

CITY OF CARSON

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

JUNE 30, 2007

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CITY OF CARSON

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lyndon K. Taylor	Mayor	January 2008
Bruce Damgaard	Mayor Pro-Tem	January 2008
Gladys Sick	Council Member	January 2008
Don Hendricks	Council Member	January 2011
Clifford Pracht	Council Member	January 2011
Joseph Riddle	Council Member	January 2011
Brianne Duede	City Clerk	Indefinite
Kristina Hansen	City Treasurer	Indefinite
Richard Heininger	City Attorney	Indefinite

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

August 23, 2007

Lonnie G. Muxfeldt
Certified Public
Accountant

Independent Auditor's Report

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To the Honorable Mayor and
Members of the City Council:

I 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 Carson, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Carson's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that I 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 principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

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

Continued . . .

August 23, 2007

Page Two

To the Honorable Mayor and
Members of the City Council:

In my 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 Carson as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 23, 2007 on my consideration of the City of Carson's internal control over financial reporting and my 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 my 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 9, and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Carson's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2006. The financial statements for the two years ended June 30, 2005 (which are not presented herein) were audited by another auditor that expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information, included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 Welford Associates, CPA, P.C.

CITY OF CARSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

As management of the City of Carson, Iowa we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the City's basic financial statements. The statements consist of three components: 1) a cash basis government-wide financial statement, 2) cash basis fund financial statements, and 3) notes to the financial statements.

Government-wide financial statement: The Statement of Activities and Net Assets provides information about the activities of the City and presents an overview of the City's finances.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Tax, and Urban Renewal Tax Increment, 3) Debt Service Fund, and 4) the Capital Projects Funds, such as the Waste Water Treatment Plant, the Community Center, the Lewis/Lariviere Subdivision and the Tibbles Subdivision projects. The governmental fund financial statements focus on 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 to finance the City's programs and infrastructure needs.
- 2) Proprietary funds account for the City's Enterprise Funds and report business type activities. The City maintains three Enterprise Funds to provide information on the water, sewer and garbage operations.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Analysis of significant changes in financial position and fund balances: The cash balances for governmental activities decreased \$448,427 for the fiscal year ended June 30, 2007. Grants and contributions funded completion of the community center and grant and capital loan notes financed a majority of the wastewater treatment plant.

The following is the changes in the cash basis net assets of the City's governmental activities:

	Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for services	\$ 59,201	\$ 40,487
Operating grants, contributions and restricted interest	114,244	95,555
Capital grants, contributions and restricted interest	849,336	946,213
General receipts:		
Property tax	363,604	349,774
Local option sales tax	77,705	83,583
Unrestricted investment earnings	914	1,342
Loan proceeds	858,123	1,187,901
Sale of assets	3,112	-0-
Total receipts	<u>2,326,239</u>	<u>2,704,855</u>
Disbursements:		
Public safety	114,071	129,467
Public works	70,489	78,928
Culture and recreation	20,793	30,897
Community and economic development	205,412	205,902
General government	58,873	84,268
Debt service	74,340	57,224
Capital projects	2,230,688	1,751,328
Total disbursements	<u>2,774,666</u>	<u>2,338,014</u>
Increase (decrease) in cash basis net assets	(448,427)	366,841
Cash basis net assets, beginning of year	<u>438,258</u>	<u>71,417</u>
Cash basis net assets, end of year	<u>\$ (10,169)</u>	<u>\$ 438,258</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The City's cash balances of the business type activities decreased \$43,592 for the fiscal year ended June 30, 2007. The decrease is attributable to the principal and interest payments on the Sewer Revenue Notes.

The following is the changes in the cash basis net assets of the City's business type activities:

Changes in Cash Basis Net Assets of Business Type Activities			
Year ended June 30,			
	2007		2006
Receipts:			
Program receipts:			
Charges for services and sales:			
Water	\$ 95,752	\$	92,535
Sewer	98,776		96,042
Garbage	54,784		53,878
General receipts:			
Interest	37		35
Meter deposits	575		875
Miscellaneous	2,039		1,167
Total receipts	<u>251,963</u>		<u>244,532</u>
Disbursements:			
Water	106,473		104,008
Sewer	136,957		90,727
Garbage	52,125		66,199
Total disbursements	<u>295,555</u>		<u>260,934</u>
Increase (decrease) in cash basis net assets	(43,592)		(16,402)
Cash basis net assets, beginning of year	<u>83,632</u>		<u>100,034</u>
Cash basis net assets, end of year	<u>\$ 40,040</u>	\$	<u>83,632</u>

Analysis between actual and budget amounts: The City amended its budget on May 7, 2007. The amended budget increased revenue by \$1,046,453 and increased disbursements by \$1,468,622, the majority of which was related to the capital projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Debt Administration: At June 30, 2007, the City had \$2,254,985 in notes and other long-term debt, an eleven percent increase over the prior year.

Outstanding Debt at Year-End		
	2007	2006
General Obligation Notes	\$ 1,314,984	\$ 1,779,254
Revenue Capital Loan Notes	929,000	237,176
Lease Purchase Agreement	11,001	16,122
Total	\$ 2,254,985	\$ 2,032,552

Debt increased as a result of a \$135,000 capital loan note for the storm sewer infrastructure in the Lewis/Lariviere Subdivision. The construction of the Wastewater Treatment Plant was capitalized by \$729,823 of sewer revenue notes via Iowa's Clean Water State Revolving Funds program.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1.3 million is within its constitutional debt limit of \$1.5 million. Bond counsel has recommended that the City maintain a \$200,000 reserve for emergencies.

Future financial statement impact: In 2005 the City designated the Lewis/Lariviere Subdivision and the Tibbles Subdivision as two new separate urban renewal tax increment finance areas of the City. As housing and/or commercial developments in these subdivisions grow, the City's tax increment financing collections will grow. The City's general fund will not see any increased revenue due to this expansion in property tax values until the urban renewal areas sunset which will be in approximately 8 years.

Requests for information: Requests for additional information can be made to the Carson City Clerk, Brianne Duede, at 316 Commercial Street, PO Box 128, Carson, Iowa 51525.

