

CITY OF CHARLES CITY, IOWA

FINANCIAL STATEMENTS

JUNE 30, 2007

Table of Contents

Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-9
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Activities and Net Assets - Cash Basis.....	10
Governmental Fund Financial Statements	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances.....	11
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets.....	12
Proprietary Fund Financial Statements	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances.....	13
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets.....	14
Notes to the Financial Statements.....	15-25
Required Supplementary Information	
Schedule of Budgetary Comparison of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	26
Other Supplementary Information	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	27-28
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Proprietary Funds	29
Schedule of Indebtedness.....	30
Schedule of Bond and Note Maturities	31-33
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds.....	34
Schedule of Expenditures of Federal Awards	35
Financial Assistance Section	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	36-37
Independent Auditor's Report on Compliance With Requirements Applicable to the Major Programs and on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	38-39
Schedule of Findings and Questioned Costs	40-44

Officials

Name	Title	Term Expires
Elected Officials		
James A. Erb	Mayor	January, 2008
Jerry Joerger	Mayor Pro Tem	January, 2010
Dean Andrews	Council Member	January, 2008
Andy Cerio	Council Member	January, 2008
De Laine Freeseaman	Council Member	January, 2010
Arvin Tibbitts	Council Member	January, 2008
Appointed Officials		
Jody Meyer	City Clerk	May 11, 2007
Trudy O'Donnell	City Clerk, effective July 23, 2007	Indefinite
Tom Brownlow	City Administrator	Indefinite
Ralph Smith	City Attorney	Indefinite

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Charles City, Iowa

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 Charles City, Iowa, as of and for the year ended June 30, 2007, 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 Charles City, Iowa's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Charles City, Iowa, as of June 30, 2007, and the respective changes in the 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 November 15, 2007 on our consideration of the City of Charles City, Iowa'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.

To the Honorable Mayor and
Members of the City Council
Page 2

Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 9 and Page 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied 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 Charles City, Iowa's basic financial statements. The financial statements and supplemental data for the years ended June 30, 2006, 2005 and 2004 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report who expressed unqualified opinions on those financial statements and supplemental data. Other supplementary information included on Pages 27 through 35, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
November 15, 2007

Management's Discussion and Analysis

The City of Charles City 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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

Revenue of the City's governmental activities increased 19%, or approximately \$1,665,000, from fiscal 2006 to fiscal 2007. This was primarily due to the receipt of loan proceeds related to the water main project done in conjunction with the construction of the VeraSun ethanol plant.

Disbursements of the City's governmental activities increased 18%, or approximately \$1,484,000, in fiscal 2007 from fiscal 2006. Debt service accounted for approximately \$774,000 of the increase.

The City's total cash basis net assets decreased 7%, or approximately \$451,000, from June 30, 2007 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$104,000 and the assets of the business-type activities decreased by approximately \$347,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-Wide Financial Statement consists of a Statement of Activities and Net Assets - Cash Basis. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. 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 - Cash Basis reports information which helps answer this question.

The Statement of Activities and Net Assets - Cash Basis 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 - Cash Basis 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 waterworks, the sanitary sewer system, waste collection, transit and fire extinguisher funds. 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. These focus on how money flows into and out of those funds, and the balances at year end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as Road Use Tax, Public Housing and Tax Increment Financing Funds, (c) the Debt Service Fund and (d) Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for Governmental Funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2. Proprietary Funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business-type activities. The City maintains several Enterprise Funds to provide separate information for the water, sewer, waste collection, transit and fire extinguisher funds. The water and sewer funds are considered 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 statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$5,404,200 a year ago to \$5,300,380. The analysis that follows focuses on the changes in cash basis net assets for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Receipts		
Program Receipts		
Charges for service	\$ 916,551	\$ 1,332,587
Operating grants, contributions and restricted interest	2,453,467	2,142,172
Capital grants, contributions and restricted interest	—	178,221
General Receipts		
Property tax	3,789,584	3,932,974
Local option sales tax	559,496	517,044
Grants and contributions not restricted to a specific purpose	140,198	69,869
Unrestricted interest on investments	301,274	185,156
Bond and loan proceeds	1,448,429	20,000
Other general receipts	734,134	299,673
Total Receipts	<u>10,343,133</u>	<u>8,677,696</u>
Disbursements and Transfers		
Public safety	1,870,149	1,785,147
Public works	1,063,393	717,409
Health and social services	494,914	489,790
Culture and recreation	784,743	746,230
Community and economic development	1,777,973	2,180,283
General government	666,212	594,886
Debt service	1,466,941	692,919
Capital projects	1,449,244	883,349
Total Disbursements	<u>9,573,569</u>	<u>8,090,013</u>
Change in Cash Basis Net Assets Before Transfers	769,564	587,683
Transfers, Net	(873,384)	(6,206)
Increase (Decrease) in Cash Basis Net Assets	(103,820)	581,477
Cash Basis Net Assets - Beginning of Year	<u>5,404,200</u>	<u>4,822,723</u>
Cash Basis Net Assets - End of Year	<u>\$ 5,300,380</u>	<u>\$ 5,404,200</u>

The City's total receipts for governmental activities increased 19%, or \$1,665,437. The total cost of all programs and services increased \$1,483,556, or 18%. The significant increase in receipts was primarily the result of loan proceeds received for the purchase of waterlines from VeraSun Charles City, LLC. The significant increase in disbursements was primarily due to an increase in debt service payments and payments related to capital projects.

The cost of all governmental activities this year was \$9,573,569 compared to \$8,090,013 last year. As shown in the Statement of Activities and Net Assets - Cash Basis, the amount taxpayers ultimately financed for these activities was only \$6,203,551 because some of the cost was paid by those directly benefiting from the programs (\$916,551) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$2,453,467). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2007 from approximately \$3,653,000 to approximately \$3,370,000, principally due to a decrease in the charges for service.

Changes in Cash Basis Net Assets of Business-Type Activities

	Year Ended June 30,	
	2007	2006
Receipts		
Program Receipts		
Charges for Service		
Water	\$ 1,178,158	\$ 894,452
Sewer improvements	796,162	794,669
Waste collection	296,022	283,629
Transit and fire extinguisher	18,937	16,963
General Receipts		
Property tax	47,832	35,121
Unrestricted interest on investments	20,367	20,112
Miscellaneous	202,345	9,649
Bond/loan proceeds	—	110,000
Total Receipts	2,559,823	2,164,595
Disbursements		
Water	2,642,169	677,679
Sewer improvements	789,207	524,068
Waste collection	280,812	263,669
Transit and fire extinguisher	68,127	63,799
Debt service	—	652,945
Other	—	8,518
Total Disbursements	3,780,315	2,190,678
Change in Cash Basis Net Assets Before Transfers	(1,220,492)	(26,083)
Transfers, Net	873,384	6,206
Decrease in Cash Basis Net Assets	(347,108)	(19,877)
Cash Basis Net Assets - Beginning of Year (as Restated)	813,304	833,181
Cash Basis Net Assets - End of Year	\$ 466,196	\$ 813,304

Total business-type activities receipts for the fiscal year were \$2,559,823 compared to \$2,164,595 last year. The cash balance decreased approximately \$347,000 from the prior year. Total disbursements for the fiscal year increased by approximately \$1,590,000 (73%) due to projects started during the fiscal year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Charles City completed the year, its governmental funds reported a combined fund balance of \$5,064,445, a decrease of \$188,332 from last year's total of \$5,252,777. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$361,007 from the prior year to \$905,902. Approximately \$190,000 of this decrease was due to payments for fire and police retirement. These payments continue to be made from cash reserves.
- The Public Housing Fund cash balance increased by \$163,185, primarily due to increases in operating subsidies and interest.
- The Southwest Bypass Tax Increment Financing Fund was established to account for urban renewal projects within the City's Southwest Bypass Tax Increment Financing District. At the end of the fiscal year, the cash balance was \$693,286, an increase of \$105,164 from the previous year.
- The Debt Service Fund cash balance decreased by \$279,184 to a deficit of \$216,035 during the fiscal year. The City did not adequately budget for debt service payments, causing the deficit balance.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$19,815 to \$398,198 due to capital outlay for the water main project done in conjunction with the VeraSun ethanol plant construction.
- The Sewer Fund cash balance decreased by \$342,579 to \$25,913 primarily due to the South Main Street Utility Improvement Project.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 21, 2007. It was made as a result of an expected increase in disbursements for community and economic development and capital projects and resulted in increasing budgeted expenditures by \$430,846 to \$15,379,811.

