

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

June 30, 2012

CITY OF CHARITON

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CITY OF CHARITON

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CITY OF CHARITON

OFFICIALS

June 30, 2012

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger D. Manser	Mayor	Dec, 2013
Raymond Meyer	Council Member	Dec, 2013
Dennis Bisgard	Council Member	Dec, 2013
Ruth Smith	Council Member	Dec, 2015
Vern Vogel	Council Member	Jul 1, 2011 - Dec 31, 2011
Michael W. Graves	Council Member	(Started 1-1-12) - Dec, 2015
Corey Goodenow	Manager	(Started 8-22-11) - Aug, 2013
Ruth Ryun	Clerk/Treasurer	Dec, 2012
Verle W. Norris	Attorney	Dec, 2012



MARTENS & COMPANY, CPA, LLP

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 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, 2012, which collectively comprise the City's basic financial statements 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 that our audit provides a reasonable basis for our opinions.

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

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 accounting principles generally accepted in the United States of America 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, respective cash basis financial position for the year ended as of June 30, 2012, and respective changes in cash basis financial position of the City of Chariton, in conformity with the basis of accounting described in Note 1. A separate audit report is issued by the respective component unit.

In our opinion, the primary government 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 of the primary government of the City of Chariton, as of June 30, 2012 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 October 30, 2012 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 on 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.

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise the City of Chariton's basic financial statements. The financial statements for the eight years ended June 30, 2011 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 6, 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 primary government financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the primary government financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

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. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 13 and 38 through 40 are presented for purposes of additional analysis and are not a required part of the primary government financial statements. This information has not been subjected to the auditing procedures applied in the audit of the primary government financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Martens & Company, CPA, LLP

West Des Moines, Iowa
October 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Chariton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The City's governmental activities' receipts increased 80%, or approximately \$2,552,000, from fiscal year 2011 (FY11). Bond proceeds increased approximately \$2,514,000 to account for most of this increase.
- Disbursements of the City's governmental activities increased 5.4%, or approximately \$151,000, from FY11. Community and Economic Development, Culture and Recreation and Debt Service disbursements increased approximately \$150,000, \$72,000 and \$166,000, respectively. Public Safety and Public Works decreased approximately \$115,000 and \$138,000, respectively.
- The City's total cash basis net assets at June 30, 2012 increased 93.1%, or approximately \$2,928,000, from June 30, 2011. Of this amount, the assets of the governmental activities increased approximately \$2,668,000 and the assets of the business type activities increased by approximately \$260,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government'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 the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness. 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 solid waste, sanitary sewer, storm water systems and the airport.. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. The government fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you 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 four Enterprise Funds to provide separate information which include the solid waste and sewer funds, 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.

Reconciliations between the government-wide financial 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 approximately \$2.72 million to approximately \$5.38 million. The analysis that follows focuses on the changes in cash balances.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	\$ 159	\$ 198
Operating grants, contributions and restricted interest	576	724
Capital grants, contributions and restricted interest	290	235
General receipts:		
Property tax	1,712	1,563
Other City taxes	407	366
Grants and contributions not restricted to specific purposes	19	-
Unrestricted investment earnings	2	52
Bond proceeds	2,514	-
Other general receipts	69	58
Total receipts	<u>5,748</u>	<u>3,196</u>
Disbursements:		
Public safety	588	703
Public works	593	731
Health and social services	5	8
Culture and recreation	631	559
Community and economic development	190	40
General government	369	349
Debt service	595	429
Capital projects	2	3
Total disbursements	<u>2,973</u>	<u>2,822</u>
Change in cash basis net assets before transfers	2,775	374
Transfers, net	<u>(108)</u>	<u>-</u>
Change in cash basis net assets	2,667	374
Cash basis net assets beginning of year	<u>2,717</u>	<u>2,343</u>
Cash basis net assets end of year	<u><u>\$5,384</u></u>	<u><u>\$2,717</u></u>

The City's total receipts for governmental activities increased by approximately 80 percent or \$2,552,000. The total cost of all programs and services increased by approximately \$151,000 or 5.4 percent with no new programs added this year. The increase in receipts was primarily due to an increase in general obligation bonds issued (\$2,514,000).

The City increased the property tax rates from \$17.48577 in fiscal year 2011 to \$18.56005 in fiscal year 2012. The City 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 increased by approximately 1.16% in fiscal year 2012 compared to fiscal year 2011. Based on the increases in the total assessed valuations, and increase in the levy, property tax receipts are budgeted to increase by approximately \$116,125 next year.

The cost of all governmental activities this year was approximately \$2.97 million compared to approximately \$2.82 million last year. However, as shown in the statement of activities and net assets on pages 16 and 17, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$1.95 million because some of the cost was paid by those directly benefited from the programs (approximately \$159,000) or by other governments and organizations that subsidized certain programs with grants and contributions (approximately \$866,000). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, decreased in 2012 from approximately \$1,158,000 to approximately \$1,025,000, principally due to a decrease in operating grants.

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

	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 667	\$ 565
Solid waste	24	52
Other	83	52
Capital grants, contributions and restricted interest	441	88
General receipts:		
Unrestricted interest on investments	1	3
Bond proceeds	-	429
Other general receipts	23	12
Total receipts	1,239	1,201
Disbursements:		
Sewer	899	1,039
Solid waste	17	15
Other	171	120
Total disbursements	1,087	1,174
Change in cash basis net assets, before transfers	152	27
Transfers, net	108	-
Change in cash basis net assets	260	27
Cash basis net assets beginning of year	429	402
Cash basis net assets end of year	\$ 689	\$ 429

Total business type activities receipts for the fiscal year were approximately \$1.239 million compared to approximately \$1.201 million last year. This increase was due primarily to increased fees collected for services. The cash balance increased by approximately \$260,000 from the prior year. Total disbursements for the fiscal year decreased by approximately 7.4 percent to a total of \$1.087 million partly because of decreased sewer maintenance costs.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Chariton completed the year, its governmental funds reported a combined fund balance of approximately \$5,399,000, an increase of approximately \$2,689,000 above last year's total of approximately \$2,710,000. The following are the major reasons for the changes in cash balances from the prior year for the City's major funds.