BASIC FINANCIAL STATEMENTS

CITY OF CARSON

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 114,071	\$ 21,542	\$ 24,793	\$ -0-
Public works	70,489	-0-	55,674	-0-
Cultures and recreation	20,793	4,943	123	-0-
Community and economic development	205,412	-0-	-0-	114,130
General government	58,873	6,778	7,116	-0-
Debt service	74,340	-0-	-0-	-0-
Capital projects	2,230,688	25,938	26,538	735,206
Total governmental activities	2,774,666	59,201	114,244	849,336
Business type activities:				
Water	106,473	97,335	-0-	-0-
Sewer	136,957	98,826	-0-	-0-
Sanitation	52,125	55,765	-0-	-0-
Total business type activities	295,555	251,926	-0-	-0-
Total	\$ 3,070,221	\$ 311,127	\$ 114,244	\$ 849,336
General receipts:				
Property taxes levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted investment earnings				
Sale of assets				
Loan proceeds				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets, beginning of year				
Cash basis net assets, end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal				
Debt service				
Water meter deposits				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

EXHIBIT A

Net (Disbursements), Receipts and Changes in Cash Basis Net Assets					
Governmental Activities		Business Type Activities		Total	
\$	(67,736)	\$	-0-	\$	(67,736)
	(14,815)		-0-		(14,815)
	(15,727)		-0-		(15,727)
	(91,282)		-0-		(91,282)
	(44,979)		-0-		(44,979)
	(74,340)		-0-		(74,340)
	(1,443,006)		-0-		(1,443,006)
	<u>(1,751,885)</u>		<u>-0-</u>		<u>(1,751,885)</u>
	-0-		(9,138)		(9,138)
	-0-		(38,131)		(38,131)
	-0-		3,640		3,640
	<u>-0-</u>		<u>(43,629)</u>		<u>(43,629)</u>
	(1,751,885)		(43,629)		(1,795,514)
	71,890		-0-		71,890
	77,373		-0-		77,373
	214,341		-0-		214,341
	77,705		-0-		77,705
	914		37		951
	3,112		-0-		3,112
	858,123		-0-		858,123
	<u>1,303,458</u>		<u>37</u>		<u>1,303,495</u>
	(448,427)		(43,592)		(492,019)
	<u>438,258</u>		<u>83,632</u>		<u>521,890</u>
\$	<u>(10,169)</u>	\$	<u>40,040</u>	\$	<u>29,871</u>
\$	23,572	\$	-0-	\$	23,572
	482,374		-0-		482,374
	2,941		-0-		2,941
	-0-		4,144		4,144
	(519,056)		35,896		(483,160)
\$	<u>(10,169)</u>	\$	<u>40,040</u>	\$	<u>29,871</u>

CITY OF CARSON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	General	Special Revenue Urban Renewal Tax Increment
Receipts:		
Property tax	\$ 62,091	\$ -0-
Tax increment financing	-0-	211,693
Other city tax	-0-	-0-
Licenses and permits	1,987	-0-
Use of money and property	622	-0-
Intergovernmental	20,647	114,130
Charges for services	22,345	-0-
Miscellaneous	20,316	-0-
Total receipts	<u>128,008</u>	<u>325,823</u>
Disbursements:		
Operating:		
Public safety	114,071	-0-
Public works	142	-0-
Culture and recreation	20,793	-0-
Community and economic development	-0-	205,412
General government	47,720	-0-
Debt service	-0-	-0-
Capital projects	-0-	-0-
Total disbursements	<u>182,726</u>	<u>205,412</u>
Excess (deficiency) of receipts over (under) disbursements	(54,718)	120,411
Other financing sources (uses):		
Loan proceeds	-0-	-0-
Sale of capital assets	-0-	3,112
Operating transfers in	77,705	-0-
Operating transfers out	-0-	-0-
Total other financing sources (uses)	<u>77,705</u>	<u>3,112</u>
Net change in cash balances	22,987	123,523
Cash balances, beginning of year	<u>(135,541)</u>	<u>358,851</u>
Cash balances, end of year	<u>\$ (112,554)</u>	<u>\$ 482,374</u>
Cash Basis Fund Balances		
Reserved for debt service	\$ -0-	\$ -0-
Unreserved:		
General fund	(112,554)	-0-
Special revenue funds	-0-	482,374
Capital projects funds	-0-	-0-
Total cash basis fund balances	<u>\$ (112,554)</u>	<u>\$ 482,374</u>

See notes to financial statements.

EXHIBIT B

Capital Projects		Other Non-major Governmental Funds		Total
Community Center	Wastewater Treatment Plant			
\$ -0-	\$ -0-	\$ 87,172	\$	149,263
-0-	-0-	2,648		214,341
-0-	-0-	77,705		77,705
-0-	-0-	-0-		1,987
19,462	-0-	-0-		20,084
1,000	359,853	101,674		597,304
33,802	-0-	-0-		56,147
<u>327,857</u>	<u>-0-</u>	<u>-0-</u>		<u>348,173</u>
382,121	359,853	269,199		1,465,004
-0-	-0-	-0-		114,071
-0-	-0-	70,347		70,489
-0-	-0-	-0-		20,793
-0-	-0-	-0-		205,412
-0-	-0-	11,153		58,873
-0-	-0-	74,340		74,340
<u>850,163</u>	<u>1,131,209</u>	<u>249,316</u>		<u>2,230,688</u>
<u>850,163</u>	<u>1,131,209</u>	<u>405,156</u>		<u>2,774,666</u>
(468,042)	(771,356)	(135,957)		(1,309,662)
	727,323	130,800		858,123
-0-	-0-	-0-		3,112
-0-	-0-	-0-		77,705
-0-	-0-	(77,705)		(77,705)
<u>-0-</u>	<u>727,323</u>	<u>53,095</u>		<u>861,235</u>
(468,042)	(44,033)	(82,862)		(448,427)
<u>354,528</u>	<u>(21,894)</u>	<u>(117,686)</u>		<u>438,258</u>
\$ <u>(113,514)</u>	\$ <u>(65,927)</u>	\$ <u>(200,548)</u>	\$	<u>(10,169)</u>
\$ -0-	\$ -0-	\$ 2,941	\$	2,941
-0-	-0-	-0-		(112,554)
-0-	-0-	28,207		510,581
<u>(113,514)</u>	<u>(65,927)</u>	<u>(231,696)</u>		<u>(411,137)</u>
\$ <u>(113,514)</u>	\$ <u>(65,927)</u>	\$ <u>(200,548)</u>	\$	<u>(10,169)</u>

CITY OF CARSON

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES -
PROPRIETARY FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Water	Sewer
Operating receipts:		
Charges for services	\$ 95,752	\$ 98,776
Miscellaneous	1,008	50
Total receipts	96,760	98,826
Operating disbursements:		
Business type activities	106,473	75,029
Total disbursements	106,473	75,029
Operating income	(9,713)	23,797
Non-operating receipts (disbursements):		
Interest	37	-0-
Meter deposits	575	-0-
Debt service	-0-	(61,928)
Total non-operating receipts (disbursements)	612	(61,928)
Net change in cash balances	(9,101)	(38,131)
Cash balances, beginning of year	86,630	74,313
Cash balances, end of year	\$ 77,529	\$ 36,182
Cash Basis Fund Balances		
Reserved for meter deposits	\$ 4,144	\$ -0-
Unreserved	73,385	36,182
Total cash basis fund balances	\$ 77,529	\$ 36,182

See notes to financial statements.

