

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

JUNE 30, 2009

Peak & Co., LLP
Certified Public Accountants
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Clive, IA 50325

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City of Chariton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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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CERTIFIED PUBLIC ACCOUNTANTS
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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, 2009, 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, institutions, 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, 2009, 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, 2009, 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 September 3, 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 14 and 30 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chariton's primary government 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, 2008 (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 & Co., LLP
Certified Public Accountants

September 3, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ending June 30, 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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- ❖ Receipts of the City's governmental activities increased 113.7%, or approximately \$3,555,000, from fiscal 2008 to fiscal 2009. Bond proceeds increased approximately \$2,944,000 during the year. In addition, an increase in receipts from fiscal 2008 to fiscal 2009 was because of an increase in capital grants from the Department of Transportation and the Department of Homeland Security of approximately \$876,000.
- ❖ Disbursements of the City's governmental activities increased 50.5%, or approximately \$1,939,000, in fiscal 2009 from fiscal 2008. Public works disbursements decreased approximately \$117,000 due to reduction in street repair. Culture and recreation disbursements increased approximately \$106,000 because the pool was reopened following reconstruction in the summer of 2008, along with additional personnel costs because of the minimum wage increase requirements for pool employees. Debt service disbursements increased approximately \$194,000 due to the early pay off of some bond issues. Capital projects disbursements increased approximately \$1,456,000 because of street overlay work. The City also did construction and repairs of City Hall.
- ❖ The City's total cash basis net assets increased 21.65%, or approximately \$742,000 from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities increased approximately \$886,000 due to unspent bond proceeds on hand as of June 30, 2009, and the assets of the business type activities decreased by approximately \$145,000 primarily due to repair of waste water maintenance issues.

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 increased from a year ago, increasing from \$3,163,371 to \$4,049,688. 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, 2009	Year Ended June 30, 2008
Receipts:		
Program receipts:		
Charges for service	\$ 207	\$ 164
Operating grants, contributions and restricted interest	533	569
Capital grants, contributions and restricted interest	1,118	255
General receipts:		
Property tax	1,450	1,448
Local option sales tax	327	505
Grants and contributions not restricted	35	35
Unrestricted interest on investments	6	50
Bond proceeds	2,944	-
Other general receipts	53	97
Sale of assets	9	4
Total receipts	<u>6,682</u>	<u>3,127</u>
Disbursements:		
Public safety	1,028	756
Public works	859	976
Health and social services	11	7
Culture and recreation	540	434
Community and economic development	10	8
General government	359	337
Debt service	776	582
Capital projects	<u>2,193</u>	<u>737</u>
Total disbursements	<u>5,776</u>	<u>3,837</u>
Change in cash basis net assets, before transfers	906	(710)
Transfers, net	<u>(20)</u>	<u>(20)</u>
Change in cash basis net assets	886	(730)
Cash basis net assets beginning of year	<u>3,164</u>	<u>3,894</u>
Cash basis net assets end of year	<u>\$4,050</u>	<u>\$3,164</u>

The City's total receipts for governmental activities increased by 113.7%, or approximately \$3,555,000. The total cost of all programs and services increased by 50.5% or approximately \$1,939,000, with no new programs added this year. The significant increase in receipts were due to capital grants and bond proceeds which were not spent as of June 30, 2009. The increase in disbursements was primarily due to costs associated with street overlay work.

The City increased the property tax rates from \$16.47215 in fiscal 2008 to \$16.89739 in fiscal 2009. The City had increased the property tax rate to cover costs of some of the major projects and needs of the City. The City's taxable valuation for taxes levied has increased by approximately 2% in fiscal 2009 compared to fiscal 2008. Based on the increases in the total assessed valuations, and increase in the levy, property tax receipts are budgeted to increase by approximately \$93,000 next year.

The cost of all governmental activities this year was \$5.776 million compared to \$3.837 million last year. However, as shown in the Statement of Activities and Net Assets on page 16, the amount taxpayers ultimately financed for these activities was only \$3.918 million because some of the cost was paid by those who directly benefited from the programs (\$206,720) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,651,217). The City paid for the remaining "public benefit" portion of governmental activities with \$3.918 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)

	<u>Year Ended June 30, 2009</u>	<u>Year Ended June 30, 2008</u>
Receipts		
Program receipts:		
Charges for service:		
Sewer	\$431	\$431
Solid Waste	37	44
Airport	87	75
Capital grants, contributions and restricted interest	365	-
General receipts:		
Unrestricted interest on investments	16	47
Miscellaneous	<u>12</u>	<u>30</u>
Total receipts	<u>948</u>	<u>627</u>
Disbursements:		
Sewer	994	530
Solid Waste	17	19
Airport	<u>101</u>	<u>461</u>
Total disbursements	<u>1,112</u>	<u>1,010</u>
Change in cash basis net assets before transfers	(164)	(383)
Transfers, net	<u>20</u>	<u>20</u>
Change in cash basis net assets	(144)	(363)
Cash basis net assets beginning of year	<u>262</u>	<u>625</u>
Cash basis net assets end of year	<u>\$118</u>	<u>\$262</u>