For the year, the City's actual receipts were \$11,454,527 compared to the final budget of \$11,964,739 and actual disbursements were \$13,455,381 compared to budgeted disbursements of \$15,379,811.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$12,492,242 in bonds and other long-term debt compared to \$12,024,411 last year, as shown below:

Outstanding Debt at Year End

	<u>Year Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
General obligation bonds and notes	\$ 5,541,000	\$ 6,139,721
Revenue bonds	5,083,600	5,319,000
Revenue notes	532,392	565,690
Lease purchase agreements	<u>1,335,250</u>	<u>—</u>
Total	<u>\$ 12,492,242</u>	<u>\$ 12,024,411</u>

The Constitution of the State of Iowa limits the amount of general obligation and tax increment financing debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and tax increment financing debt of approximately \$6,500,000 is significantly below its constitutional debt limit of \$10,322,786.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Charles City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees that will be charged for various City activities.

For 2008, the City has incorporated estimated revenue and expenditures into the budget for several anticipated capital projects, including street resurfacing, a bridge project, city hall roofing and several other miscellaneous projects. These projects are to be financed by general obligation issues, tax increment financing and community pledges.

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 Trudy O'Donnell, City Clerk/Finance Officer at 105 Milwaukee Mall, Charles City, IA 50616, phone (641) 257-6300 or email trudy@cityofcharlescity.org.

Basic Financial Statements

Statement of Activities and Net Assets - Cash Basis

As of and for the Year Ended June 30, 2007

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business- Type Activities	Total
Governmental Activities						
Public safety	\$ 1,870,149	\$ 24,750	\$ 242,910	\$ (1,602,489)	\$ —	\$ (1,602,489)
Public works	1,063,393	1,768	853,011	(208,614)	—	(208,614)
Health and social services.....	494,914	—	1,044,400	549,486	—	549,486
Culture and recreation.....	784,743	119,662	127,367	(537,714)	—	(537,714)
Community and economic development	1,777,973	766,337	44,127	(967,509)	—	(967,509)
General government.....	666,212	4,034	—	(662,178)	—	(662,178)
Debt service.....	1,466,941	—	—	(1,466,941)	—	(1,466,941)
Capital projects.....	1,449,244	—	141,652	(1,307,592)	—	(1,307,592)
Total Governmental Activities	9,573,569	916,551	2,453,467	(6,203,551)	—	(6,203,551)
Business-Type Activities						
Water.....	2,642,169	1,178,158	—	—	(1,464,011)	(1,464,011)
Sewer improvements.....	789,207	796,162	—	—	6,955	6,955
Waste collection	280,812	296,022	—	—	15,210	15,210
Transit.....	63,442	12,099	—	—	(51,343)	(51,343)
Fire extinguishers	4,685	6,838	—	—	2,153	2,153
Total Business-Type Activities	3,780,315	2,289,279	—	—	(1,491,036)	(1,491,036)
Total	\$ 13,353,884	\$ 3,205,830	\$ 2,453,467	(6,203,551)	(1,491,036)	(7,694,587)
General Receipts						
Property Taxes Levied For						
General purposes				2,032,782	47,832	2,080,614
Tax increment financing				1,446,835	—	1,446,835
Debt service.....				309,967	—	309,967
Other city tax				220,964	—	220,964
Special assessments.....				2,735	—	2,735
Local option sales tax.....				559,496	—	559,496
Grants and contributions not restricted to specific purpose.....				140,198	—	140,198
Unrestricted interest on investments				301,274	20,367	321,641
Loan proceeds.....				1,335,250	—	1,335,250
Interfund loan activity.....				113,179	—	113,179
Miscellaneous.....				510,435	202,345	712,780
Transfers				(873,384)	873,384	—
Total General Receipts and Transfers				6,099,731	1,143,928	7,243,659
Decrease in Cash Basis Net Assets				(103,820)	(347,108)	(450,928)
Cash Basis Net Assets - Beginning of Year				5,404,200	813,304	6,217,504
Cash Basis Net Assets - End of Year				\$ 5,300,380	\$ 466,196	\$ 5,766,576
Cash Basis Net Assets						
Restricted						
Streets				\$ 406,170	\$ —	\$ 406,170
Urban renewal purposes				1,506,122	—	1,506,122
Debt service.....				—	141,687	141,687
Unrestricted				3,388,088	324,509	3,712,597
Total Cash Basis Net Assets				\$ 5,300,380	\$ 466,196	\$ 5,766,576

See accompanying notes to the financial statements.

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

As of and for the Year Ended June 30, 2007

	General	Public Housing	Special Revenue Southwest Bypass Tax Increment Financing	Debt Service	Other Nonmajor Governmental Funds	Total
Receipts						
Property tax	\$ 1,545,078	\$ —	\$ —	\$ 309,967	\$ 487,704	\$ 2,342,749
Tax increment financing collections.....	—	—	480,156	—	966,679	1,446,835
Other city tax	220,964	—	—	—	559,496	780,460
Licenses and permits.....	73,198	—	—	—	—	73,198
Use of money and property	157,962	59,211	38,772	3,000	42,329	301,274
Intergovernmental.....	544,204	—	—	—	1,949,461	2,493,665
Charges for service	150,214	513,732	—	—	179,407	843,353
Special assessments.....	—	—	—	—	2,735	2,735
Miscellaneous.....	210,971	—	15,992	—	383,472	610,435
Total Receipts	<u>2,902,591</u>	<u>572,943</u>	<u>534,920</u>	<u>312,967</u>	<u>4,571,283</u>	<u>8,894,704</u>
Disbursements						
Operating						
Public safety	1,912,091	—	—	—	314	1,912,405
Public works	532,345	—	—	—	531,048	1,063,393
Health and social services.....	—	—	—	—	494,914	494,914
Culture and recreation	772,996	—	—	—	11,747	784,743
Community and economic development	12,332	400,758	378,281	—	1,028,858	1,820,229
General government.....	666,212	—	—	—	—	666,212
Debt service.....	—	—	—	1,343,847	123,094	1,466,941
Capital projects.....	323,896	—	—	—	1,125,348	1,449,244
Total Disbursements	<u>4,219,872</u>	<u>400,758</u>	<u>378,281</u>	<u>1,343,847</u>	<u>3,315,323</u>	<u>9,658,081</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>(1,317,281)</u>	<u>172,185</u>	<u>156,639</u>	<u>(1,030,880)</u>	<u>1,255,960</u>	<u>(763,377)</u>
Other Financing Sources (Uses)						
Loan proceeds.....	—	—	1,335,250	—	—	1,335,250
Interfund loan activity.....	105,872	—	—	—	7,307	113,179
Operating transfers in.....	863,881	—	—	751,696	—	1,615,577
Operating transfers out.....	(13,479)	(9,000)	(1,386,725)	—	(1,079,757)	(2,488,961)
Total Other Financing Sources (Uses)	<u>956,274</u>	<u>(9,000)</u>	<u>(51,475)</u>	<u>751,696</u>	<u>(1,072,450)</u>	<u>575,045</u>
Increase (Decrease) in Cash Balances	<u>(361,007)</u>	<u>163,185</u>	<u>105,164</u>	<u>(279,184)</u>	<u>183,510</u>	<u>(188,332)</u>
Cash Balances - Beginning of Year, as Reclassified, Note 17	1,266,909	1,013,196	588,122	63,149	2,321,401	5,252,777
Cash Balances - End of Year	<u>\$ 905,902</u>	<u>\$ 1,176,381</u>	<u>\$ 693,286</u>	<u>\$ (216,035)</u>	<u>\$ 2,504,911</u>	<u>\$ 5,064,445</u>
Cash Basis Fund Balances						
Unreserved						
General fund.....	\$ 905,902	\$ —	\$ —	\$ —	\$ —	\$ 905,902
Special revenue funds	—	1,176,381	693,286	—	2,403,206	4,272,873
Debt service.....	—	—	—	(216,035)	—	(216,035)
Capital projects fund.....	—	—	—	—	101,705	101,705
Total Cash Basis Fund Balances	<u>\$ 905,902</u>	<u>\$ 1,176,381</u>	<u>\$ 693,286</u>	<u>\$ (216,035)</u>	<u>\$ 2,504,911</u>	<u>\$ 5,064,445</u>

See accompanying notes to financial statements.

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

At June 30, 2007

Total Fund Balances for Governmental Funds (Page 11)..... **\$ 5,064,445**

***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 City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.....

235,935

Cash Basis Net Assets of Governmental Activities (Page 10)..... **\$ 5,300,380**

Net Change in Cash Balances (Page 11)..... **\$ (188,332)**

***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 employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.....