- The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance of the General Fund was \$792,694, an increase of approximately \$594,000 from the prior year. Most of this increase was due to new bond proceeds of \$400,000.
- The Special Revenue, Road Use Tax Return Fund cash balance increased \$54,232 to \$83,864. This increase was primarily attributable to a lighter than expected snow season. The City intends to use this money to upgrade the condition of all city roads.
- The Special Revenue, Local Option Sales Tax Fund increased \$72,603 to \$1,630,782. This increase was primarily attributable to annual revenues exceeding the operational requirements of the pool. These funds were to be used for related costs and debt associated with the swimming pool. Effective July 1, 2012 these funds will also be available for infrastructure improvements for the sanitary sewer, storm sewer, streets and parks.
- The Special Revenue, Employee Benefits Fund cash balance increased \$90,770 to \$91,561 at June 30, 2012. This increase was attributable to the need to develop adequate reserves and lower than expected benefit costs.
- The Debt Service Fund cash balance increased by \$1,936,531 to \$2,027,228. This increase was due to a new bond issue for the purpose of refunding the 2008 bond issues that will be callable on June 1, 2015. \$2,017,179 in advance funds are held in escrow until the bonds can be called.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The cash balance of the Enterprise, Sewer Fund increased by \$188,097 to \$317,102 due primarily to an increase in sewer rates, necessary to comply with the SRF bond requirements.

The cash balance of the Enterprise, Solid Waste Fund increased by \$7,126 to \$416,619 due primarily to the need to continue to develop reserves, to plan for a significant and unexpected costly improvement.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, the City amended its operating budget twice. The second amendment was approved on May 21, 2012 to provide for additional expenditures in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$620,500 less than budgeted. This was primarily due to the City receiving less in intergovernmental receipts than anticipated, even after the amendments.

Even with the budget amendments, total disbursements were \$1,195,093 less than the amended budget. The actual disbursements for the public safety, community and economic development and public works were \$63,976, \$93,263 and \$89,104, respectively, less than the amended budget. This was primarily due to expense reductions in both public safety and public works. Community and economic development was lower than the budgeted amount because the housing rehabilitation occurred in multiple fiscal years.

DEBT ADMINISTRATION

At year-end, the City had \$6,227,803 in bonds and other long-term debt compared to \$4,028,922 last year as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2012	2011
General obligation bonds	\$4,965	\$2,680
Revenue bonds	410	570
Sewer revenue (SRF)	749	779
Capital lease	104	-
Total	<u>\$6,228</u>	<u>\$4,029</u>

Debt increased as a result of three new bond issues.

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3.46 million is well below the City's \$7.5 million legal debt limit.

More detailed information about the City's long-term liabilities 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 2013 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 2013.

The City's 100% valuation has increased from \$139 million in 2006 to \$151 million in 2012. The taxable value increased from \$81 million in 2006 to \$91 million in 2012. The 100% valuation and the taxable valuation for 2013 will remain at essentially the same levels as 2013.

The city valuations are tied to agriculture through the residential rollback. A property owner pays taxes on approximately 50.75% of the 100% assessed value of the property.

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 year 2013, all departments funded from the General Fund are required to review their department budgets and to either cut disbursements, or offset costs through higher receipts through fines, fees, or costs for services.

The City's expected property tax receipts for fiscal year 2013 is \$1,731,233, as compared to fiscal year 2012 actual tax receipts of \$1,626,475, an increase of \$104,758.

The City's budgeted total revenues for fiscal year 2013 are \$4,845,972 as opposed to fiscal year 2012 actual revenues of \$4,460,306, an increase of \$385,666.

The City's expected disbursements for fiscal year 2013 is \$4,729,703, as opposed to fiscal 2012 year actual disbursements of \$4,038,383.

The City is reviewing the budget to reduce deficits.

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.

City of Chariton

Basic Financial Statements

CITY OF CHARITON

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts		
		Charges for Service and Sales	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 588,105	\$ 1,065	\$ 50,129	\$ -
Public works	592,508	38,156	420,562	116,606
Health and social services	4,700	-	-	-
Culture and recreation	631,284	105,571	99,339	-
Community and economic development	190,438	6,481	6,200	173,210
General government	369,028	7,482	-	-
Debt service	594,882	-	-	-
Capital projects	1,725	-	-	-
Total governmental activities	<u>2,972,670</u>	<u>158,755</u>	<u>576,230</u>	<u>289,816</u>
Business type activities:				
Sewer	899,309	667,417	-	355,729
Solid waste	16,907	23,565	-	-
Airport	164,761	68,581	-	85,027
Storm water	6,497	14,724	-	-
Total business type activities	<u>1,087,474</u>	<u>774,287</u>	<u>-</u>	<u>440,756</u>
Total	<u>\$4,060,144</u>	<u>\$933,042</u>	<u>\$576,230</u>	<u>\$730,572</u>

General receipts and transfers:

Property and other city tax levied for:

General purposes

Debt service

Local option sales tax

Hotel motel tax

Grants and contributions not restricted to specific purposes

Unrestricted interest on investments

Bond proceeds

Miscellaneous

Sale of capital assets

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets, beginning of year

Cash basis net assets, end of year

Cash Basis Net Assets

Restricted:

Nonexpendable:

Cemetery perpetual care

Expendable:

Streets

Debt service

Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (536,911)	\$ -	\$ (536,911)
(17,184)	-	(17,184)
(4,700)	-	(4,700)
(426,374)	-	(426,374)
(4,547)	-	(4,547)
(361,546)	-	(361,546)
(594,882)	-	(594,882)
(1,725)	-	(1,725)
(1,947,869)	-	(1,947,869)
-	123,837	123,837
-	6,658	6,658
-	(11,153)	(11,153)
-	8,227	8,227
-	127,569	127,569
(1,947,869)	127,569	(1,820,300)
1,421,407	-	1,421,407
290,151	-	290,151
374,457	-	374,457
32,777	-	32,777
19,493	-	19,493
1,646	500	2,146
2,513,529	-	2,513,529
56,176	23,954	80,130
13,873	-	13,873
(108,024)	108,024	-
4,615,485	132,478	4,747,963
2,667,616	260,047	2,927,663
2,716,812	429,293	3,146,105
\$5,384,428	\$689,340	\$6,073,768
\$ 210,043	\$ -	\$ 210,043
83,864	-	83,864
2,027,228	-	2,027,228
2,294,539	-	2,294,539
768,754	689,340	1,458,094
\$5,384,428	\$689,340	\$6,073,768

