,582
Charges for service	74,262	-	-	-	-	74,262
Special assessments	-	-	-	-	11,033	11,033
Miscellaneous	552,409	-	15,000	1,136	70,250	638,795
Total receipts	1,670,664	381,136	600,795	214,132	624,666	3,491,393
<b>Disbursements:</b>						
<b>Operating:</b>						
Public safety	560,549	-	-	-	109,804	670,353
Public works	235,639	422,552	-	-	104,017	762,208
Health and social services	7,683	-	-	-	-	7,683
Culture and recreation	470,731	-	-	-	66,517	537,248
Community and economic development	7,203	-	-	-	-	7,203
General government	308,061	-	-	-	50,471	358,532
Debt service	-	-	190,887	385,274	-	576,161
Capital projects	98,642	-	994,210	-	-	1,092,852
Non-program	-	-	-	-	55,231	55,231
Total disbursements	1,688,508	422,552	1,185,097	385,274	386,040	4,067,471
Excess (deficiency) of receipts over (under) disbursements	(17,844)	(41,416)	(584,302)	(171,142)	238,626	(576,078)
<b>Other financing sources (uses):</b>						
Operating transfers in	60,600	-	-	71,524	-	132,124
Operating transfers out	(20,000)	-	(60,600)	-	(71,524)	(152,124)
Total other financing sources (uses)	40,600	-	(60,600)	71,524	(71,524)	(20,000)
Net change in cash balances	22,756	(41,416)	(644,902)	(99,618)	167,102	(596,078)
Cash balances beginning of year, as restated	1,125,033	24,578	2,238,224	296,798	1,660,295	5,344,928
Cash balances end of year	\$ 1,147,789	(16,838)	1,593,322	197,180	1,827,397	4,748,850
<b>Cash Basis Fund Balances</b>						
<b>Reserved:</b>						
Debt service	\$ -	-	214,135	197,180	-	411,315
Fire department	390,632	-	-	-	-	390,632
<b>Unreserved:</b>						
General fund	757,157	-	-	-	-	757,157
Special revenue funds	-	(16,838)	1,379,187	-	1,636,391	2,998,740
Permanent fund	-	-	-	-	191,006	191,006
Total cash basis fund balances	\$ 1,147,789	(16,838)	1,593,322	197,180	1,827,397	4,748,850

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, 2007

**Total governmental funds cash balances (page 17)** **\$ 4,748,850**

*Amounts reported for governmental 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. A portion of the assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

7,971

**Cash basis net assets of governmental activities (page 16)** **\$ 4,756,821**

**Net change in cash balances (page 17)** **\$ (596,078)**

*Amounts reported for governmental 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. A portion of the change in net assets of the Internal Service Fund is reported with governmental activities.

32,472

**Change in cash basis net assets of governmental activities (page 16)** **\$ (563,606)**

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, 2007

	Enterprise Funds			Internal Service Fund
	Sewer	Nonmajor	Total	Central Fuel
Operating receipts:				
Use of money and property	\$ -	24,928	24,928	-
Charges for service	357,296	75,100	432,396	238,998
Miscellaneous	-	-	-	2,347
Total operating receipts	<u>357,296</u>	<u>100,028</u>	<u>457,324</u>	<u>241,345</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	10,050
Public works	-	-	-	31,112
Culture and recreation	-	-	-	5,484
General government	-	-	-	154,973
Business type activities	427,341	133,179	560,520	6,753
Total operating disbursements	<u>427,341</u>	<u>133,179</u>	<u>560,520</u>	<u>208,372</u>
Excess (deficiency) of receipts over (under) operating disbursements	<u>(70,045)</u>	<u>(33,151)</u>	<u>(103,196)</u>	<u>32,973</u>
Non-operating receipts (disbursements):				
Interest on investments	13,108	4,318	17,426	-
Miscellaneous	1,882	8,682	10,564	488
Debt service	-	(11,196)	(11,196)	-
Total non-operating receipts (disbursements)	<u>14,990</u>	<u>1,804</u>	<u>16,794</u>	<u>488</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(55,055)</u>	<u>(31,347)</u>	<u>(86,402)</u>	<u>33,461</u>
Other financing sources (uses):				
Sale of capital assets	11,924	-	11,924	-
Operating transfers in	-	20,000	20,000	-
Total other financing sources (uses)	<u>11,924</u>	<u>20,000</u>	<u>31,924</u>	<u>-</u>
Net change in cash balances	(43,131)	(11,347)	(54,478)	33,461
Cash balances beginning of year	<u>582,590</u>	<u>97,177</u>	<u>679,767</u>	<u>(25,226)</u>
Cash balances end of year	<u>\$ 539,459</u>	<u>85,830</u>	<u>625,289</u>	<u>8,235</u>
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	20,726	20,726	-
Unreserved	<u>539,459</u>	<u>65,104</u>	<u>604,563</u>	<u>8,235</u>
Total cash basis fund balances	<u>\$ 539,459</u>	<u>85,830</u>	<u>625,289</u>	<u>8,235</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, 2007

**Total enterprise funds cash balances (page 19)** \$ 625,289

*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. A portion of the assets of the Internal  
Service Fund are included in business type activities in the Statement of Net Assets.

