CITY OF CHARITON

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

JUNE 30, 2008

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

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City of Chariton

Officials

Name	Title	Term Expires
	(Before January, 2008)	
John Braida	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
	(After January, 2008)	
John Braida	Mayor	December, 2009
Brian Snuggs	Council Member	December, 2009
Roger Manser	Council Member	December, 2009
Ruth Smith	Council Member	December, 2011
Vern Vogel	Council Member	December, 2011
Nels Christensen	Manager	Indefinite
Ruth Ryun	Clerk/Treasurer	December, 2009
Verle W. Norris	Attorney	December, 2009

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, 2008, which collectively comprise the basic financial statements of the City's primary government as 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, 2008, 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, 2008, 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 January 15, 2009 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 8 through 15 and 32 through 33 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 five years ended June 30, 2007 (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, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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

January 15, 2009

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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 10.5%, or approximately $365,000, from fiscal 2007 to fiscal 2008. Property tax receipts increased by approximately $34,000. There were no bond proceeds received during the year. The majority of the decrease in receipts from fiscal 2007 to fiscal 2008 was because the fire department received approximately $390,000 in donations in fiscal year 2007, which was a one time donation from an estate.

- Disbursements of the City's governmental activities decreased 4.9%, or approximately $198,000, in fiscal 2008 from fiscal 2007. Public works increased approximately $219,000 due to street repair and due to a significant amount of snow and ice removal costs incurred during the winter of 2007-2008. Culture and recreation disbursements decreased approximately $102,000 because the pool was closed for reconstruction in the summer of 2007. Capital projects expenses decreased approximately $356,000 because the majority of the pool reconstruction costs were incurred in fiscal year 2007.

- The City's total cash basis net assets decreased 24.2%, or approximately $1,093,000 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities decreased approximately $730,000 due to deficit spending and the costs incurred as a result of pool reconstruction, and the assets of the business type activities decreased by approximately $363,000 because of capital improvement costs incurred at the airport and the purchase of snow removal equipment.

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 operations 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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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 which helps answer this question.

The Statement of Activities and Net Assets presents 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, health and social services, 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 sanitary sewer system, solid waste and the airport. These activities are financed primarily by user charges.

Fund Financial Statements

The City has three 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 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 sanitary sewer system, solid waste and airport funds, all considered to be 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.

(3) Fiduciary Funds account for assets that belong to others. The Fiduciary Fund accounts for the City's Deferred Compensation Plan.

The City is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The City excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

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

Reconciliation 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 $3,893,783 to $3,163,371. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year Ended June 30, 2008	Year Ended June 30, 2007
Receipts:		
Program receipts:		
Charges for service	$ 164	$ 168
Operating grants, contributions and restricted interest	569	976
Capital grants, contributions and restricted interest	255	133
General receipts:		
Property tax	1,448	1,414
Local option sales tax	505	499
Grants and contributions not restricted	35	34
Unrestricted interest on investments	50	101
Other general receipts	97	167
Sale of assets	4	-
Total receipts	3,127	3,492

	Year Ended June 30, 2008	Year Ended June 30, 2007
Disbursements:		
Public safety	$756	$669
Public works	976	757
Health and social services	7	8
Culture and recreation	434	536
Community and economic development	8	7
General government	337	334
Debt service	582	576
Capital projects	737	1,093
Non-program	-	55
Total disbursements	3,837	4,035
Change in cash basis net assets, before transfers	(710)	(543)
Transfers, net	(20)	(20)
Change in cash basis net assets	(730)	(563)
Cash basis net assets beginning of year	3,894	5,320
Cash basis net assets end of year	$3,164	$4,757

The City's total receipts for governmental activities decreased by 10.5%, or approximately $365,000. The total cost of all programs and services decreased by 4.9% or approximately $198,000, with no new programs added this year. The significant decrease in receipts were due to donations received in fiscal year 2007, which was a one time donation from an estate. The decrease in disbursements was due to the fact that the majority of the pool reconstruction costs were incurred in fiscal year 2007.

The City increased the property tax rates from $16.24382 in fiscal 2007 to $16.47215 in fiscal 2008. The City had decreased the property tax rate each year for the previous five years through 2007. The City's taxable valuation for taxes levied has decreased by approximately .7% in fiscal 2008 compared to fiscal 2007. Based on the decreases in the total assessed valuations, and increase in the levy, property tax receipts are budgeted to increase by approximately $86,000 next year.

The cost of all governmental activities this year was $3.837 million compared to $4.035 million last year. However, as shown in the Statement of Activities and Net Assets on page 17, the amount taxpayers ultimately financed for these activities was only $2.850 million because some of the cost was paid by those who directly benefited from the programs ($164,260) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest ($823,425). The City paid for the remaining "public benefit" portion of governmental activities with $2.850 million 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, 2008	Year Ended June 30, 2007
Receipts		
Program receipts:		
Charges for service:		
Sewer	$431	$357
Solid Waste	44	54
Airport	75	46
General receipts:		
Unrestricted interest on investments	47	18
Miscellaneous	30	10
Sale of assets	-	12
Total receipts	627	497
Disbursements:		
Sewer	530	427
Solid Waste	19	15
Airport	461	129
Total disbursements	1,010	571
Change in cash basis net assets before transfers	(383)	(74)
Transfers, net	20	20
Change in cash basis net assets	(363)	(54)
Cash basis net assets beginning of year	625	679
Cash basis net assets end of year	$262	$625

Total business type activities receipts for the fiscal year were $626,673 compared to $497,156 last year. The significant increase in receipts was the result of an increase in the sewer rates in the fiscal year. The cash balance decreased by $362,646 from the prior year. Total disbursements for the fiscal year increased by 76.9% to a total of $1,009,319. The significant increase in disbursements was due to costs incurred for airport reconstruction and the purchase of snow removal equipment at the airport.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Chariton completed the year, its governmental funds reported a combined fund balance of $3,152,685, a decrease of $733,127 from last year's total of $3,885,812. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased $352,872 from the prior year to $794,917. The City continues to spend more out of the General Fund in normal operating costs that what is received from property taxes, charges for services, and other miscellaneous receipts.