84,512

Change in Cash Basis of Governmental Activities (Page 10)..... **\$ (103,820)**

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

As of and for the Year Ended June 30, 2007

	Enterprise Funds				Internal Service Fund Employee Health
	Water	Sewer	Other Nonmajor Enterprise Funds	Total	
Operating Receipts					
Charges for service	\$ 1,178,158	\$ 796,162	\$ 314,959	\$ 2,289,279	\$ 670,168
Miscellaneous	201,768	—	—	201,768	6,536
Total Operating Receipts	<u>1,379,926</u>	<u>796,162</u>	<u>314,959</u>	<u>2,491,047</u>	<u>676,704</u>
Operating Disbursements					
Business-type activities.....	2,654,058	792,774	350,468	3,797,300	—
Nonprogram	—	—	—	—	589,344
Total Operating Disbursements	<u>2,654,058</u>	<u>792,774</u>	<u>350,468</u>	<u>3,797,300</u>	<u>589,344</u>
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements.....	<u>(1,274,132)</u>	<u>3,388</u>	<u>(35,509)</u>	<u>(1,306,253)</u>	<u>87,360</u>
Nonoperating Receipts (Disbursements)					
Property tax.....	—	—	47,832	47,832	—
Intergovernmental	329	248	—	577	—
Interest on investments.....	10,576	9,791	—	20,367	14,137
Total Nonoperating Receipts (Disbursements).....	<u>10,905</u>	<u>10,039</u>	<u>47,832</u>	<u>68,776</u>	<u>14,137</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>(1,263,227)</u>	<u>13,427</u>	<u>12,323</u>	<u>(1,237,477)</u>	<u>101,497</u>
Other Financing Sources (Uses)					
Operating transfers in	1,335,250	—	10,037	1,345,287	—
Operating transfers out	(91,838)	(356,006)	(24,059)	(471,903)	—
Total Other Financing Sources (Uses)	<u>1,243,412</u>	<u>(356,006)</u>	<u>(14,022)</u>	<u>873,384</u>	<u>—</u>
Increase (Decrease) in Cash Balances.....	<u>(19,815)</u>	<u>(342,579)</u>	<u>(1,699)</u>	<u>(364,093)</u>	<u>101,497</u>
Cash Balances - Beginning of Year, as Reclassified, Note 18.....	418,013	368,492	2,149	788,654	176,072
Cash Balances - End of Year	<u>\$ 398,198</u>	<u>\$ 25,913</u>	<u>\$ 450</u>	<u>\$ 424,561</u>	<u>\$ 277,569</u>
Cash Basis Fund Balances					
Reserved for debt service	\$ 141,687	\$ —	\$ —	\$ 141,687	\$ —
Unreserved.....	256,511	25,913	450	282,874	277,569
Total Cash Basis Fund Balances	<u>\$ 398,198</u>	<u>\$ 25,913</u>	<u>\$ 450</u>	<u>\$ 424,561</u>	<u>\$ 277,569</u>

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

Year Ended June 30, 2007

Total Enterprise Funds Cash Balances (Page 13)..... **\$ 424,561**

***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 partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in the business-type activities in the Statement of Net Assets.....

41,635

Cash Basis Net Assets of Business-Type Activities (Page 10)..... **\$ 466,196**

Net Change in Cash Balances (Page 13)..... **\$ (364,093)**

***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 partial self funding of the City's health insurance benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with business-type activities

16,985

Change in Cash Balance of Business-Type Activities (Page 10)..... **\$ (347,108)**

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The City of Charles City is a political subdivision of the State of Iowa located in Floyd County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under a Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan 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.

Reporting Entity

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

Jointly Governed Organizations

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

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 revenue, 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. Total restricted net assets at June 30, 2007 were \$2,053,979.

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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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 other nonmajor governmental funds, and all remaining enterprise funds are aggregated and reported as other nonmajor enterprise 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.

Special Revenue

The *Public Housing Fund* is used to account for public housing areas partially funded by the Department of Housing and Urban Development.

The Southwest Bypass *Tax Increment Financing Fund* is used to account for the Southwest Bypass urban renewal project financed by tax increment financing.

Debt Service

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 wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

An *Internal Service Fund* is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost-reimbursement basis.

(1) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The City of Charles 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 accounting principles generally accepted in the United States of America.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from nonoperating 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 nonoperating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the debt service function.

(2) Deposits and Investments

The City's deposits in banks at June 30, 2007 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 at June 30, 2007.

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.

Notes to the Financial Statements

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes, revenue bonds and notes and other long-term debt payable are as follows.

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Revenue Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 529,000	\$ 214,536	\$ 94,000	\$ 11,788	\$ 43,429	\$ 25,590
2009	564,000	195,392	97,000	8,879	58,606	23,628
2010	585,000	150,587	20,000	5,600	63,781	20,853
2011	570,000	130,147	20,000	4,800	78,960	17,759
2012	591,000	110,217	20,000	4,000	84,140	13,834
2013-17	2,281,000	243,900	80,000	8,000	203,476	15,423
2018-22	90,000	3,780	—	—	—	—
2023-27	—	—	—	—	—	—
Total	\$ 5,210,000	\$ 1,048,559	\$ 331,000	\$ 43,067	\$ 532,392	\$ 117,087

Year Ending June 30,	Revenue Bonds		VeraSun Lease Purchase		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 249,700	\$ 184,206	\$ 75,555	\$ 75,945	\$ 991,684	\$ 512,065
2009	262,100	176,257	79,976	71,524	1,061,682	475,680
2010	276,300	167,582	84,656	66,844	1,029,737	411,466
2011	285,700	159,914	89,609	61,891	1,044,269	374,511
2012	297,100	147,690	94,853	56,647	1,087,093	332,388
2013-17	1,625,800	569,267	564,302	193,198	4,754,578	1,029,788
2018-22	1,595,900	256,111	346,299	32,451	2,032,199	292,342
2023-27	491,000	22,605	—	—	491,000	22,605
Total	\$ 5,083,600	\$ 1,683,632	\$ 1,335,250	\$ 558,500	\$ 12,492,242	\$ 3,450,845

The resolution providing for the issuance of revenue bonds includes the following provisions:

1. The bond will only be redeemed from the future earnings of the enterprise activity, and the bond holders hold a lien on the future earnings of the funds.
2. Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
3. Additional monthly transfers of \$1,000 plus 25% of the amount required in the water revenue bond sinking account to a revenue reserve account within the Enterprise Funds shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

Notes to the Financial Statements

(3) Bonds and Notes Payable

On December 5, 2006, the City entered into a lease purchase agreement with VeraSun Charles City, LLC (VeraSun) in the amount of \$1,335,250. VeraSun built an ethanol plant outside of the City. Waterline extensions were necessary as a part of the construction. Therefore, the lease purchase agreement was made in order to transfer the ownership of these waterlines to the City and also to reimburse VeraSun for a portion of the construction costs. The City will make semiannual payments of \$75,750 to VeraSun at 5.75% interest, beginning on December 1, 2007 and ending on December 1, 2019. Total lease payments equal 45% of the project costs.

The City has entered into a development agreement which includes the rebate of property taxes paid by the other party to the agreement. Rebated property taxes will not exceed \$430,000 over seven years; however, since amounts are unknown, they are not included in the schedule of maturities of debt.

(4) Interfund Loan Agreements

The City has approved various interfund loans from the general and cablevision funds at a 7% annual interest rate as follows:

Lending Fund	Borrowing Fund	Original Loan	Outstanding 6-30-07	Annual Payment	Final Due Date
General	Riverside TIF	\$100,000	\$15,167	\$18,111	6-30-08
Cablevision	Riverside TIF	50,000	17,672	9,056	6-1-09
General	Riverside TIF	50,000	29,267	9,056	6-1-09

(5) County Urban Renewal Bonds

The Southwest Bypass Tax Increment Financing (TIF) District is located partially within the City limits and partially outside the City limits. The TIF district is jointly governed by a 28E agreement between the City and Floyd County. Per the agreement, the City is responsible for the financial administration of the district. The County issued \$1,335,000 of bonds secured by the TIF revenue of the district. In turn, the County transferred the proceeds to the City to pay the expenses of the current projects. The City, as financial administrator, will receive the TIF revenue from the district and will transfer the funds to the County as the bonds mature.

The bond payment schedule is as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2008.....	\$ 80,000	\$ 38,070
2009.....	80,000	35,910
2010.....	90,000	33,590
2011.....	90,000	30,800
2012.....	95,000	27,920
2013-17	535,000	87,580
2018-22	120,000	4,800
Total	\$ 1,090,000	\$ 258,670

Notes to the Financial Statements

(6) Pension and Retirement Benefits

The City offers City employees the following retirement plans:

Municipal Fire and Police Retirement System of Iowa

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, West Des Moines, Iowa 50263.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2007, 2006 and 2005 were \$223,459, \$161,084 and \$198,303, respectively, which met the required contribution for each year.

Iowa Public Employees Retirement System

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 annual covered payroll. 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 contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$96,005, \$93,181 and \$94,663, respectively, equal to the required contributions for each year.

