

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

JUNE 30, 2009

Peak & Co., LLP
Certified Public Accountants
1370 NW 114th St., Suite 205
Clive, IA 50325

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City of Chillicothe

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mark Johnston	Mayor	January 1, 2010
Don Darland	Council Member	January 1, 2010
Alan Johnston	Council Member	January 1, 2010
Sam Kingery	Council Member	January 1, 2010
Shane Lowe	Council Member	January 1, 2010
Jason VanDerVeer	Council Member	January 1, 2010
Natalie Baker	City Clerk	Indefinite

City of Chillicothe

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

(515) 277-3077

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 and each major fund of the City of Chillicothe, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the basic financial statements of the City as listed in the table of contents. These financial statements are the responsibility of the City of Chillicothe's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and each major fund of the City of Chillicothe 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 July 13, 2010 on our consideration of the City of Chillicothe'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.

The budgetary comparison information on pages 15 through 16 is not a required part of the basic financial statements, but is 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.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chillicothe's financial statements. Other supplementary information included in Schedule 1 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Co., LLP
Certified Public Accountants

July 13, 2010

Basic Financial Statements

City of Chillicothe

Exhibit A

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2009

Functions / Programs	Disbursements	Charges for Service	Program Receipts		Total
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Governmental activities:					Net (Disbursements) Receipts and Changes in Cash Basis Net Assets
Public safety	\$ 1,613	-	-	-	(1,613)
Public works	39,029	1,416	7,509	-	(30,104)
Culture and recreation	2,262	-	706	-	(1,556)
General government	8,251	-	535	-	(7,716)
Total governmental activities	51,155	1,416	8,750	-	(40,989)
Total	\$ 51,155	1,416	8,750	-	(40,989)
General Receipts:					
Property and other city tax levied for:					
General purposes					9,140
Local option sales tax					9,045
Unrestricted interest on investments					1
Total general receipts and transfers					18,186
Change in cash basis net assets					(22,803)
Cash basis net assets beginning of year					39,920
Cash basis net assets end of year					\$ 17,117
Cash Basis Net Assets					
Restricted:					
Streets					\$ 7,410
Other purposes					92
Unrestricted					9,615
Total cash basis net assets					\$ 17,117

See notes to financial statements.

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

As of and for the year ended June 30, 2009

	Special Revenue			Total
	General	Road Use Tax	Local Option Sales Tax	
Receipts:				
Property tax	\$ 9,140	-	-	9,140
Other city tax	-	-	9,045	9,045
Use of money and property	1	-	-	1
Intergovernmental	-	7,509	-	7,509
Charges for service	1,416	-	-	1,416
Miscellaneous	1,241	-	-	1,241
Total receipts	<u>11,798</u>	<u>7,509</u>	<u>9,045</u>	<u>28,352</u>
Disbursements:				
Operating:				
Public safety	1,613	-	-	1,613
Public works	12,651	19,394	6,984	39,029
Culture and recreation	293	-	1,969	2,262
General government	8,251	-	-	8,251
Total disbursements	<u>22,808</u>	<u>19,394</u>	<u>8,953</u>	<u>51,155</u>
Net change in cash balances	(11,010)	(11,885)	92	(22,803)
Cash balances beginning of year	<u>20,625</u>	<u>19,295</u>	-	<u>39,920</u>
Cash balances end of year	<u>\$ 9,615</u>	<u>7,410</u>	<u>92</u>	<u>17,117</u>
Cash Basis Fund Balances				
Unreserved:				
General fund	\$ 9,615	-	-	9,615
Special revenue funds	-	7,410	92	7,502
Total cash basis fund balances	<u>\$ 9,615</u>	<u>7,410</u>	<u>92</u>	<u>17,117</u>

See notes to financial statements.

City of Chillicothe

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Chillicothe is a political subdivision of the State of Iowa located in Wapello County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, and general governmental services.

A. Reporting Entity

For financial reporting purposes, City of Chillicothe 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in a jointly governed organization 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 following boards and commissions: Wapello County Assessor's Conference Board.

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 are supported by tax and intergovernmental revenues.

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 or 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. Major individual governmental funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general 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 Local Option Sales Tax Fund is used to account for the local option sales tax and the related costs paid from this fund.

C. Measurement Focus and Basis of Accounting

The City of Chillicothe 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.

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 public safety, public works, and the culture and recreation 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 Sate 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 the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City does not have a depository agreement or an investment policy as required by the Code of Iowa.