- The Road Use Tax Fund cash balance increased by $41,293 to $25,085 as of June 30, 2008. While the City did not receive any more funding this fiscal year, few equipment purchases were made and road repairs were limited thereby gaining a positive cash balance in this fund.

- The Swimming Pool Fund cash balance decreased by $300,319 to $1,293,183 as of June 30, 2008. The decrease is due primarily to costs incurred in relation to pool reconstruction. The sales tax monies deposited to this fund are restricted by referendum for Swimming Pool construction and operation. The Swimming Pool currently has $1,075,000 in Revenue Bond debt.

- The Debt Service Fund cash balance increased by $71,980 to $269,160 as of June 30, 2008. This increase was due to property tax receipts and operating transfers in exceeding the bond principal and interest payments from this fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased by $34,744 to $504,715 as of June 30, 2008. This decrease in cash was due to general repairs to the sanitary sewer system. Future capital projects scheduled for fiscal 2009, including updating lift-stations and repairs to the sanitary sewer lines, will decrease this balance.

- The Solid Waste Fund cash balance increased by $38,163 to $314,589 as of June 30, 2008. This increase in cash is necessary in order to build up a reserve for potential costs which may be incurred at the old sanitary landfill.

- The Airport Fund cash balance decreased by $366,483 to ($557,079) as of June 30, 2008. This decrease in cash was due to significant construction at the airport, and the purchase of snow removal equipment. However, the airport is still unable to generate enough profit from fuel sales and hangar rent in order to pay its operating costs.

BUDGETARY HIGHLIGHTS

This past year the City of Chariton amended the budget on May 19, 2008. The amendment was reflective of a decrease in receipts due to major projects that were delayed or rescheduled, less TIF receipts, and federal grant money that is not yet needed for the projects. The budget amendment also approved a decrease in operating disbursements of $1,958,684 for projects and a reduction of $1,570,996 for transfers out for swimming pool reconstruction.

Even with the budget amendment, the City's total receipts were $1,407,253 less than the amended budget. This difference was primarily due to intergovernmental receipts budgeted for in fiscal 2008, which were not received until fiscal 2009.

Even with the budget amendment, total disbursements were $1,063,741 less than the amended budget. Actual disbursements for culture and recreation and business type activities functions were $660,613 and $951,926, respectively, less than the amended budget.

The City exceeded the amounts budgeted in the debt service and capital projects functions for the year ended June 30, 2008.

DEBT ADMINISTRATION

At June 30, 2008, the City had $1,660,000 in bonds and other long-term debt outstanding, compared to $2,154,866 last year, as shown below.

Outstanding Debt Year-End
(Expressed in Thousands)

	June 30, 2008	June 30, 2007
General obligation bonds and notes	$585	$930
Revenue bonds	1,075	1,200
USDA revenue notes	-	25
Total	$1,660	$2,155

Debt decreased primarily as a result of making $494,866 of scheduled bond and other debt payments, and due to not issuing any new debt in fiscal 2008.

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 $585,000 at June 30, 2008, is significantly below its constitutional debt limit of $6,681,013.

More detailed information about the City's long-term debt is presented in Notes 3 and 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Chariton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities. These indicators were taken into account when adopting the budget for fiscal year 2009.

The City's taxable value has slowly but steadily increased from 2001-2006. However, from fiscal 2007 to 2008 the taxable value has declined. Part of the cause for the decline is the result of the residential rollback.

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 fiscal 2008, all departments funded from the General Fund were required to review their department budgets and to either cut disbursements, or offset costs through higher receipts through fines, fees, or costs for service increases.

The City's expected receipts for fiscal 2009 is $8,361,703, as opposed to fiscal 2008 budgeted receipts of $6,399,611.

The City's expected disbursements for fiscal 2009 is $8,195,195, as opposed to fiscal 2008 budgeted disbursements of $7,151,530.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately $166,508 to $8,336,685 by the close of fiscal 2009.