Total business type activities receipts for the fiscal year were \$947,611 compared to \$626,673 last year. The significant increase in receipts was the result of the grants received from the Federal Aviation Administration for the airport construction projects. The cash balance decreased by \$144,557 from the prior year. Total disbursements for the fiscal year increased by 10.1% to a total of \$1,112,168. The significant increase in disbursements was due to major costs incurred for Waste Water system construction.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Chariton completed the year, its governmental funds reported a combined fund balance of \$4,035,052, an increase of \$882,367 from last year's total of \$3,152,685. 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 increased \$773,057 from the prior year to \$1,567,974. This increase is due to \$1,445,462 in unspent bond funds included in the cash balance as of June 30, 2009. The City continues to spend more money out of the General Fund in normal operating costs than what is received from property taxes, charges for services, and other miscellaneous receipts.
- ❖ The Road Use Tax Fund cash balance increased by \$55,420 to \$80,505 as of June 30, 2009. 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 increased by \$97,781 to \$1,390,964 as of June 30, 2009. The City continues to receive more local option sales tax monies than it spends on debt service in relation to the swimming pool. The local option sales tax monies deposited to this fund are restricted by referendum for Swimming Pool construction and operation. The Swimming Pool currently has \$945,000 in Revenue Bond debt.
- ❖ The Debt Service Fund cash balance decreased by \$115,593 to \$153,567 as of June 30, 2009. This decrease was due to the early pay off of some general obligation bond issues.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- ❖ The Sewer Fund cash balance decreased by \$540,229 to (\$35,514) as of June 30, 2009. This decrease in cash was due to major general repairs to the sanitary sewer system. Future capital projects scheduled for fiscal 2010, including replacing sewer lines will be done primarily with SRF funds.
- ❖ The Solid Waste Fund cash balance increased by \$26,850 to \$341,439 as of June 30, 2009. 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 increased by \$369,158 to (\$187,921) as of June 30, 2009. This increase in cash was due to the grant reimbursements received from the Federal Aviation Administration, primarily for costs incurred in prior years. 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 18, 2009. The budget amendment increase of \$2,110,000 in receipts was reflective of a sewer SRF loan and an increase in sewer rates. The budget amendment also approved an increase in operating disbursements of \$1,417,823. The budget amendment for the increase in disbursements was for costs incurred for a cemetery street project, payment of debt, sewer projects, and capital projects related to street overlay.

Even with the budget amendment, the City's total receipts were \$1,401,334 less than the amended budget. This difference was primarily due to intergovernmental receipts budgeted for in fiscal 2009, which were not received until fiscal 2010.

Even with the budget amendment, the City's total disbursements were \$1,183,309 less than the amended budget. Actual disbursements for public works and culture and recreation functions were \$2,484,606 and \$267,371, respectively, less than the amended budget.

The City exceeded the amounts budgeted in the public safety, health and social services, debt service and the capital projects functions for the year ended June 30, 2009.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$4,055,000 in bonds and other long-term debt outstanding, compared to \$1,660,000 last year, as shown below.

Outstanding Debt Year-End (Expressed in Thousands)		
	<u>June 30, 2009</u>	<u>June 30, 2008</u>
General obligation bonds and notes	\$3,110	\$585
Revenue bonds	<u>945</u>	<u>1,075</u>
Total	<u>\$4,055</u>	<u>\$1,660</u>

Debt decreased primarily as a result of making \$600,000 of scheduled bond and other debt payments; however, debt increased as a result of the issuance of \$2,995,000 in general obligations bonds, which will be used for street construction, equipment, and city hall repair.

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 \$3,110,000 at June 30, 2009, is significantly below its constitutional debt limit of \$7,619,715.

More detailed information about the City's long-term debt is presented in Note 3 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 2010 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 2010.

The City's taxable value has slowly but steadily increased from 2001-2005. However, in fiscal years 2006 and 2008 the taxable value declined. Part of the cause for the decline is the result of the residential rollback. The City's taxable value is on a steady increase from fiscal year 2008.

The City is budgeting during a financially uncertain period within the State. State funding cuts have presented future funding issues within the City's General Fund. During fiscal 2010, 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 2010 is \$6,617,657, as opposed to fiscal 2009 budgeted receipts of \$6,733,753.

The City's expected disbursements for fiscal 2010 is \$6,888,050, as opposed to fiscal 2009 budgeted disbursements of \$7,308,833.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$962,522 to \$3,072,530 by the close of fiscal 2010. However, we will do a budget amendment in the spring of 2010 to reflect the contribution from the railroad and SRF loan money we plan to receive in fiscal 2010, which were not budgeted for at the time the original fiscal 2010 budget was prepared. As a result, given these additional receipts, we expect the decrease in the cash balance by the close of fiscal 2010 to be significantly less than the original budgeted decrease of \$962,522.