	<u>Garbage</u>		<u>Total</u>
\$	54,784	\$	249,312
	<u>981</u>		<u>2,039</u>
	55,765		251,351
	<u>52,125</u>		<u>233,627</u>
	52,125		233,627
	3,640		17,724
	-0-		37
	-0-		575
	<u>-0-</u>		<u>(61,928)</u>
	<u>-0-</u>		<u>(61,316)</u>
	3,640		(43,592)
	<u>(77,311)</u>		<u>83,632</u>
\$	<u>(73,671)</u>	\$	<u>40,040</u>
\$	-0-	\$	4,144
	<u>(73,671)</u>		<u>35,896</u>
\$	<u>(73,671)</u>	\$	<u>40,040</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Carson is a political subdivision of the State of Iowa located in Pottawattamie County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general governmental services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City 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 associations: Carson Business Club, Southwest Iowa Clerk's Association, Iowa Municipal Finance Association, Iowa League of Cities, Western Iowa Development Association, MAPA, SWIPCO, Iowa Rural Water Works Association, Southwest Iowa Coalition, and International Municipal Clerk's Institute.

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

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

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

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

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include: 1) charges to customers or applicants whose purchase or use 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 non-major governmental funds.

The City reports the following major governmental funds:

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

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

B. Basis of Presentation (Cont'd)

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

Capital Projects:

The Community Center Fund is utilized to account for the resources used in the construction of the Carson Community Center.

The Wastewater Treatment Plant Fund is utilized to account for all resources used in the construction of the wastewater treatment plant.

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 sewer system.

The City also reports the following additional non-major funds:

Special Revenue:

The Local Option Tax Fund accounts for the local option sales tax received and transferred to the General Fund.

The Road Use Tax Fund accounts for road construction and maintenance.

The Employee Benefit Levy Fund accounts for the tax levy to support City employee benefits.

The Tort Liability Fund accounts for the tax levy to support the City's insurance.

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

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

B. Basis of Presentation (Cont'd)

Capital Projects Funds:

The Tibbles Subdivision Fund accounts for the resources used in the construction of the Tibbles Subdivision.

The Lewis/Lariviere Fund accounts for all resources used in the construction of the infrastructure in that subdivision.

The non-major proprietary fund is the garbage fund which accounts for the operation and maintenance of the City's garbage service.

C. Measurement Focus and Basis of Accounting

The City of Carson maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the general government, debt service, capital projects and business type activities functions.

**CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 2 DEPOSITS AND INVESTMENTS

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

As of June 30, 2007, the City's cash balance was \$29,871 and consisted of cash on hand, cash in bank and certificates of deposit which were held within the State of Iowa in the City's name.

NOTE 3 NOTES PAYABLE

Annual debt service requirements to maturity for general obligation notes, sewer revenue notes and a lease purchase agreement are as follows:

Year Ending June 30,	General Obligation Notes		Urban Renewal General Obligation Notes	
	Principal	Interest	Principal	Interest
2008	\$ 306,644	\$ 55,008	\$ 50,000	\$ 15,152
2009	145,000	35,007	55,000	13,058
2010	150,000	27,585	55,000	10,660
2011	160,000	19,674	55,000	8,187
2012	130,000	14,364	130,000	13,637
2013-2017	78,340	3,487	-0-	-0-
2018-2022	-0-	-0-	-0-	-0-
2023-2026	-0-	-0-	-0-	-0-
Total	\$ 969,984	\$ 155,125	\$ 345,000	\$ 60,694

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 3 NOTES PAYABLE (Continued)

Year Ending June 30,	Sewer Revenue Notes		Tractor Lease Purchase		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 40,000	\$ 28,020	\$ 5,370	\$ 534	\$ 402,014	\$ 98,714
2009	41,000	26,820	5,631	274	246,631	75,159
2010	41,000	25,590	-0-	-0-	246,000	63,835
2011	42,000	24,360	-0-	-0-	257,000	52,221
2012	44,000	23,100	-0-	-0-	304,000	51,101
2013-2017	241,000	94,980	-0-	-0-	319,340	98,467
2018-2022	280,000	56,460	-0-	-0-	280,000	56,460
2023-2026	200,000	13,380	-0-	-0-	200,000	13,380
Total	\$ 929,000	\$ 292,710	\$ 11,001	\$ 808	2,254,985	\$ 509,337

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund.

The urban renewal tax increment financing general obligation capital loan notes were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project including street improvements for the Wilbur and Tibbles Subdivisions. The notes are payable solely from the income and proceeds of the Special Revenue Fund, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa.

The proceeds of the urban renewal tax increment financing general obligation notes shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The notes are a general obligation of the City; and the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the sewer revenue notes include the following provision:

- 1) Sewer user charges must be established at a level which produces and maintains net revenues at a level no less than 110% of principal and interest falling due in the same year.
- 2) No reserve fund or improvement fund is required for the State Revolving Fund loan.

NOTE 4 LEASE PURCHASE AGREEMENT

On November 17, 2004, the City entered into a lease purchase agreement with Deere Credit, Inc. The lease is a five year lease at the interest rate of 4.75% for a John Deere utility tractor, loader and mower to be used for City maintenance.

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5 PENSION AND RETIREMENT BENEFITS

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

Most regular plan members are required to contribute a 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$9,352, \$10,128, and \$8,638, respectively, equal to the required contributions for each year.

NOTE 6 COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation for payment upon termination, retirement or death and sick leave hours for subsequent use during employment. As of November 12, 2001, full-time employees may elect compensatory time in lieu of overtime pay. 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 payments payable to employees at June 30, 2007, is as follows:

Type of Benefit	Amount June 30, 2007
Vacation	\$ 5,472
Compensatory time	4,239
Total	\$ 9,711

This liability has been computed based on rates of pay in effect at June 30, 2007.

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 7 PROPERTY TAXES

Property taxes become an enforceable lien on property when they are certified to the County Board of Supervisors on or before March 15. Taxes are payable on September 30 and March 31, payment later than this results in a penalty. The County bills and collects property taxes and remits them to the City monthly.