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

City of Chariton

Exhibit A

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2008

Functions / Programs	Disbursements	Program Receipts: Charges for Service	Program Receipts: Operating Grants, Contributions and Restricted Interest	Program Receipts: Capital Grants, Contributions and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets: Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	$ 756,365	11,178	63,491	170,938	(510,758)	-	(510,758)
Public works	975,461	50,406	414,658	68,154	(442,243)	-	(442,243)
Health and social services	7,270	-	-	-	(7,270)	-	(7,270)
Culture and recreation	433,717	91,807	81,199	10,000	(250,711)	-	(250,711)
Community and economic development	8,200	-	9,385	5,600	6,785	-	6,785
General government	337,319	10,869	-	-	(326,450)	-	(326,450)
Debt service	581,670	-	-	-	(581,670)	-	(581,670)
Capital projects	737,284	-	-	-	(737,284)	-	(737,284)
Total governmental activities	3,837,286	164,260	568,733	254,692	(2,849,601)	-	(2,849,601)
Business type activities:							
Sewer	529,694	431,069	-	-	-	(98,625)	(98,625)
Solid waste	18,666	43,879	-	-	-	25,213	25,213
Airport	460,959	74,563	-	-	-	(386,396)	(386,396)
Total business type activities	1,009,319	549,511	-	-	-	(459,808)	(459,808)
Total	$ 4,846,605	713,771	568,733	254,692	(2,849,601)	(459,808)	(3,309,409)
General Receipts:							
Property tax and other city tax levied for:							
General purposes					1,091,874	-	1,091,874
Tax increment financing					90,766	-	90,766
Debt service					265,402	-	265,402
Local option sales tax					504,743	-	504,743
Grants and contributions not restricted to specific purpose					34,801	-	34,801
Unrestricted interest on investments					50,461	47,110	97,571
Miscellaneous					96,892	30,052	126,944
Sale of capital assets					4,250	-	4,250
Transfers					(20,000)	20,000	-
Total general receipts and transfers					2,119,189	97,162	2,216,351
Change in cash basis net assets					(730,412)	(362,646)	(1,093,058)
Cash basis net assets beginning of year, as restated					3,893,783	625,553	4,519,336
Cash basis net assets end of year					$ 3,163,371	262,907	3,426,278
Cash Basis Net Assets							
Restricted:							
Streets					$ 25,085	-	25,085
Urban renewal purposes					172	-	172
Debt service					483,495	-	483,495
Fire department					411,230	-	411,230
Other purposes					1,849,016	-	1,849,016
Unrestricted					394,373	262,907	657,280
Total cash basis net assets					$ 3,163,371	262,907	3,426,278

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, 2008

	General	Special Revenue: Road Use Tax	Special Revenue: Swimming Pool	Debt Service	Nonmajor	Total
Receipts:						
Property tax	$ 803,936	-	-	265,402	287,939	1,357,277
Tax increment financing	-	-	-	-	90,766	90,766
Other city tax	21,935	-	504,743	-	-	526,678
Licenses and permits	10,869	-	-	-	-	10,869
Use of money and property	74,190	-	34,347	-	8,338	116,875
Intergovernmental	331,588	391,781	-	-	-	723,369
Charges for service	101,806	-	-	-	-	101,806
Special assessments	-	-	-	-	22,658	22,658
Miscellaneous	141,282	-	15,000	1,080	15,194	172,556
Total receipts	1,485,606	391,781	554,090	266,482	424,895	3,122,854
Disbursements:						
Operating:						
Public safety	654,166	-	-	-	102,418	756,584
Public works	476,781	349,858	-	-	149,261	975,900
Health and social services	7,270	-	-	-	-	7,270
Culture and recreation	375,286	-	-	-	58,494	433,780
Community and economic development	8,200	-	-	-	-	8,200
General government	287,833	-	-	-	51,710	339,543
Debt service	-	-	194,620	387,050	-	581,670
Capital projects	87,675	-	649,609	-	-	737,284
Total disbursements	1,897,211	349,858	844,229	387,050	361,883	3,840,231
Excess (deficiency) of receipts over (under) disbursements	(411,605)	41,923	(290,139)	(120,568)	63,012	(717,377)
Other financing sources (uses):						
Sale of capital assets	4,250	-	-	-	-	4,250
Operating transfers in	74,483	-	-	193,904	915	269,302
Operating transfers out	(20,000)	-	(10,000)	(1,356)	(257,946)	(289,302)
Total other financing sources (uses)	58,733	-	(10,000)	192,548	(257,031)	(15,750)
Net change in cash balances	(352,872)	41,923	(300,139)	71,980	(194,019)	(733,127)
Cash balances beginning of year, as restated	1,147,789	(16,838)	1,593,322	197,180	964,359	3,885,812
Cash balances end of year	$ 794,917	25,085	1,293,183	269,160	770,340	3,152,685
Cash Basis Fund Balances						
Reserved:						
Debt service	$ -	-	214,335	269,160	-	483,495
Fire department	411,230	-	-	-	-	411,230
Unreserved:						
General fund	383,687	-	-	-	-	383,687
Special revenue funds	-	25,085	1,078,848	-	576,726	1,680,659
Permanent fund	-	-	-	-	193,614	193,614
Total cash basis fund balances	$ 794,917	25,085	1,293,183	269,160	770,340	3,152,685

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, 2008

Total governmental funds cash balances (page 18)	$ 3,152,685
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.	10,686
Cash basis net assets of governmental activities (page 17)	$ 3,163,371
Net change in cash balances (page 18)	$ (733,127)
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.	2,715
Change in cash basis net assets of governmental activities (page 17)	$ (730,412)