264

**Cash basis net assets of business type activities (page 16)** \$ 625,553

**Net change in cash balances (page 19)** \$ (54,478)

*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. A portion of the change in net assets  
of the Internal Service Fund is reported with business type activities.

989

**Change in cash basis net assets of business type activities (page 16)** \$ (53,489)

See notes to financial statements.

## City of Chariton

### Notes to Financial Statements

June 30, 2007

#### (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 utilities for its citizens.

##### A. Reporting Entity

Except as discussed below, 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 exclude the City's component unit. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship with the City is significant.

##### Excluded Component Unit

The Chariton Municipal Waterworks was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Waterworks is governed by a three-member board appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Waterworks administrative office.

##### 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 15 Regional Planning Commission, Lucas County Assessor's Conference Board, South Central Iowa Solid Waste Commission and the Chariton Area Development Corporation.

##### Related Organization

The City Council members are also responsible for appointing the members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

## 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 fund:

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

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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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, 2007, disbursements exceeded the amounts budgeted in the health and social services, general government and debt service functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The 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.

At June 30, 2007, the City had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Corporate stock	<u>\$2,160</u>	<u>\$10,031</u>

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Corporate stock is not an allowable investment according to the Code of Iowa.

In addition, the City has Deferred Compensation Plan investments with a fair value of \$863,038 at June 30, 2007 that is not subject to risk categorization.

**(3) Bonds and Notes Payable**

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

Year Ended June 30,	General Obligation Bonds and Notes		Local Option Sales and Services Tax Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 345,000	\$ 40,295	\$ 125,000	\$ 69,320	\$ 470,000	\$ 109,615
2009	235,000	25,644	130,000	62,445	365,000	88,089
2010	240,000	15,747	135,000	55,230	375,000	70,977
2011	95,000	5,306	145,000	47,603	240,000	52,909
2012	5,000	739	155,000	39,265	160,000	40,004
2013	5,000	493	160,000	30,275	165,000	30,768
2014	5,000	246	170,000	20,915	175,000	21,161
2015	-	-	180,000	10,800	180,000	10,800
<b>Total</b>	<b>\$ 930,000</b>	<b>\$ 88,470</b>	<b>\$ 1,200,000</b>	<b>\$ 335,853</b>	<b>\$ 2,130,000</b>	<b>\$ 424,323</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) U.S. Department of Agriculture Airport Revenue Notes**

The City is indebted to the U.S. Department of Agriculture for airport revenue notes. At June 30, 2007 the revenue notes had an outstanding balance of \$24,866. Annual debt service requirements to maturity for these revenue notes are as follows:

Year Ended June 30,	Principal	Interest	Total Payment
2008	\$ 9,975	\$ 1,221	\$ 11,196
2009	10,591	605	11,196
2010	4,300	62	4,362
Total	<u>\$ 24,866</u>	<u>\$ 1,888</u>	<u>\$ 26,754</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 U.S. Department of Agriculture from January, 1990 through December, 2009, inclusive.
- (c) Sufficient monthly transfers should be made to a "Sinking Fund" for the purpose of making the above payments when due.
- (d) Monthly transfers in the amount of \$94 shall be deposited in a "Reserve Fund", until a balance of \$11,196 has been accumulated.

While the City has established a sinking fund and a reserve fund, it does not appear that the balances in these funds are backed by cash. See comment II-H-07 on page 44 of this report.

**(5) Lease Purchase Obligations**

The City was purchasing a Street Sweeper under a capital lease contract. This lease was paid off in fiscal year 2007.

**(6) Operating Lease Agreements**

The City is leasing a copy machine for \$150 per month. Future required payments are:

Year Ended June 30,	Amount
2008	\$ 1,800
2009	1,800
2010	1,800
2011	1,800
2012	1,350
Total	<u>\$ 8,550</u>

Total rent expense during the fiscal year on these agreements was \$450.

**(7) 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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$60,640, \$59,576 and \$59,661, respectively, equal to the required contributions for each year.