(7) Compensated Absences

City employees earn vacation at rates dependent upon years of service. Vacation leave vests on the employee's anniversary date and must be used prior to the next anniversary date. Certain employees are allowed to accumulate vested compensatory time off (vacation) for overtime at one and one-half times the hours worked. Sick leave may also be accumulated at a rate of 1 and 1/2 days per month with a maximum of 120 days for all employees except for firefighters who are limited to 90 days. Sick leave is forfeited if not used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation.....	\$ 195,000
Compensatory	8,000
Total	<u>\$ 203,000</u>

The above liabilities have been computed based on rates of pay as of June 30, 2007.

Notes to the Financial Statements

(8) Employee Health Care Plan

The City currently sponsors a self-funded health care plan. Under this plan, employees contribute a portion of their compensation, and COBRA participants and retirees contribute the total cost, towards the cost of maintaining the plan. The City contracts with an insurance company to administer the plan.

Claim costs are limited to \$25,000 per covered individual. Any amount in excess of \$25,000 is covered by a reinsurance policy. Additionally, the reinsurance policy covers claim costs in excess of 125% of the group aggregated total claims exposure, which was approximately \$370,000 for the year ended June 30, 2007.

The City has estimated costs of incurred but unsubmitted claims at June 30, 2007 to be \$70,000.

The City has established an Internal Service Fund to account for these activities to facilitate accountability and management control.

The following is a summary of the claims activity for the year ended June 30, 2007:

Estimated cost incurred but not claimed - June 30, 2006.....	\$ 60,000
Claims incurred and claimed and estimated costs incurred but claimed for the year ended June 30, 2007	400,903
Claims paid during the year ended June 30, 2007	<u>(390,903)</u>
Estimated Costs Incurred But Not Claimed - June 30, 2007	<u>\$ 70,000</u>

(9) Health Care Facility Revenue Bond

From time to time, the City has issued Industrial or Health Facility Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds.

As of June 30, 2007, there was one series of Health Facility Revenue Bonds outstanding, with a principal amount payable of \$2,114,793.

Notes to the Financial Statements

(10) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue	
	Road Use Tax	\$ 132,784
	Trust and Agency	477,653
	Riverside Tax Increment Financing	13,111
	Southwest Bypass Tax Increment Financing	11,500
	South Grand Tax Increment Financing	10,198
	FGP Advisory and Operating	3,000
	Public Housing	9,000
	Enterprise	
	Water	91,838
	Sewer	90,738
	Waste Collection	<u>24,059</u>
		<u>863,881</u>
Debt Service	General	3,442
	Special Revenue	
	Riverside Tax Increment Financing	56,425
	Southwest Bypass Tax Increment Financing	39,975
	South Grand Tax Increment Financing	302,076
	Park Avenue Tax Increment Financing	34,405
	Road Use Tax	50,105
	Enterprise	
	Sewer	<u>265,268</u>
		<u>751,696</u>
Enterprise	Special Revenue	
Water	Southwest Bypass Tax Increment Financing	<u>1,335,250</u>
Waste Collection	General	<u>10,037</u>
Total		<u>\$ 2,960,864</u>

(11) Risk Management

The City of Charles 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.

Notes to the Financial Statements

(12) Deficit Fund Balances

The Special Revenue Fund CDBG Grant had a deficit balance of \$68,326 at June 30, 2007. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated through transfers. The Special Revenue, East Park Tax Increment Financing Fund, had a deficit balance of \$7,638 at June 30, 2007. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated through transfers.

The Special Revenue, RUOK Fund, had a deficit balance of \$80 at June 30, 2007. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated through transfers.

The Debt Service Fund had a deficit balance of \$216,035 at June 30, 2007. The deficit balance was a result of the failure to budget for debt payments. The deficit will be eliminated through transfers.

The Capital Projects, Suspension Bridge Fund, had a deficit balance of \$12,593 at June 30, 2007. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated through transfers.

The Enterprise, Transit Fund, had a deficit balance of \$3,852 at June 30, 2007. The deficit balance was a result of an insufficient levy. The deficit will be eliminated through transfers.

(13) Floyd-Mitchell-Chickasaw Solid Waste Management Agency

The City, in conjunction with 14 other municipalities, has created the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction.

The Agency is not accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt; therefore, the City of Charles City may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2007, the City of Charles City paid Jendro Sanitation \$251,528. The sanitation company is then responsible for paying all landfill fees for the City's share of the costs. Completed financial statements for the Agency can be obtained from the Floyd-Mitchell-Chickasaw Solid Waste Management Agency.

(14) Commitments and Contingencies

The City was notified by the United States Environmental Protection Agency (EPA) in March, 1989 that the area known as the Shaw Avenue Dump had been determined to contain hazardous waste that has resulted in or could result in an *"imminent and substantial endangerment to the public health or welfare or the environment"*. The EPA placed the Shaw Avenue Dump on the National Priority List (NPL) on July 22, 1987.

On December 22, 1987, the City and Solvay Animal Hospital, Inc. (Solvay) entered into a cost-sharing agreement whereby each pays 50% of the costs associated with complying with the consent order.

Notes to the Financial Statements

(14) Commitments and Contingencies

On May 26, 1989, the City and Solvay entered into a consent order with the EPA. The purpose of the consent order was to determine the nature and extent of any releases or threatened releases of pollutants or contaminants; to assess the threat, if any, to the public health and welfare; and to identify and evaluate remedial alternatives to prevent or mitigate such releases. On October 4, 1991, the EPA released a Record of Decision on the investigation of the contaminated area. Their decision was to require the City to perform a stabilization process to secure the contaminants.

Subsequent to issuance of the Record of Decision, the EPA determined that the technology to implement the stabilization process would not be adequate. On February 28, 1992, the City and Solvay entered into a Consent Decree with the EPA for remedial action which consisted of excavation and off-site treatment by best practical means and disposal of chemical fill and contaminated soil. During the year ended June 30, 2007, the City incurred expenditures of \$12,402 which represents 50% of the total expense shared with Solvay.

The Shaw Avenue Dump project has now been complete for several years. The EPA has approved the remedial plan. However, the City estimates expending \$9,000 for annual maintenance and testing fees until the EPA approves the final project.

(15) Construction Commitments

As of June 30, 2007, the City had entered into construction contracts which had remaining balances, including retainage, totaling \$654,923.

(16) Subsequent Events

In July, 2007, the City issued \$585,000 of general obligation bonds, of which \$110,000 is for the suspension bridge project, \$310,000 is for sewer improvements and \$165,000 is for the Allied housing phase in the Park Avenue TIF District.

In August, 2007, the City awarded a contract in the amount of \$187,213 to perform services related to the rehabilitation of the suspension bridge.

(17) Reclassification of Beginning Governmental Fund Balances

The Trust and Agency Fund was reclassified from General to Special Revenue fund types. The Police Dispatch, Police Safety Education, STEP Grant, CVTC Operating and Fire and Police Retirement Funds were reclassified from Special Revenue to General fund types. The Communications Equipment Fund was reclassified from Capital Projects to General fund types. These reclassifications were made so that they would more accurately reflect the activity and purpose of the fund.

The Housing Security Deposits & Public Housing Fund was split into the Public Housing Security Deposits Fund and the Public Housing Fund. This was done as the Public Housing Fund was determined to be a major fund and the Public Housing Security Deposits Fund was determined to be a nonmajor fund.

The Tax Increment Financing (TIF) Fund was split into the Southwest Bypass TIF Fund, the Riverside TIF Fund, the South Grand TIF Fund, the East Park TIF Fund and the Park Avenue TIF Fund. This was done as the Southwest Bypass TIF Fund was determined to be a major fund and the other TIF funds were determined to be nonmajor funds.

Notes to the Financial Statements

(17) Reclassification of Beginning Governmental Fund Balances

The Capital Projects Fund was comprised of the Communications Equipment Fund (mentioned above), the Street Capital Improvements Fund and the Cedar Mall Project Fund in the prior year report. The Street Capital Improvements Fund and the Cedar Mall Project Fund are each shown as a separate fund in this year's report to more clearly present the activity of each project.

The RUOK and FGP Advisory & Operating Fund was split into the RUOK Fund and the FGP Advisory and Operating Fund in order to more clearly present the activity of each.

The Non-Permanent Library Fund and the Permanent Library Fund were combined into one Special Revenue Library Fund as all of the funds are available for use.

	Governmental Fund								Total
	Special Revenue Funds			Southwest Bypass Tax		Debt Service	Capital Projects	Other Nonmajor Governmental Funds	
	General	Housing Security Deposits & Public Housing	Tax Increment Financing	Public Housing	Increment Financing				
Fund Balance - Beginning of Year, as previously reported.....	\$ 979,909	\$ 1,039,393	\$ 1,192,050	\$ —	\$ —	\$ 63,149	\$ 181,950	\$ 1,796,326	\$ 5,252,777
Reclassify funds as noted above	<u>287,000</u>	<u>(1,039,393)</u>	<u>(1,192,050)</u>	<u>1,013,196</u>	<u>588,122</u>	<u>—</u>	<u>(181,950)</u>	<u>525,075</u>	<u>—</u>
Fund Balance - Beginning of Year, as Reclassified ...	<u>\$ 1,266,909</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,013,196</u>	<u>\$ 588,122</u>	<u>\$ 63,149</u>	<u>\$ —</u>	<u>\$ 2,321,401</u>	<u>\$ 5,252,777</u>

(18) Reclassification of Beginning Proprietary Fund Balances

The Utility Improvements Fund was reclassified to the Water Fund as it relates to the water business-type activities of the City.