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, 2008

	Enterprise Funds				Internal Service Fund
	Sewer	Solid Waste	Airport	Total	Central Fuel
Operating receipts:					
Use of money and property	$ -	-	25,950	25,950	-
Charges for service	431,069	43,879	48,613	523,561	284,447
Total operating receipts	431,069	43,879	74,563	549,511	284,447
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	19,902
Public works	-	-	-	-	40,347
Culture and recreation	-	-	-	-	5,583
General government	-	-	-	-	200,105
Business type activities	491,595	18,666	93,939	604,200	16,685
Total operating disbursements	491,595	18,666	93,939	604,200	282,622
Excess (deficiency) of operating receipts over (under) operating disbursements	(60,526)	25,213	(19,376)	(54,689)	1,825
Non-operating receipts (disbursements):					
Interest on investments	34,160	12,950	-	47,110	-
Miscellaneous	29,822	-	-	29,822	1,308
Debt service	-	-	(26,032)	(26,032)	-
Capital projects	(38,200)	-	(341,075)	(379,275)	-
Net non-operating receipts (disbursements)	25,782	12,950	(367,107)	(328,375)	1,308
Excess (deficiency) of receipts over (under) disbursements	(34,744)	38,163	(386,483)	(383,064)	3,133
Other financing sources (uses):					
Operating transfers in	-	-	20,000	20,000	-
Total other financing sources (uses)	-	-	20,000	20,000	-
Net change in cash balances	(34,744)	38,163	(366,483)	(363,064)	3,133
Cash balances beginning of year	539,459	276,426	(190,596)	625,289	8,235
Cash balances end of year	$ 504,715	314,589	(557,079)	262,225	11,368
Cash Basis Fund Balances					
Unreserved	504,715	314,589	(557,079)	262,225	11,368
Total cash basis fund balances	$ 504,715	314,589	(557,079)	262,225	11,368

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, 2008

Total enterprise funds cash balances (page 20)	$ 262,225
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.	682
Cash basis net assets of business type activities (page 17)	$ 262,907
Net change in cash balances (page 20)	$ (363,064)
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.	418
Change in cash basis net assets of business type activities (page 17)	$ (362,646)

See notes to financial statements.

City of Chariton

Exhibit F

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

As of and for the year ended June 30, 2008

	Pension Trust
Additions:	
Employer contributions	$ 20,125
Employee contributions	18,894
Total additions	39,019
Deductions:	
Benefits paid	27,600
Fees	447
Total deductions	28,047
Excess of additions over deductions	10,972
Non-operating additions (deductions):	
Change in fair value of investments	(52,376)
Total non-operating additions (deductions)	(52,376)
Net change in cash balances	(41,404)
Cash balances beginning of year, as restated	863,038
Cash balances end of year	$ 821,634
Cash Basis Fund Balances	
Reserved	821,634
Total cash basis fund balances	$ 821,634

See notes to financial statements.

(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 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 funds:

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

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

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

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.

The City also reports the following fiduciary fund:

The Fiduciary Fund is used to account for assets held by the City in a trustee capacity. The Fiduciary Fund accounts for the City's Deferred Compensation Plan.

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, 2008, disbursements exceeded the amounts budgeted in the debt service and capital projects activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The 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, 2008, the City had the following investments:

Type	Carrying Amount	Fair Value
Corporate stock	$2,160	$8,881

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 $821,634 at June 30, 2008 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 local option sales and services tax 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
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
Total	$ 585,000	$ 48,175	$ 1,075,000	$ 266,533	$ 1,660,000	$ 314,708

Revenue Bonds – The City has pledged future local option sales tax receipts, net of specified operating disbursements, to repay $1,980,000 in local option sales and services tax revenue bonds issued in December 1999. Proceeds from the bonds provided financing for costs of constructing and equipping a municipal swimming pool. The bonds are payable solely from local option sales taxes and are payable through 2015. Annual principal and interest payments on the bonds are expected to require less than 39 percent of local option sales tax receipts. The total principal and interest remaining to be paid on the bonds is $1,341,533. For the current year, principal and interest paid and total local option sales tax receipts were $194,320 and $504,743, respectively. 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 was indebted to the U.S. Department of Agriculture for airport revenue notes. However, these airport revenue notes were paid off in fiscal year 2008.

(5) Operating Lease Agreements

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

Year Ended June 30,	Amount
2009	$ 1,800
2010	1,800
2011	1,800
2012	1,350
Total	$ 6,750

Total rent expense during the fiscal year on these agreements was $1,800.

(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.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008, 2007 and 2006 were $63,154, $60,640 and $59,576, 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, 2008, primarily relating to the General Fund, is $104,723.

This liability has been computed based on rates of pay in effect at June 30, 2008.

(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, 2008 plan assets consisted entirely of mutual funds.

The City records the plan assets and related activity in a Fiduciary 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, 2008 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Swimming Pool	$ 10,000
	Urban Removal Tax Increment	631
	Emergency	62,496
	Debt Service	1,356
		74,483
Special Revenue:	Special Revenue:	
CEBA	Emergency	915
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	193,904
Enterprise:		
Airport	General	20,000
Total		$ 289,302

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

(10) Related Party Transactions

The City had business transactions between the City and City officials totaling $465 during the year ended June 30, 2008.

(11) 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.

(12) 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.

(13) Deficit Fund Balance

At June 30, 2008, the City had deficit balances as follows:

Enterprise Funds - Airport	$ 557,079
Special Revenue Fund - Donations	10,060
Special Revenue Fund - Employee Benefits	75,927

The Enterprise Funds - Airport deficit should be eventually eliminated by rents received, reimbursement of federal grants, profit from fuel sold, and transfers 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.

(14) 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.

(15) Commitments/Subsequent Events

The City should receive $30,000 in fiscal year 2009 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 and the Iowa Department of Transportation for housing and bridge replacement. The total amount of these grant awards is over $2.2 million. The City currently is, or will be, incurring costs in relation to these projects.

