

CITY OF ST CHARLES, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
Officials	2
Independent Auditors' Report	3-4
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 6-9
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 10-11
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 12
Notes to Financial Statements	13-18
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	20-21
Notes to Required Supplementary Information – Budgetary Reporting	22
Other Supplementary Information:	<u>Schedule</u>
Schedule of Indebtedness	1 24-25
Bond and Note Maturities	2 26
Independent Auditor’s Report on Internal Control over Financial Reporting on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	27-28
Schedule of Findings and Questioned Costs	29-33

CITY OF ST CHARLES, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Before January 2006		
Joan Brown	Mayor	January 2008
Mike Gibson	Council Member (resigned Oct 17, 2005)	January 2008
Beth Gray	Council Member	January 2006
Lee Gray	Council Member	January 2008
Kathy Peterson	Council Member	January 2008
Brad Sinclair	Council Member	January 2006
After January 2006		
Joan Brown	Mayor	January 2008
Lee Gray	Council Member	January 2008
Mike Johnson	Council Member	January 2010
Kathy Peterson	Council Member	January 2008
Dennis Smith	Council Member	January 2010
Bernard Gray	Council Member (elected April 4, 2006)	January 2008
Denise Sprague	Clerk/Treasurer	Indefinite
Jerold Oliver	Attorney	Indefinite

INDEPENDENT AUDITORS' REPORT

To The Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of St Charles, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Management has not included the cash activities and cash balances of the volunteer fire department in the accompanying financial statements. Had the balances and activities been included, the beginning cash balances, ending cash balances, receipts and disbursements of the general fund would have been approximately \$42,100, \$54,500, \$26,700 and \$14,300 higher, respectively.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance as of July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance as of July 1, 2005, as discussed above and except for the effects of not including the cash activities and cash balances of the volunteer fire department as discussed above, the financial statements described above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and the general fund 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 addition, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance as of July 1, 2005, as discussed above the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, the road use tax, local option sales tax, water enterprise and sewer enterprise funds and the aggregate remaining fund information of the City of St Charles as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City of St Charles, Iowa has not presented a Management Discussion and Analysis that U.S. generally accepted accounting principles has determined is required to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information on pages 20 through 22 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of St Charles' basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 31, 2007

BASIC FINANCIAL STATEMENTS

CITY OF ST CHARLES, IOWA

Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2006

	<u>Disbursements</u>	<u>Program</u> Charges for Service
Functions / Programs		
Governmental activities		
Public safety	\$ 43,206	-
Public works	48,035	21,558
Culture and recreation	30,964	-
General government	20,141	845
Debt service	<u>87,521</u>	<u>-</u>
Total governmental activities	<u>229,867</u>	<u>22,403</u>
Business type activities		
Water	99,076	125,305
Sewer	<u>48,223</u>	<u>50,712</u>
Total business type activities	<u>147,299</u>	<u>176,017</u>
Total	<u>\$ 377,166</u>	<u>198,420</u>
General Receipts		
Property and other city tax levied for		
General purposes		
Employee benefits		
Debt service		
Local option sales tax		
Unrestricted interest on investments		
Miscellaneous		
Total general receipts and transfers		

Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
15,172	-	(28,034)	-	(28,034)
51,826	-	25,349	-	25,349
10,200	-	(20,764)	-	(20,764)
-	-	(19,296)	-	(19,296)
-	-	(87,521)	-	(87,521)
<u>77,198</u>	<u>-</u>	<u>(130,266)</u>	<u>-</u>	<u>(130,266)</u>
-	-	-	26,229	26,229
-	-	-	2,489	2,489
-	-	-	28,718	28,718
<u>77,198</u>	<u>-</u>	<u>(130,266)</u>	<u>28,718</u>	<u>(101,548)</u>
		97,925	-	97,925
		1,481	-	1,481
		24,546	-	24,546
		40,589	-	40,589
		1,283	3,991	5,274
		<u>11,857</u>	<u>-</u>	<u>11,857</u>
		<u>177,681</u>	<u>3,991</u>	<u>181,672</u>

CITY OF ST CHARLES, IOWA

Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2006

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

 Streets

 Debt service

 Other purposes

 Unrestricted

 Total cash basis net assets

See notes to financial statements.

