

CITY OF CHARLES CITY, IOWA

FINANCIAL STATEMENTS

JUNE 30, 2008

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Officials

Name	Title	Term Expires
Elected Officials - Prior to January 1, 2008		
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
DeLaine Freeseaman	Council Member	January, 2010
Arvin Tibbitts	Council Member	January, 2008
Elected Officials - After January 1, 2008		
James A. Erb	Mayor	January, 2010
Jerry Joerger	Mayor Pro Tem	January, 2010
Dean Andrews	Council Member	January, 2012
Andy Cerio	Council Member	January, 2012
DeLaine Freeseaman	Council Member	January, 2010
Kevin Simonson	Council Member	January, 2012
Appointed Officials		
Trudy O'Donnell	City Clerk	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, 2008, 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, 2008, 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 December 2, 2008 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.

Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 9 and Page 27 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. We 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, 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements and supplemental data for the years ended June 30, 2006 and 2005 (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 28 through 37, 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
December 2, 2008

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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

Revenue of the City's governmental activities increased 7%, or approximately \$675,000, from fiscal 2007 to fiscal 2008. This was primarily due to the receipt of bond proceeds related to the issuance of general obligation debt on July 11, 2007 and May 15, 2008 and increases in property tax collections.

Disbursements of the City's governmental activities increased 4%, or approximately \$415,000, in fiscal 2008 from fiscal 2007. Decreases in capital projects were offset by increases in debt service and payroll costs.

The City's total cash basis net assets increased 39%, or approximately \$2,275,000, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased approximately \$1,800,000 and the assets of the business-type activities increased by approximately \$475,000.

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, (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 increased from \$5,300,380 a year ago to \$7,101,355. 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>	
	2008	2007
Receipts		
Program Receipts		
Charges for service	\$ 712,837	\$ 916,551
Operating grants, contributions and restricted interest	2,938,797	2,453,467
General Receipts		
Property tax	4,016,439	3,789,584
Local option sales tax	679,339	559,496
Grants and contributions not restricted to a specific purpose	114,151	140,198
Unrestricted interest on investments	264,846	301,274
Bond and loan proceeds	1,644,093	1,448,429
Other general receipts	<u>647,804</u>	<u>734,134</u>
Total Receipts	<u>11,018,306</u>	<u>10,343,133</u>
Disbursements and Transfers		
Public safety	1,939,361	1,870,149
Public works	1,166,425	1,063,393
Health and social services	461,115	494,914
Culture and recreation	877,328	784,743
Community and economic development	1,946,988	1,777,973
General government	869,614	666,212
Debt service	1,929,246	1,466,941
Capital projects	<u>796,243</u>	<u>1,449,244</u>
Total Disbursements	<u>9,986,320</u>	<u>9,573,569</u>
Change in Cash Basis Net Assets Before Transfers	1,031,986	769,564
Transfers, Net	<u>768,989</u>	<u>(873,384)</u>
Increase (Decrease) in Cash Basis Net Assets	1,800,975	(103,820)
Cash Basis Net Assets - Beginning of Year	<u>5,300,380</u>	<u>5,404,200</u>
Cash Basis Net Assets - End of Year	<u>\$ 7,101,355</u>	<u>\$ 5,300,380</u>

The City's total receipts for governmental activities increased 7%, or \$675,173. The total cost of all programs and services increased \$412,751, or 4%.

The cost of all governmental activities this year was \$9,986,320 compared to \$9,573,569 last year. As shown in the Statement of Activities and Net Assets - Cash Basis, the amount taxpayers ultimately financed for these activities was only \$6,334,686 because some of the cost was paid by those directly benefiting from the programs (\$712,837) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$2,938,797).

Changes in Cash Basis Net Assets of Business-Type Activities

	Year Ended June 30,	
	2008	2007
Receipts		
Program Receipts		
Charges for Service		
Water	\$ 1,387,180	\$ 1,178,158
Sewer improvements	1,127,769	796,162
Waste collection	298,400	296,022
Transit and fire extinguisher	18,018	18,937
General Receipts		
Property tax	49,454	47,832
Unrestricted interest on investments	18,809	20,367
Miscellaneous	1,682	202,345
Bond/loan proceeds	460,024	—
Total Receipts	3,361,336	2,559,823
Disbursements		
Water	964,682	2,642,169
Sewer improvements	548,051	789,207
Waste collection	311,634	280,812
Transit and fire extinguisher	75,995	68,127
Debt service	218,243	—
Total Disbursements	2,118,605	3,780,315
Change in Cash Basis Net Assets Before Transfers	1,242,731	(1,220,492)
Transfers, Net	(768,989)	873,384
Increase (Decrease) in Cash Basis Net Assets	473,742	(347,108)
Cash Basis Net Assets - Beginning of Year	466,196	813,304
Cash Basis Net Assets - End of Year	\$ 939,938	\$ 466,196