The City is in the process of renovating the aquatic center at an approximate cost of $1.8 million. At June 30, 2008, uncompleted contracts total approximately $81,000 on this aquatic center project and will be paid as the project progresses.

The City has authorized the borrowing of $2,995,000 through the use of general obligation bonds. The City primarily intends to use the proceeds from the general obligation bonds to finance the purchase of equipment, street repair, and City Hall repair.

The City has entered in contracts of approximately $500,000 for street repair, $1,328,000 for bridge construction, and $337,000 for the purchase of fire equipment. It is anticipated that these costs will be paid for with grants, loans, and from existing cash reserves. It is also anticipated that these projects will be completed in fiscal year 2009. Reimbursement from the grantors will be requested as work on the project progresses.

(16) Restatements

Fund Financial Statements:

The beginning cash balance of the Special Revenue Fund-Deferred Compensation was restated in order to present this fund as a Fiduciary Fund. This reclassification was done to more appropriately reflect the nature and purpose of the funds.

	Special Revenue Fund-Deferred Compensation	Fiduciary Fund
Beginning balance at June 30, 2007, as previously reported	$ 863,038	$ -
Reclassificaton - To remove the Deferred Compensation Fund to a Fiduciary Fund	(863,038)	863,038
Beginning balance, at July 1, 2007 as restated	$ -	$ 863,038

Government – Wide Financial Statement:

Beginning cash balance of the governmental activities was restated, as follows, for the effects of the above.

	Governmental Activities
Beginning balance at June 30, 2007, as previously reported	$ 4,756,821
Reclassification - to remove the Deferred Compensation Fund to a Fiduciary Fund	(863,038)
Beginning balance, at July 1, 2007, as restated	$ 3,893,783

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, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Variance
Receipts:							
Property tax	$ 1,357,277	-	-	1,357,277	1,284,034	1,825,355	(468,078)
Tax increment financing	90,766	-	-	90,766	95,000	52,893	37,873
Other city tax	526,678	-	-	526,678	580,526	-	526,678
Licenses and permits	10,869	-	-	10,869	35,490	32,490	(21,621)
Use of money and property	116,875	73,060	-	189,935	93,246	124,599	65,336
Intergovernmental	723,369	-	-	723,369	3,508,436	1,508,436	(785,067)
Charges for service	101,806	808,008	284,447	625,367	873,990	1,132,898	(507,531)
Special assessments	22,658	-	-	22,658	11,000	22,597	61
Miscellaneous	172,556	31,130	1,308	202,378	561,881	457,282	(254,904)
Total receipts	3,122,854	912,198	285,755	3,749,297	7,043,603	5,156,550	(1,407,253)
Disbursements:							
Public safety	756,584	19,902	19,902	756,584	896,168	836,168	79,584
Public works	975,900	40,347	40,347	975,900	717,739	1,067,739	91,839
Health and social services	7,270	-	-	7,270	7,400	7,400	130
Culture and recreation	433,780	5,583	5,583	433,780	594,393	1,094,393	660,613
Community and economic development	8,200	-	-	8,200	122,350	17,350	9,150
General government	339,543	200,105	200,105	339,543	388,003	388,003	48,460
Debt service	581,670	-	-	581,670	540,993	540,993	(40,677)
Capital projects	737,284	-	-	737,284	3,600,000	-	(737,284)
Business type activities	-	1,026,192	16,685	1,009,507	1,005,117	1,961,433	951,926
Total disbursements	3,840,231	1,292,129	282,622	4,849,738	7,872,163	5,913,479	1,063,741
Excess (deficiency) of receipts over (under) disbursements	(717,377)	(379,931)	3,133	(1,100,441)	(828,560)	(756,929)	(343,512)
Other financing sources, net	(15,750)	20,000	-	4,250	2,000,000	5,010	(760)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(733,127)	(359,931)	3,133	(1,096,191)	1,171,440	(751,919)	(344,272)
Balances beginning of year, as restated	3,885,812	633,524	8,235	4,511,101	5,440,977	5,440,977	(929,876)
Balances end of year	$ 3,152,685	273,593	11,368	3,414,910	6,612,417	4,689,058	(1,274,148)

See accompanying independent auditor's report.

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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. 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 Enterprise 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 decreased budgeted disbursements by $1,958,684. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the debt service and capital projects activities functions.

Other Supplementary Information

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, 2008

	Special					
	Revolving Loan Fund	Section 8 Housing	Employee Benefits	CDBG Housing	Urban Renewal Tax Increment	CEBA
Receipts:						
Property tax	$ -	-	265,818	-	-	-
Tax increment financing	-	-	-	-	90,766	-
Use of money and property	5,600	2,548	-	-	-	-
Special assessments	-	-	-	-	-	-
Miscellaneous	-	-	-	4,545	-	-
Total receipts	5,600	2,548	265,818	4,545	90,766	-
Disbursements:						
Operating:						
Public safety	-	-	102,118	-	-	-
Public works	-	-	106,240	-	37,872	-
Culture and recreation	-	-	58,194	-	-	-
General government	-	-	51,710	-	-	-
Total disbursements	-	-	318,262	-	37,872	-
Excess (deficiency) of receipts over (under) disbursements	5,600	2,548	(52,444)	4,545	52,894	-
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	915
Operating transfers out	-	-	-	-	(194,535)	-
Total other financing sources (uses)	-	-	-	-	(194,535)	915
Net change in cash balances	5,600	2,548	(52,444)	4,545	(141,641)	915
Cash balances beginning of year, as restated	90,531	81,028	(23,483)	50,873	141,813	(915)
Cash balances end of year	$ 96,131	83,576	(75,927)	55,418	172	-
Cash Basis Fund Balances						
Unreserved:						
Special revenue funds	$ 96,131	83,576	(75,927)	55,418	172	-
Permanent fund	-	-	-	-	-	-
Total cash basis fund balances	$ 96,131	83,576	(75,927)	55,418	172	-

See accompanying independent auditor's report.