**(8) 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, 2007, primarily relating to the General Fund, is \$91,502.

This liability has been computed based on rates of pay in effect at June 30, 2007.

**(9) 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, 2007 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.

**(10) Interfund Transfers**

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

Transfer to	Transfer from	Amount
General	Special Revenue: Swimming Pool	\$ 60,600
Debt Service	Special Revenue: Urban Renewal Tax Increment Donations	64,530 6,994 71,524
Enterprise: Airport	General	20,000
Total		\$ 152,124

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

**(11) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$6,911 during the year ended June 30, 2007.

**(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, 2007, the City had deficit balances as follows:

Enterprise Funds - Airport	\$ 190,596
Special Revenue Fund - Road Use Tax	16,838
Special Revenue Fund - CEBA	915
Special Revenue Fund - Donations	10,060
Special Revenue Fund - Employee Benefits	23,483

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

The Special Revenue Fund - Road Use Tax deficit should be eventually eliminated through decreased spending and from road use tax funds received from the State of Iowa.

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

The Special Revenue Fund - Donations deficit should be eliminated through donations received.

The Special Revenue Fund - Employee Benefits deficit should be eliminated through decreased spending and through an increase in property taxes.

**(15) Contingency**

The City participates in a number of Federal and State grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

**(16) Commitments/Subsequent Events**

The City should receive approximately \$35,000 in fiscal year 2008 for closing a railroad crossing in town. In addition, the City should receive \$45,000 over the next two years as a result of a settlement with a contractor.

The City has received notification that they have been awarded grants from the State of Iowa Community Development Block Grant program, the Federal Aviation Administration, U.S. Department of Homeland Security and the Iowa Department of Transportation for housing, airport improvements, fire department equipment and bridge replacement. The total amount of these grant awards is over \$1.5 million. The City currently is, or will be, incurring costs in relation to these projects. Reimbursements from the grantors will be requested as work on the project progresses.

The City is in the process of renovating the aquatic center at an approximate cost of \$1.8 million. At June 30, 2007, uncompleted contracts total approximately \$725,000 on this aquatic center project and will be paid as the project progresses.

**(17) Restatements**

The beginning cash balance of the discretely presented component unit was restated to remove the Chariton Municipal Waterworks from this report. This report presents the primary government financial statements of the City of Chariton; therefore, it excludes the City's discretely presented component unit. The discretely presented component unit of the City of Chariton is the Chariton Municipal Waterworks. As a result, the beginning cash balance of the discretely presented component unit on Exhibit A was reduced by \$700,030 to a \$0 balance at July 1, 2006. Because the current year report only includes the primary government of the City of Chariton, there is no longer a column for the discretely presented component units on Exhibit A.

Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Chariton Municipal Waterworks administrative offices.

The beginning cash balance of the General Fund was reduced by \$188,332 and the beginning cash balance of the Special Revenue Fund – Emergency was increased by \$188,332. The monies in the emergency fund were previously reported as part of the General Fund, but were reclassified as a separate Special Revenue Fund as of July 1, 2006.