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. Ryn, 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, 2009

Functions / Programs	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 1,027,479	10,776	51,122	-	(965,581)	-	(965,581)
Public works	858,945	48,661	395,064	1,024	(414,196)	-	(414,196)
Health and social services	11,060	-	-	-	(11,060)	-	(11,060)
Culture and recreation	539,796	138,932	82,981	38,745	(279,138)	-	(279,138)
Community and economic development	10,466	-	4,136	-	(6,330)	-	(6,330)
General government	359,250	8,351	-	-	(350,899)	-	(350,899)
Debt service	775,922	-	-	-	(775,922)	-	(775,922)
Capital projects	2,192,964	-	-	1,078,145	(1,114,819)	-	(1,114,819)
Total governmental activities	5,775,882	206,720	533,303	1,117,914	(3,917,945)	-	(3,917,945)
Business type activities:							
Sewer	994,183	430,710	-	4,068	-	(559,405)	(559,405)
Solid waste	16,749	37,234	-	-	-	20,485	20,485
Airport	101,236	86,747	-	361,037	-	346,548	346,548
Total business type activities	1,112,168	554,691	-	365,105	-	(192,372)	(192,372)
Total	\$ 6,888,050	761,411	533,303	1,483,019	(3,917,945)	(192,372)	(4,110,317)
General Receipts:							
Property tax and other city tax levied for:							
General purposes					1,242,015	-	1,242,015
Debt service					207,808	-	207,808
Local option sales tax					326,874	-	326,874
Grants and contributions not restricted to specific purposes							
Unrestricted interest on investments					35,250	-	35,250
Bond proceeds (net of \$51,167 discount)					6,562	16,060	22,622
Miscellaneous					2,943,833	-	2,943,833
Sale of capital assets					53,267	11,755	65,022
Transfers					8,653	-	8,653
Total general receipts and transfers					(20,000)	20,000	-
					4,804,262	47,815	4,852,077
Change in cash basis net assets					886,317	(144,557)	741,760
Cash basis net assets beginning of year					3,163,371	262,907	3,426,278
Cash basis net assets end of year					\$ 4,049,688	118,350	4,168,038
Cash Basis Net Assets							
Restricted:							
Streets					\$ 80,505	-	80,505
Capital projects					1,445,462	-	1,445,462
Debt service					368,456	-	368,456
Fire department					282,888	-	282,888
Other purposes					2,018,117	-	2,018,117
Unrestricted					(145,740)	118,350	(27,390)
Total cash basis net assets					\$ 4,049,688	118,350	4,168,038

See notes to financial statements.

City of Chariton

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

Exhibit B

As of and for the year ended June 30, 2009

	Special Revenue					Total
	General	Road Use Tax	Swimming Pool	Debt Service	Nonmajor	
Receipts:						
Property tax	\$ 849,539	-	-	207,808	392,476	1,449,823
Other city tax	21,591	-	326,874	-	-	348,465
Licenses and permits	8,351	-	-	-	-	8,351
Use of money and property	49,191	-	29,314	-	-	81,874
Intergovernmental	1,039,950	379,421	-	-	3,369	1,419,371
Charges for service	123,850	-	-	-	-	123,850
Special assessments	-	-	-	-	-	2,221
Miscellaneous	262,820	-	15,000	1,024	2,221	295,759
Total receipts	2,355,292	379,421	371,188	208,832	414,981	3,729,714
Disbursements:						
Operating:						
Public safety	912,834	-	-	-	114,815	1,027,649
Public works	423,276	324,001	-	-	111,964	859,241
Health and social services	11,060	-	-	-	-	11,060
Culture and recreation	474,235	-	-	-	-	539,897
Community and economic development	10,035	-	-	-	65,662	10,466
General government	312,399	-	-	-	431	362,634
Debt service	-	-	-	-	50,235	775,922
Capital projects	2,112,302	-	192,745	583,177	-	2,192,964
Total disbursements	4,256,141	324,001	273,407	583,177	343,107	5,779,833
Excess (deficiency) of receipts over (under) disbursements	(1,900,849)	55,420	97,781	(374,345)	71,874	(2,050,119)
Other financing sources (uses):						
Bond proceeds (net of \$51,167 discount)	2,685,253	-	-	258,580	-	2,943,833
Sale of capital assets	8,653	-	-	-	-	8,653
Operating transfers in	-	-	-	172	-	172
Operating transfers out	(20,000)	-	-	-	-	(20,172)
Total other financing sources (uses)	2,673,906	-	-	258,752	(172)	2,932,486
Net change in cash balances	773,057	55,420	97,781	(115,593)	71,702	882,367
Cash balances beginning of year	794,917	25,085	1,293,183	269,160	770,340	3,152,685
Cash balances end of year	\$ 1,567,974	80,505	1,390,964	153,567	842,042	4,035,052
Cash Basis Fund Balances						
Reserved:						
Debt service	\$ -	-	214,889	153,567	-	368,456
Fire department	282,888	-	-	-	-	282,888
Capital projects	1,445,462	-	-	-	-	1,445,462
Unreserved:						
General fund	(160,376)	-	-	-	-	(160,376)
Special revenue funds	-	80,505	1,176,075	-	-	1,900,414
Permanent fund	-	-	-	-	643,834	198,208
Total cash basis fund balances	\$ 1,567,974	80,505	1,390,964	153,567	842,042	4,035,052

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, 2009

Total governmental funds cash balances (page 17) \$ 4,035,052

*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.