The Transit & Fire Extinguisher Fund was split into the Transit Fund and the Fire Extinguisher Fund in order to more clearly present the activity of each.

	Enterprise Fund			Total
	Water	Sewer	Utility Improvements	
Fund Balance, Beginning of Year, as previously reported.....	\$ 121,663	\$ 368,492	\$ 296,350	\$ 786,505
Reclassify funds as noted above.....	<u>296,350</u>	<u>—</u>	<u>(296,350)</u>	<u>—</u>
Fund Balance - Beginning of Year, as Reclassified.....	<u>\$ 418,013</u>	<u>\$ 368,492</u>	<u>\$ —</u>	<u>\$ 786,505</u>

(19) Transfer of Aviation Facilities

In November, 2006, the City approved an agreement for the transfer of aviation facilities from the City to the North Cedar Aviation Authority (the Authority). The transfer included real property and personal property which was valued at approximately \$3,500,000 at the time of transfer. The City is a member of the Authority.

Required Supplementary Information

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

Year Ended June 30, 2007

	Governmental Funds - Actual	Proprietary Funds - Actual	Less Fund Not Required to be Budgeted	Net	Budgeted Amounts		Final to Net
					Original	Final	
Receipts							
Property taxes	\$ 2,342,749	\$ 47,832	\$ —	\$ 2,390,581	\$ 2,388,354	\$ 2,388,354	\$ 2,227
Tax increment financing collections.....	1,446,835	—	—	1,446,835	1,483,170	1,483,170	(36,335)
Other city taxes.....	780,460	—	—	780,460	720,675	820,675	(40,215)
Licenses and permits.....	73,198	—	—	73,198	88,170	88,170	(14,972)
Use of money and property	301,274	34,504	14,137	321,641	216,425	266,425	55,216
Intergovernmental.....	2,493,665	577	—	2,494,242	2,888,179	3,219,025	(724,783)
Charges for service	843,353	2,959,447	670,168	3,132,632	3,179,661	3,179,661	(47,029)
Special assessments.....	2,735	—	—	2,735	1,500	1,500	1,235
Miscellaneous.....	610,435	208,304	6,536	812,203	297,759	517,759	294,444
Total Receipts	8,894,704	3,250,664	690,841	11,454,527	11,263,893	11,964,739	(510,212)
Disbursements							
Public safety	1,912,405	—	—	1,912,405	1,962,117	1,977,117	64,712
Public works	1,063,393	—	—	1,063,393	1,139,932	1,149,932	86,539
Health and social services.....	494,914	—	—	494,914	519,976	519,976	25,062
Culture and recreation.....	784,743	—	—	784,743	811,549	816,549	31,806
Community and economic development	1,820,229	—	—	1,820,229	1,772,623	1,950,387	130,158
General government.....	666,212	—	—	666,212	683,965	693,965	27,753
Debt service.....	1,466,941	—	—	1,466,941	499,279	499,279	(967,662)
Capital projects.....	1,449,244	—	—	1,449,244	1,719,763	1,932,845	483,601
Business-type activities	—	3,797,300	—	3,797,300	5,839,761	5,839,761	2,042,461
Nonprogram.....	—	589,344	589,344	—	—	—	—
Total Disbursements	9,658,081	4,386,644	589,344	13,455,381	14,948,965	15,379,811	1,924,430
Receipts Over (Under) Disbursements.....	(763,377)	(1,135,980)	101,497	(2,000,854)	(3,685,072)	(3,415,072)	1,414,218
Other Financing Sources, Net	575,044	873,385	—	1,448,429	3,925,000	3,925,000	(2,476,571)
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(188,333)	(262,595)	101,497	(552,425)	239,928	509,928	(1,062,353)
Balances - Beginning of Year	5,252,777	964,726	176,072	6,041,431	5,518,098	5,518,098	523,333
Balances - End of Year.....	\$ 5,064,444	\$ 702,131	\$ 277,569	\$ 5,489,006	\$ 5,758,026	\$ 6,028,026	\$ (539,020)

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 the internal service fund. 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 or fund type. 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 nonprogram. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and 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, one budget amendment increased budgeted disbursements by \$430,846 and budgeted receipts by \$700,846. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the debt service function.

Other Supplementary Information 

**Schedule of Cash Receipts, Disbursements and Changes in Cash
Balances - Nonmajor Governmental Funds**

Year Ended June 30, 2007

	Special Revenue									
	Local Option Sales Tax	Road Use Tax	CDBG Housing Grant	Park Avenue Tax Increment Financing	Public Housing Security Deposits	Riverside Tax Increment Financing	FEMA Grant	South Grand Tax Increment Financing	East Park Tax Increment Financing	FGP Advisory and Operating
Receipts										
Property tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Tax increment financing collections.....	—	—	—	28,995	—	432,484	—	481,288	23,912	—
Other city tax	559,496	—	—	—	—	—	—	—	—	—
Use of money and property	24,152	—	—	—	1,524	—	—	—	—	—
Intergovernmental.....	—	651,090	141,652	—	—	—	44,126	—	—	298,210
Charges for service	—	—	—	—	5,751	2,266	—	—	—	—
Special assessments.....	—	—	—	—	—	—	—	—	—	—
Miscellaneous.....	—	—	37,440	500	—	15,582	—	—	—	193,765
Total Receipts	583,648	651,090	179,092	29,495	7,275	450,332	44,126	481,288	23,912	491,975
Disbursements										
Operating										
Public safety	—	—	—	—	—	—	—	—	—	—
Public works	—	531,048	—	—	—	—	—	—	—	—
Health and social services.....	—	—	—	—	—	—	—	—	—	494,914
Culture and recreation	—	—	—	—	—	—	—	—	—	—
Community and economic development	—	—	—	2,034	4,227	175,347	4,589	59,428	—	—
Debt service.....	—	—	—	—	—	67,047	—	—	56,047	—
Capital projects.....	734,837	—	225,838	—	—	—	—	—	—	—
Total Disbursements	734,837	531,048	225,838	2,034	4,227	242,394	4,589	59,428	56,047	494,914
Receipts Over (Under) Disbursements.....	(151,189)	120,042	(46,746)	27,461	3,048	207,938	39,537	421,860	(32,135)	(2,939)
Other Financing Sources (Uses)										
Interfund loan activity.....	—	—	—	—	—	—	—	—	—	—
Operating transfers out.....	—	(182,889)	—	(34,405)	—	(69,536)	—	(312,274)	—	(3,000)
Total Other Financing Sources (Uses)	—	(182,889)	—	(34,405)	—	(69,536)	—	(312,274)	—	(3,000)
Increase (Decrease) in Cash Balances.....	(151,189)	(62,847)	(46,746)	(6,944)	3,048	138,402	39,537	109,586	(32,135)	(5,939)
Cash Balances - Beginning of Year, as Reclassified, Note 17	604,512	469,016	(21,580)	18,993	26,197	220,478	—	339,959	24,498	54,986
Cash Balances - End of Year	\$ 453,323	\$ 406,169	\$ (68,326)	\$ 12,049	\$ 29,245	\$ 358,880	\$ 39,537	\$ 449,545	\$ (7,637)	\$ 49,047
Cash Basis Fund Balances										
Unreserved										
Special revenue funds	\$ 453,323	\$ 406,169	\$ (68,326)	\$ 12,049	\$ 29,245	\$ 358,880	\$ 39,537	\$ 449,545	\$ (7,637)	\$ 49,047
Capital projects funds.....	—	—	—	—	—	—	—	—	—	—
Total Cash Basis Fund Balances	\$ 453,323	\$ 406,169	\$ (68,326)	\$ 12,049	\$ 29,245	\$ 358,880	\$ 39,537	\$ 449,545	\$ (7,637)	\$ 49,047