Changes in Cash Basis Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
47,415	32,709	80,124
<u>65,679</u>	<u>188,944</u>	<u>254,623</u>
<u><u>113,094</u></u>	<u><u>221,653</u></u>	<u><u>334,747</u></u>
20,134	-	20,134
4,739	-	4,739
29,995	-	29,995
<u>58,226</u>	<u>221,653</u>	<u>279,879</u>
<u><u>\$ 113,094</u></u>	<u><u>221,653</u></u>	<u><u>334,747</u></u>

CITY OF ST CHARLES, IOWA

Statement of Cash Receipts, Disbursements
And Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2006

	General	Special Road Use Tax
Receipts		
Property tax	\$ 97,925	-
Other city tax	-	-
Licenses and permits	845	-
Use of money and property	1,283	-
Intergovernmental	25,372	51,826
Charges for service	21,558	-
Miscellaneous	11,857	-
Total receipts	<u>158,840</u>	<u>51,826</u>
Disbursements		
Operating		
Public safety	33,206	-
Public works	35,417	8,293
Culture and recreation	29,955	-
General government	19,744	-
Debt service	20,207	42,636
Total disbursements	<u>138,529</u>	<u>50,929</u>
Excess (deficiency) of receipts over (under) disbursements	<u>20,311</u>	<u>897</u>
Other financing sources (uses)		
Operating transfers in	2,000	-
Operating transfers out	-	-
Total other financing sources (uses)	<u>2,000</u>	<u>-</u>
Net change in cash balances	22,311	897
Cash balances beginning of year	<u>35,915</u>	<u>19,237</u>
Cash balances end of year	<u>\$ 58,226</u>	<u>20,134</u>
Cash Basis Fund Balances		
Reserved for debt service	\$ -	-
Unreserved		
General fund	58,226	-
Special revenue funds	-	20,134
Total cash basis fund balances	<u>\$ 58,226</u>	<u>20,134</u>

See notes to financial statements.

Revenue			
Local Option Sales Tax	Non-Major Employee Benefits	Debt Service	Total
-	1,481	24,546	123,952
40,589	-	-	40,589
-	-	-	845
-	-	-	1,283
-	-	-	77,198
-	-	-	21,558
-	-	-	11,857
<u>40,589</u>	<u>1,481</u>	<u>24,546</u>	<u>277,282</u>
10,000	-	-	43,206
4,052	273	-	48,035
-	1,009	-	30,964
-	397	-	20,141
-	-	24,678	87,521
<u>14,052</u>	<u>1,679</u>	<u>24,678</u>	<u>229,867</u>
<u>26,537</u>	<u>(198)</u>	<u>(132)</u>	<u>47,415</u>
-	-	-	2,000
<u>(2,000)</u>	<u>-</u>	<u>-</u>	<u>(2,000)</u>
<u>(2,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
24,537	(198)	(132)	47,415
<u>4,023</u>	<u>1,633</u>	<u>4,871</u>	<u>65,679</u>
<u>28,560</u>	<u>1,435</u>	<u>4,739</u>	<u>113,094</u>
-	-	4,739	4,739
-	-	-	58,226
<u>28,560</u>	<u>1,435</u>	<u>-</u>	<u>50,129</u>
<u>28,560</u>	<u>1,435</u>	<u>4,739</u>	<u>113,094</u>

CITY OF ST CHARLES, IOWA

Exhibit C

Statement of Cash Receipts, Disbursements and Changes
in Cash Balances – Proprietary Funds
As of and for the year ended June 30, 2006

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts			
Use of money and property	\$ 839	3,152	3,991
Charges for service	<u>125,305</u>	<u>50,712</u>	<u>176,017</u>
Total operating receipts	<u>126,144</u>	<u>53,864</u>	<u>180,008</u>
Operating disbursements			
Business type activities	<u>99,076</u>	<u>48,223</u>	<u>147,299</u>
Total operating disbursements	<u>99,076</u>	<u>48,223</u>	<u>147,299</u>
Excess of operating receipts over operating disbursements	<u>27,068</u>	<u>5,641</u>	<u>32,709</u>
Total non-operating receipts (disbursements)	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	27,068	5,641	32,709
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	27,068	5,641	32,709
Cash balances beginning of year	<u>49,711</u>	<u>139,233</u>	<u>188,944</u>
Cash balances end of year	<u>\$ 76,779</u>	<u>144,874</u>	<u>221,653</u>
Cash Basis Fund Balances			
Unreserved	<u>76,779</u>	<u>144,874</u>	<u>221,653</u>
Total cash basis fund balances	<u>\$ 76,779</u>	<u>144,874</u>	<u>221,653</u>

See notes to financial statements.

CITY OF ST CHARLES, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of St Charles (the “City”) is a political subdivision of the State of Iowa located in Madison County. It was first incorporated in 1851 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 water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities, except the volunteer fire department. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Madison County Assessor’s Conference Board, Madison County Emergency Management Commission and Madison County Joint E911 Service Board.