(3) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2009 were \$1,582.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000 for each accident, \$1,000,000 memorandum limit, and \$1,000,000 each employee. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Required Supplementary Information

City of Chillicothe

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

Required Supplementary Information

Year ended June 30, 2009

	<u>Budgeted Amounts</u>		Final to Total Variance
	Governmental Funds Actual	Final	
Receipts:			
Property tax	\$ 9,140	9,224	(84)
Other city tax	9,045	10,159	(1,114)
Licenses and permits	-	465	(465)
Use of money and property	1	-	1
Intergovernmental	7,509	-	7,509
Charges for service	1,416	-	1,416
Miscellaneous	1,241	-	1,241
Total receipts	<u>28,352</u>	<u>19,848</u>	<u>8,504</u>
Disbursements:			
Public safety	1,613	1,125	(488)
Public works	39,029	6,365	(32,664)
Culture and recreation	2,262	1,795	(467)
General government	8,251	10,300	2,049
Total disbursements	<u>51,155</u>	<u>19,585</u>	<u>(31,570)</u>
Excess (deficiency) of receipts over (under) disbursements	(22,803)	263	(23,066)
Other financing sources, net	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(22,803)	263	(23,066)
Balances beginning of year	<u>39,920</u>	<u>34,929</u>	<u>4,991</u>
Balances end of year	<u>\$ 17,117</u>	<u>35,192</u>	<u>(18,075)</u>

See accompanying independent auditor's report.

City of Chillicothe

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. 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, the budget was not amended.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the public safety, public works, and the culture and recreation functions.

Other Supplementary Information

City of Chillicothe

Schedule 1

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

For the Last Year

	<u>2009</u>
Receipts:	
Property tax	\$ 9,140
Other city tax	9,045
Use of money and property	1
Intergovernmental	7,509
Charges for service	1,416
Miscellaneous	<u>1,241</u>
Total	<u>\$ 28,352</u>
Disbursements:	
Operating:	
Public safety	\$ 1,613
Public works	39,029
Culture and recreation	2,262
General government	<u>8,251</u>
Total	<u>\$ 51,155</u>

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Chillicothe, 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 July 13, 2010. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

Except as noted in the Independent Auditor's Report, 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 Controller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Chillicothe'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 Chillicothe's internal control over financial reporting. Accordingly, we do not express our opinion on the effectiveness of the City of Chillicothe'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 Chillicothe'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 Chillicothe's financial statements that is more than inconsequential will not be prevented or detected by City of Chillicothe's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Chillicothe'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 I-A-09, I-B-09, I-C-09 and I-D-09 are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 Chillicothe's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Chillicothe'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 Chillicothe and other parties to whom the City of Chillicothe may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

July 13, 2010

City of Chillicothe

Schedule of Findings

Year ended June 30, 2009

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person primarily has control over each of the following areas:

- (1) Accounting system – performing all general accounting functions and having custody of the assets.
- (2) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (3) Receipts – collecting depositing, journalizing and posting.
- (4) Disbursements – purchasing, preparing checks, recording, signing and reconciling.
- (5) Payroll – preparing and distributing.

Recommendation – We realize 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 list all receipts and disbursements in our Council minutes, and have the Council approve this listing every month. This is in effect the best that we can do to compensate for the lack of segregation of duties.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible by utilizing administrative personnel to provide additional control through review of financial transactions and reports.

I-B-09 Financial Reporting - 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 with not being able to prepare these documents and apply accounting principles in accordance with OCBOA requirements.

Conclusion – Response accepted.

I-C-09 Local Option Sales and Service Tax – The City did not establish a separate Special Revenue Fund (Sales Tax Fund) to account for the collection of local option sales and service tax (sales tax), even though the monies from the sales tax are required to be spent on specific purposes. Currently, this activity appears to be accounted for in the General Fund.

City of Chillicothe

Schedule of Findings

Year ended June 30, 2009

The City does not identify which expenses are to be charged to the Sales Tax Fund. The City does not keep records which documents the cash balance in Sales Tax Fund at any point in time. These issues were all resolved for audit purposes.

The sales tax ballot indicates that the use of the sales tax collections are to be allocated as follows - "25% for parks and economic growth, 40% for street improvements and 35% for general improvements within the City of Chillicothe." Currently, it appears that some city personnel believe the 35% can be used for any general fund purpose. However, it would appear that based on the wording of the ballot that the 35% can only be used for general improvements, and not necessarily for any general fund purpose.

Recommendation – The City should establish a separate fund for the sales tax collections, in order to account for the special requirements of this source of funds. All expenses to be paid from sales tax receipts should then be identified and charged to this fund, and records should be kept which documents the cash balance in the Sales Tax Fund at any point in time. In addition, the City should consult with their Attorney to determine if the 35% has to be spent on general improvements, or if the 35% can be spent on any general fund purpose.