## 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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
<b>Receipts:</b>							
Property tax	\$ 1,324,958	-	-	1,324,958	1,271,669	1,271,669	53,289
Tax increment financing collections	88,363	-	-	88,363	64,530	64,530	23,833
Other city tax	520,969	-	-	520,969	531,953	531,953	(10,984)
Licenses and permits	9,668	-	-	9,668	30,245	30,245	(20,577)
Use of money and property	313,763	42,354	-	356,117	102,200	102,200	253,917
Intergovernmental	509,582	-	-	509,582	865,650	865,650	(356,068)
Charge for service	74,262	671,394	238,998	506,658	979,360	979,360	(472,702)
Special assessments	11,033	-	-	11,033	22,121	22,121	(11,088)
Miscellaneous	638,795	13,399	2,835	649,359	555,782	555,782	93,577
<b>Total receipts</b>	<b>3,491,393</b>	<b>727,147</b>	<b>241,833</b>	<b>3,976,707</b>	<b>4,423,510</b>	<b>4,423,510</b>	<b>(446,803)</b>
<b>Disbursements:</b>							
Public safety	670,353	10,050	10,050	670,353	721,433	721,433	51,080
Public works	762,208	31,112	31,112	762,208	768,369	768,369	6,161
Health and social services	7,683	-	-	7,683	7,400	7,400	(283)
Culture and recreation	537,248	5,484	5,484	537,248	463,035	571,434	34,186
Community and economic development	7,203	-	-	7,203	117,350	117,350	110,147
General government	358,532	154,973	154,973	358,532	313,038	313,038	(45,494)
Debt service	576,161	-	-	576,161	385,280	385,280	(190,881)
Capital projects	1,092,852	-	-	1,092,852	1,500,000	1,603,827	510,975
Business type activities	-	578,469	6,753	571,716	1,305,538	1,475,993	904,277
Non-program	55,231	-	-	55,231	-	-	(55,231)
<b>Total disbursements</b>	<b>4,067,471</b>	<b>780,088</b>	<b>208,372</b>	<b>4,639,187</b>	<b>5,581,443</b>	<b>5,964,124</b>	<b>1,324,937</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>(576,078)</b>	<b>(52,941)</b>	<b>33,461</b>	<b>(662,480)</b>	<b>(1,157,933)</b>	<b>(1,540,614)</b>	<b>878,134</b>
<b>Other financing sources, net</b>	<b>(20,000)</b>	<b>31,924</b>	<b>-</b>	<b>11,924</b>	<b>-</b>	<b>142,500</b>	<b>(130,576)</b>
<b>Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses</b>	<b>(596,078)</b>	<b>(21,017)</b>	<b>33,461</b>	<b>(650,556)</b>	<b>(1,157,933)</b>	<b>(1,398,114)</b>	<b>747,558</b>
<b>Balances beginning of year</b>	<b>5,344,928</b>	<b>654,541</b>	<b>(25,226)</b>	<b>6,024,695</b>	<b>9,276,284</b>	<b>9,276,284</b>	<b>(3,251,589)</b>
<b>Balances end of year</b>	<b>\$ 4,748,850</b>	<b>633,524</b>	<b>8,235</b>	<b>5,374,139</b>	<b>8,118,351</b>	<b>7,878,170</b>	<b>(2,504,031)</b>

See accompanying independent auditor's report.

City of Chariton

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2007

The 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 comparisons for the General Fund and each major Special Revenue Fund.

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. 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the 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, one budget amendment increased budgeted disbursements by \$382,681. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the health and social services, general government and debt service functions.

## Other Supplementary Information

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City of Chariton

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

As of and for the year ended June 30, 2007

	Special					CEBA
	Revolving Loan Fund	Section 8 Housing	Employee Benefits	CDBG Housing	Urban Renewal Tax Increment	
Receipts:						
Property tax	\$ -	-	302,175	-	-	-
Tax increment financing	-	-	-	-	88,363	-
Use of money and property	2,332	4,355	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-
Miscellaneous	-	-	-	18,236	-	-
Total receipts	2,332	4,355	302,175	18,236	88,363	-
Disbursements:						
Operating:						
Public safety	-	-	109,804	-	-	-
Public works	-	-	104,017	-	-	-
Culture and recreation	-	-	58,342	-	-	-
General government	-	-	50,471	-	-	-
Non-program	-	-	-	-	-	-
Total disbursements	-	-	322,634	-	-	-
Excess (deficiency) of receipts over (under) disbursements	2,332	4,355	(20,459)	18,236	88,363	-
Other financing sources (uses):						
Operating transfers out	-	-	-	-	(64,530)	-
Total other financing sources (uses)	-	-	-	-	(64,530)	-
Net change in cash balances	2,332	4,355	(20,459)	18,236	23,833	-
Cash balances beginning of year, as restated	88,199	76,673	(3,024)	32,637	117,980	(915)
Cash balances end of year	\$ 90,531	81,028	(23,483)	50,873	141,813	(915)
<b>Cash Basis Fund Balances</b>						
Unreserved:						
Special revenue funds	\$ 90,531	81,028	(23,483)	50,873	141,813	(915)
Permanent fund	-	-	-	-	-	-
Total cash basis fund balances	\$ 90,531	81,028	(23,483)	50,873	141,813	(915)

See accompanying independent auditor's report.

Revenue						Permanent	
Emergency	Library Endowment	Deferred Compensation	Special Assessment	Donations	Cemetery Perpetual Care	Total	
21,846	-	-	-	-	-	324,021	
-	-	-	-	-	-	88,363	
-	517	116,380	-	-	-	123,584	
-	-	-	-	7,415	-	7,415	
-	-	-	11,033	-	-	11,033	
-	-	39,865	-	7,364	4,785	70,250	
21,846	517	156,245	11,033	14,779	4,785	624,666	
-	-	-	-	-	-	109,804	
-	-	-	-	-	-	104,017	
-	-	-	-	8,175	-	66,517	
-	-	-	-	-	-	50,471	
-	-	48,628	-	6,603	-	55,231	
-	-	48,628	-	14,778	-	386,040	
21,846	517	107,617	11,033	1	4,785	238,626	
-	-	-	-	(6,994)	-	(71,524)	
-	-	-	-	(6,994)	-	(71,524)	
21,846	517	107,617	11,033	(6,993)	4,785	167,102	
188,332	106,684	755,421	115,154	(3,067)	186,221	1,660,295	
210,178	107,201	863,038	126,187	(10,060)	191,006	1,827,397	
210,178	107,201	863,038	126,187	(10,060)	-	1,636,391	
-	-	-	-	-	191,006	191,006	
210,178	107,201	863,038	126,187	(10,060)	191,006	1,827,397	