14,636

Cash basis net assets of governmental activities (page 16)

\$ 4,049,688

Net change in cash balances (page 17)

\$ 882,367

*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.

3,950

Change in cash basis net assets of governmental activities (page 16)

\$ 886,317

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, 2009

	Enterprise Funds				Internal Service Fund
	Sewer	Solid Waste	Airport	Total	Central Fuel
Operating receipts:					
Use of money and property	\$ -	-	26,045	26,045	-
Charges for service	430,710	37,234	60,702	528,646	269,793
Total operating receipts	<u>430,710</u>	<u>37,234</u>	<u>86,747</u>	<u>554,691</u>	<u>269,793</u>
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	12,511
Public works	-	-	-	-	21,945
Culture and recreation	-	-	-	-	7,481
General government	-	-	-	-	218,165
Business type activities	468,596	16,749	87,607	572,952	6,077
Total operating disbursements	<u>468,596</u>	<u>16,749</u>	<u>87,607</u>	<u>572,952</u>	<u>266,179</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(37,886)</u>	<u>20,485</u>	<u>(860)</u>	<u>(18,261)</u>	<u>3,614</u>
Non-operating receipts (disbursements):					
Interest on investments	9,703	6,357	-	16,060	-
Intergovernmental	4,068	-	361,037	365,105	-
Miscellaneous	9,125	8	2,621	11,754	-
Capital projects	(525,239)	-	(13,640)	(538,879)	-
Net non-operating receipts (disbursements)	<u>(502,343)</u>	<u>6,365</u>	<u>350,018</u>	<u>(145,960)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(540,229)</u>	<u>26,850</u>	<u>349,158</u>	<u>(164,221)</u>	<u>3,614</u>
Other financing sources (uses):					
Operating transfers in	-	-	20,000	20,000	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Net change in cash balances	<u>(540,229)</u>	<u>26,850</u>	<u>369,158</u>	<u>(144,221)</u>	<u>3,614</u>
Cash balances beginning of year	<u>504,715</u>	<u>314,589</u>	<u>(557,079)</u>	<u>262,225</u>	<u>11,368</u>
Cash balances end of year	<u>\$ (35,514)</u>	<u>341,439</u>	<u>(187,921)</u>	<u>118,004</u>	<u>14,982</u>
Cash Basis Fund Balances					
Unreserved	<u>\$ (35,514)</u>	<u>341,439</u>	<u>(187,921)</u>	<u>118,004</u>	<u>14,982</u>
Total cash basis fund balances	<u>\$ (35,514)</u>	<u>341,439</u>	<u>(187,921)</u>	<u>118,004</u>	<u>14,982</u>

See notes to financial statements.

City of Chariton

Exhibit E

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2009

Total enterprise funds cash balances (page 19)	\$ 118,004
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	
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.	<u>346</u>
Cash basis net assets of business type activities (page 16)	<u><u>\$ 118,350</u></u>
Net change in cash balances (page 19)	\$ (144,221)
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	
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.	<u>(336)</u>
Change in cash basis net assets of business type activities (page 16)	<u><u>\$ (144,557)</u></u>

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, 2009

	<u>Pension Trust</u>
Additions:	
Employer contributions	\$ 22,740
Employee contributions	21,249
Total additions	<u>43,989</u>
Deductions:	
Benefits paid	24,600
Fees	11
Total deductions	<u>24,611</u>
Excess of additions over deductions	<u>19,378</u>
Non-operating additions (deductions):	
Change in fair value of investments	(171,846)
Total non-operating additions (deductions)	<u>(171,846)</u>
Net change in cash balances	(152,468)
Cash balances beginning of year	<u>821,634</u>
Cash balances end of year	<u>\$ 669,166</u>
Cash Basis Fund Balances	
Reserved	<u>\$ 669,166</u>
Total cash basis fund balances	<u>\$ 669,166</u>

See notes to financial statements.

City of Chariton

Notes to Financial Statements

June 30, 2009

(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, 2009, disbursements exceeded the amounts budgeted in the public safety, health and social services, debt service and capital projects functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 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, 2009, the City had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Corporate stock	\$2,160	\$6,854

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 \$669,166 at June 30, 2009 that is not subject to risk categorization. At June 30, 2009 plan assets consisted entirely of mutual funds.

(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
2010	\$ 290,000	\$ 125,737	\$ 135,000	\$ 55,230	\$ 425,000	\$ 180,967
2011	145,000	115,241	145,000	47,603	290,000	162,844
2012	180,000	110,514	155,000	39,265	335,000	149,779
2013	185,000	104,318	160,000	30,275	345,000	134,593
2014	195,000	97,591	170,000	20,915	365,000	118,506
2015-2019	1,075,000	369,000	180,000	10,800	1,255,000	379,800
2020-2023	1,040,000	117,974	-	-	1,040,000	117,974
Total	\$ 3,110,000	\$ 1,040,375	\$ 945,000	\$ 204,088	\$ 4,055,000	\$ 1,244,463

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 59 percent of local option sales tax receipts. The total principal and interest remaining to be paid on the bonds is \$1,149,088. For the current year, principal and interest paid and total local option sales tax receipts were \$192,445 and \$326,874, 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) **Operating Lease Agreements**

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

Year Ended June 30,	Amount
2010	\$ 1,650
2011	1,800
2012	1,350
Total	<u>\$ 4,800</u>

Total rent expense during the fiscal year on these agreements was \$1,950.