CITY OF ST CHARLES, IOWA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

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 interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

CITY OF ST CHARLES, IOWA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

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 construction and maintenance.

The Local Option Sales Tax Fund is used to account for the City's share of local option sales taxes.

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

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

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

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.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

CITY OF ST CHARLES, IOWA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2006 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.

The City had no investments subject to interest rate risk or credit risk at June 30, 2006.

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

YEAR ENDING	GENERAL OBLIGATION BONDS		REVENUE NOTES		TOTAL	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
JUNE 30,						
2007	\$ 34,000	18,568	40,000	4,275	74,000	22,843
2008	39,000	16,748	40,000	2,700	79,000	19,448
2009	44,000	14,665	30,000	1,125	74,000	15,790
2010	49,000	12,320	-	-	49,000	12,320
2011	35,000	9,712	-	-	35,000	9,712
2012-2016	150,000	15,750	-	-	150,000	15,750
Total	\$ 351,000	87,763	110,000	8,100	461,000	95,863

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year, \$18,667 of general obligation bond principal and \$1,540 of interest was paid from the General Fund, \$8,136 of general obligation bond interest was paid from the Special Revenue, Road Use Tax fund and \$9,333 of general obligation bond principal and \$1,540 of interest was paid from the Enterprise, Water Fund.

CITY OF ST CHARLES, IOWA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

4. OTHER LONG-TERM OBLIGATIONS – WATER CONNECTION FEE AND PURCHASE CONTRACT

In August, 1994, the City, five other communities and two counties entered into a 28E agreement to provide a safe and sanitary water delivery system and to share Community Development Block Grant (CDBG) funding available through the U.S. Department of Agriculture. Subsequently the U.S. Department of Agriculture determined to loan the funds directly to Warren Water District and each entity's share of the grant would be used to reduce the connection fee cost. The City's connection fee was \$334,000 and after applying a downpayment of \$41,300 and credit for CDBG funds of \$222,700, the contract payable balance was \$70,000. Monthly payments of principal and interest of \$368 began January 1, 1996 and will continue until July 1, 2035. The interest rate is 5.625% per annum. The balance at June 30, 2006 was \$63,172.

In addition, a payment of \$37 per month is required until a reserve account balance totaling \$4,416 is accumulated. If the bulk water purchase agreement is discontinued after 40 years, the reserve funds revert to the City. If continued beyond 40 years, the reserve account funds will remain with Warren Water District and become a funded depreciation account.

The City is obligated to purchase its water supply from Warren Water District for 40 years beginning January 1, 1996. Water rates can be increased annually. Based on the current rate of \$2.25 per 1,000 gallons and present consumption, the annual obligation is estimated to be \$42,000.

5. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$2,030, equal to the required contributions for the year.

CITY OF ST CHARLES, IOWA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006

6. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	\$ <u>2,000</u>

7. RISK MANAGEMENT

The City 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.

8. BUDGET OVEREXPENDITURE

During the year ended June 30, 2006 disbursements in the debt service program exceeded the budgeted amount.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ST CHARLES, IOWA

Budgetary Comparison Schedule of Receipts, Disbursements
and Changes in Balances – Budget and Actual (Cash Basis) -
All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to to be Budgeted
Receipts			
Property tax	\$ 123,952	-	-
Other city tax	40,589	-	-
Licenses and permits	845	-	-
Use of money and property	1,283	3,991	-
Intergovernmental	77,198	-	-
Charges for service	21,558	176,017	-
Miscellaneous	<u>11,857</u>	<u>-</u>	<u>-</u>
Total receipts	<u>277,282</u>	<u>180,008</u>	<u>-</u>
Disbursements			
Public safety	43,206	-	-
Public works	48,035	-	-
Culture and recreation	30,964	-	-
General government	20,141	-	-
Debt service	87,521	-	-
Business type activities	-	147,299	-
Total disbursements	<u>229,867</u>	<u>147,299</u>	<u>-</u>
Excess of receipts over disbursements	47,415	32,709	-
Other financing sources, net	<u>-</u>	<u>-</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	47,415	32,709	-
Balances beginning of year	<u>65,679</u>	<u>188,944</u>	<u>-</u>
Balances end of year	<u><u>113,094</u></u>	<u><u>221,653</u></u>	<u><u>-</u></u>