Response – We have established a sales tax fund as of July 1, 2008, and records which will be kept which will document the cash balance in the fund. We will only charge expenses to the sales tax fund based on what is allowable according to the ballot language. We also agree that the 35% as noted above can only be used for general fund improvements and not for any general fund purpose.

Conclusion – Response accepted.

I-D-09 Receipts – While performing a subsequent review of the accounting records at City Hall, it appears that \$59 in cash donated from a music show was received by the City in July 2009. However, City personnel were unable to provide documentation that the \$59 was deposited to the City's bank account, or that the funds were spent for City purchases. In addition, donated funds from the music show were not consistently counted by at least two individuals at the conclusion of the event.

It does not appear that monies are turned over timely to the City Clerk for recording and depositing. In addition, receipt slips are not issued by the City for monies received.

Recommendation – The City review the above situation, and determine what action needs to be taken in relation to the \$59 as noted above. In addition, donated funds should be counted and the total collection amounts should be documented by at least two individuals at the conclusion of the event. Also, all receipts should be turned over timely to the City Clerk for deposit, and the City should issue receipt slips for all monies received, at the time of receipt.

Response – In relation to the \$59, due to the amount of time passed, we really can not do much about this, as the City Clerk and Mayor who were in office at that time are no longer officials with the City. However, in the future, we will ensure that donated funds are documented and counted by at least two people, and that receipt slips will be issued for all monies received at the time of receipt.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Chillicothe

Schedule of Findings

Year ended June 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-09 Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the public safety, public works, and culture and recreation functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

The fiscal year budget was not certified by March 15, 2008. As a result, the tax levy of the City was limited to the prior year's budget amount, in accordance with Chapter 384.16 (6) of the Code of Iowa.

The City was unable to locate the March 20, 2008 Council minutes which should document that a public hearing was held prior to the approval of the budget. As a result, the City was unable to document that the public hearing on the budget was held as required by Chapter 384.16 (3) of the Code of Iowa.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, the City should implement procedures to ensure future budgets are certified by March 15, and that the Council minutes document that a public hearing was held prior to the approval of the budget.

Response – We will amend our budget in the future if it looks like we will go over. We will implement procedures to ensure our budget is certified by March 15 of each year. We will also keep our minutes documenting the budget hearings.

Conclusion – Response accepted.

- II-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.
- II-C-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-09 Business Transactions – No business transactions between the City and City officials or employees were noted.
- II-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.
- II-F-09 Council Minutes - Transactions were found that we believe should have been approved in the Council minutes but were not. Some invoices were not approved by the City Council. Council minutes and related claims were not posted in three public places. The Council minutes do not document the summary of receipts, purpose of the claims, and to what fund(s) the various disbursements should be charged. In addition, two instances were noted where the City could not locate the related Council minutes and approved claims. All of this is required by Chapter 372.13(6) of the Code of Iowa.

One Council resolution could not be located. A roll call vote to document the results of one resolution was not documented in the Council minutes, as required by Chapter 380.4 of the Code of Iowa.

City of Chillicothe

Schedule of Findings

Year ended June 30, 2009

The Council minutes do not document the members present, even though this is required by Chapter 21.3 of the Code of Iowa.

The Council minutes are not signed by the City Clerk, as required by Chapter 380.7 of the Code of Iowa.

Recommendation - The City should implement procedures to ensure that all invoices are approved by the City Council. The City should also implement procedures to ensure all Council minutes with related claims are posted in three public places as required by the Code of Iowa. The City should also implement procedures to ensure the Council minutes document the summary of receipts, purpose of the claims, and to what fund(s) the various disbursements should be charged. In addition, the City should ensure that all Council minutes are permanently retained, document the members present, and are signed by the City Clerk, as required by the Code of Iowa. In addition, the City should ensure the Code of Iowa requirements are followed in relation to Council resolutions.

Response – In the future, all invoices will be approved by the City Council. We will also post the minutes and claim listing in three public places. In the future, our Council minutes will document the individual receipts received, and the claims will document the purpose and to what fund the individual disbursements should be charged to. Also, we will ensure all Council minutes are permanently retained, document the members present, and will be signed by the City Clerk. In addition, we will have a roll call vote for all resolutions, and all resolutions will be kept in a permanent book at City Hall.

Conclusion - Response accepted.