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds

Year Ended June 30, 2007

	Special Revenue						Capital Projects			Totals	
	Section 8 Voucher	Trust and Agency	Capital Funds	RUOK	Law Enforcement Grant	Library	Cablevision	Cedar Mall Project	Suspension Bridge		Street Capital Improvements
Receipts											
Property tax	\$ —	\$ 487,704	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 487,704
Tax increment financing collections.....	—	—	—	—	—	—	—	—	—	—	966,679
Other city tax	—	—	—	—	—	—	—	—	—	—	559,496
Use of money and property	7,632	—	—	—	—	7,272	1,749	—	—	—	42,329
Intergovernmental.....	578,466	—	105,848	—	1,048	—	—	—	1,000	128,021	1,949,461
Charges for service	90,970	—	—	—	—	—	80,420	—	—	—	179,407
Special assessments.....	—	—	—	—	—	—	—	—	—	2,735	2,735
Miscellaneous.....	—	—	—	50	—	136,135	—	—	—	—	383,472
Total Receipts	677,068	487,704	105,848	50	1,048	143,407	82,169	—	1,000	130,756	4,571,283
Disbursements											
Operating											
Public safety	—	—	—	314	—	—	—	—	—	—	314
Public works	—	—	—	—	—	—	—	—	—	—	531,048
Health and social services.....	—	—	—	—	—	—	—	—	—	—	494,914
Culture and recreation	—	—	—	—	—	11,747	—	—	—	—	11,747
Community and economic development ...	582,731	—	105,848	—	—	—	94,654	—	—	—	1,028,858
Debt service.....	—	—	—	—	—	—	—	—	—	—	123,094
Capital projects.....	—	—	—	—	—	—	—	3,839	13,593	147,241	1,125,348
Total Disbursements	582,731	—	105,848	314	—	11,747	94,654	3,839	13,593	147,241	3,315,323
Receipts Over (Under) Disbursements.....	94,337	487,704	—	(264)	1,048	131,660	(12,485)	(3,839)	(12,593)	(16,485)	1,255,960
Other Financing Sources (Uses)											
Interfund loan activity.....	—	—	—	—	—	—	7,307	—	—	—	7,307
Operating transfers out.....	—	(477,653)	—	—	—	—	—	—	—	—	(1,079,757)
Total Other Financing Sources (Uses)	—	(477,653)	—	—	—	—	7,307	—	—	—	(1,072,450)
Increase (Decrease) in Cash Balances.....	94,337	10,051	—	(264)	1,048	131,660	(5,178)	(3,839)	(12,593)	(16,485)	183,510
Cash Balances - Beginning of Year, as Reclassified, Note 17.....	111,081	109,768	—	184	250	139,046	89,391	3,839	—	130,783	2,321,401
Cash Balances - End of Year	\$ 205,418	\$ 119,819	\$ —	\$ (80)	\$ 1,298	\$ 270,706	\$ 84,213	\$ —	\$ (12,593)	\$ 114,298	\$ 2,504,911
Cash Basis Fund Balances											
Unreserved											
Special revenue funds	\$ 205,418	\$ 119,819	\$ —	\$ (80)	\$ 1,298	\$ 270,706	\$ 84,213	\$ —	\$ —	\$ —	\$ 2,403,206
Capital projects funds.....	—	—	—	—	—	—	—	—	(12,593)	114,298	101,705
Total Cash Basis Fund Balances	\$ 205,418	\$ 119,819	\$ —	\$ (80)	\$ 1,298	\$ 270,706	\$ 84,213	\$ —	\$ (12,593)	\$ 114,298	\$ 2,504,911

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Proprietary Funds

As of and for the Year Ended June 30, 2007

	Enterprise Funds			
	Waste Collection	Transit	Fire Extinguisher	Total
Operating Receipts				
Charges for service	\$ 296,022	\$ 12,099	\$ 6,838	\$ 314,959
Operating Disbursements				
Business-type activities	<u>282,000</u>	<u>63,783</u>	<u>4,685</u>	<u>350,468</u>
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	14,022	(51,684)	2,153	(35,509)
Nonoperating Receipts (Disbursements)				
Property tax	<u>—</u>	<u>47,832</u>	<u>—</u>	<u>47,832</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>14,022</u>	<u>(3,852)</u>	<u>2,153</u>	<u>12,323</u>
Other Financing Sources (Uses)				
Operating transfers in	10,037	—	—	10,037
Operating transfers out	<u>(24,059)</u>	<u>—</u>	<u>—</u>	<u>(24,059)</u>
Total Other Financing Sources (Uses)	<u>(14,022)</u>	<u>—</u>	<u>—</u>	<u>(14,022)</u>
Increase (Decrease) in Cash Balances	—	(3,852)	2,153	(1,699)
Cash Balances - Beginning of Year, as Reclassified, Note 18	<u>—</u>	<u>—</u>	<u>2,149</u>	<u>2,149</u>
Cash Balances - End of Year	<u>\$ —</u>	<u>\$ (3,852)</u>	<u>\$ 4,302</u>	<u>\$ 450</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ —</u>	<u>\$ (3,852)</u>	<u>\$ 4,302</u>	<u>\$ 450</u>

Schedule of Indebtedness

Year Ended June 30, 2007

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance July 1, 2006	Issued During Year	Redeemed During Year	Balance June 30, 2007	Previously Refunded	Actual Outstanding for City	Interest Paid
General Obligation Bonds										
Essentially corporate purpose	9-1-99	4.85 - 5.20%	\$1,550,000	\$ 485,000	\$ —	\$ 80,000	\$ 405,000	\$ —	\$ 405,000	\$ 24,078
Water utility	9-1-00	4.70 - 5.50	1,180,000	875,000	—	60,000	815,000	690,000	125,000	46,235
Corporate purpose.....	4-1-02	3.30 - 5.20	1,410,000	1,140,000	—	85,000	1,055,000	875,000	180,000	53,055
Corporate purpose.....	2-13-03	2.85 - 4.20	980,000	835,000	—	55,000	780,000	—	780,000	30,430
Corporate purpose.....	2-18-03	3.25 - 4.50	139,000	103,000	—	13,000	90,000	—	90,000	3,997
Refunding	7-1-03	2.40 - 3.25	1,235,000	945,000	—	145,000	800,000	—	800,000	25,753
Refunding	9-1-04	3.80 - 4.00	1,340,000	1,275,000	—	65,000	1,210,000	—	1,210,000	48,270
Refunding	6-1-05	3.10 - 3.75	1,620,000	1,620,000	—	—	1,620,000	—	1,620,000	—
Total General Obligation Bonds.....				\$ 7,278,000	\$ —	\$ 503,000	\$ 6,775,000	\$ 1,565,000	\$ 5,210,000	\$ 231,818
General Obligation Notes										
Corporate purpose.....	6-29-01	6.47%	\$ 40,000	\$ 4,721	\$ —	\$ 4,721	\$ —	\$ —	\$ —	\$ 152
Corporate purpose.....	5-29-03	4.00	260,000	200,000	—	20,000	180,000	—	180,000	8,000
Refunding	6-1-04	2.85 - 3.22	359,000	222,000	—	71,000	151,000	—	151,000	6,363
Total General Obligation Notes.....				\$ 426,721	\$ —	\$ 95,721	\$ 331,000	\$ —	\$ 331,000	\$ 14,515
Revenue Bonds										
Urban renewal	2-13-03	3.40 - 4.75%	\$ 585,000	\$ 505,000	\$ —	\$ 35,000	\$ 470,000	\$ —	\$ 470,000	\$ 21,025
Water utility	3-13-03	3.00 - 4.90	1,400,000	1,265,000	—	50,000	1,215,000	—	1,215,000	54,200
Sewer utility	7-1-03	3.00	3,000,000	2,773,000	—	118,000	2,655,000	—	2,655,000	87,416
Urban renewal	12-23-03	4.00	136,000	136,000	—	7,400	128,600	—	128,600	5,366
Water 2004B.....	7-8-04	3.50 - 5.00	320,000	290,000	—	15,000	275,000	—	275,000	12,738
Tax increment financing	1-10-05	4.50	255,000	255,000	—	—	255,000	—	255,000	11,475
Water pollution control.....	1-10-05	3.50	110,000	95,000	—	10,000	85,000	—	85,000	3,238
Total Revenue Bonds.....				\$ 5,319,000	\$ —	\$ 235,400	\$ 5,083,600	\$ —	\$ 5,083,600	\$ 195,458
Revenue Notes										
Road use tax	6-24-99	5.10 - 5.50%	\$ 520,000	\$ 470,000	\$ —	\$ 25,000	\$ 445,000	\$ —	\$ 445,000	\$ 25,105
Urban renewal	11-1-05	2.00	95,684	95,690	—	8,298	87,392	—	87,392	1,873
Total Revenue Notes.....				\$ 565,690	\$ —	\$ 33,298	\$ 532,392	\$ —	\$ 532,392	\$ 26,978
Interfund Loan Agreements										
Police retirement.....	12-7-98	7.00%	\$ 76,617	\$ 46,279	\$ —	\$ 46,279	\$ —	\$ —	\$ —	\$ 3,240
Fire retirement	8-22-00	7.00	36,043	6,286	—	6,286	—	—	—	241
Police retirement.....	12-17-01	7.00	100,000	31,101	—	15,934	15,167	—	15,167	2,177
Police retirement.....	6-1-02	7.00	105,000	30,824	—	30,824	—	—	—	—
Cablevision	7-1-02	7.00	50,000	24,979	—	7,307	17,672	—	17,672	1,749
Police retirement.....	7-1-02	7.00	50,000	35,816	—	6,549	29,267	—	29,267	2,507
Total Interfund Loan Agreements.....				\$ 175,285	\$ —	\$ 113,179	\$ 62,106	\$ —	\$ 62,106	\$ 9,914
Lease Purchase Agreement (VeraSun)	12-5-06	5.70%	1,335,250	\$ —	\$ 1,335,250	\$ —	\$ 1,335,250	\$ —	\$ 1,335,250	\$ —