NOTE 8 INTERFUND TRANSFERS

The following operating transfer was made to move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources: \$77,705 from the Special Revenue, Local Option Tax Fund to the General Fund.

NOTE 9 RELATED PARTY TRANSACTIONS

The City had the following business transactions between the City and relatives of City officials during the year ended June 30, 2007.

	Amount
Jon Taylor, owner JE Larson Construction	\$ 69,044
James Taylor, computer consulting and web hosting fees	<u>1,220</u>
Total	\$ <u><u>70,264</u></u>

NOTE 10 RISK MANAGEMENT

The City of Carson 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.

**CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 11 DEFICIT FUND BALANCES

At June 30, 2007, the City had the following deficit fund balances:

General Fund	\$	112,554
Special Revenue, Tort Liability Levy Fund		151
Capital Projects, Community Center		113,514
Capital Projects, Wastewater Treatment Plant		65,927
Capital Projects, Lewis/Lariviere Subdivision		106,679
Capital Projects, Tibbles Subdivision		125,017
Proprietary, Garbage Fund		73,671
Total	\$	<u>597,513</u>

The General Fund has had a deficit balance for the past three years. Efforts to reduce the deficit include improved collections for ambulance calls and salaries for the City Clerk and City Treasurer paid from the proprietary funds. The Capital Projects deficits will be eliminated upon receipts of grants and other financing sources. The Garbage Fund deficit will be eliminated by fees for services.

NOTE 12 URBAN RENEWAL

Carson Urban Renewal Area

On September 13, 1999, the City established the Carson Urban Renewal Area which included the entire area within the corporate boundaries of the City except for four agricultural properties. The objectives of the plan included the stimulation of new residential development, the efficient construction of street, water, storm sewer and sanitary sewer improvements to support housing development and an increase in affordable housing units in the City. The area principally served by the plan is the Wilbur Subdivision.

On September 12, 2005, the City adopted Amendment No. 1 to the Carson Urban Renewal Area. The amendment determined an area of the City to be blighted and provided for its rehabilitation, conservation, redevelopment, and development as in the interest of the public health, safety or welfare of the residents of the City.

Lewis/Lariviere Urban Renewal Area

In June 2004, the City established the Lewis/Lariviere Urban Renewal Area and designated the area as an economic development district. In December 2004, the area was expanded to include a parcel of the commercial district by the adoption of Amendment No. 1. The objectives of the plan are commercial and residential development south of Highway 92.

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 12 URBAN RENEWAL (Continued)

Tibbles Urban Renewal Area

On April 11, 2005, the City established the Tibbles Urban Renewal Area and designated the Tibbles Subdivision as an economic development district to promote new residential development. The Tibbles subdivision is located west of the Nishnabotna River.

NOTE 13 IOWA WEST FOUNDATION GRANTS

Fire Department Grant

During the fiscal year, the Carson Volunteer Fire Department received grants totaling \$4,942 from the Iowa West Foundation for miscellaneous fire equipment.

Fitness Center

In February 2007, the City was awarded a \$10,000 grant for the development of a fitness center and the acquisition of exercise equipment in the new community center. The 50/50 matching grant was received in February 2007 and expires March 31, 2008.

Website/Needs Assessment

In May 2007, the City was awarded a \$1,300 grant to support development of the City's website and the City's needs assessment survey. The 50/50 matching grant was received in May 2007 and expires March 31, 2008.

Lighting Upgrades

In November 2006, the City was awarded \$3,000 grant for downtown lighting upgrades. The 50/50 matching grant was received in November 2006. The local match was provided by the Carson Business Community Club. The grant expires December 31, 2007.

Nishna Loop Signage

In the fall of 2004, the City was awarded a 50/50 matching grant for the Nishna Loop community enhancement project which included lighting and landscaping of the City's sign west of town on Highway 92. The total estimated cost of the project was \$7,142. In January 2007, \$2,816 was received.

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 14 CDBG HOUSING REHABILITATION GRANT

In March 2005, the City was awarded a \$206,000 Community Development Block Grant (CDBG) from the Iowa Department of Economic Development. The project consists of the rehabilitation of eleven single family owner occupied units whose income is at or below the 50% area median income within the City. The total estimated cost of the project is \$270,000. For the year ended June 30, 2007, the City received \$114,130 of the CDBG grant funds and expended \$131,390 for the housing rehabilitation project.

NOTE 15 CITIES (Community Improvements to Increase Economic Stability) GRANT

On March 13, 2006, the City was awarded a grant from the Pottawattamie County Board of Supervisors in the amount of \$46,000 or 50% of the costs of construction of 1,800 LF of 8" sanitary sewer mains and installation of 5 manholes in Tibbles Subdivision. Also, the grant provides for the installation of rock surfacing on approximately 1,660 LF of Christy Drive. The total estimated cost of the project is \$92,000. The grant funds were received by February 28, 2007. The grant expired December 31, 2006.

NOTE 16 COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG)

Wastewater Treatment Plant

On May 28, 2003, the City was awarded a \$250,000 CDBG grant from the Iowa Department of Economic Development. The City's matching contribution is \$329,000. The City had received \$190,147 of the grant funds in the prior fiscal year. As of June 30, 2007, the City had received the remaining \$59,853. The grant expired November 30, 2006.

On March 18, 2005, the City was awarded a \$300,000 CDBG grant from the Iowa Department of Economic Development. The City's matching contribution is \$471,000. As of June 30, 2007, the City received \$300,000 of this CDBG grant. The grant expired November 30, 2006.

The total costs of the Wastewater Treatment Project through June 30, 2007 were \$1,600,927.

NOTE 17 MISCELLANEOUS GRANTS

In February 2007, the City received a \$2,007 grant from Thrivent Financial for Lutherans. The grant funded a community fire department appreciation dinner.

In February 2007, the City received a \$1,000 Please Trees Grant from MidAmerican Energy. The grant funded the purchase of trees for the community center.

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 18 COMMITMENTS

Water Tower Lease Agreement

On March 29, 2002, the City entered into a lease agreement with American Relay Company, LLC to lease space on the City's water tower in order to install, maintain, and operate radio communication equipment, antennas and appurtenances. The initial term was for five years at an annual rent of \$1,077 to be paid in the form of service credits for two Stratocruiser connections (high speed internet connections for city hall and the fire station). This agreement will automatically be extended for four additional five year terms each increased to \$1,200, \$1,300, \$1,400 and \$1,500 per term.

Development Agreement

On February 12, 2003, the City entered into a development agreement with Tibbles Farms, Inc. for the annexation of certain property to be included in the City's Urban Renewal Area as a Subdivision. This agreement includes the purchase of approximately 24 acres of Wildlife Preserve Property by the City and the City agrees to extend the water main and sewer main along Highway 92 so as to serve the Subdivision and Wildlife Preserve Property.