CITY OF CHARITON

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

As of and for the year ended June 30, 2012

	Special Revenue		
	General	Local Option Sales Tax	Road Use Tax
Receipts:			
Property tax	\$873,362	\$ -	\$ -
Other City tax	90,904	374,457	-
Licenses and permits	12,844	-	-
Use of money and property	14,790	1,082	-
Intergovernmental	210,124	-	409,852
Charges for service	145,342	-	-
Miscellaneous	108,937	-	-
Total receipts	<u>1,456,303</u>	<u>375,539</u>	<u>409,852</u>
Disbursements:			
Operating:			
Public safety	446,242	-	-
Public works	107,361	-	355,620
Health and social services	4,700	-	-
Culture and recreation	544,558	3,030	-
Community and economic development	21,765	-	-
General government	289,433	-	-
Debt service	-	176,175	-
Capital projects	1,725	-	-
Total disbursements	<u>1,415,784</u>	<u>179,205</u>	<u>355,620</u>
Excess (deficiency) of receipts over (under) disbursements	<u>40,519</u>	<u>196,334</u>	<u>54,232</u>
Other financing sources (uses):			
Bond proceeds	450,000	-	-
Bond premiums	943	-	-
Sale of capital assets	13,873	-	-
Operating transfers in	148,617	-	-
Operating transfers out	(60,000)	(123,731)	-
Total other financing sources (uses)	<u>553,433</u>	<u>(123,731)</u>	<u>-</u>
Net change in cash balances	593,952	72,603	54,232
Cash balances, beginning of year	<u>198,742</u>	<u>1,558,179</u>	<u>29,632</u>
Cash balances, end of year	<u>\$792,694</u>	<u>\$1,630,782</u>	<u>\$ 83,864</u>
Cash Basis Fund Balances			
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -
Restricted for:			
Debt service	-	-	-
Streets	-	-	83,864
Other purposes	-	1,630,782	-
Unassigned	<u>792,694</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$792,694</u>	<u>\$1,630,782</u>	<u>\$ 83,864</u>

See notes to financial statements.

Employee Benefit Tax	Debt Service	Nonmajor	Total
\$472,988	\$ 280,125	\$ -	\$1,626,475
16,929	10,026	-	492,316
-	-	-	12,844
-	1,646	153	17,671
-	-	174,785	794,761
-	-	-	145,342
14,126	856	7,581	131,500
504,043	292,653	182,519	3,220,909
140,976	-	-	587,218
127,824	-	-	590,805
-	-	-	4,700
82,956	-	358	630,902
-	-	168,672	190,437
61,517	-	-	350,950
-	418,707	-	594,882
-	-	-	1,725
413,273	418,707	169,030	2,951,619
90,770	(126,054)	13,489	269,290
-	2,020,000	-	2,470,000
-	42,585	-	43,528
-	-	-	13,873
-	-	-	148,617
-	-	(73,000)	(256,731)
-	2,062,585	(73,000)	2,419,287
90,770	1,936,531	(59,511)	2,688,577
791	90,697	832,076	2,710,117
\$ 91,561	\$2,027,228	\$ 772,565	\$5,398,694
\$ -	\$ -	\$ 210,043	\$ 210,043
-	2,027,228	-	2,027,228
-	-	-	83,864
91,561	-	572,196	2,294,539
-	-	(9,674)	783,020
\$ 91,561	\$2,027,228	\$ 772,565	\$5,398,694

CITY OF CHARITON

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, 2012

Total governmental funds cash balances (pages 18 - 19) \$ 5,398,694

*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 partial self funding 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 Activities and Net Assets. (14,266)

Cash basis net assets of governmental activities (pages 16 -17) \$ 5,384,428

Net change in cash balances (pages 18 - 19) \$ 2,688,577

*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 on net assets of the Internal Service Fund is reported with governmental activities. (20,961)

Change in cash basis net assets of governmental activities (pages 16 - 17) \$ 2,667,616

See notes to financial statements.

CITY OF CHARITON

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

As of and for the year ended June 30, 2012

	Enterprise Funds				Internal Service Fund
	Sewer	Solid Waste	Nonmajor	Total	Central Fuel
Operating receipts:					
Use of money and property	\$ -	\$ -	\$ 32,035	\$ 32,035	\$ -
Charges for service	667,416	23,565	51,270	742,251	275,912
Total operating receipts	667,416	23,565	83,305	774,286	275,912
Operating disbursements:					
Governmental activities					
Public safety	-	-	-	-	12,226
Public works	-	-	-	-	23,475
Culture and recreation	-	-	-	-	5,259
General government	-	-	-	-	249,176
Business type activities	545,046	16,907	95,717	657,670	9,796
Total operating disbursements	545,046	16,907	95,717	657,670	299,932
Excess (deficiency) of operating receipts over (under) operating disbursements	122,370	6,658	(12,412)	116,616	(24,020)
Non-operating receipts (disbursements):					
Interest on investments	56	444	-	500	-
Intergovernmental	355,729	-	85,027	440,756	-
Miscellaneous	15,541	-	8,414	23,955	2,258
Debt service	(56,351)	-	-	(56,351)	-
Capital projects	(297,248)	-	(75,495)	(372,743)	-
Net non-operating receipts	17,727	444	17,946	36,117	2,258
Excess (deficiency) of receipts over (under) disbursements	140,097	7,102	5,534	152,733	(21,762)
Other financing sources (uses)					
Operating transfers in	73,000	24	60,000	133,024	90
Operating transfers out	(25,000)	-	-	(25,000)	-
Total other financing sources	48,000	24	60,000	108,024	90
Net change in cash balances	188,097	7,126	65,534	260,757	(21,672)
Cash balances beginning of year	129,005	409,493	(109,426)	429,072	6,917
Cash balances end of year	\$ 317,102	\$ 416,619	\$ (43,892)	\$ 689,829	\$(14,755)
Cash Basis Fund Balances					
Unrestricted	\$ 317,102	\$ 416,619	\$ (43,892)	\$ 689,829	\$(14,755)
Total cash basis fund balances	\$ 317,102	\$ 416,619	\$ (43,892)	\$ 689,829	\$(14,755)

See notes to financial statements.

CITY OF CHARITON

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, 2012

Total enterprise funds cash balances (page 21) \$ 689,829

*Amounts reported for business type activities in the statement of activities
and net assets are different because:*

The Internal Service Fund is used by management to charge the costs of the Central Fuel Facility to individual funds. A portion of assets of the Internal Service Fund are included in the business type activities in the statement of net assets.

(489)

Cash basis net assets of business type activities (page 16-17) \$ 689,340

Net changes in cash balances (page 21) \$ 260,757

*Amounts reported for business type activities in the statement of activities
and net assets are different because:*

The Internal Service Fund is used by management to charge the costs of the Central Fuel Facility to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with business type activities.

(710)

Change in cash basis net assets of business type activities (page 16-17) \$ 260,047

See notes to financial statements.

CITY OF CHARITON

Notes to Financial Statements

June 30, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Chariton is a political subdivision of the State of Iowa located in Lucas County. It was first incorporated in 1857 and 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, health and social services, culture and recreation, community and economic development and general government services. The City also provides solid waste, sewer and storm water utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Chariton has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

The financial statements present only the City of Chariton, Iowa (the primary government). The financial statements do not include a component unit of the City. The entity discussed below is a component unit of the City because of the significance of its operational or financial relationship with the City. Complete financial statements of the individual component unit, which issues separate audited financial statements, can be obtained from the respective administrative offices.