Schedule of Bond and Note Maturities

At June 30, 2007

Year Ending June 30,	General Obligation Bonds									
	Corporate Purpose Issued 9-1-99		Water Utility Issued 9-1-00		Corporate Purpose Issued 4-1-02		Corporate Purpose Issued 2-13-03		Corporate Purpose Issued 2-18-03	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2008	4.85%	\$ 80,000	5.05%	\$ 60,000	3.95%	\$ 90,000	2.85%	\$ 60,000	3.25%	\$ 14,000
2009	4.95	90,000	5.10	65,000	4.20	90,000	2.85	60,000	3.50	14,000
2010	5.00	85,000		—		—	3.40	60,000	4.00	15,000
2011	5.05	35,000		—		—	3.40	65,000	4.25	15,000
2012	5.10	35,000		—		—	3.75	70,000	4.40	16,000
2013	5.15	40,000		—		—	3.75	70,000	4.50	16,000
2014	5.20	40,000		—		—	4.00	70,000		—
2015		—		—		—	4.00	75,000		—
2016		—		—		—	4.20	80,000		—
2017		—		—		—	4.20	80,000		—
2018		—		—		—	4.20	90,000		—
Total		\$ 405,000		\$ 125,000		\$ 180,000		\$ 780,000		\$ 90,000

Year Ending June 30,	General Obligation Bonds						Total
	Refunding Issued 7-1-03		Refunding Issued 9-1-04		Refunding Issued 6-1-05		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2008	2.40%	\$ 155,000	4.00%	\$ 70,000		\$ —	\$ 529,000
2009	2.60	155,000	4.00	90,000		—	564,000
2010	2.80	160,000	4.00	95,000	3.10%	170,000	585,000
2011	3.10	165,000	4.00	115,000	3.20	175,000	570,000
2012	3.25	165,000	3.50	120,000	3.30	185,000	591,000
2013		—	3.60	220,000	3.40	200,000	546,000
2014		—	3.70	250,000	3.50	200,000	560,000
2015		—	3.80	250,000	3.60	270,000	595,000
2016		—		—	3.65	290,000	370,000
2017		—		—	3.75	130,000	210,000
2018		—		—		—	90,000
Total		\$ 800,000		\$ 1,210,000		\$ 1,620,000	\$ 5,210,000

Schedule of Bond and Note Maturities

At June 30, 2007

Year Ending June 30,	General Obligation Notes					Revenue Notes				
	Corporate Purpose Issued 5-29-03		Refunding Issued 6-1-04		Total	Road Use Tax Issued 6-24-99		Urban Renewal Issued 11-1-05		Total
	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount	Interest Rates	Amount	
2008	4.00%	\$ 20,000	2.85%	\$ 74,000	\$ 94,000	5.10%	\$ 35,000	2.00%	\$ 8,429	\$ 43,429
2009	4.00	20,000	3.22	77,000	97,000	5.20	50,000	2.00	8,606	58,606
2010	4.00	20,000	—	—	20,000	5.30	55,000	2.00	8,781	63,781
2011	4.00	20,000	—	—	20,000	5.35	70,000	2.00	8,960	78,960
2012	4.00	20,000	—	—	20,000	5.40	75,000	2.00	9,140	84,140
2013	4.00	20,000	—	—	20,000	5.45	80,000	2.00	9,329	89,329
2014	4.00	20,000	—	—	20,000	5.50	80,000	2.00	9,519	89,519
2015	4.00	20,000	—	—	20,000	—	—	2.00	9,713	9,713
2016	4.00	20,000	—	—	20,000	—	—	2.00	9,910	9,910
2017	—	—	—	—	—	—	—	2.00	5,005	5,005
Total		\$ 180,000		\$ 151,000	\$ 331,000		\$ 445,000		\$ 87,392	\$ 532,392

Schedule of Bond and Note Maturities

At June 30, 2007

Year Ending June 30,	Revenue Bonds									
	Urban Renewal Issued 2-13-03		Water Utility Issued 3-13-03		Sewer Utility Issued 7-1-03		Urban Renewal Issued 12-23-03		Water 2004B Issued 7-8-04	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2008	3.40%	\$ 35,000	3.00%	\$ 55,000	3.00%	\$ 122,000	4.00%	\$ 7,700	3.50%	\$ 20,000
2009	3.40	35,000	3.50	55,000	3.00	126,000	4.00	8,100	3.50	20,000
2010	4.00	35,000	4.00	60,000	3.00	129,000	4.00	8,300	3.50	20,000
2011	4.00	40,000	4.00	60,000	3.00	133,000	4.00	8,700	4.50	20,000
2012	4.20	40,000	4.00	65,000	3.00	137,000	4.00	9,100	4.50	20,000
2013	4.20	40,000	4.00	65,000	3.00	141,000	4.00	9,400	4.50	20,000
2014	4.40	45,000	4.10	70,000	3.00	146,000	4.00	9,700	4.75	25,000
2015	4.40	45,000	4.20	70,000	3.00	150,000	4.00	10,100	4.75	25,000
2016	4.75	50,000	4.30	75,000	3.00	155,000	4.00	10,500	4.75	25,000
2017	4.75	50,000	4.40	80,000	3.00	159,000	4.00	11,100	5.00	25,000
2018	4.75	55,000	4.50	85,000	3.00	164,000	4.00	11,500	5.00	25,000
2019	—	—	4.60	85,000	3.00	169,000	4.00	11,900	5.00	30,000
2020	—	—	4.70	90,000	3.00	174,000	4.00	12,500	—	—
2021	—	—	4.80	95,000	3.00	179,000	—	—	—	—
2022	—	—	4.90	100,000	3.00	185,000	—	—	—	—
2023	—	—	4.90	105,000	3.00	190,000	—	—	—	—
2024	—	—	—	—	3.00	196,000	—	—	—	—
Total		\$ 470,000		\$ 1,215,000		\$ 2,655,000		\$ 128,600		\$ 275,000

Year Ending June 30,	Revenue Bonds				Total	Lease Purchase Agreement	
	Tax Increment Financing Issued 1-10-05		Water Pollution Control Issued 1-10-05			VeraSun Issued 12-5-06	
	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount
2008		\$ —	3.50%	\$ 10,000	\$ 249,700	5.70%	\$ 75,555
2009	4.50%	6,000	3.50	12,000	262,100	5.70	79,976
2010	4.50	12,000	3.50	12,000	276,300	5.70	84,656
2011	4.50	12,000	3.50	12,000	285,700	5.70	89,609
2012	4.50	14,000	3.50	12,000	297,100	5.70	94,853
2013	4.50	15,000	3.50	13,000	303,400	5.70	100,403
2014	4.50	16,000	3.50	14,000	325,700	5.70	106,278
2015	4.50	18,000	—	—	318,100	5.70	112,496
2016	4.50	18,000	—	—	333,500	5.70	119,079
2017	4.50	20,000	—	—	345,100	5.70	126,046
2018	4.50	22,000	—	—	362,500	5.70	133,422
2019	4.50	23,000	—	—	318,900	5.70	141,229
2020	4.50	25,000	—	—	301,500	5.70	71,648
2021	4.50	26,000	—	—	300,000	—	—
2022	4.50	28,000	—	—	313,000	—	—
2023	—	—	—	—	295,000	—	—
2024	—	—	—	—	196,000	—	—
Total		\$ 255,000		\$ 85,000	\$ 5,083,600		\$ 1,335,250