Billing Services Agreement

On February 19, 2007, the City renewed an agreement with the Physician's Claims Company, Inc. The Billing Service provides medical billings for the ambulance calls for a month fee of 10% of the gross amount collected on the City's behalf during the preceding month or 30% of the gross amount collected on any aged accounts. The initial term of the agreement was for two years and automatically will renew for successive one-year terms. Either party may terminate with 30 days notice.

Garbage Collection Service Agreement

On November 13, 2006, the City renewed an agreement with M & K Mills Tree Service, Inc. for the collection of garbage, rubbish, and recyclables. The contract runs from November 13, 2006 to November 13, 2009. The contracted amount per residential unit for up to four 32-gallon containers per week is \$8.75 per month. The contracted amount for commercial, industrial and institutional premises per yard per dump is \$4.50 and \$.75 per unit per month for recyclables.

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 19 CONTINGENCIES

Sewer Revenue Bonds

On June 12, 2007, the City entrusted the financing of \$59,000 Sewer Revenue Bonds to the Iowa Finance Authority and Wells Fargo Bank. This financing is in the form of Iowa State Revolving Fund Revenue Bonds at 3%. Bond maturities range from 2008 to 2027 and will finance the storm sewer infrastructure in the Tibbles Subdivision.

NOTE 20 SUBSEQUENT EVENTS

Law Enforcement Service Contract

The City renewed its Law Enforcement Services Contract with Pottawattamie County for the services of the Pottawattamie County Sheriff's Department as of July 1, 2007. The contract is payable in four installments of \$2,923 on July 1 and October 1, 2007 and January 1 and April 1, 2008.

CITIES Grant

On August 13, 2007, the City was awarded a CITIES (Community Improvements to Increase Economic Stability) Grant from the Pottawattamie County Board of Supervisors for the Rodeo Drive Storm Sewer Improvements. The grant award is \$30,000 and is a 50/50 matching grant. The project cost is estimated at \$60,000 with completion by December 2007. The grant will expire November 30, 2007.

Capital Loan Note

On July 2, 2007, the City authorized the issuance of a \$200,000 Capital Loan Note with Rolling Hills Bank & Trust to refinance the Community Center Grant Anticipation Note. The note bears interest at 6.0% and matures in 2018.

Gas and Electric Franchises

On August 13, 2007, the City passed an ordinance granting to MidAmerican Energy Company, its successors and assignees, the right and franchise to acquire, construct, erect, maintain, and operate a natural gas system in the City of Carson and to furnish and sell natural gas to the City and its inhabitants for a period of twenty-five years. The City also passed an ordinance granting MidAmerican Energy Company, its successors and assignees, the right and franchise to acquire, construct, erect, maintain and operate a system for the transmission and distribution of electric energy and communications signals to the City and its inhabitants for a period of twenty-five years. The franchises will expire in 2032.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CARSON

BUDGETARY COMPARISON SCHEDULE
 OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY
 FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 149,263	\$ -0-
Tax increment financing	214,341	-0-
Other city tax	77,705	-0-
Licenses and permits	1,987	-0-
Use of money and permits	20,084	35
Intergovernmental	597,304	-0-
Charges for services	56,147	251,963
Miscellaneous	348,173	-0-
Total receipts	<u>1,465,004</u>	<u>251,963</u>
Disbursements:		
Public safety	114,071	-0-
Public works	70,489	-0-
Culture and recreation	20,793	-0-
Community and economic development	205,412	-0-
General government	58,873	-0-
Debt service	74,340	-0-
Capital projects	2,230,688	-0-
Business type activities	-0-	295,555
Total disbursements	<u>2,774,666</u>	<u>295,555</u>
Excess (deficiency) of receipts over (under) disbursements	(1,309,662)	(43,592)
Other financing sources, net	<u>861,235</u>	<u>-0-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(448,427)	(43,592)
Balances beginning of year	<u>438,258</u>	<u>83,632</u>
Balances end of year	\$ <u>(10,169)</u>	\$ <u>40,040</u>

See Accompanying Independent Auditor's Report

	Total	Budgeted Amounts		Final to Total Variance
		Original	Final	
\$	149,263	\$ 144,273	\$ 144,273	\$ 4,990
	214,341	475,651	478,763	(264,422)
	77,705	80,851	80,851	(3,146)
	1,987	2,450	2,450	(463)
	20,084	900	25,880	(5,796)
	597,304	419,977	600,236	(2,932)
	308,110	272,330	281,509	26,601
	348,173	6,900	362,700	(14,527)
	<u>1,716,967</u>	<u>1,403,332</u>	<u>1,976,662</u>	<u>(259,695)</u>
	114,071	107,958	117,819	3,748
	70,489	56,272	75,555	5,066
	20,793	25,527	26,149	5,356
	205,412	277,993	278,152	72,740
	58,873	51,414	57,929	(944)
	74,340	72,048	72,048	(2,292)
	2,230,688	812,650	2,218,772	(11,916)
	295,555	252,385	272,445	(23,110)
	<u>3,070,221</u>	<u>1,656,247</u>	<u>3,118,869</u>	<u>48,648</u>
	(1,353,254)	(252,915)	(1,142,207)	(211,047)
	<u>861,235</u>	<u>550,000</u>	<u>1,023,123</u>	<u>(161,888)</u>
	(492,019)	297,085	(119,084)	(372,935)
	<u>521,890</u>	<u>521,890</u>	<u>521,890</u>	<u>-0-</u>
\$	<u>29,871</u>	\$ <u>818,975</u>	\$ <u>402,806</u>	\$ <u>(372,935)</u>

CITY OF CARSON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2007

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 for Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund 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 non-program. 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, a budget amendment increased budgeted disbursements by \$1,462,622. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the general government, debt service, capital projects and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CARSON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue		
	Local Option Tax	Road Use	Employee Benefits
Receipts:			
Property taxes	\$ -0-	\$ -0-	\$ 4,901
Tax Increment financing	-0-	-0-	-0-
Other city taxes	77,705	-0-	-0-
Intergovernmental	-0-	55,674	-0-
Total receipts	<u>77,705</u>	<u>55,674</u>	<u>4,901</u>
Disbursements:			
Operations:			
Public works	-0-	70,347	-0-
General government	-0-	-0-	6,153
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	<u>-0-</u>	<u>70,347</u>	<u>6,153</u>
Excess (deficiency) of receipts over (under) disbursements	77,705	(14,673)	(1,252)
Other financing sources (uses):			
Loan proceeds	-0-	-0-	-0-
Transfers out	(77,705)	-0-	-0-
Net financing sources (uses)	<u>(77,705)</u>	<u>-0-</u>	<u>-0-</u>
Net changes in cash balances	-0-	(14,673)	(1,252)
Cash balances, beginning of year	<u>-0-</u>	<u>38,245</u>	<u>6,038</u>
Cash balances, end of year	\$ <u>-0-</u>	\$ <u>23,572</u>	\$ <u>4,786</u>
Cash Basis Fund Balances			
Unreserved:			
Special Revenue	\$ -0-	\$ 23,572	\$ 4,786
Debt Service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total cash basis fund balances	\$ <u>-0-</u>	\$ <u>23,572</u>	\$ <u>4,786</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 1