The Municipal Waterworks Utility is a separate legal entity. However, it is financially accountable to the City. The Utility is governed by a three-member board appointed by the Mayor and subject to approval by the City Council and its operating budget is subject to the approval of the City Council. The Municipal Waterworks issues separate audited cash basis financial statements with a fiscal year-end of June 30, which are available at their administrative office.

Jointly Governed Organization

The City also participates in several jointly governed organization that provides goods or services to the citizenry of the City but does 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 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.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 the 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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable 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 that are 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 and proprietary funds are aggregated and reported as nonmajor governmental and proprietary funds, respectively.

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 not paid from other funds.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Continued

Special Revenue:

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the local option sales tax collections to be used for the related costs and debt associated with the Swimming Pool. Effective July 1, 2012 these funds can be used for infrastructure improvements including street, sanitary sewer, storm sewer and park improvements.

The Employee Benefits Fund is used to account for property tax and other receipts to be used for the costs associated with providing employee benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

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

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

The City also reports the following additional funds:

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. This is composed of the Central Fuel Facility.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus and 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.

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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

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.

Enterprise funds apply all applicable GASB pronouncements as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principle Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 which do not conflict with or contradict GASB pronouncements and which apply to the comprehensive basis of accounting used.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the debt service function.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Property Taxes

All City property taxes must be certified to the Lucas County Auditors on or before the fifteenth day of March of each year for the upcoming fiscal year which runs from July 1 to June 30. Property taxes are levied in June and attached as an enforceable lien on the property on July 1.

Property taxes levied for the year ending June 30, 2012, attached as an enforceable lien on July 1, 2011, with the first half installment being delinquent after September 30, 2011 and the second half installment being delinquent after March 31, 2012.

(2) CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2012, 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, 2012, the City had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Corporate preferred stock	<u>\$1,400</u>	<u>\$1,400</u>

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

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

(3) BONDS AND NOTES PAYABLE

The following is a summary of the changes in the outstanding long-term debt of the City for the year ended June 30, 2012.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2012

(3) BONDS AND NOTES PAYABLE - CONTINUED

	Balance June 30, 2011	Issued	Redeemed	Balance June 30, 2012
Governmental Activities				
General obligation bonds and notes	\$ 2,679,922	\$ 2,470,000	\$ 184,986	\$ 4,964,936
Capital lease	-	173,212	69,345	103,867
Local option sales and service revenue bond	570,000	-	160,000	410,000
	<u>\$ 3,249,922</u>	<u>\$ 2,643,212</u>	<u>\$ 414,331</u>	<u>\$ 5,478,803</u>
Business Type Activities				
Sewer revenue bonds	\$ 779,000	\$ -	\$ 30,000	\$ 749,000

Annual debt service requirements to maturity for general obligation bonds and notes, local option sales and services tax revenue refunding bonds, and sewer revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Local Option Sales and Services Tax Revenue Refunding Bonds		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 185,000	\$ 148,140	\$ 160,000	\$ 11,915	\$ 31,000	\$ 22,470	\$ 376,000	\$ 182,525
2014	279,936	143,182	165,000	7,755	32,000	21,540	476,936	172,477
2015	2,205,000	134,770	85,000	2,805	33,000	20,580	2,323,000	158,155
2016	325,000	43,450	-	-	34,000	19,590	359,000	63,040
2017	330,000	39,400	-	-	36,000	18,570	366,000	57,970
2018-2022	1,370,000	106,400	-	-	196,000	76,050	1,566,000	182,450
2023-2027	270,000	5,400	-	-	230,000	44,670	500,000	50,070
2028-2030	-	-	-	-	157,000	9,510	157,000	9,510
Total	<u>\$4,964,936</u>	<u>\$ 620,742</u>	<u>\$ 410,000</u>	<u>\$ 22,475</u>	<u>\$749,000</u>	<u>\$232,980</u>	<u>\$6,123,936</u>	<u>\$ 876,197</u>

The City paid \$154,202 in interest on debt obligations for the year ended June 30, 2012. Total principal paid on debt for the year ended June 30, 2012 was \$444,331. Interest rates on debts range from 1.00% to 4.93%. Bonds to be called per crossover refunding, detailed below, are reported as maturing in the year they will be recalled in the above maturity schedule.

Local Option Sales and Services Tax Revenue Refunding Bonds - The City has pledged future local option sales tax receipts, net of specified operating disbursements, to repay \$890,000 in local option sales and services tax revenue bonds issued in November 2009. Proceeds from the bonds provided financing for refunding a 1999 bond issue. This 1999 bond issue 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 53 percent of local option sales tax receipts. This total principal and interest remaining to be paid on the bonds is \$432,475. For the current year, principal and interest paid and total local option sales tax receipts were \$175,675 and \$374,457, 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.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2012

(3) BONDS AND NOTES PAYABLE - CONTINUED

The resolution providing for the issuance of the local option sales and services tax revenue refunding 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) \$89,000 shall be paid into a Swimming Pool Reserve Fund from the loan proceeds.

Sewer Revenue Bonds (Series 2009-A) - On January 13, 2010, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (trustee) for the issuance of \$808,000 of wastewater revenue bonds with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal wastewater system. The funds were drawn down by the City from the Trustee upon request to reimburse the City for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the wastewater revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld in fiscal year 2010 by the bank from the first proceeds of the wastewater revenue bonds drawn down by the City.

The City has pledged future customer wastewater customer receipts, net of specified operating disbursements, to repay \$808,000 in wastewater revenue bonds issued in 2010. The bonds are payable solely from wastewater customer net receipts and are payable through 2030. Annual principal and interest payment on the bonds are expected to require more than 100 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$981,900. For the current year, principal and interest paid and total customer net receipts were \$53,370 and \$122,370, respectively.

The resolutions providing for the issuance of the wastewater revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the City and the bond holders hold a lien on the future earnings of the funds.
- (b) The City shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2012

(3) BONDS AND NOTES PAYABLE - CONTINUED

- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a wastewater revenue bond and interest sinking account. Monies in this fund are to used solely for the purpose of paying principal and interest on the bonds.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted account noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

Capital Lease

The City is leasing a street sweeper under a capital lease. The balance of the lease is \$103,867 as of June 30, 2012. Annual payments are \$36,713 each year, including interest at 2.99 percent. The lease is collateralized by the street sweeper.