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2007

	Enterprise Funds		
	Airport	Solid Waste	Total
Operating receipts:			
Use of money and property	\$ 24,928	-	24,928
Charges for service	21,462	53,638	75,100
Total operating receipts	46,390	53,638	100,028
Operating disbursements:			
Business type activities	118,378	14,801	133,179
Total operating disbursements	118,378	14,801	133,179
Excess (deficiency) of receipts over (under) operating disbursements	(71,988)	38,837	(33,151)
Non-operating receipts (disbursements):			
Interest on investments	-	4,318	4,318
Miscellaneous	8,624	58	8,682
Debt service	(11,196)	-	(11,196)
Total non-operating receipts (disbursements)	(2,572)	4,376	1,804
Excess (deficiency) of receipts over (under) disbursements	(74,560)	43,213	(31,347)
Operating transfers in	20,000	-	20,000
Net change in cash balances	(54,560)	43,213	(11,347)
Cash balances beginning of year	(136,036)	233,213	97,177
Cash balances end of year	\$ (190,596)	276,426	85,830
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ 20,726	-	20,726
Unreserved	(211,322)	276,426	65,104
Total cash basis fund balances	\$ (190,596)	276,426	85,830

See accompanying independent auditor's report.

City of Chariton  
 Schedule of Indebtedness  
 Year ended June 30, 2007

Schedule 3

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	Interest Due and Unpaid
<b>General Obligation Bonds and Notes-</b>									
Corporate Purpose	September 1, 1997	4.20-4.90%	\$ 550,000	175,000	-	85,000	90,000	8,533	-
Corporate Purpose and Refunding	November 1, 1999	4.50-5.30%	715,000	180,000	-	40,000	140,000	9,437	-
Corporate Purpose	July 1, 2001	4.00-4.80%	690,000	415,000	-	75,000	340,000	19,125	-
Corporate Purpose	February 1, 2003	2.00-3.30%	150,000	60,000	-	30,000	30,000	1,890	-
Economic Development Note	June 1, 2004	4.93%	50,000	40,000	-	5,000	35,000	1,994	-
Corporate Purpose	May 1, 2005	2.80-3.55%	480,000	390,000	-	95,000	295,000	12,935	-
	Total		\$ 1,260,000	\$ 1,260,000	-	330,000	930,000	53,914	-
<b>Revenue Bonds-</b>									
Local Option Sales and Service Tax	December 1, 1999	4.70-6.00%	\$ 1,980,000	1,315,000	-	115,000	1,200,000	75,588	-
<b>U.S. Department of Agriculture Revenue Notes-</b>									
Airport Revenue Notes (Note 4)	January 11, 1990	6.00%	\$ 130,000	34,262	-	9,396	24,866	1,800	-
Lease Purchase Agreement- Equipment	June 15, 2002	4.55%	\$ 129,900	30,865	-	30,865	-	-	-

See accompanying independent auditors report.

City of Chariton

Schedule 4

Bond and Note Maturities

June 30, 2007

Year Ending June 30,	General Obligation Bonds and Notes																		
	Corporate Purpose and Refunding			Corporate Purpose			Corporate Purpose			Economic Development Note									
	Issued September 1, 1997	Interest Rates	Amount	Issued November 1, 1999	Interest Rates	Amount	Issued July 1, 2001	Interest Rates	Amount	Issued February 1, 2003	Interest Rates	Amount	Issued June 1, 2004	Interest Rates	Amount	Issued May 1, 2005	Interest Rates	Amount	Total
2008	4.90%		\$ 90,000	5.15%		\$ 45,000	4.50%		\$ 80,000	3.30%		\$ 30,000	4.93%		\$ 5,000	3.25%		\$ 95,000	\$ 345,000
2009	-		-	5.20%		45,000	4.60%		85,000	-		-	4.93%		5,000	3.40%		100,000	235,000
2010	-		-	5.30%		50,000	4.70%		85,000	-		-	4.93%		5,000	3.55%		100,000	240,000
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
			\$ 90,000			\$ 140,000			\$ 340,000			\$ 30,000			\$ 35,000			\$ 295,000	\$ 930,000

Year Ending June 30,	Revenue Bonds			Revenue Bonds			
	Local Options Sales and Services Tax			Total			
	Issued December 1, 1999	Interest Rates	Amount	Issued December 1, 1999	Interest Rates	Amount	Total
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	
			\$ 1,200,000			\$ 1,200,000	

See accompanying independent auditor's report.