Schedule 1

Revenue					Permanent	
Emergency	Library Endowment	Historic Preservation	Special Assessment	Donations	Cemetery Perpetual Care	Total
22,121	-	-	-	-	-	287,939
-	-	-	-	-	-	90,766
-	190	-	-	-	-	8,338
-	-	-	22,658	-	-	22,658
-	-	2,292	-	5,749	2,608	15,194
22,121	190	2,292	22,658	5,749	2,608	424,895
-	-	-	-	300	-	102,418
-	-	-	-	5,149	-	149,261
-	-	-	-	300	-	58,494
-	-	-	-	-	-	51,710
-	-	-	-	5,749	-	361,883
22,121	190	2,292	22,658	-	2,608	63,012
-	-	-	-	-	-	915
(63,411)	-	-	-	-	-	(257,946)
(63,411)	-	-	-	-	-	(257,031)
(41,290)	190	2,292	22,658	-	2,608	(194,019)
210,178	107,201	-	126,187	(10,060)	191,006	964,359
168,888	107,391	2,292	148,845	(10,060)	193,614	770,340
168,888	107,391	2,292	148,845	(10,060)	-	576,726
-	-	-	-	-	193,614	193,614
168,888	107,391	2,292	148,845	(10,060)	193,614	770,340

City of Chariton

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2008

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
General Obligation Bonds and Notes:									
Corporate Purpose	September 1, 1997	4.20-4.90%	$ 550,000	90,000	-	90,000	-	4,410	-
Corporate Purpose and Refunding	November 1, 1999	4.50-5.30%	715,000	140,000	-	45,000	95,000	7,308	-
Corporate Purpose	July 1, 2001	4.00-4.80%	690,000	340,000	-	80,000	260,000	15,825	-
Corporate Purpose	February 1, 2003	2.00-3.30%	150,000	30,000	-	30,000	-	990	-
Economic Development Note	June 1, 2004	4.93%	50,000	35,000	-	5,000	30,000	1,725	-
Corporate Purpose	May 1, 2005	2.80-3.55%	480,000	295,000	-	95,000	200,000	10,037	-
Total				$ 930,000	-	345,000	585,000	40,295	-
Revenue Bonds:									
Local Option Sales and Services Tax	December 1, 1999	4.70-6.00%	$ 1,980,000	1,200,000	-	125,000	1,075,000	69,320	-
U.S. Department of Agriculture Revenue Notes:									
Airport Revenue Notes (Note 4)	January 11, 1990	6.00%	$ 130,000	24,866	-	24,866	-	1,166	-

See accompanying independent auditors report.

City of Chariton

Schedule 3

Bond and Note Maturities

June 30, 2008

	General Obligation Bonds and Notes								
	Corporate Purpose and Refunding Issued November 1, 1999		Corporate Purpose Issued July 1, 2001		Economic Development Note Issued June 1, 2004		Corporate Purpose Issued May 1, 2005		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
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
		$ 95,000		$ 260,000		$ 30,000		$ 200,000	$ 585,000

	Revenue Bonds		
	Local Option Sales and Services Tax Issued December 1, 1999		
Year Ending June 30,	Interest Rates	Amount	Revenue Bonds Total
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
		$ 1,075,000	$ 1,075,000

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 Six Years

	2008	2007	2006	2005	2004	2003
Receipts:						
Property tax	$ 1,357,277	1,324,958	1,245,388	1,248,279	1,281,166	1,282,678
Tax increment financing	90,766	88,363	84,970	70,141	53,680	47,726
Other city tax	526,678	520,969	505,068	427,265	470,216	457,282
Licenses and permits	10,869	9,668	14,346	11,410	8,648	7,814
Use of money and property	116,875	313,763	231,890	64,000	150,407	53,503
Intergovernmental	723,369	509,582	450,401	455,901	668,993	711,316
Charges for service	101,806	74,262	116,669	128,300	176,839	170,532
Special assessments	22,658	11,033	15,771	15,688	26,119	48,773
Miscellaneous	172,556	638,795	347,416	1,671,264	127,176	198,841
Total	$ 3,122,854	3,491,393	3,011,919	4,092,248	2,963,244	2,978,465
Disbursements:						
Operating:						
Public safety	$ 756,584	670,353	608,609	590,405	613,188	673,094
Public works	975,900	762,208	779,619	832,039	591,061	653,954
Health and social services	7,270	7,683	6,030	9,036	7,457	10,640
Culture and recreation	433,780	537,248	467,570	584,598	451,533	491,819
Community and economic development	8,200	7,203	17,125	43,249	208,933	103,967
General government	339,543	358,532	302,087	350,925	330,853	287,664
Debt service	581,670	576,161	581,082	510,916	498,754	543,079
Capital projects	737,284	1,092,852	278,495	-	21	8,571
Non-program	-	55,231	293,984	91,158	50,820	72,883
Total	$ 3,840,231	4,067,471	3,334,601	3,012,326	2,752,620	2,845,671

See accompanying independent auditor's report.