	Tort Liability	Debt Service	Capital Projects		Total
			Tibbles Subdivision	Lewis/Lariviere Subdivision	
\$	4,898	\$ 77,373	\$ -0-	\$ -0-	\$ 87,172
	-0-	-0-	29	2,619	2,648
	-0-	-0-	-0-	-0-	77,705
	-0-	-0-	46,000	-0-	101,674
	<u>4,898</u>	<u>77,373</u>	<u>46,029</u>	<u>2,619</u>	<u>269,199</u>
	-0-	-0-	-0-	-0-	70,347
	5,000	-0-	-0-	-0-	11,153
	-0-	74,340	-0-	-0-	74,340
	-0-	-0-	111,748	137,568	249,316
	<u>5,000</u>	<u>74,340</u>	<u>111,748</u>	<u>137,568</u>	<u>405,156</u>
	(102)	3,033	(65,719)	(134,949)	(135,957)
	-0-	-0-	-0-	130,800	130,800
	-0-	-0-	-0-	-0-	(77,705)
	-0-	-0-	-0-	130,800	53,095
	(102)	3,033	(65,719)	(4,149)	(82,862)
	(49)	(92)	(59,298)	(102,530)	(117,686)
\$	<u>(151)</u>	<u>2,941</u>	<u>(125,017)</u>	<u>(106,679)</u>	<u>(200,548)</u>
\$	(151)	\$ -0-	\$ -0-	\$ -0-	\$ 28,207
	-0-	2,941	-0-	-0-	2,941
	-0-	-0-	(125,017)	(106,679)	(231,696)
\$	<u>(151)</u>	<u>2,941</u>	<u>(125,017)</u>	<u>(106,679)</u>	<u>(200,548)</u>

CITY OF CARSON
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2007

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Notes:			
Water Tower Bond	Feb 1, 1998	4.10 - 5.25%	\$ 380,000
Wilbur/TIF Subdivision	Nov 1, 2001	3.50 - 5.10%	\$ 355,000
Ambulance	Sep 1, 2002	3.00 - 4.80%	\$ 140,000
Fire Truck	Dec 11, 2003	3.25 - 6.50%	\$ 150,000
Tibbles/TIF Subdivision	Aug 1, 2005	3.25 - 4.20%	\$ 165,000
Community Center Grant Anticipation Note	Sep 14, 2005	7.75%	\$ 600,000
Community Center Bond	Mar 29, 2006	5.75%	\$ 375,000
Street/Storm Sewer Note	Oct 30, 2006	4.00 - 4.50%	\$ 135,000
Revenue Capital Loan Notes:			
Sewer	Sep 29, 2004	3.00%	\$ 750,000
Sewer	Sep 1, 2006	3.00%	\$ 250,000
Lease Purchase Agreement:			
Tractor, Loader & Mower	Nov 17, 2004	4.75%	\$ 26,910

See Accompanying Independent Auditor's Report.

SCHEDULE 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 210,000	\$ -0-	\$ 25,000	\$ 185,000	\$ 10,603	\$ 785
230,000	-0-	35,000	195,000	10,992	788
105,000	-0-	15,000	90,000	4,628	337
94,254	-0-	15,914	78,340	3,981	392
165,000	-0-	15,000	150,000	6,188	475
600,000	-0-	428,356	171,644	52,626	2,988
375,000	-0-	65,000	310,000	25,276	1,485
-0-	135,000	-0-	135,000	3,110	476
237,176	484,824	29,000	693,000	18,144	1,733
-0-	245,000	9,000	236,000	3,569	602
16,122	-0-	5,121	11,001	783	339
<u>\$ 2,032,552</u>	<u>\$ 864,824</u>	<u>\$ 642,391</u>	<u>\$ 2,254,985</u>	<u>\$ 139,900</u>	<u>\$ 10,400</u>

CITY OF CARSON
BOND AND NOTE MATURITIES
YEAR ENDED JUNE 30, 2007
General Obligation Notes

Year Ended June 30,	Water Tower Bond Issued February 1, 1998		Ambulance Issued September 1, 2005	
	Interest Rate	Amount	Interest Rate	Amount
2008	4.85%	\$ 25,000	4.10%	\$ 15,000
2009	4.95%	30,000	4.30%	15,000
2010	5.05%	30,000	4.45%	15,000
2011	5.15%	30,000	4.60%	15,000
2012	5.20%	35,000	4.70%	15,000
2013	5.25%	35,000	4.80%	15,000
Total		\$ 185,000		\$ 90,000

See Accompanying Independent Auditor's Report.

SCHEDULE 3
(Continued)

Year Ended June 30,	Fire Pumper Truck Issued December 11, 2003		Community Center Bond Issued March 29, 2006	
	Interest Rate	Amount	Interest Rate	Amount
2008	5.15%	\$ 15,000	5.75%	\$ 70,000
2009	5.55%	15,000	5.75%	75,000
2010	5.90%	15,000	5.75%	80,000
2011	6.10%	15,000	5.75%	85,000
2012	6.25%	15,000		
2013	6.50%	3,340		
Total		\$ <u>78,340</u>		\$ <u>310,000</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 3
(Continued)

Year Ended June 30,	Community Center Grant Anticipation Note Issued September 14, 2005		Street/Storm Sewer Capital Loan Note Issued October 30, 2006		Total
	Interest Rate	Amount	Interest Rate	Amount	
2008	7.75%	\$ 171,644	4.00%	\$ 10,000	\$ 306,644
2009	--	-0-	4.00%	10,000	145,000
2010	--	-0-	4.05%	10,000	150,000
2011	--	-0-	4.10%	15,000	160,000
2012	--	-0-	4.15%	15,000	80,000
2013	--	-0-	4.25%	15,000	68,340
2014	--	-0-	4.30%	15,000	15,000
2015	--	-0-	4.35%	15,000	15,000
2016	--	-0-	4.40%	15,000	15,000
2017	--	-0-	4.50%	15,000	15,000
Total		\$ <u>171,644</u>		\$ <u>135,000</u>	\$ <u>969,984</u>

See Accompanying Independent Auditor's Report.