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
123,952	120,188	120,188	3,764
40,589	28,344	39,244	1,345
845	625	625	220
5,274	250	250	5,024
77,198	61,000	71,000	6,198
197,575	178,405	189,405	8,170
11,857	1,000	11,000	857
<u>457,290</u>	<u>389,812</u>	<u>431,712</u>	<u>25,578</u>
43,206	43,239	44,362	1,156
48,035	108,363	135,573	87,538
30,964	14,793	35,260	4,296
20,141	24,502	27,879	7,738
87,521	25,062	24,678	(62,843)
147,299	169,900	190,084	42,785
<u>377,166</u>	<u>385,859</u>	<u>457,836</u>	<u>80,670</u>
80,124	3,953	(26,124)	106,248
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
80,124	3,953	(26,124)	106,248
<u>254,623</u>	<u>229,764</u>	<u>254,591</u>	<u>32</u>
<u><u>334,747</u></u>	<u><u>233,717</u></u>	<u><u>228,467</u></u>	<u><u>106,280</u></u>

CITY OF ST CHARLES, IOWA

Notes to Required Supplementary Information –
Budgetary Reporting
June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year a budget amendment increased budgeted disbursements by \$71,977. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded amounts budgeted in the debt service activities function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF ST CHARLES, IOWA

Schedule of Indebtedness
Year ended June 30, 2006

OBLIGATION	DATE OF ISSUE	INTEREST RATES	AMOUNT ORIGINALLY ISSUED
General Obligation Bonds			
Storm sewer improvement	Oct 1, 1996	5.50%	\$ 210,000
Corporate purpose	Feb 8, 2002	5.25%	340,000
Total			
Revenue Notes			
Water	Feb 8, 2002	4.50%	\$ 50,000
Road Use Tax	Feb 8, 2002	3.75%	210,000
Total			

See accompanying independent auditor's report.

<u>BALANCE BEGINNING OF YEAR</u>	<u>ISSUED DURING YEAR</u>	<u>REDEEMED DURING YEAR</u>	<u>BALANCE END YEAR</u>	<u>INTEREST PAID</u>	<u>INTEREST DUE AND UNPAID</u>
\$ 84,000	-	28,000	56,000	4,620	-
<u>310,000</u>	<u>-</u>	<u>15,000</u>	<u>295,000</u>	<u>16,275</u>	<u>-</u>
<u>\$ 394,000</u>	<u>-</u>	<u>43,000</u>	<u>351,000</u>	<u>20,895</u>	<u>-</u>
30,000	-	10,000	20,000	1,350	-
<u>120,000</u>	<u>-</u>	<u>30,000</u>	<u>90,000</u>	<u>4,500</u>	<u>-</u>
<u>\$ 150,000</u>	<u>-</u>	<u>40,000</u>	<u>110,000</u>	<u>5,850</u>	<u>-</u>

CITY OF ST CHARLES, IOWA

Schedule 2

Bond and Note Maturities
June 30, 2006

GENERAL OBLIGATION BONDS					
YEAR ENDING JUNE 30,	STORM SEWER IMPROVEMENT ISSUED OCTOBER 1, 1996		CORPORATE PURPOSE ISSUED FEBRUARY 8, 2002		TOTAL
	INTEREST		INTEREST		
	RATE	AMOUNT	RATE	AMOUNT	
2007	5.50	\$ 14,000	5.25	\$ 20,000	\$ 34,000
2008	5.50	14,000	5.25	25,000	39,000
2009	5.50	14,000	5.25	30,000	44,000
2010	5.50	14,000	5.25	35,000	49,000
2011	-	-	5.25	35,000	35,000
2012	-	-	5.25	50,000	50,000
2013	-	-	5.25	50,000	50,000
2014	-	-	5.25	50,000	50,000
TOTAL		<u>\$ 56,000</u>		<u>\$ 295,000</u>	<u>\$ 351,000</u>

REVENUE NOTES					
YEAR ENDING JUNE 30,	WATER ISSUED FEBRUARY 8, 2002		ROAD USE TAX ISSUED FEBRUARY 8, 2002		TOTAL
	INTEREST		INTEREST		
	RATE	AMOUNT	RATE	AMOUNT	
2007	4.50	\$ 10,000	3.75	\$ 30,000	\$ 40,000
2008	4.50	10,000	3.75	30,000	40,000
2009	-	-	3.75	30,000	30,000
		<u>\$ 20,000</u>		<u>\$ 90,000</u>	<u>\$ 110,000</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of St Charles, Iowa as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 31, 2007. Our report expressed an unqualified opinion 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

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City and other parties to whom the City 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 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.

January 31, 2007

CITY OF ST CHARLES, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006

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

- (A) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and cash disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (B) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (C) The audit did not disclose any noncompliance which is material to the financial statements.
- (D) There were no major federal programs.
- (E) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-06 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 bank deposits and posting of the cash receipts to the cash receipts journal and general ledger as well as posting of cash disbursements and preparation of the bank reconciliation are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures and consider duties which might be performed by City officials to obtain the maximum internal control possible under the circumstances.