As of June 30, 2012, the present value of future minimum capital lease payments are as follows:

June 30, 2013	\$ 36,713
June 30, 2014	36,713
June 30, 2015	<u>36,713</u>
Total minimum lease payments	110,139
Less amount representing interest	<u>6,272</u>
Presenting value of net minimum capital lease payments	<u><u>\$ 103,867</u></u>

Crossover Refundings

On June 28, 2012, the City issued \$2.02 million in general obligation refunding bonds with interest rates ranging between 1.00% and 2.00%. The City issued the bonds for a crossover refunding of \$1,920,000 of the essential corporate purpose 2008 bonds with interest rates ranging between 3.40% and 4.50%. The City used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for future debt service on the refunded portion of these bonds at their callable dates. The 2008 bond issue will be recalled on June 1, 2015. The refunding will reduce total debt service payments over the next 11 years by approximately \$114,800. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$103,100.

(4) OPERATING LEASE AGREEMENTS

The City is leasing a copy machine for \$195 per month plus usage charges. Future required payments consist of the following:

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2012

(4) OPERATING LEASE AGREEMENTS - CONTINUED

2013	\$	2,340
2014		2,340
2015		2,340
2016		1,560

Total rent expense during the fiscal year on this agreement was \$2,340.

(5) IPERS

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 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Employees in the protection occupations contribute 6.65% of their annual covered salary and the City is required to contribute 9.97% 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, 2012, 2011 and 2010 were \$83,049, \$75,126, and \$74,311, respectively, equal to the required contributions for each year.

(6) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 17 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Health Care. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$574 for single coverage, \$1,173 for employee/spouse coverage, \$1,096 for employee/children coverage, and \$1,698 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012 the City contributed \$269,382 and plan members eligible for benefits contributed \$48,220 to the plan.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2012

(6) OTHER POSTEMPLOYMENT BENEFITS (OPEB)- CONTINUED

The City has entered into an agreement with the City Manager which formally identifies the financial obligation of the City to them in the event of an involuntary employment termination. The severance agreement provides for a termination payment equal to two months of wages plus two months of all benefits. The compensation rate is based upon the compensation paid to the applicable employee at the time of termination.

(7) COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation, overtime, holiday and sick 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, overtime, holiday and sick leave termination payments payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation, overtime and holiday	\$ 80,739
Sick leave	<u>158,833</u>
Total	<u>\$239,572</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(8) DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with the provisions of Internal Revenue Code Section 457. The plan, available to the police department and the City Manager, allows those 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. The City provides neither administrative service to the plan nor investment advice for the plan.

Plan contributions for the year by the City ended June 30, 2012 were \$17,214, and for the year ended June 30, 2011 were \$24,488.

(9) INTERFUND TRANSFERS AND LOANS

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2012

(9) INTERFUND TRANSFERS - CONTINUED

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 123,617
	Enterprise:	
	Sewer	<u>25,000</u>
		148,617
Enterprise:	Special Revenue:	
Sewer	Library Endowment	73,000
Enterprise:	Special Revenue:	
Solid Waste	Local Option Sales Tax	24
Enterprise:	General	60,000
Airport		
Internal Service	Special Revenue:	
	Local Option Sales Tax	<u>90</u>
Total		<u>\$ 281,731</u>

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

On June 4, 2012, the City approved a loan from the Library Endowment Fund to the Sewer Fund for \$73,000. The purpose of the loan is to make improvements to the City's sanitary sewer. The loan is to be repaid in semi annual payments of \$7,604.50 including interest at one and one half percent (1.5%) per annum. Balance of the loan at June 30, 2012 is \$73,000.

(10) 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.

(11) DEFICIT FUND BALANCES

At June 30, 2012, the City had deficit balances as follows:

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2012

(11) DEFICIT FUND BALANCES - CONTINUED

<u>Fund</u>	<u>Amount</u>
Enterprise, Airport Fund	\$ 52,310
Special Revenue, Donations Fund	9,674
Internal Service, Central Fuel Facility	14,755

The Enterprise, Airport Fund deficit occurred because the City is unable to generate sufficient income from the airport operation to operate the airport. The City has no plans to eliminate this deficit.

The Special Revenue, Donations Fund deficit occurred because some receipts promised to the City were not received by the City. This deficit should be eliminated through subsequent donations received, and transfers from the General Fund.

The Internal Service, Central Fuel Facility deficit occurred because costs exceeded amounts charged back to funds. This deficit should be eliminated through subsequent transfers from General and Enterprise Funds.

(12) 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 is generally conditional upon compliance with the terms and conditions of grants 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.

(13) COMMITMENTS

The City has construction commitments to be financed from grant funds. The total outstanding construction commitments of the City as of June 30, 2012 is approximately \$120,000.

Through a consent agreement with the Environmental Protection Agency (EPA), the City was obligated to pay the EPA \$15,150 over two fiscal years. The amount and payment dates are based on an agreement negotiated between the City and the EPA. At June 30, 2012 the City owed \$5,050 on the agreement.

(14) RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$3,641 during the year ended June 30, 2012.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2012

(15) SUBSEQUENT EVENTS

The City has evaluated subsequent events through October 30, 2012, which is the date that the financial statements were available to be issued.

(16) FUND BALANCE

The City has assigned fund balances in the general fund of \$805,187, which exceeds the \$792,694 available to be assigned. As of June 30, 2012 this consists of funds assigned for the library, cemetery, park recycling and other purposes. The City is unable to determine how much of the \$792,694 available assigned fund balance should be allocated to the various programs. The Governmental Accounting Standards Board indicates that a city should not report assigned fund balances if the assignment would result in a deficit in the unassigned fund balance in the general fund, therefore, all general funds are considered as unassigned.

(17) ACCOUNTING CHANGE/RESTATEMENT

The prior year's financial statement included a fiduciary fund financial statement for a deferred compensation plan in accordance with the provisions of Internal Revenue Code Section 457 (see Note 8). The funds are administered by a nongovernmental third party and the plan administrator invests plan assets at the direction of the plan's participants. Therefore, the plan is not reported by the government in these financial statements in accordance with GASB No 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.