II-G-09 Deposits and Investments – The City does not have an investment policy, as required by Chapter 12B of the Code of Iowa. In addition, the maximum amount which may be kept on deposit in each depository was not documented in the Council minutes, as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – To ensure compliance with the Code of Iowa, the City should implement an investment policy, and ensure that the Council minutes document the maximum amount which may be kept on deposit in each depository.

Response – We will obtain these forms and documents from a local City in the area, and we will modify them to fit our City. The City Council will then approve of these documents.

Conclusion – Response accepted.

II-H-09 Payroll/IRS Issues– We noted instances in which the City failed to file IRS 1099-Misc. Forms as required.

The City Clerk, Mayor and City Council members are currently paid for their duties as independent contractors, instead of through payroll as employees.

It would appear that these individuals (City Clerk, Mayor, and City Council members) are employees instead of independent contractors, according to IRS and IPERS requirements.

City of Chillicothe

Schedule of Findings

Year ended June 30, 2009

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

In addition, in the future the City should ensure that the City Clerk, Mayor and City Council members are treated as employees and are paid through payroll, with all applicable taxes withheld. The City should also contact the IRS and IPERS to determine what they recommend in order to resolve prior years non-compliance issues.

Response – We will issue 1099-Misc. forms to all required individuals in the future. The City Clerk will be treated as an employee in the future. We do not agree that the Mayor and City Council members are employees for tax purposes.

Conclusion – Response accepted. However, the Iowa League of Cities indicates that the Mayor and City Council members are employees. Unless these people are treated as employees for tax purposes, the City could be in non-compliance with the IRS requirements. Furthermore, the IPERS handbook indicates that “for elected officials, covered wages are defined as salary received by an elected official...”

II-I-09 Compensation – Compensation paid to the Mayor and City Council members exceeds the compensation amount as documented in the City ordinance. Chapter 372.13 (8) requires the compensation of the Mayor and City Council members to be set by ordinance.

Currently, the Mayor is paid \$25 per City Council meeting, and the City Council members are paid \$20 per City Council meeting. The last City ordinance we located indicated that the Mayor should receive \$20 per month, and the City Council members should receive \$6 per City Council meeting, not to exceed \$125 per year.

The City Clerk’s salary was not documented as approved in the Council minutes, either by motion or through a salary resolution.

Recommendation – The City implement procedures to ensure the compensation paid to the Mayor and City Council members agree to the amounts documented in the City ordinance. In addition, the City should approve the City Clerk salary amount through a salary resolution.

Response – We will implement this recommendation to ensure the amount paid to the Mayor and City Council members agree to the City ordinance. The City Clerk’s salary will also be documented in a salary resolution.

Conclusion – Response accepted.

II-J-09 Legal Issues – It does not appear that the City Code of Ordinances have been compiled since sometime in the 1980’s. Chapter 380.8 of the Code of Iowa requires that ordinances be compiled at least once every five years.

City records (such as minutes, resolutions, ordinances, financial records, etc...) do not appear to be kept as required at City Hall. The Code of Iowa requires certain records (such as minutes) be kept permanently, and other records be kept for a certain period of time. Based on our review of records at City Hall, it does not appear that the City has kept some of records as required.

Recommendation – The City should compile the City Code of Ordinances as required by the Code of Iowa. In addition, the City needs to consult with their Attorney and/or the League of Cities to determine how long various records should be kept. The City then needs to implement procedures to ensure compliance with these requirements.

City of Chillicothe

Schedule of Findings

Year ended June 30, 2009

Response – We will ask around to determine who can codify our Code of Ordinances, and will attempt to codify our Code of Ordinances in the future. In addition, we will consult with other cities to determine how long certain records have to be kept. If records were not kept as required in the past, there is not much we can do about this now.

Conclusion – Response accepted.

- II-K-09 Notices – Chapter 362.3 of the Code of Iowa requires that public notices (such as budget notices, minutes and claims, ordinances, etc...) are required to be posted in three public places in the City which have been permanently designated by ordinance. We noted that the City has designated three public places in their ordinance; however, it appears the City has been posting the various public notices in only two public places.

Recommendation – The City implement procedures to ensure all public notices are posted in three public places that have been permanently designated by ordinance.

Response – This was an oversight on our part. We are now posting the public notices in three public places (City Hall, Post Office and Feed Store).

Conclusion – Response accepted.

- II-L-09 Accounting Issues – City policy requires that the Mayor and City Clerk sign all checks. However, in one instance, a check cleared the bank with only the City Clerk's signature on the check.