Urban Renewal General Obligation Notes

Year Ended June 30,	<u>Tibbles Subdivision</u> Issued August 1, 2005		<u>Wilbur Subdivision</u> Issued November 1, 2001		Total
	Interest Rates	Amount	Interest Rates	Amount	
2008	3.35%	\$ 15,000	4.55%	\$ 35,000	\$ 50,000
2009	3.45%	15,000	4.70%	40,000	55,000
2010	3.55%	15,000	4.85%	40,000	55,000
2011	3.65%	15,000	5.00%	40,000	55,000
2012	3.75%	15,000	5.10%	40,000	55,000
2013	3.85%	15,000	--	-0-	15,000
2014	4.00%	20,000	--	-0-	20,000
2015	4.10%	20,000	--	-0-	20,000
2016	4.20%	20,000	--	-0-	20,000
Total		<u>\$ 150,000</u>		<u>\$ 195,000</u>	<u>\$ 345,000</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 3
(Continued)

Revenue Notes

Year Ended June 30,	<u>Sewer Revenue Note</u> <u>Issued Sep 29, 2004</u>		<u>Sewer Revenue Note</u> <u>Issued Sep 1, 2006</u>		Total
	Interest Rates	Amount	Interest Rates	Amount	
2008	3.00%	\$ 30,000	3.00%	\$ 10,000	\$ 40,000
2009	3.00%	31,000	3.00%	10,000	41,000
2010	3.00%	31,000	3.00%	10,000	41,000
2011	3.00%	32,000	3.00%	10,000	42,000
2012	3.00%	33,000	3.00%	11,000	44,000
2013	3.00%	34,000	3.00%	11,000	45,000
2014	3.00%	35,000	3.00%	11,000	46,000
2015	3.00%	36,000	3.00%	12,000	48,000
2016	3.00%	38,000	3.00%	12,000	50,000
2017	3.00%	39,000	3.00%	13,000	52,000
2018	3.00%	40,000	3.00%	13,000	53,000
2019	3.00%	41,000	3.00%	13,000	54,000
2020	3.00%	42,000	3.00%	14,000	56,000
2021	3.00%	43,000	3.00%	14,000	57,000
2022	3.00%	45,000	3.00%	15,000	60,000
2023	3.00%	46,000	3.00%	15,000	61,000
2024	3.00%	48,000	3.00%	15,000	63,000
2025	3.00%	49,000	3.00%	16,000	65,000
2026	--	-0-	3.00%	11,000	11,000
		\$ <u>693,000</u>		\$ <u>236,000</u>	\$ <u>929,000</u>

Capital Lease

John Deere Tractor
Issued November 17, 2004

Year Ended June 30,	Interest Rates	Amount
2008	4.75%	\$ 5,370
2009	4.75%	5,631
		\$ <u>11,001</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 4

CITY OF CARSON

**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS**

FOR THE LAST FOUR YEARS

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts:				
Property tax	\$ 149,263	\$ 112,198	\$ 115,291	\$ 127,556
Tax increment financing	214,341	237,576	222,747	195,524
Other city tax	77,705	83,583	67,769	68,343
License and permits	1,987	1,852	2,666	1,816
Use of money and property	20,084	5,695	862	1,789
Intergovernmental	597,304	968,980	154,309	437,476
Charges for service	56,147	22,888	12,962	1,200
Miscellaneous	348,173	84,182	59,867	62,107
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ <u>1,465,004</u>	\$ <u>1,516,954</u>	\$ <u>636,473</u>	\$ <u>895,811</u>
Disbursements:				
Operating:				
Public safety	\$ 114,071	\$ 129,467	\$ 116,961	\$ 260,589
Public works	70,489	78,928	51,922	71,754
Culture and recreation	20,793	30,897	32,607	37,034
Community and economic development	205,412	205,902	159,736	117,331
General government	58,873	84,268	60,152	105,770
Debt service	74,340	57,224	91,263	65,453
Capital projects	2,230,688	1,751,328	429,624	383,197
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ <u>2,774,666</u>	\$ <u>2,338,014</u>	\$ <u>942,265</u>	\$ <u>1,041,128</u>

See Accompanying Independent Auditor's Report.

CITY OF CARSON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

Grantor/Program	CFDA Number	Agency Pass-thorough Number	Program Expenditures
Indirect:			
Environmental Protection Agency:			
Iowa Department of Natural Resources			
Capitalization Grants from Clean Water State			
Revolving Funds	66.458	CS192279 01	\$ 606,079
U.S. Department of Housing and Urban			
Development:			
Iowa Department of Economic Development			
Community Development Block Grants/ States Program	14.228	05-WS-018 03-WS-084	\$ 359,853
Community Development Block Grants/ Housing Funds	14.228	05-HSG-017	\$ <u>114,130</u>
Total			\$ <u>1,080,062</u>

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

See Accompanying Independent Auditor's Report.

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

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

August 23, 2007

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

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To the Honorable Mayor and
Members of the City Council:

I 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 Carson, Iowa as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated August 23, 2007. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

My 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, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies and other deficiencies I consider to be material weaknesses.

Continued . . .

August 23, 2007
To the Honorable Mayor and
Members of the City Council:
Page Two

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's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Carson's financial statements that is more than inconsequential will not be prevented or detected by the City of Carson's internal control. I 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 Carson's internal control.

My 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, I believe items II-A-07 and II-B-07 are material weaknesses.

Compliance and Other Matters

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

Continued . . .

August 23, 2007
To the Honorable Mayor and
Members of the City Council:
Page Three

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 my audit of the financial statements of the City. Since my 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 Carson's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I did not audit the City of Carson's responses and, accordingly, I express no opinion on them.

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

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Carson during the course of my audit. Should you have any questions concerning any of the above matters, I will be pleased to discuss them with you at your convenience.

Musfeldt Associates, CPA, P.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

August 23, 2007

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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To the Honorable Mayor and
Members of the City Council:

Compliance

I have audited the compliance of the City of Carson 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 each of its major federal programs for the year ended June 30, 2007. The City of Carson's major 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 grants applicable to each of its major federal programs is the responsibility of the City of Carson's management. My responsibility is to express an opinion on the City of Carson's compliance based on my audit.

I conducted my 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 Carson's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the City of Carson's compliance with those requirements.