City of Chariton

Other 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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total
Receipts:				
Property tax	\$ 1,626,475	\$ -	\$ -	\$ 1,626,475
Other city tax	492,316	-	-	492,316
Licenses and permits	12,844	-	-	12,844
Uses of money and property	17,671	32,535	-	50,206
Intergovernmental	794,761	440,756	-	1,235,517
Charges for service	145,342	1,018,163	275,912	887,593
Miscellaneous	131,500	26,213	2,258	155,455
Total receipts	<u>3,220,909</u>	<u>1,517,667</u>	<u>278,170</u>	<u>4,460,406</u>
Disbursements:				
Public safety	587,218	12,226	12,226	587,218
Public works	590,805	23,475	23,475	590,805
Health and social services	4,700	-	-	4,700
Culture and recreation	630,902	5,259	5,259	630,902
Community and economic development	190,437	-	-	190,437
General government	350,950	249,176	249,176	350,950
Debt service	594,882	-	-	594,882
Capital projects	1,725	-	-	1,725
Business type activities	-	1,096,560	9,796	1,086,764
Total disbursements	<u>2,951,619</u>	<u>1,386,696</u>	<u>299,932</u>	<u>4,038,383</u>
Excess (deficiency) of receipts over (under) disbursements	269,290	130,971	(21,762)	422,023
Other financing sources (uses), net	<u>2,419,287</u>	<u>108,114</u>	<u>90</u>	<u>2,527,311</u>
Excess (deficiency) of receipts over (under) disbursements and other financing uses	2,688,577	239,085	(21,672)	2,949,334
Balances beginning of year	<u>2,710,117</u>	<u>435,989</u>	<u>6,917</u>	<u>3,139,189</u>
Balances end of year	<u>\$ 5,398,694</u>	<u>\$ 675,074</u>	<u>\$ (14,755)</u>	<u>\$ 6,088,523</u>

See accompanying independent auditor's report.

Budgeted Amounts				Final to
Original	Final	Adjustment (1) See page 40	Adjusted Final	Actual variance- Positive (Negative)
\$ 1,633,737	\$ 1,633,737	\$ -	\$ 1,633,737	\$ (7,262)
443,329	443,329	-	443,329	48,987
10,480	10,480	-	10,480	2,364
46,995	46,995	-	46,995	3,211
1,533,815	1,758,515	-	1,758,515	(522,998)
2,932,850	2,932,850	2,161,500	771,350	116,243
401,500	416,500	-	416,500	(261,045)
7,002,706	7,242,406	2,161,500	5,080,906	(620,500)
651,194	651,194	-	651,194	63,976
679,909	679,909	-	679,909	89,104
5,200	5,200	-	5,200	500
653,487	668,487	-	668,487	37,585
40,000	283,700	-	283,700	93,263
362,261	373,261	-	373,261	22,311
466,868	548,868	-	548,868	(46,014)
-	2,000	-	2,000	275
4,182,357	4,182,357	2,161,500	2,020,857	934,093
7,041,276	7,394,976	2,161,500	5,233,476	1,195,093
(38,570)	(152,570)	-	(152,570)	574,593
-	-	-	-	2,527,311
(38,570)	(152,570)	-	(152,570)	3,101,904
3,626,147	4,705,074	-	4,705,074	(1,565,885)
<u>\$ 3,587,577</u>	<u>\$ 4,552,504</u>	<u>\$ -</u>	<u>\$ 4,552,504</u>	<u>\$ 1,536,019</u>

CITY OF CHARITON

Notes To Other Information - Budgetary Reporting

June 30, 2012

The budgetary comparison schedule is presented 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, special revenue funds, debt service fund, capital project funds, the permanent fund and 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, two budget amendments increased budgeted disbursements by \$353,700. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the Debt Service function.

- (1) Budgeted items for component unit of the Municipal Waterworks Utility are removed because related actual receipts and disbursements are not included, see Note 1.

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, 2012

	Revolving Loan Fund	Section 8 Housing	CDBG Housing	Special Donations
Receipts:				
Use of money and property	\$ 75	\$ 71	\$ -	\$ -
Intergovernmental	-	-	173,210	-
Miscellaneous	-	-	2,379	-
Total receipts	<u>75</u>	<u>71</u>	<u>175,589</u>	
Disbursements:				
Operating:				
Culture and recreation	-	-	-	-
Community and economic development	-	-	168,672	-
Total disbursements	<u>-</u>	<u>-</u>	<u>168,672</u>	<u>-</u>
Excess of receipts over (under) disbursements	75	71	6,917	-
Other financing sources (uses):				
Operating transfers (out)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	75	71	6,917	-
Cash balances beginning of year	<u>128,736</u>	<u>88,304</u>	<u>14,823</u>	<u>(9,674)</u>
Cash balances end of year	<u>\$ 128,811</u>	<u>\$ 88,375</u>	<u>\$ 21,740</u>	<u>\$ (9,674)</u>
Cash Basis Fund Balances				
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -
Restricted for:				
Other purposes	128,811	88,375	21,740	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,674)</u>
Total cash basis fund balances	<u>\$ 128,811</u>	<u>\$ 88,375</u>	<u>\$ 21,740</u>	<u>\$ (9,674)</u>

See accompanying independent auditor's report.

<u>Revenue</u>					<u>Permanent Cemetery Perpetual Care</u>	
Library Endowment	Historic Preservation	Special Assessment	Fire Department			Total
\$ -	\$ 7	\$ -	\$ -	\$ -		\$ 153
-	1,575	-	-	-		174,785
-	-	-	-	5,202		7,581
-	1,582	-	-	5,202		182,519
-	358	-	-	-		358
-	-	-	-	-		168,672
-	358	-	-	-		169,030
-	1,224	-	-	5,202		13,489
(73,000)	-	-	-	-		(73,000)
(73,000)	-	-	-	-		(73,000)
(73,000)	1,224	-	-	5,202		(59,511)
113,213	3,915	3,732	284,186	204,841		832,076
\$ 40,213	\$ 5,139	\$ 3,732	\$ 284,186	\$ 210,043		\$ 772,565
\$ -	\$ -	\$ -	\$ -	\$ 210,043		\$ 210,043
40,213	5,139	3,732	284,186	-		572,196
-	-	-	-	-		(9,674)
\$ 40,213	\$ 5,139	\$ 3,732	\$ 284,186	\$ 210,043		\$ 772,565

City of Chariton

CITY OF CHARITON

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

As of and for the year ended June 30, 2012

	Enterprise Funds		
	Storm Water	Airport	Total
Operating receipts:			
Use of money and property	\$ -	\$ 32,035	\$ 32,035
Charges for service	14,724	36,546	51,270
Total operating receipts	14,724	68,581	83,305
Operating disbursements:			
Business type activities	6,497	89,220	95,717
Total operating disbursements	6,497	89,220	95,717
Excess (deficiency) of operating receipts over (under) operating disbursements	8,227	(20,639)	(12,412)
Non-operating receipts (disbursements):			
Intergovernmental	-	85,027	85,027
Miscellaneous	191	8,223	8,414
Capital projects	-	(75,495)	(75,495)
Net non-operating receipts	191	17,755	17,946
Excess (deficiency) of receipts over (under) disbursements	8,418	(2,884)	5,534
Other financing sources:			
Operating transfers in	-	60,000	60,000
Total other financing sources	-	60,000	60,000
Net change in cash balances	8,418	57,116	65,534
Cash balances beginning of year	- (109,426)	(109,426)	
Cash balances end of year	\$ 8,418	\$ (52,310)	\$ (43,892)
Cash Basis Fund Balances			
Unrestricted	8,418	(52,310)	(43,892)
Total cash basis fund balances	\$ 8,418	\$ (52,310)	\$ (43,892)

See accompanying independent auditor's report.