In some cases, instances were noted where invoices could not be located. In addition, weight tickets could not be located by the City for the purchase of rock and gravel used on city streets. During the fiscal year, the City paid several claims prior to the Council meetings, even though it appears that many of those claims could have been paid after Council approval at the Council meeting. The City does not appear to have a purchasing policy which documents when various purchases have to be bid.

The City does not have a current accounting manual. The accounting records maintained by the City are generally disorganized, incomplete, and scattered.

Recommendation – The City implement procedures to ensure all checks are signed by the Mayor and City Clerk. In addition, invoices should be obtained for all disbursements, and weight tickets should be obtained for all rock and gravel purchases prior to payment by the City. The City should implement an early payment policy, which documents the types of claims that can be paid prior to the City Council meeting. The City should also implement a purchasing policy which documents when purchases have to be bid, which should include a provision that all purchases over a pre-determined set dollar amount have to be bid.

The City should also develop a current accounting manual, and ensure the accounting records maintained by the City are organized, complete and accurate.

Response – All checks will be signed by the Mayor and City Clerk in the future. In the future, all invoices and weight tickets will be obtained. We will also implement a policy to determine the types of claims that can be paid prior to the Council meeting, and will consider a policy regarding bidding of purchases. In addition, we will consult with the Iowa League of Cities in relation to a current accounting manual.

Conclusion – Response accepted.

City of Chillicothe

Schedule of Findings

Year ended June 30, 2009

II-M-09 Sewer Debt – In the 1990’s, apparently the City “gave” their sewer system to Wapello Rural Water Association (WRWA). WRWA bills the customers for sewer service, and the customers directly pay WRWA for this service. However, as part of the agreement to transfer the sewer system from the City to WRWA, the City agreed to pay all future delinquent customer sewer bills. Based on documentation at City Hall, it appears that the City owes WRWA approximately \$3,500 as of June 30, 2009, for delinquent customer sewer bills. It appears that the City is liable to WRWA for these delinquencies, even if the City is unable to collect these delinquent amounts from the property owners (customers). Based on the financial condition of the General Fund, it is questionable as to whether the City has the resources to pay this liability.

Recommendation – The City analyze this situation and investigate all alternatives available to them, including how they can pay these delinquencies, or attempt to work with WRWA to resolve this issue.

Response – We will consult with our Attorney in relation to this and determine if there is anything we can do to resolve this situation.

Conclusion – Response accepted.

II-N-09 Reports – The City Clerk completes a Treasurer’s report each month. However, one instance was noted where the beginning balance for one month did not agree to the ending balance from the prior month, with no explanation given as to why these differences exist.

The City Clerk also completes a street finance report. However, the City Clerk was unable to explain how the ending balance of street funds as documented on this report agrees to the City’s accounting records.

The City Clerk also completes an annual financial report. Some disbursements on the annual financial report appear to be misclassified. It appears the annual financial report was not timely posted, as required by the Code of Iowa. In addition, the beginning and ending balances on the annual financial report appear to be incorrect on a fund by fund basis.

The beginning balances, ending balances, and amounts on the annual financial report, the street finance report, and the Treasurer’s reports are inconsistent and do not reconcile with each other. For example, the ending balances, on a fund by fund basis, on these three reports are all different by a material amount.

Recommendation – The City implement procedures to ensure all reports completed by the City are accurate, reconcile to the accounting records, and are timely posted, if required.

Response – We will implement this, and make adjustments to the July 1, 2009, amounts in order to ensure our fiscal year 2010 reports that we will file are accurate and agree to the accounting records.

Conclusion – Response accepted.

City of Chillicothe

Schedule of Findings

Year ended June 30, 2009

II-O-09 Oath of Office – While performing a subsequent review of the Council minutes, it was noted that the City Clerk and one City Council member never took an oath of office, as required by Chapter 63 of the Code of Iowa. The other four City Council members and the Mayor took the oath of office on April 12, 2010 through a signed notarized statement. However, the fact that the oath of office was given was never documented in the April 12, 2010 Council minutes. In addition, because the new term of office for the Mayor and the entire City Council members began on January 1, 2010, the oath of office was required to be administered by at least noon on Monday, January 4, 2010, according to the Iowa League of Cities. As a result, it is unclear if the official actions taken by the City from January 1, 2010 to April 12, 2010 are legal.

Recommendation – In the future, the City implement procedures to ensure that all individuals take the oath of office as required, the oath of office is given in a timely manner, and that this action is documented in the City Council minutes. In addition, the City should consult with legal counsel to determine the proper resolution of this matter.

Response – We will consult our Attorney in relation to this and determine what action can be taken at this time.

Conclusion – Response accepted.