Continued . . .

August 23, 2007
To the Honorable Mayor and
Members of the City Council:
Page Two

In my opinion, the City of Carson 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 Carson is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the City of Carson's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Carson's internal control over compliance.

A *control deficiency* in an entity'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 entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

My 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 internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


M. W. W. Associates, CPA, P.C.

CITY OF CARSON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2007

PART I: SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

- a. Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. No significant deficiencies in internal control over major programs were disclosed in the audit of the financial statements.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- f. The audit disclosed no findings which are required to be reported in accordance with Office Management and Budget Circular A-133, Section .510(a).
- g. The major programs were CFDA Number 14.228 - Community Development Block Grants/State's Program and CFDA Number 66.458 - Capitalization Grants for Clean Water State Revolving Funds.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Carson did not qualify as a low-risk auditee.

CITY OF CARSON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

SIGNIFICANT DEFICIENCIES

II-A-07 Segregation of Duties

Comment - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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.

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

Response - We will consider this.

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

II-B-07 Monitoring the City Budget

Comment - Another important aspect of internal accounting control is the monitoring of the City's budget. Budget line item amounts were not classified by function when the City's budget was entered in Quickbooks for the year ended June 30, 2007. There was no way to monitor the budget at the function level and, as a consequence, the budget was not monitored adequately. The result was budget over-expenditure well before the budget was amended on May 7, 2007.

Recommendation - When entering the budget, the line item amounts should be classified by function. The budget vs. actual by function report should be verified for accuracy to the adopted budget. This procedure will ensure that the budget can be monitored efficiently and quickly any day of the fiscal year.

Response - The procedures for recording the budget will be reviewed, the budget line items will be classified in future, the budget vs. actual by function report will be utilized, and the budget will be monitored more regularly.

Conclusion - Response acknowledged.

CITY OF CARSON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

PART III FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

INSTANCES OF NON-COMPLIANCE

No matters were noted.

SIGNIFICANT DEFICIENCIES

No matters were noted.

PART IV: OTHER FINDINGS RELATED TO STATUTORY REPORTING:

IV-A-07 Certified Budget - Disbursements during the year ended June 30, 2007, exceeded the amounts budgeted in the general government, debt service, capital projects and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Also, disbursements exceeded amounts budgeted before the budget was amended on May 7, 2007 in the public works, general government, and capital projects functions.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Actual disbursements should be reviewed on a timely basis.

Response - We will review disbursements periodically and amend the budget accordingly.

Conclusion - Response accepted.

IV-B-07 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

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

CITY OF CARSON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2007

PART IV: OTHER FINDINGS RELATED TO STATUTORY REPORTING (Continued)

IV-D-07 Business Transactions - Business transactions between the City and City officials, employees or relatives of City officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jon Taylor, Owner of JE Larson Construction	Construction, per bid	\$ 66,044
James Taylor, Consultant	Consulting and web hosting fees	\$ 1,220

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the mayor's son, Jon, do not appear to represent a conflict of interest since it was entered into through competitive bidding. The transactions with the mayor's son, James, do not appear to represent a conflict of interest since transactions were less than \$1,500 during the fiscal year.

IV-E-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-07 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not. It was noted that there was no proof of publication of claims in one instance and one special meeting was not filed in the minute book.

Recommendation - The City should maintain complete proof of publications and ensure that the City's council meetings are filed in the minutes book.

Response - We will adopt this recommendation.

Conclusion - Response accepted.

IV-G-07 Revenue Notes - The City is in compliance with all covenants of their Sewer Revenue Note resolutions.

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

CITY OF CARSON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2007

PART III: OTHER FINDINGS RELATED TO STATUTORY REPORTING (Continued)

IV-I-07 Official Depositories - A resolution naming official depositories and maximum deposit amount has been approved by the City. The maximum deposit amount stated in the resolution was exceeded from July through December 2006.

Recommendation - A new resolution increasing the maximum deposit amount should have been adopted before bank balances exceeded the maximum deposit amounts.

Response - A resolution increasing the maximum deposit was passed in December 2006. We will monitor maximum deposit amounts more carefully in future.

Conclusion - Response accepted.

IV-J-07 Financial Condition - At June 30, 2007, the City's funds had the following deficit balances:

General Fund	\$	112,554
Special Revenue, Tort Liability Levy Fund		151
Capital Projects, Community Center		113,514
Capital Projects, Wastewater Treatment Plant		65,927
Capital Projects, Lewis/Lariviere Subdivision		106,679
Capital Projects, Tibbles Subdivision		125,017
Proprietary, Garbage Fund		73,671
Total	\$	<u>597,513</u>

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

Response - The capital projects deficits are the result of ongoing construction projects and will be eliminated upon completion of the projects. The proprietary garbage fund deficit will be restored eventually through the collection of fees. The general fund deficit will be monitored closely.

Conclusion - Response accepted.

CITY OF CARSON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2007

PART III: OTHER FINDINGS RELATED TO STATUTORY REPORTING (Continued)

IV-K-07 Payment of General Obligation Debt - The Fire Department Pumper Truck Note was paid from the General Fund, the Community Center Grant Anticipation Note was paid from the Community Center Capital Projects Fund, the Tibbles Subdivision General Obligation Debt was paid in part from the Tibbles Capital Projects Fund, and the Tractor Lease with JD Credit was paid in part from the General Fund, the Road Use Tax Fund and the Water Fund. Chapter 384.4 of the Code of Iowa states, in part *Monies pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund.*

Recommendation - The City should transfer from the General Fund, the Capital Projects Funds, the Road Use Tax Fund and the Water Fund to the Debt Service Fund for future funding contributions. Payments of the notes should then be disbursed from the Debt Service Fund.

Response - Procedures for the transfer of funds have been reviewed improved. We will transfer in future by Council resolution as recommended.

Conclusion - Response accepted.

CITY OF CARSON
CARSON, IOWA 51525

NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the City of Carson, Iowa.

The City's receipts totaled \$2,578,202 for the year ended June 30, 2007, a 13 percent decrease from 2006. The receipts included \$149,263 from property tax, \$311,127 from charges for services, \$114,244 from operating grants, contributions and restricted interest, \$849,336 from capital grants, contributions and restricted interest, \$77,705 from local option sales tax, \$214,341 from tax incremental financing, \$951 from unrestricted investment earnings, \$3,112 from the sale of city property and \$858,123 from loan proceeds.

Disbursements for the year totaled \$3,070,221, an 18 percent increase from 2006, and included \$2,230,688 for capital projects, \$205,412 for community and economic development, and \$114,071 for public safety.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