CITY OF CHARITON

Schedule of Indebtedness

Year ended June 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds/Notes:			
Economic Development Note	Jun 1, 2004	4.93%	\$ 20,000
Corporate Purpose and Refunding	Sep 15, 2008	3.60-3.90%	2,800,000
Corporate Purpose and Refunding	Jun 28, 2012	1.00-2.00%	2,070,000
Corporate Purpose	Jun 15, 2012	1.25-2.00%	400,000
Revenue Bonds:			
Local Option Sales and Services	Nov 1, 2009	2.60-3.30%	\$ 890,000
Sewer Revenue:			
Sewer Revenue Bonds	Jan 13, 2010	3.00%	\$ 808,000
Capital Lease:			
Key Government Finance	Jun 1, 2011	2.99%	\$ 173,212

(1) \$2,017,179 being held in escrow to recall bonds on June 1, 2015

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 19,922	\$ -	\$ 9,986	\$ 9,936	\$ 1,301	\$ -
2,660,000	-	175,000	2,485,000 (1)	109,775	-
-	2,070,000	-	2,070,000	-	-
-	400,000	-	400,000	-	-
<u>\$ 2,679,922</u>	<u>\$ 2,470,000</u>	<u>\$ 184,986</u>	<u>\$ 4,964,936</u>	<u>\$ 111,076</u>	<u>\$ -</u>
<u>\$ 570,000</u>	<u>\$ -</u>	<u>\$ 160,000</u>	<u>\$ 410,000</u>	<u>\$ 15,675</u>	<u>\$ -</u>
<u>\$ 779,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 749,000</u>	<u>\$ 23,370</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 173,212</u>	<u>\$ 69,345</u>	<u>\$ 103,867</u>	<u>\$ 4,081</u>	<u>\$ -</u>

CITY OF CHARITON

Schedule of Bond and Note Maturities

June 30, 2012

Year Ending June 30,	General Obligation Bonds and Notes					
	Economic Development Note		Corporate Purpose and Refunding (1)		Corporate Purpose and Refunding	
	Issued June 1, 2004		Issued September 15, 2008		Issued June 28, 2012	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2013	4.93%	\$ 5,000	3.60%	\$ 180,000	- %	\$ -
2014	4.93	4,936	3.75	190,000	1.00	10,000
2015	-	-	3.90	2,115,000	1.00	10,000
2016	-	-	-	-	1.00	245,000
2017	-	-	-	-	2.00	250,000
2018	-	-	-	-	2.00	255,000
2019	-	-	-	-	2.00	250,000
2020	-	-	-	-	2.00	255,000
2021	-	-	-	-	2.00	260,000
2022	-	-	-	-	2.00	265,000
2023	-	-	-	-	2.00	270,000
Total		<u>\$ 9,936</u>		<u>\$ 2,485,000</u>		<u>\$ 2,070,000</u>

Year Ending June 30,	Revenue Bonds		Sewer Revenue Bonds	
	Local Option Sales and Services Tax Revenue Refunding Bonds		Sewer Revenue Bonds	
	Issued November 1, 2009		Issued January 13, 2010	
	Interest Rates	Amount	Interest Rates	Amount
2013	2.60%	\$ 160,000	3.00%	\$ 31,000
2014	3.00	165,000	3.00	32,000
2015	3.30	85,000	3.00	33,000
2016	-	-	3.00	34,000
2017	-	-	3.00	36,000
2018	-	-	3.00	37,000
2019	-	-	3.00	38,000
2020	-	-	3.00	39,000
2021	-	-	3.00	40,000
2022	-	-	3.00	42,000
2023	-	-	3.00	43,000
2024	-	-	3.00	45,000
2025	-	-	3.00	46,000
2026	-	-	3.00	47,000
2027	-	-	3.00	49,000
2028	-	-	3.00	51,000
2029	-	-	3.00	52,000
2030	-	-	3.00	54,000
Total		<u>\$ 410,000</u>		<u>\$ 749,000</u>

See accompanying independent auditor's report.

Corporate Purpose		
Issued June 15, 2012		
Interest Rates	Amount	Total
- %	\$ -	\$ 185,000
1.25	75,000	279,936
1.25	80,000	2,205,000
2.00	80,000	325,000
2.00	80,000	330,000
2.00	85,000	340,000
-	-	250,000
-	-	255,000
-	-	260,000
-	-	265,000
-	-	270,000
	<u>\$ 400,000</u>	<u>\$ 4,964,936</u>

CITY OF CHARITON

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

For the Years Ended June 30,

	2012	2011	2010	2009
Receipts:				
Property tax	\$ 1,626,475	\$ 1,536,340	\$ 1,527,995	\$ 1,449,823
Tax increment financing collections	-	-	-	-
Other city tax	492,316	426,972	392,880	348,465
Licenses and permits	12,844	11,893	11,543	8,351
Use of money and property	17,671	42,337	56,569	81,874
Intergovernmental	794,761	707,313	720,783	1,419,371
Charges for service	145,342	131,338	117,015	123,850
Special assessments	-	-	3,732	2,221
Miscellaneous	131,500	312,480	181,044	295,759
Total	\$ 3,220,909	\$ 3,168,673	\$ 3,011,561	\$ 3,729,714
Disbursements:				
Operating:				
Public safety	\$ 587,218	\$ 702,382	\$ 738,608	\$ 1,027,649
Public works	590,805	730,280	750,617	859,241
Health and social services	4,700	7,767	7,400	11,060
Culture and recreation	630,902	559,230	693,033	539,897
Community and economic development	190,437	40,244	69,010	10,466
General government	350,950	342,522	383,818	362,634
Debt service	594,882	429,206	714,969	775,922
Capital projects	1,725	3,149	1,203,196	2,192,964
Non-program	-	-	-	-
Total	\$ 2,951,619	\$ 2,814,780	\$ 4,560,651	\$ 5,779,833

See accompanying independent auditor's report.