City of Chariton

Schedule 5

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

For the Last Five Years

	2007	2006	2005	2004	2003
<b>Receipts:</b>					
Property tax	\$ 1,324,958	1,245,388	1,248,279	1,281,166	1,282,678
Tax increment financing collections	88,363	84,970	70,141	53,680	47,726
Other city tax	520,969	505,068	427,265	470,216	457,282
Licenses and permits	9,668	14,346	11,410	8,648	7,814
Use of money and property	313,763	231,890	64,000	150,407	53,503
Intergovernmental	509,582	450,401	455,901	668,993	711,316
Charges for service	74,262	116,669	128,300	176,839	170,532
Special assessments	11,033	15,771	15,688	26,119	48,773
Miscellaneous	638,795	347,416	1,671,264	127,176	198,841
<b>Total</b>	<b>\$ 3,491,393</b>	<b>3,011,919</b>	<b>4,092,248</b>	<b>2,963,244</b>	<b>2,978,465</b>
<b>Disbursements:</b>					
<b>Operating:</b>					
Public safety	\$ 670,353	608,609	590,405	613,188	673,094
Public works	762,208	779,619	832,039	591,061	653,954
Health and social services	7,683	6,030	9,036	7,457	10,640
Culture and recreation	537,248	467,570	584,598	451,533	491,819
Community and economic development	7,203	17,125	43,249	208,933	103,967
General government	358,532	302,087	350,925	330,853	287,664
Debt service	576,161	581,082	510,916	498,754	543,079
Capital projects	1,092,852	278,495	-	21	8,571
Non-program	55,231	293,984	91,158	50,820	72,883
<b>Total</b>	<b>\$ 4,067,471</b>	<b>3,334,601</b>	<b>3,012,326</b>	<b>2,752,620</b>	<b>2,845,671</b>

See accompanying independent auditor's report.

PEAK & GERDES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1051 OFFICE PARK ROAD  
WEST DES MOINES, IOWA 50265

(515) 277-3077

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 Honorable Mayor and  
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issue our report thereon dated July 23, 2007. Our report expressed unqualified opinions on the primary government financial statement 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Chariton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Chariton's internal control over financial reporting. Accordingly, we do not express our opinion on the effectiveness of the City of Chariton's internal control over financial reporting.

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

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

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

Our consideration of the internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-07, I-B-07, I-C-07 and I-D-07 are material weakness.

#### Compliance and Other Matters

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, 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 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, 2007 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.

City of Chariton's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Chariton's responses and, accordingly, we do not express an opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the 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 23, 2007

City of Chariton

Schedule of Findings

Year Ended June 30, 2007

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

**SIGNIFICANT DEFICIENCIES:**

I-A-07 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-07 Fuel Procedures - For the Airport Fuel and Central Fuel Facility, there is no reconciliation of purchases, billings, collections, inventory, and accounts receivable. Due to the lack of City records and reconciliations which are currently not performed by the City, it is inconclusive as to whether all fuel and related monies have been accounted for properly. This condition has been noted in prior year audits, but the City has still not addressed these issues.

Recommendation - The City implement procedures to provide reasonable assurance that all fuel and related monies are accounted for properly. One way to increase this assurance is through the use of the various reconciliations as noted above.

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

Conclusion - Response accepted.

I-C-07 Accounting Records - Several instances were noted where receipts and disbursements were not properly classified on the general ledger. Because of this, it is difficult for the City to compare receipts and disbursements, by fund, between years. This condition also causes the City's financial statements to be inaccurate.

Recommendation - The City implement procedures to ensure all receipts and disbursements are properly classified on the general ledger.

Response - We will implement this recommendation.

Conclusion - Response accepted.

City of Chariton

Schedule of Findings

Year Ended June 30, 2007

I-D-07 Receipt Analysis – The City is owed \$15,000 from a contractor, due on June 1, 2007. However, as of July 19, 2007, this amount has not been received by the City. The \$15,000 payment due on June 1, 2006 from this same contractor was not received by the City until January, 2007.