(5) **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 4.10% of their annual covered salary and the City is required to contribute 6.35% 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, 2009, 2008 and 2007 were \$67,877, \$63,154 and \$60,640, respectively, equal to the required contributions for each year.

(6) **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, 2009, primarily relating to the General Fund, is \$97,952.

This liability has been computed based on rates of pay in effect at June 30, 2009.

(7) **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, 2009 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.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue: Urban Renewal Tax Increment	<u>\$ 172</u>
Enterprise: Airport	General	<u>20,000</u>
Total		<u>\$ 20,172</u>

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

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$759 during the year ended June 30, 2009.

(10) 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.

(11) 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.

(12) Deficit Fund Balance

At June 30, 2009, the City had deficit balances as follows:

Enterprise Fund – Sewer	\$ 35,514
Enterprise Fund - Airport	187,921
Special Revenue Fund - Donations	6,564
Special Revenue Fund - Employee Benefits	41,953

The Enterprise Fund – Sewer deficit should be eventually eliminated through an increase in the sewer rates.

The Enterprise Fund - 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 an increase in property taxes.

(13) 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.

(14) Commitments/Subsequent Events

The City should receive \$15,000 in fiscal year 2010 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 \$1.2 million. The City currently is, or will be, incurring costs in relation to these projects.

The City has uncompleted construction contracts with a total cost of approximately \$1,153,000 for sewer, street, building, and bridge repair and construction. It is anticipated that these costs will be paid for with a \$50,000 grant, with the rest of the funds coming from existing cash reserves. It is also anticipated that these projects will be completed in fiscal year 2010. Reimbursement from the grantor will be requested as work on the project progresses.

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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts:							
Property tax	\$ 1,449,823	-	-	1,449,823	1,398,691	1,398,691	51,132
Other city tax	348,465	-	-	348,465	292,015	292,015	56,450
Licenses and permits	8,351	-	-	8,351	32,525	32,525	(24,174)
Use of money and property	81,874	42,105	-	123,979	120,375	120,375	3,604
Inter-governmental	1,419,371	365,105	-	1,784,476	2,749,320	2,749,320	(964,844)
Charges for service	123,850	798,439	269,793	652,496	889,732	889,732	(237,236)
Special assessments	2,221	-	-	2,221	-	-	2,221
Miscellaneous	295,759	11,754	-	307,513	596,000	596,000	(288,487)
Total receipts	3,729,714	1,217,403	269,793	4,677,324	6,078,658	6,078,658	(1,401,334)
Disbursements:							
Public safety	1,027,649	12,511	12,511	1,027,649	898,654	898,654	(128,995)
Public works	859,241	21,945	21,945	859,241	3,343,847	3,343,847	2,484,606
Health and social services	11,060	-	-	11,060	10,900	10,900	(160)
Culture and recreation	539,897	7,481	7,481	539,897	807,268	807,268	267,371
Community and economic development	10,466	-	-	10,466	122,350	122,350	111,884
General government	362,634	218,165	218,165	362,634	516,501	541,501	178,867
Debt service	775,922	-	-	775,922	215,926	215,926	(152,173)
Capital projects	2,192,964	-	-	2,192,964	-	-	(1,607,964)
Business type activities	-	1,117,908	6,077	1,111,831	741,704	1,141,704	29,873
Total disbursements	5,779,833	1,378,010	266,179	6,891,664	6,657,150	8,074,973	1,183,309
Excess (deficiency) of receipts over (under) disbursements	(2,050,119)	(160,607)	3,614	(2,214,340)	(578,492)	(1,996,315)	(218,025)
Other financing sources, net	2,932,486	20,000	-	2,952,486	745,000	2,855,000	97,486
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	882,367	(140,607)	3,614	738,146	166,508	858,685	(120,539)
Balances beginning of year	3,152,685	273,593	11,368	3,414,910	8,170,177	8,170,177	(4,755,267)
Balances end of year	\$ 4,035,052	132,986	14,982	4,153,056	8,336,685	9,028,862	(4,875,806)

See accompanying independent auditor's report.

City of Chariton

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2009

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 increased budgeted disbursements by \$1,417,823. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the public safety, health and social services, debt service, and capital projects 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, 2009