2008	2007	2006	2005	2004
\$ 1,357,277	\$ 1,324,958	\$ 1,245,388	\$ 1,248,279	\$ 1,281,166
90,766	88,363	84,970	70,141	53,680
526,678	520,969	505,068	427,265	470,216
10,869	9,668	14,346	11,410	8,648
116,875	313,763	231,890	64,000	150,407
723,369	509,582	450,401	455,901	668,993
101,806	74,262	116,669	128,300	176,839
22,658	11,033	15,771	15,688	26,119
172,556	638,795	347,416	1,671,264	127,176
<u>\$ 3,122,854</u>	<u>\$ 3,491,393</u>	<u>\$ 3,011,919</u>	<u>\$ 4,092,248</u>	<u>\$ 2,963,244</u>
\$ 756,584	\$ 670,353	\$ 608,609	\$ 590,405	\$ 613,188
975,900	762,208	779,619	832,039	591,061
7,270	7,683	6,030	9,036	7,457
433,780	537,248	467,570	584,598	451,533
8,200	7,203	17,125	43,249	208,933
339,543	358,532	302,087	350,925	330,853
581,670	576,161	581,082	510,916	498,754
737,284	1,092,852	278,495	-	21
-	55,231	293,984	91,158	50,820
<u>\$ 3,840,231</u>	<u>\$ 4,067,471</u>	<u>\$ 3,334,601</u>	<u>\$ 3,012,326</u>	<u>\$ 2,752,620</u>

CITY OF CHARITON

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant	14.228	OC-HSG-011-05	\$ 149,764
U.S. Department of Transportation:			
Governor's Traffic Safety Bureau			
	20.601	12-03, TASK 125	2,726
	20.601	11-03, TASK 430	1,361
U.S. Department of Homeland Security:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance	97.036	PA-07-IA-1930-PW-01538(0)	430,202
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration:			
Airport Improvement Program Grant	20.106	3-19-0014-08-2011	<u>56,119</u>
Total			<u>\$ 640,172</u>

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

See accompanying independent auditor's report.



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**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 primary government of the City of Chariton, Iowa as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 30, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards 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

The management of the City of Chariton is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the primary government of the City of Chariton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the primary government of the City of Chariton's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings as items II-A-12, and II-C-12 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-B-12 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the primary government of 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.

Comments involving statutory and other legal matters about the primary government of the City's operations for the year ended June 30, 2012 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.

The primary government of the City of Chariton's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we expressed our conclusions on the City's responses, we did not audit the primary government of 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 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.

Martens & Company, CPA, LLP

West Des Moines, Iowa
October 30, 2012



MARTENS & COMPANY, CPA, LLP

CERTIFIED PUBLIC ACCOUNTANTS
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**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on 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:

We have audited the primary government of the City of Chariton, Iowa's compliance, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the City of Chariton's major federal programs for the year ended June 30, 2012. The primary government of the City of Chariton's major federal programs are identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the primary government of the City of Chariton's management. Our responsibility is to express an opinion on the primary government of 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 Government, 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 noncompliance 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 primary government of 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 primary government of the City of Chariton's compliance with those requirements.

In our opinion, the primary government of the City of Chariton complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the primary government of the City of Chariton is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the primary government of 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 primary government 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item III-A-12 to be a material weakness.

The primary government of the City of Chariton's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we expressed our conclusions on the City's responses, we did not audit the primary government of 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 whom the City of Chariton may report, including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Martens & Company, CPA, LLP

West Des Moines, Iowa
October 30, 2012

CITY OF CHARITON

Schedule of Findings

Year ended June 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements of the primary government of the City, 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 is 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 material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose an audit finding which is 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 97.036 Disaster Grants - Public Assistance.
- (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 - Continued

Year ended June 30, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 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, the posting of the cash receipts to the accounting records and the bank reconciliations are not properly segregated among office and administrative personnel.

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 continue to monitor our procedures and reassign duties as practical.

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

II-B-12 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 - 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.

II-C-12 Crossover Refunding - The City obtained new financing for the purposes of conducting a crossover refunding of older bond issues. The City did not reflect on the books the proceeds of the new bond issue, or the escrow balance account.

CITY OF CHARITON

Schedule of Findings - Continued

Year ended June 30, 2012

Part II: Findings Related to the Financial Statements - Continued:

INTERNAL CONTROL DEFICIENCIES:

Recommendation - We recommend that procedures be put into place for the City to record all activity of crossover and advance refunding transactions.

Response - The City has subsequent to the year end posted the activity to the general ledger. The City will adopt procedures to insure that activity of all refunding bond issues all reflected on the records of the City.

Conclusion - Response accepted.

Part III: Findings for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 97.036: Public Assistance Grant Program
Pass-through Agency Number: PA-07-IA-1930-PW-01538(0)
Federal Award Year: 2012
U.S. Department of Homeland Security
Passed through the Iowa Department of Homeland Security

III-A-12 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-12.

CITY OF CHARITON

Schedule of Findings - Continued

Year ended June 30, 2012

Part IV Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - Costs deducted from bond proceeds need to be recorded as disbursements to properly reflect the total debt service cost. The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the applicable function budget.

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

Conclusion - Response accepted.

IV-B-12 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-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-12 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Christie Metzger, Deputy Clerk	Custodial Services	\$3,641

In accordance with Chapter 362.5(10) of the Code of Iowa, these transactions do not appear to represent a conflict of interest since the transactions were approved by the city council and the work was awarded on a competitive bid process.

IV-E-12 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 ensure that the coverage is adequate for current operations.

IV-F-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-12 Deposits and Investments - The Debt Service Fund and the Enterprise, Sewer Fund does not receive bank interest, even though this is required by Chapter 12C.9 of the Code of Iowa.

CITY OF CHARITON

Schedule of Findings - Continued

Year ended June 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting - Continued:

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

Recommendation - The Debt Service Fund and the Enterprise, Sewer Fund should receive bank interest as required by the Code of Iowa. In addition, the City should continue its efforts to dispose of cemetery stock and reinvest in permissible investments as soon as possible.

Response - We are in the process of divesting this stock. In addition, we will also review the allocation of bank interest to the various funds.

Conclusion - Response accepted.

IV-H-12 Revenue Bonds - No instances of non-compliance with revenue bonds were noted.

IV-I-12 Financial Condition - As documented in Note 11 in the Notes to the Financial Statements, the Enterprise, Airport Fund, the Special Revenue, Donations Fund, and the Internal Service, Central Fuel Facility had deficit balances at June 30, 2012.

Recommendation - The City should monitor the above funds in order to eliminate these deficits.

Response - We currently have no plans to eliminate the Enterprise, Airport Fund deficit, as the airport is unable to generate enough money to break-even. The Special Revenue, Donations Fund and Internal Service, Central Fuel deficits will be eliminated through transfers from the General Fund.

Conclusion - Response accepted.