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

Years Ended June 30, 2004 Through 2007

	2007	2006	2005	2004
Receipts				
Property tax	\$ 2,342,749	\$ 2,288,779	\$ 2,010,746	\$ 1,957,012
Tax increment financing collections	1,446,835	1,409,929	1,278,706	1,041,109
Other city tax	780,460	751,310	741,546	683,241
Licenses and permits.....	73,198	80,847	98,716	83,065
Use of money and property	301,274	667,531	545,075	504,074
Intergovernmental.....	2,493,665	2,578,251	4,107,983	3,544,646
Charges for service	843,353	459,281	468,856	191,815
Special assessments.....	2,735	3,633	1,623	2,537
Miscellaneous.....	<u>610,435</u>	<u>418,135</u>	<u>595,563</u>	<u>779,523</u>
Total Receipts	<u>\$ 8,894,704</u>	<u>\$ 8,657,696</u>	<u>\$ 9,848,814</u>	<u>\$ 8,787,022</u>
Disbursements				
Operating				
Public safety.....	\$ 1,912,405	\$ 1,846,906	\$ 1,799,353	\$ 1,365,921
Public works.....	1,063,393	737,060	423,513	643,890
Health and social services	494,914	501,019	472,537	464,085
Culture and recreation	784,743	757,459	598,711	693,883
Community and economic development.....	1,820,229	2,181,687	2,329,510	2,877,316
General government	666,212	610,326	665,739	735,954
Debt service.....	1,466,941	692,919	1,638,919	1,429,633
Capital projects.....	<u>1,449,244</u>	<u>883,349</u>	<u>3,599,929</u>	<u>3,120,287</u>
Total Disbursements	<u>\$ 9,658,081</u>	<u>\$ 8,210,725</u>	<u>\$ 11,528,211</u>	<u>\$ 11,330,969</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

Grantor/Program Title	CFDA Number	Agency Pass-Through Number	Program Expendi- tures
Direct			
U.S. Department of Housing and Urban Development			
Section 8 Housing Choice Vouchers	14.871	KC-9079V	\$ 669,386
Public Housing Capital Fund			
Fiscal Year 2004	14.872	IA05POO250103	4,460
Fiscal Year 2005	14.872	IA05POO250104	3,675
Fiscal Year 2006	14.872	IA05POO250105	97,712
Public and Indian Housing	14.850	IA00200104J	<u>119,588</u>
			<u>894,821</u>
Department of Justice			
Bulletproof Vest Partnership Program	16.607		<u>1,048</u>
U. S. Department of Transportation			
Airport Improvement Program.....	20.106	3-19-0015-04-2004	<u>72,900</u>
Corporation for National and Community Service			
Foster Grandparent Program.....	94.011	01SFNA003	<u>288,572</u>
Total Direct			<u>1,257,341</u>
Indirect			
U.S. Department of Housing and Urban Development			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228		<u>188,398</u>
U.S. Department of Transportation			
Highway Planning and Construction	20.205		<u>128,021</u>
Department of Homeland Security			
Iowa Department of Public Defense			
Iowa Homeland Security and Emergency Management Division			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		<u>44,126</u>
Total Indirect			<u>360,545</u>
Total			<u>\$ 1,617,886</u>

Basis of Presentation

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

Subrecipients

The City of Charles City, Iowa, provided no federal awards to subrecipients.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

To the Honorable Mayor and
Members of the City Council
City of Charles City, Iowa

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 Charles City, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 15, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Charles City, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the City of Charles City, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Charles City, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Charles City, Iowa's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the City of Charles City, Iowa's financial statements that is more than inconsequential will not be prevented or detected by the City of Charles City, Iowa's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 07-IC-1, 07-IC-2 and 07-IC-4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Charles City, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance 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, 2007 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 City of Charles City, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Charles City, Iowa's responses and, accordingly, we express no opinion on them.

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

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
November 15, 2007

Independent Auditor's Report on Compliance With Requirements Applicable to the Major Programs and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Charles City, Iowa

Compliance

We have audited the compliance of the City of Charles City, Iowa, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2007. The City of Charles City, Iowa's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Charles City, Iowa's management. Our responsibility is to express an opinion on the City of Charles City, Iowa's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether 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 City of Charles City, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Charles City, Iowa's compliance with those requirements.

In our opinion, the City of Charles City, Iowa, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City of Charles City, Iowa, 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 City of Charles City, Iowa's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Charles City, Iowa's internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Charles City, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Charles City, Iowa'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 Charles City, Iowa, and other parties to whom the City of Charles City, Iowa, 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.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
November 15, 2007

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Part I: Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued:

Unqualified - Cash Receipts and Disbursements Basis of Accounting

Internal control over financial reporting:

Material weakness identified?

yes no

Significant deficiencies identified not considered to be material weaknesses?

yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

Material weakness identified?

yes no

Significant deficiencies identified not considered to be material weakness?

yes none reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?

yes no

Identification of major programs:

CFDA Number

14.871
14.228

Name of Federal Program or Cluster

Section 8 Housing Choice Vouchers
Community Development Block
Grants/State's Program and
Non-Entitlement Grants in Hawaii

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Part II: Findings Related to the Financial Statements:

Instances of Noncompliance

There were no prior year or current year instances of noncompliance identified.

Significant Deficiencies

Current year significant deficiencies are as follows.

07-IC-1 Segregation of Duties

Finding and Recommendation - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person. We also noted the same individual that reconciles the bank statement also has access to the blank check stock and the signature stamp.

Auditor's Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

City's Response - We will consider this.

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

07-IC-2 Internal Service Fund

Finding and Recommendation - The activity of the Internal Service Fund is not being recorded.

Auditor's Recommendation - As it is a required part of the financial statements, we recommend that the City start accounting for the activity of the Internal Service Fund.

City's Response - Internal service fund transactions will be recorded properly.

Auditor's Conclusion - Response accepted.

07-IC-3 Tax Increment Financing Debt Certification

Finding and Recommendation - We reviewed the TIF Debt Certification and noted that the nonrefunded portion of the 1999 bonds were not included. We also noted that several projects that were included in the TIF Debt Certification could not be verified with supporting documentation.

Auditor's Recommendation - We recommend that the City reconcile their TIF Debt Certification to their outstanding debt before certifying.

City's Response - The City will correct its TIF Debt Certification.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

07-IC-4 Deposits

Finding and Recommendation - We noted that the City does not keep track of the individual items that comprise each deposit.

Auditor's Recommendation - We recommend that the City find a way to document the detail of each deposit made.

City's Response - A listing of checks included in each deposit will be made and retained.

Auditor's Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Noncompliance

There were no current year instances of noncompliance identified. The instance of noncompliance noted in the prior year was remediated.

Significant Deficiencies

There were no prior year or current year matters reported.

Part IV: Other Findings Related to Statutory Reporting

07-IV-A Certified Budget - Disbursements during the year ended June 30, 2007 exceeded the amount 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.

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

City's Response - Future budgets will be amended properly and in sufficient amounts to ensure the certified budget is not exceeded.

Auditor's Conclusion - Response accepted.

07-IV-B Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Hy-Vee	Flowers for funeral	\$53

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose are very thin.

Auditor's Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

City's Response - We will comply with this recommendation.

Auditor's Conclusion - Response accepted.

07-IV-C Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted. No travel advances to City officials or employees were noted.

07-IV-D Business Transactions - Business transactions between the City and City officials which may appear to be conflicts of interest are as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jerry Joerger, Council Member, Owner of Yeg's Sports	Miscellaneous supplies	\$130

In accordance with Chapter 362.5(10) of the Code of Iowa, the amount does not appear to represent a conflict of interest. The amount is less than \$1,500 and bids were not required.

07-IV-E 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.

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

Although minutes of Council proceeds were published within 15 days of the meeting as required by Chapter 372.13(6) of the Code of Iowa, they did not include total disbursements from each fund.

Auditor's Recommendation - The City should comply with the Code of Iowa and include disbursements from each fund in the minutes of Council proceedings.

City's Response - Disbursement breakdown by fund will be included in the minutes published from each Council meeting.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2007

07-IV-G Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

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

07-IV-I Financial Condition - The Special Revenue Funds, CDBG Grant, East Park Tax Increment Financing and RUOK had deficit balances at June 30, 2007 of \$68,326, \$7,638 and \$80, respectively. The Debt Service Fund had a deficit balance at June 30, 2007 of \$216,035. The Capital Projects Fund, Suspension Bridge, had a deficit balance at June 30, 2007 of \$12,593. The Enterprise Fund, Transit, had a deficit balance at June 30, 2007 of \$3,852.

Auditor's Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

City's Response - The City will investigate alternatives.

Auditor's Conclusion - Response accepted.

07-IV-J Rates and Charges - The City raised waste rates for composting operations without passing a resolution.

Auditor's Recommendation - Rates must be established by ordinance of the Council or by resolution and published in the same manner as an ordinance in accordance with Chapter 384.84 of the Code of Iowa.

City's Response - Future rate changes will be established by ordinance of the Council or by resolution and published in the same manner as an ordinance in accordance with Chapter 384.84 of the Code of Iowa.

Auditor's Conclusion - Response accepted.

07-IV-K Official Depositories - A resolution naming official depositories has been adopted by the City. However, the City deposits exceeded the maximum approved amount for one institution during the year. Also, the City did not name one of the depositories in which it held funds during the year.

Auditor's Recommendation - The City should monitor and update its depository resolution as its cash balances fluctuate and add depositories to the resolution as necessary.

City's Response - We will review and change depository resolutions as needed.

Auditor's Response - Response accepted.