	Special				
	Revolving Loan Fund	Section 8 Housing	Employee Benefits	CDBG Housing	Urban Renewal Tax Increment
Receipts:					
Property tax	\$ -	-	368,726	-	-
Use of money and property	1,650	1,581	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	-	-	1,170	156	-
Total receipts	<u>1,650</u>	<u>1,581</u>	<u>369,896</u>	<u>156</u>	<u>-</u>
Disbursements:					
Operating:					
Public safety	-	-	114,815	-	-
Public works	-	-	105,210	-	-
Culture and recreation	-	-	65,662	-	-
Community and economic development	-	-	-	56	-
General government	-	-	50,235	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>335,922</u>	<u>56</u>	<u>-</u>
Excess of receipts over disbursements	<u>1,650</u>	<u>1,581</u>	<u>33,974</u>	<u>100</u>	<u>-</u>
Other financing sources (uses):					
Operating transfers out	-	-	-	-	(172)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(172)</u>
Net change in cash balances	1,650	1,581	33,974	100	(172)
Cash balances beginning of year	<u>96,131</u>	<u>83,576</u>	<u>(75,927)</u>	<u>55,418</u>	<u>172</u>
Cash balances end of year	<u>\$ 97,781</u>	<u>85,157</u>	<u>(41,953)</u>	<u>55,518</u>	<u>-</u>
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ 97,781	85,157	(41,953)	55,518	-
Permanent fund	-	-	-	-	-
Total cash basis fund balances	<u>\$ 97,781</u>	<u>85,157</u>	<u>(41,953)</u>	<u>55,518</u>	<u>-</u>

See accompanying independent auditor's report.

Revenue					Permanent	
Emergency	Library Endowment	Historic Preservation	Special Assessment	Donations	Cemetery Perpetual Care	Total
23,750	-	-	-	-	-	392,476
-	94	44	-	-	-	3,369
-	-	-	2,221	-	-	2,221
40	-	705	-	10,250	4,594	16,915
23,790	94	749	2,221	10,250	4,594	414,981
-	-	-	-	-	-	114,815
-	-	-	-	6,754	-	111,964
-	-	-	-	-	-	65,662
-	-	375	-	-	-	431
-	-	-	-	-	-	50,235
-	-	375	-	6,754	-	343,107
23,790	94	374	2,221	3,496	4,594	71,874
-	-	-	-	-	-	(172)
-	-	-	-	-	-	(172)
23,790	94	374	2,221	3,496	4,594	71,702
168,888	107,391	2,292	148,845	(10,060)	193,614	770,340
192,678	107,485	2,666	151,066	(6,564)	198,208	842,042
192,678	107,485	2,666	151,066	(6,564)	-	643,834
-	-	-	-	-	198,208	198,208
192,678	107,485	2,666	151,066	(6,564)	198,208	842,042

City of Chariton

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2009

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 and Refunding	November 1, 1999	4.50-5.30%	\$ 715,000	95,000	-	45,000	50,000	4,990	-
Corporate Purpose	July 1, 2001	4.00-4.80%	690,000	260,000	-	260,000	-	3,634	-
Economic Development Note	June 1, 2004	4.93%	50,000	30,000	-	5,000	25,000	1,479	-
Corporate Purpose	May 1, 2005	2.80-3.55%	480,000	200,000	-	100,000	100,000	6,950	-
Corporate Purpose and Refunding	September 15, 2008	3.00-4.50%	2,995,000	-	2,995,000	60,000	2,935,000	84,896	-
	Total		\$ 2,995,000	\$ 585,000	2,995,000	470,000	3,110,000	101,949	-
Revenue Bonds:									
Local Option Sales and Services Tax	December 1, 1999	4.70-6.00%	\$ 1,980,000	1,075,000	-	130,000	945,000	62,445	-

See accompanying independent auditor's report.

City of Chariton

Schedule 3

Bond and Note Maturities

June 30, 2009

General Obligation Bonds and Notes									
Year Ending June 30,	Corporate Purpose and Refunding Issued November 1, 1999		Economic Development Note Issued June 1, 2004		Corporate Purpose Issued May 1, 2005		Corporate Purpose and Refunding Issued September 15, 2008		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
	2010	5.30%	\$ 50,000	4.93%	\$ 5,000	3.55%	\$ 100,000	3.00%	
2011	-	-	4.93%	5,000	-	-	3.20%	140,000	145,000
2012	-	-	4.93%	5,000	-	-	3.40%	175,000	180,000
2013	-	-	4.93%	5,000	-	-	3.60%	180,000	185,000
2014	-	-	4.93%	5,000	-	-	3.75%	190,000	195,000
2015	-	-	-	-	-	-	3.90%	195,000	195,000
2016	-	-	-	-	-	-	4.00%	205,000	205,000
2017	-	-	-	-	-	-	4.10%	215,000	215,000
2018	-	-	-	-	-	-	4.20%	225,000	225,000
2019	-	-	-	-	-	-	4.30%	235,000	235,000
2020	-	-	-	-	-	-	4.35%	245,000	245,000
2021	-	-	-	-	-	-	4.40%	255,000	255,000
2022	-	-	-	-	-	-	4.45%	265,000	265,000
2023	-	-	-	-	-	-	4.50%	275,000	275,000
		<u>\$ 50,000</u>		<u>\$ 25,000</u>		<u>\$ 100,000</u>		<u>\$ 2,935,000</u>	<u>\$ 3,110,000</u>

Revenue Bonds			
Local Option Sales and Services Tax			
Year Ending June 30,	Issued December 1, 1999		Revenue Bonds Total
	Interest Rates	Amount	
2010	5.65%	\$ 135,000	\$ 135,000
2011	5.75%	145,000	145,000
2012	5.80%	155,000	155,000
2013	5.85%	160,000	160,000
2014	5.95%	170,000	170,000
2015	6.00%	180,000	180,000
		<u>\$ 945,000</u>	<u>\$ 945,000</u>

See accompanying independent auditor's report.