Response – The City lacks sufficient personnel at this time to accomplish segregation of duties.

Conclusion – This condition makes it important for City officials to maintain a heightened awareness and increased scrutiny of City affairs to lessen the likelihood errors or irregularities would remain undetected.

CITY OF ST CHARLES, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year ended June 30, 2006

Part II: Findings Related to the Financial Statements (continued):

II-B-06 Separately Maintained Records – The St Charles Fire Department and Park Board maintain separate accounting records pertaining to the fire and rescue and park operations. These transactions and the resulting balances are not included in the City’s accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose”. For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the Council on a monthly basis.

Response – The City will make changes necessary to comply with the Code of Iowa by amending ordinances and including all public funds in its financial records.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not Applicable

Part IV: Other Findings Related to Statutory Reporting:

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – The City will be more careful to amend its budget before expenditures exceed the budgeted amounts.

Conclusion – Response accepted.

IV-B-06 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

CITY OF ST CHARLES, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting (continued):

- IV-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-06 Business Transactions – No business transactions between the City and City officials were noted.
- IV-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-06 Council Minutes – Certain actions taken by the City Council were not recorded in the minutes in the form of a vote. Examples include:
- Approval of use of water and city fire equipment for the mud volleyball pit at the Old Settlers Celebration on July 5, 2005.
 - Approval of sewer bill credit on September 6, 2005.
 - Approval of the advance of city funds for path paving on September 6, 2005.
 - Approval of use of park shelter to store new playground equipment on November 7, 2005.

Ordinances were adopted or amended without the required three readings or specific action to waive second or third readings. Examples include:

- Adoption of Chapter 106 of the Code of Ordinances regarding solid waster collection with only one reading on December 5, 2005.
- Adoption of Chapter 25 of the Code of Ordinances regarding a tourism department with only two readings on October 10, 2005 (Note that the first reading cited in the publication of the ordinance was not recorded in the September 6, 2005 minutes).

We noted that these ordinances were included in action taken at the May 1, 2006 council meeting to suspend additional readings and consider seven previously adopted ordinances or amendments to ordinances passed and adopted.

Recommendation – The City should carefully document the vote of each council member regarding each council action for use and expenditure of city funds or equipment and should fully comply with Chapter 380 of the Code of Iowa regarding amendment or adoption of City Ordinances.

CITY OF ST CHARLES, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting (continued):

IV-F-06 Council Minutes (continued)

Response – The City will improve its record of motions to expend city funds or approve use of City property. Proper procedures will be followed to adopt or amend ordinances.

Conclusion – Response accepted.

IV-G-06 Deposits and Investments – The City has not approved an investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should approve a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Response – The City will adopt a written investment policy as required by the Code of Iowa.

Conclusion – Response accepted.

IV-H-06 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

IV-I-06 Payment of General Obligation Bonds – Certain general obligation bonds were paid from the General Fund, the Special Revenue, Road Use Tax Fund and the Enterprise, Water Fund. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund.”

Recommendation – The City should transfer from other funds to the Debt Service Fund for future funding contributions. Payments of the bonds should then be disbursed from the Debt Service Fund.

Response – The City will take action immediately to ensure all General Obligation bonds are paid only from the debt service fund.

Conclusion – Response accepted

CITY OF ST CHARLES, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting (continued):

IV-J-06 Use of City Property – In 1998 the City was deeded the former Presbyterian Church property to be used for public, educational, charitable or benevolent purposes. The property is currently used as a welcome center under the direction and supervision of the Tourism Department of the City. The gift shop located in the welcome center, however, is operated by the Historic Preservation Committee, an unrelated not for profit organization. A written agreement for use of City property or approval for such use by the City council could not be found.

Recommendation – We recommend all use of City property be approved by the City Council if not specifically delegated by ordinance to a board or commission. We also recommend all use of City property be made pursuant to written agreements.

Response – The Tourism Department now manages the Welcome Center. All future uses of the property will be pursuant to written agreements approved by the City.

Conclusion – Response accepted.

IV-K-06 Experience Works Employees – Employees of Experience Works, a not for profit organization employing workers aged 55 or older, are used, in addition to volunteers, to staff the City Welcome Center under supervision of City employees. The City made a voluntary contribution to Experience Works in connection with its participation in the program. We found no documentation of City Council approval of this arrangement.

Recommendation – We recommend all arrangements to provide service to the City are to expend City resources be formally approved by the City Council with that approval documented in the minutes.

Response – All future contracts for Experience Works will be approved by the City Council.

Conclusion – Response accepted.