City of Chariton

Schedule 5

Schedule of Expenitures of Federal Awards

Year ended June 30, 2008

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration Airports Division:			
Airport Improvement Program	20.106	3-19-0014-04	$ 196,056
Airport Improvement Program	20.106	3-19-0014-05	127,965
Total			324,021
U.S. Department of Homeland Security:			
Emergency Preparedness and Response Directorate (FEMA)			
Assistance to Firefighters Grant	97.044	EMW-2006-FG-02776	120,697
Total direct			444,718
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS-1237(605)-8J-59	70,140
U.S. Department of Transportation:			
National Highway Traffic Safety Administation:			
Iowa Department of Public Safety			
Governor's Traffic Safety Bureau:			
Incentive Grants for Use of Seat Belts	20.604	08-157, Task28	1,000
Safety Belt Performance Grants	20.609	08-157, Task28	722
Total			1,722
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance			
(Presidentially Declared Disasters)	97.036	DR-1737-IA	77,416
Total indirect			149,278
Total			$ 593,996

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

See accompanying independent auditor's report.

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

To the 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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issue our report thereon dated January 15, 2009. Our report expressed unqualified opinions on the primary government 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 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, including 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 II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-08 through II-F-08 are material weaknesses.

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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the 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 and Questioned Costs. 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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

January 15, 2009

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Chariton, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budge (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2008. The City of Chariton's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Chariton's management. Our responsibility is to express an opinion on the City of Chariton's compliance based on our audit.

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

In our opinion, the City of Chariton complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described as items III-A-08 and III-B-08 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of the City of Chariton is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Chariton's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Chariton's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-C-08 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-C-08 to be a material weakness.

City of Chariton's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Chariton's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Chariton and other parties to who the City of Chariton may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Peak & Gerdes, LLP
Certified Public Accountants

January 15, 2009

City of Chariton

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

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

(a) Unqualified opinions were issued on the financial statements which 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.

(b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

(d) A significant deficiency in internal control over the major program was disclosed by the audit of the financial statements, which is considered to be a material weakness.

(e) An unqualified opinion was issued on compliance with requirements applicable to the major program.

(f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).

(g) The major program was CFDA Number 20.106 – Airport Improvement Program.

(h) The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

(i) The City of Chariton did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-08 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.

II-B-08 Fuel Procedures - For the 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.

II-C-08 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.

II-D-08 Receipt Analysis – The City is owed $15,000 from a contractor, due on June 1, 2008. However, as of July, 2008, this amount has not been received by the City.

The City does not have procedures in place to ensure all special assessments are certified timely to the County Treasurer. We noted an instance in which the City did not attempt to certify a special assessment to the County Treasurer for over a year after the demolition of an old house, which by then was too late to certify the costs of the special assessment. As a result, the City is unable to recoup the cost it incurred to demolish the old house.

As of June 30, 2008, the City has incurred over $200,000 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, 2008, the City has only submitted a reimbursement form for $654 to the State of Iowa for this project.

As of June 30, 2008, the City has incurred over $375,000 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, 2008, the City has not received any reimbursement from the Federal Aviation Administration 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 adequately addressed these concerns.

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

Response – We will review this area and take appropriate action. We have now received all monies due in fiscal year 2009 from these projects.

Conclusion – Response accepted.

II-E-08 Receipt Procedures – Receipts are not always timely deposited. There does not appear to be procedures in place to ensure all swim lesson fees are accounted for properly by the City. A $160 check from the State of Iowa was endorsed by the City and given directly to an employee for deposit in his personal bank account.

Recommendation – The City should implement procedures to ensure all receipts are timely deposited, all swim lesson fees are accounted for properly, and that all receipts are deposited to the City bank account.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-F-08 Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in all small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

CFDA Number 20.106: Airport Improvement Program
Pass-through Agency Numbers: 3-19-0014-05
Federal Award Year: 2007
U.S. Department of Transportation

III-A-08 Contract and Reporting – The Quarterly Performance Reports were not consistently submitted to the Federal Aviation Administration (FAA) within 30 days, as required by the FAA. The request for proposal required the bidders on the project to provide a performance and payment bond; however, the City did not obtain these documents from the vendor.

Recommendation – The City work with the engineer and the FAA to resolve these issues.

Response – We will implement this recommendation.

Conclusion – Response accepted.

CFDA Number 20.106: Airport Improvement Program
Pass-through Agency Number: 3-19-0014-04
Federal Award Year: 2006
U.S. Department of Transportation

III-B-08 Contract – For the airport improvement project, the request for bids indicated a completion date of December 15, 2006. However, the contract indicated that the completion date would be May 15, 2007. The project did not even begin until June 2007, and as of November 2008, the project is not yet completed. Both the request for bids and the contract requires the payment of $150 per day for liquidated damages in excess of the authorized contract time. No liquidated damages have been assessed on this project. Also, no change orders extending the time of performance have been approved by the City Council.

Recommendation – The City implement procedures to ensure contract terms are followed on FAA projects. If the City elects to forgo liquidated damages on a project, this should be approved by the City Council.

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

Conclusion – Response accepted.

SIGNIFICANT DEFICIENCIES:

CFDA Number 20.106: Airport Improvement Program
Pass-through Agency Numbers: 3-19-0014-05, 3-19-0014-04
Federal Award Years: 2007, 2006
U.S. Department of Transportation

III-C-08 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-08.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-08 Certified Budget - Disbursements during the year ended June 30, 2008, exceeded the amounts budgeted in the debt service and capital projects 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.