City of Chariton

Schedule 4

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

For the Last Six Years

	2009	2008	2007	2006	2005	2004
Receipts:						
Property tax	\$ 1,449,823	1,357,277	1,324,958	1,245,388	1,248,279	1,281,166
Tax increment financing	-	90,766	88,363	84,970	70,141	53,680
Other city tax	348,465	526,678	520,969	505,068	427,265	470,216
Licenses and permits	8,351	10,869	9,668	14,346	11,410	8,648
Use of money and property	81,874	116,875	313,763	231,890	64,000	150,407
Intergovernmental	1,419,371	723,369	509,582	450,401	455,901	668,993
Charges for service	123,850	101,806	74,262	116,669	128,300	176,839
Special assessments	2,221	22,658	11,033	15,771	15,688	26,119
Miscellaneous	295,759	172,556	638,795	347,416	1,671,264	127,176
Total	\$ 3,729,714	3,122,854	3,491,393	3,011,919	4,092,248	2,963,244
Disbursements:						
Operating:						
Public safety	\$ 1,027,649	756,584	670,353	608,609	590,405	613,188
Public works	859,241	975,900	762,208	779,619	832,039	591,061
Health and social services	11,060	7,270	7,683	6,030	9,036	7,457
Culture and recreation	539,897	433,780	537,248	467,570	584,598	451,533
Community and economic development	10,466	8,200	7,203	17,125	43,249	208,933
General government	362,634	339,543	358,532	302,087	350,925	330,853
Debt service	775,922	581,670	576,161	581,082	510,916	498,754
Capital projects	2,192,964	737,284	1,092,852	278,495	-	21
Non-program	-	-	55,231	293,984	91,158	50,820
Total	\$ 5,779,833	3,840,231	4,067,471	3,334,601	3,012,326	2,752,620

See accompanying independent auditor's report.

City of Chariton

Schedule 5

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

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	\$ 1,158
Airport Improvement Program	20.106	3-19-0014-05	380
Airport Improvement Program	20.106	3-19-0014-06	12,540
Total			14,078
Total direct			14,078
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS-1237(605)-8J-59	847,560
U.S. Department of Transportation:			
National Highway Traffic Safety Administration:			
Iowa Department of Public Safety			
Governor's Traffic Safety Bureau:			
Safety Belt Performance Grants	20.609	08-157, Task28	1,051
Safety Belt Performance Grants	20.609	09-406, Task28	2,292
Total			3,343
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	FEMA-1763-DRIA	10,687
Total indirect			861,590
Total			\$ 875,668

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.

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
1370 NW 114TH ST., SUITE 205
CLIVE, IA 50325

(515) 277-3077

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issue our report thereon dated September 3, 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-09 through II-E-09 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, 2009 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 & Co., LLP
Certified Public Accountants

September 3, 2009

PEAK & CO., LLP
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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 Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2009. 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, 2009.

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-A-09 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-A-09 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 & Co., LLP
Certified Public Accountants

September 3, 2009

City of Chariton

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

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 20.205 – Highway Planning and Construction.
- (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.

City of Chariton

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-09 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-09 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-09 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.

The City does not consistently follow the account structure as recommended by the City Finance Committee.

Recommendation - The City implement procedures to ensure all receipts and disbursements are properly classified on the general ledger, and that the account structure is followed as recommended by the City Finance Committee.

Response - We will implement this recommendation.

Conclusion - Response accepted.

City of Chariton

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

II-D-09 Receipt Analysis and Procedures – The City is owed \$15,000 from a contractor, due on June 1, 2009. However, as of July, 2009, this amount has not been received by the City.

Three local political subdivisions did not pay the City their fiscal year 2009 landfill assessment fees. These three local political subdivisions owe approximately \$20,000 to the City as of June 30, 2009.

The City has not requested a sales tax refund on the completed pool construction project, which would amount to several thousand dollars.

It does not appear that the City has ever formally requested an approximate \$16,000 from the Federal Emergency Management Agency and the State of Iowa for costs incurred to remove dangerous trees as a result of the December, 2007 ice storm.

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 type of issues were noted in prior years audits, but the City has still not adequately addressed these issues.

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

Response – The \$15,000 due from the contractor was received in August, 2009. We will also review this area and take appropriate action on all issues.

Conclusion – Response accepted.

II-E-09 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. Due to the technical nature of these requirements, management does not prepare this information, 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 OCBOA financial statements.

Response – These are very technical issues, that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with the OCBOA requirements.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Chariton

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCY:

CFDA Number 20.205: Highway Planning and Construction
Pass-through Agency Number: BROS-1237(605)-8J-59
Federal Award Year: 2004
U.S. Department of Transportation

III-A-09 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-09.

City of Chariton

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-09 Certified Budget - Disbursements during the year ended June 30, 2009, exceeded the amounts budgeted in the public safety, health and social services, 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.

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

Response – We will implement this recommendation.

Conclusion - Response accepted.