The June 2005 City Council minutes indicate the City would receive \$35,000 from the railroad to close the 7<sup>th</sup> Street railroad intersection. As of July 19, 2007, this amount has not been received by the City.

Neither of the above two events were known by the City until we brought this to their attention.

On January 3, 2006, the City paid \$7,600 to a contractor to demolish an old house. As of July, 2007, the City has not collected reimbursement for this cost from the owner, nor has this cost been turned over to the County Treasurer in order to place a lien on this property.

As of June 30, 2007, the City has incurred over \$115,000 in costs in relation to the Auburn Avenue bridge replacement project. The State of Iowa will reimburse the City at an amount equal to 80% of the costs of this project. However, as of July 19, 2007, the City has not submitted a reimbursement form to the State of Iowa to obtain reimbursement for this project.

As of June 30, 2007, the City has incurred over \$35,000 in costs in relation to an airport project. The Federal Aviation Administration will reimburse the City at an amount equal to 95% of the cost on this project. However, as of July 19, 2007, the City has not submitted a reimbursement form to the Federal Aviation Administration to obtain reimbursement for this project.

There does not appear to be procedures in place to ensure all monies due to the City are actually received by the City, or are timely received by the City. City personnel apparently do not have a mechanism in place to follow up on unusual or unique situations. These issues were noted in the prior year audit, but the City has still not addressed these concerns.

Recommendation – The City review its operating procedures to ensure all monies due to them are collected in a timely manner.

Response – In August 2007, the \$15,000 from the contractor as noted above was received. We will also review this area and take appropriate action.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

City of Chariton

Schedule of Findings

Year Ended June 30, 2007

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

II-A-07 Certified Budget - Disbursements during the year ended June 30, 2007, exceeded the amounts budgeted in the health and social services, general government and debt service 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-B-07 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-C-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-07 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Brian Snuggs, Council Member Owner of Goode Heating and Cooling	Service, furnace, air conditioner	\$ 6,911

In accordance with Chapter 362.5(10) of the Code of Iowa, the above transactions may represent a conflict of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions exceed \$1,500 during the fiscal year.

Recommendation - The City should consult with legal counsel to determine the disposition of this matter.

Response - We will review this with legal counsel.

Conclusion - Response accepted.

II-E-07 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-F-07 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-07 Deposits and Investments - 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.

City of Chariton

Schedule of Findings

Year Ended June 30, 2007

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.

II-H-07 Revenue Bonds and Notes – Except as noted below, the City has complied with the revenue bond and note resolutions.

At June 30, 2007, the cash balance in the Enterprise Fund - Airport was (\$190,596). As documented in Note 4 of the Notes to Financial Statements, as of June 30, 2007, the City was indebted to the U.S. Department of Agriculture in the amount of \$24,866. This loan agreement states that the debt is to be paid off with earnings from the airport enterprise.

As part of the loan agreement with the U.S. Department of Agriculture, the City is to establish a sinking fund and reserve fund. Even though the City has established these funds within the Enterprise Fund-Airport, the overall cash balance of this fund at June 30, 2007, was (\$190,596). As a result, it appears the City is in technical violation of the loan agreement with the U.S. Department of Agriculture since the sinking and reserve fund balances are not backed by cash.

Recommendation – The City implement procedures to ensure compliance with the U.S. Department of Agriculture loan agreements.

Response – We will review this area for appropriate action.

Conclusion – Response accepted.

II-I-07 Financial Condition - The Enterprise Funds – Airport, and the Special Revenue Funds – Road Use Tax, CEBA, Donations, and Employee Benefits Funds all had deficit balances at June 30, 2007. The balance in the Special Revenue Fund – Special Assessment Funds may be excessive.

Recommendation - The City should monitor these accounts in order to eliminate these deficits. In addition, the City should review the fund with an excessive balance and implement a plan to reduce the balance.

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 Special Revenue Funds - Road Use Tax deficit should be eventually eliminated through decreased spending and from road use tax funds received from the State of Iowa. The Special Revenue Funds - CEBA deficit will be eliminated through transfers from the General Fund. The Special Revenue Funds - Donations deficit will be eliminated through donations received. The Special Revenue Funds - Employee Benefits deficit will be eliminated through decreased spending and an increase in property taxes. In addition, we will evaluate the balance in the Special Revenue Fund - Special Assessment Funds to determine if the cash on hand is excessive.

Conclusion - Response accepted.

II-J-07 Payment of General Obligation Bonds - Certain general obligation bonds were paid from funds other than the Debt Service Fund. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund.” Adjustments were subsequently made to the financial statements to show all general obligation bond and interest payments made from the Debt Service Fund.