The budget receipt and disbursements amounts as approved by the City Council was approximately $5.5 million and $4.5 million more than the receipt and disbursement amounts, respectively, as published in the newspaper. The budget amendment publication in the newspaper was not published between 10-20 days in advance of the hearing. The budget amendment attempted to increase property taxes by $541,321; however, the City can not certify an additional property tax levy in May 2008 for the 2007-08 tax year. All of the above issues appear to be in non-compliance with the requirements as noted in Chapter 384.16 of the Code of Iowa. In addition, it would not appear the budget amendment properly reflects the financial activity of the City. For example, the budget amendment projects no receipts for local option sales taxes and no disbursements for capital projects. However, the City has been collecting local option sales taxes since 1999 and had capital projects in process at the time the budget amendment was approved.

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. In addition, procedures should be implemented to ensure compliance with the budget requirements as documented at Chapter 384.16 of the Code of Iowa, and that the budget amendments properly reflects the financial activity of the City.

Response – We will implement these recommendations.

Conclusion - Response accepted.

IV-B-08 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.

IV-C-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-08 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 work	$ 465

In accordance with Chapter 362.5(10) of the Code of Iowa, the above transactions do not appear to represent a conflict of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions were less than $1,500 during the fiscal year.

IV-E-08 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.

IV-F-08 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. One instance was noted where the Council proceedings were not published as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish the minutes as required by the Code of Iowa.

Response – We will implement these recommendations.

Conclusion – Response accepted.

IV-G-08 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.

The interest rate on one library certificate of deposit was less than the minimum as required by the State of Iowa.

Recommendation - The City should continue its efforts to dispose of cemetery stock and reinvest in permissible investments as soon as possible. In addition, the City should ensure that the interest rate on certificates of deposit meet or exceed the minimum as required by the State of Iowa.

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. We will also review all interest earned on certificates of deposit to ensure compliance.

Conclusion - Response accepted.

IV-H-08 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

IV-I-08 Financial Condition - The Enterprise Funds – Airport, and the Special Revenue Funds – Donations and Employee Benefits Funds all had deficit balances at June 30, 2008. The balances in the Special Revenue Funds – Special Assessment and Emergency Funds may be excessive.

Recommendation - The City should monitor these accounts in order to eliminate these deficits. In addition, the City should review the funds 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, reimbursement of federal grants, profit from fuel sold, and through a transfer 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 through an increase in property taxes. In addition, we will evaluate the balances in the Special Revenue Funds - Special Assessment and Emergency Funds to determine if the cash on hand is excessive.

Conclusion - Response accepted.

IV-J-08 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.

IV-K-08 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 eight 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.

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

Response – During the last eight 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.

IV-L-08 Change Orders – For the pool project, the City paid the additional construction costs related to a change order in March, 2008; however, the change order was not approved by the City Council until July, 2008. For a sewer project, the substantial completion date was supposed to be October 1, 2007, but was not completed until March, 2008. There was no change order extending the time of performance of this project until March, 2008. On the tree project, there was no change order extending the time of performance on this project, even though the project exceeded the original required performance deadline by several months.

Recommendation – The City implement procedures to ensure change orders are issued on all construction projects, where applicable. These change orders should also be approved prior to related payment to the contractor.

Response – We will implement this recommendation.

Conclusion – Response accepted.

IV-M-08 Tax Levy – The City levies a separate property tax levy for both the Civic Center and for liability insurance, pursuant to Chapter 384.12 of the Code of Iowa. However, it appears the City has levied too much in property taxes for both the Civic Center and for liability insurance based on the requirements per the Code of Iowa.

Recommendation – The City review these code sections to ensure compliance with the Code of Iowa requirements.

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

Conclusion – Response accepted.

IV-N-08 Bonds – The City has the funds available in the Debt Service Fund to pay off the callable bond issues, as the balance in the Debt Service Fund was $269,160 at June 30, 2008. If the City would have paid off these bond issues in June 2008, the City would have saved approximately $12,000 in interest over the remaining term of the bonds.

Recommendation – To save a significant amount of interest, the City should consider paying off the callable bond issues in the future.

Response – We will review this area.

Conclusion – Response accepted.

IV-O-08 Compliance – Even though required by the contract, the City did not ensure the tree contractor had proof of workers compensation, vehicle liability, a payment bond and a performance bond.

Personal use of a City vehicle is not taxed to a City employee as a taxable fringe benefit, as required by the Internal Revenue Service (IRS) regulations.

Recommendation – The City implement procedures to ensure all contract terms are followed by its contractors. In addition, personal use of a City vehicle should be taxed as a taxable fringe benefit in accordance with IRS requirements.

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

Conclusion – Response accepted.

City of Chariton

Corrective Action Plan for Federal Audit Findings

Year Ended June 30, 2008

Comment Number	Comment Title	Corrective Action Plan	Title, Phone Number	Contact Person, Anticipated Date of Completion
III-A-08	Contract and Reporting	This will be implemented in the future.	Nels Christensen City Manager (641) 774-5991	Immediately
III-B-08	Contract	We are working with our engineer to resolve this issue.	Nels Christensen City Manager (641) 774-5991	Immediately
III-C-08	Segregation of Duties Over Federal Receipts	We will review this and take action as necessary	Nels Christensen City Manager (641) 777-5991	Immediately

City of Chariton

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2008

None – There were no audit findings related to federal funds in the prior audit.