IV-B-09 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-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-09 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	\$ 759

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-09 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-09 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. Chapter 372.13 of the Code of Iowa requires a list of claims allowed and total expenditures from each city fund to be published in the newspaper. However, what is currently published in the newspaper by the City is incomplete, as total expenditures from each city fund fail to include employee benefit and salary expenses.

Recommendation – The City should publish the claims and total expenditures by fund, as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response accepted

City of Chariton

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

IV-G-09 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 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-09 Revenue Bonds – No instances of non-compliance with the revenue bond resolutions were noted.

IV-I-09 Financial Condition - The Enterprise Fund – Sewer, the Enterprise Fund – Airport, the Special Revenue Fund – Donations and the Special Revenue Fund - Employee Benefits Fund all had deficit balances at June 30, 2009. The balances in the Special Revenue Funds – Special Assessment and Emergency Funds may be excessive. In addition, the City had an unreserved General Fund balance deficit of (\$160,376) at June 30, 2009.

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 Fund – Sewer deficit should be eventually eliminated due to an increase in user fees. The Enterprise Fund - 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 Fund - Donations deficit will be eliminated through donations received. The Special Revenue Fund - Employee Benefits deficit will be eliminated through an increase in property taxes. In addition, we will evaluate the balances in the Special Revenue Fund - Special Assessment and Emergency Funds to determine if the cash on hand is excessive. Also, we are aware of the General Fund deficit and will take appropriate action.

Conclusion - Response accepted.

City of Chariton

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

IV-J-09 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 – The monies in question are in our checking account. Due to the low interest rates at the present time, and the amount of bank fees, we currently do not receive any interest on our checking account. As a result, we no longer have any interest to credit to these funds.

Conclusion – Response accepted.

IV-K-09 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-L-09 Bonds – The City has the funds available in the Special Revenue – Swimming Pool Fund to pay off the callable bond issue, as the cash balance in the Special Revenue - Swimming Pool Fund was \$1,390,964 at June 30, 2009. The related swimming pool bonds outstanding at June 30, 2009, was \$945,000. If the City would have paid off this bond issue in June 2009, the City would have saved approximately \$100 in interest per day, or approximately \$37,000 in just fiscal year 2010.

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

Response – We will review this area.

Conclusion – Response accepted.

IV-M-09 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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

IV-N-09 Contracts – On various construction projects, there was no change orders extending the time of performance of the projects, and no liquidated damages were assessed on those projects that significantly exceeded the original required performance deadline.

In one instance, an invoice related to a construction contract was paid before the related change order was approved.

In one instance, the contract completion date is inconsistent in that the contract requires a 30 day completion, the proposal requires a 150 day completion, and the bid publication requires a 45 day completion time frame for the same project.

Recommendation – The City implement procedures to ensure change orders and/or liquidated damages are assessed on all construction projects, where applicable. Also, change orders should be approved prior to the related payment to the contractor. In addition, procedures should be implemented to ensure all construction contract requirements are consistent.

Response – We will attempt to implement these recommendations.

Conclusion – Response accepted.

IV-O-09 Notice of Public Hearing and Bids – While the City did publish notices of public hearings, the notices of public hearings on a sewer project and a street project were not published within 4-20 days of the public hearings, as required by Chapters 26.12 and 362.3 of the Code of Iowa.

On a sewer project, it does not appear that the City obtained competitive bids, gave notice to the bidders, or held a public hearing as required by Chapter 26 of the Code of Iowa.

Recommendation – The City implement procedures to ensure the Code of Iowa requirements are met in relation to public hearings, bidding, and notice to bidders on applicable construction projects.

Response – We will attempt to implement this recommendation.

Conclusion – Response accepted.

IV-P-09 Disbursements – The City has no policy on personal usage of a City cell phone. The City paid sales tax on one invoice. An instance was noted where leave taken by an employee was not deducted from the employees leave balance.

Recommendation – The City implement a policy on personal use of the City cell phone, ensure sales taxes are not paid on invoices, and that leave taken is properly deducted from the employees leave balance.

Response – We will attempt to implement these recommendations.

Conclusion – Response accepted.

IV-Q-09 Library – No board minutes could be located for the August 2008 Library Board meeting.

Recommendation – The Library ensure board minutes are kept for all Library board meetings.

Response – The notes for these minutes were lost. We will ensure minutes are kept for all future meetings.

Conclusion – Response accepted.

City of Chariton

Corrective Action Plan for Federal Audit Findings

Year Ended June 30, 2009

Comment Number	Comment Title	Corrective Action Plan	Title, Phone Number	Contact Person, Anticipated Date of Completion
III-A-09	Segregation of Duties Over Federal Receipts	We will review this and take action as necessary	Nels Christensen City Manager (641) 774-5991	Immediately

City of Chariton

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2009

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action or other explanation
III-A-08	Contract and Reporting	Not Corrected	The grantor agency has not followed up on this finding. The City is waiting on the grantor agency to address these issues.
III-B-08	Contract	Not Corrected	The grantor agency has not followed up on this finding. The City is waiting on the grantor agency to address these issues.
III-C-08	Segregation of Duties over Federal Receipts	Not Corrected	We will review this and take action as necessary.