City of Chariton

Schedule of Findings

Year Ended June 30, 2007

Recommendation - All payments of general obligation bond principal and interest should be disbursed from the Debt Service Fund.

Response - We will implement this.

Conclusion - Response accepted.

II-K-07 Bank Interest – Interest income earned from the proceeds of debt, or from the accumulation of funds to pay debt, is not credited to these funds as required by the Code of Iowa.

Recommendation – Interest income earned on proceeds of debt, and the accumulation of funds used to pay debt should be credited to those funds.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-L-07 Tax Increment Financing (TIF) – Several years ago the City established an urban renewal area and plan in accordance with Chapter 403 of the Code of Iowa.

Chapter 403.19(5) of the Code of Iowa states, in part, “A municipality shall certify to the county auditor on or before December 1 the amount of loans, advances, indebtedness, or bonds which qualify for payment...”.

We reviewed the City’s tax increment debt certificate filed with the County Auditor for 2008. The following documents the comparison of certified debt to available resources at June 30, 2007.

Certified debt to the County Auditor for fiscal year 2008	<u>\$134,316</u>
Actual TIF related debt principal and interest outstanding as of June 30, 2007	\$193,904
Cash balance in the TIF Fund at June 30, 2007	<u>(141,813)</u>
Amount needed to pay off TIF related debt and interest	<u>\$52,091</u>
Difference between certified debt to the County Auditor and amount needed to pay off the TIF related debt and interest as of June 30, 2007	<u>\$82,225</u>

Since the balance needed to pay off the TIF related debt and interest is less than the amount of TIF related debt and interest certified to the County Auditor, in fiscal year 2008 and 2009 it appears the City will receive \$82,225 more TIF monies than allowed pursuant to Chapter 403 of the Code of Iowa.

Recommendation – The City should consult with TIF legal counsel regarding the propriety of the City’s TIF debt certificates and determine the appropriate course of action.

Response – We will review this with the Attorney.

Conclusion – Response accepted.

City of Chariton

Schedule of Findings

Year Ended June 30, 2007

II-M-07 Pool Construction – The City is currently renovating the pool for an estimated cost of approximately \$1.8 million. The contractor that is renovating the pool is the same contractor who built the pool approximately seven years ago. Due to some construction quality issues in relation to the original construction of the pool, the City and the contractor entered into a settlement agreement in relation to this arrangement. Our review of this project noted the following concerns.

The settlement agreement with the contractor states that the contractor is to renovate the pool based on the contractor's costs, specifically excluding reimbursement to the contractor for overhead, profit, small tools and other incidental costs. Subsequent to the settlement agreement, the City entered into a construction contract with this same contractor for the renovation of the pool. However, the City's construction contract with the contractor is a flat sum amount. Furthermore, there is nothing in the construction contract, and no mechanism in place to ensure the contractor does not receive reimbursement for overhead, profit, small tools and other incidental costs; which are specifically prohibited pursuant to the settlement agreement.

The City did not obtain bids for this project. Specifically, Chapter 384.96 of the Code of Iowa requires that for any public improvement in excess of \$25,000, an advertisement for sealed bids is required, and that notice be published pursuant to the provisions of Chapter 362.3 of the Code of Iowa.

Recommendation – The City consult with their Attorney in relation to the above and take action as necessary.

Response – During the last seven years, we have consulted with numerous lawyers in relation to this project, and we feel the approach ultimately taken was in the best interests of the City.

Conclusion – Response accepted.

II-N-07 Transfers – At June 30, 2007, \$631 and \$1,356 was due from the Special Revenue, Urban Renewal Tax Increment Fund and the Debt Service Fund, respectively, to the General Fund.

Recommendation – The City make the above transfers.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-O-07 Library – Some Library receipts were not recorded in a receipt book. On a Library construction project, it appears the Library paid \$1,186 more than the contract amount. It is uncertain if the contractor for the Library obtained the materials they used on the Library construction project sales tax free, or whether the Library needs to submit a sales tax refund claim form with the State of Iowa. For this same construction project, it is questionable whether the Library split the contract and an alternate in order to circumvent the bidding requirements as noted in Chapter 384.96 of the Code of Iowa.

Recommendation – The Library issue pre-numbered receipts for all monies received. In addition, the Library should implement procedures to ensure it pays its vendors the appropriate amount, and that the sales tax refund claim forms are filed with the State of Iowa, where applicable. In addition, in the future, all construction projects should be bid if the project meets the bidding requirements as documented in the Code of Iowa.

Response – We will implement these recommendations

Conclusion – Response accepted.