Total business-type activities receipts for the fiscal year were \$3,361,336 compared to \$2,559,823 last year. The cash balance increased approximately \$475,000 from the prior year. Total disbursements for the fiscal year decreased by approximately \$1,660,000 (44%) due to the significant amount of capital outlay required in the prior year for the water main project done in conjunction with the VeraSun ethanol plant construction.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Charles City completed the year, its governmental funds reported a combined fund balance of \$6,717,176, an increase of \$1,652,731 from last year's total of \$5,064,445. 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 increased \$573,990 from the prior year to \$1,225,359. This increase was primarily due to \$440,000 of bond proceeds.
- The Local Option Sales Tax Fund cash balance increased by \$408,311, primarily due to a significant decrease in capital projects disbursements.
- The Public Housing Fund cash balance increased by \$184,363, primarily due to an increase in operating subsidies.
- 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 \$791,962, an increase of \$98,676 from the previous year.
- The Debt Service Fund cash balance increased by \$222,499 to a balance of \$6,464 during the fiscal year. This was primarily due to \$760,000 of proceeds which were offset by decreases in other areas.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$46,651 to \$351,547.
- The Sewer Fund cash balance increased by \$491,783 to \$517,696 primarily due to a significant increase in charges for service revenue.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 19, 2008. It was made as a result of an expected increase in disbursements for debt service, public works and culture and recreation and resulted in increasing budgeted expenditures by \$780,410 to \$12,590,481.

For the year, the City's actual receipts were \$12,279,871 compared to the final budget of \$12,451,550 and actual disbursements were \$12,313,669 compared to budgeted disbursements of \$12,590,481.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$12,883,083 in bonds and other long-term debt compared to \$12,492,242 last year, as shown below:

Outstanding Debt at Year End

	<u>Year Ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
General obligation bonds and notes	\$ 6,358,000	\$ 5,541,000
Revenue bonds	4,833,900	5,083,600
Revenue notes	78,951	532,392
Lease purchase agreements	1,259,695	1,335,250
Other loans	<u>352,537</u>	<u>—</u>
Total	<u>\$ 12,883,083</u>	<u>\$ 12,492,242</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 \$8,900,000 is significantly below its constitutional debt limit of \$16,866,576. The outstanding revenue bonds include \$4,023,000 of nontax increment financing debt.

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 2009 budget, tax rates and fees that will be charged for various City activities.

For 2009, the City has incorporated estimated revenue and expenditures into the budget for several anticipated capital projects, including an expansion of the water plant, the building of a cable-stayed bridge and a street project. These projects are to be financed by a state revolving fund loan, federal and state grants, local option sales tax, reserves in the water and sewer funds and community pledges. A rehab financing of the digesters at the wastewater plant was recently completed and was financed by general obligation debt.

The damage caused by flooding in June, 2008 will also be a factor in 2009 as the City makes necessary repairs. The City expects to finance a significant portion of these costs with state and federal grants.

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, 2008

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	\$ 1,939,361	\$ 24,510	\$ 373,898	\$ (1,540,953)	\$ —	\$ (1,540,953)	
Public works	1,166,425	1,642	870,558	(294,225)	—	(294,225)	
Health and social services	461,115	—	1,267,549	806,434	—	806,434	
Culture and recreation	877,328	110,588	66,306	(700,434)	—	(700,434)	
Community and economic development	1,946,988	575,204	5,863	(1,365,921)	—	(1,365,921)	
General government	869,614	893	13,478	(855,243)	—	(855,243)	
Debt service	1,929,246	—	—	(1,929,246)	—	(1,929,246)	
Capital projects	796,243	—	341,145	(455,098)	—	(455,098)	
Total Governmental Activities	9,986,320	712,837	2,938,797	(6,334,686)	—	(6,334,686)	
Business-Type Activities							
Water	964,682	1,387,180	—	—	422,498	422,498	
Sewer improvements	766,294	1,127,769	—	—	361,475	361,475	
Waste collection	311,634	298,400	—	—	(13,234)	(13,234)	
Transit	69,365	12,700	—	—	(56,665)	(56,665)	
Fire extinguishers	6,630	5,318	—	—	(1,312)	(1,312)	
Total Business-Type Activities	2,118,605	2,831,367	—	—	712,762	712,762	
Total	\$ 12,104,925	\$ 3,544,204	\$ 2,938,797	(6,334,686)	712,762	(5,621,924)	
General Receipts							
Property Taxes Levied For							
General purposes				2,114,926	49,454	2,164,380	
Tax increment financing				1,513,223	—	1,513,223	
Debt service				388,290	—	388,290	
Other city tax				202,876	—	202,876	
Special assessments				2,185	—	2,185	
Local option sales tax				679,339	—	679,339	
Grants and contributions not restricted to specific purpose				114,151	—	114,151	
Unrestricted interest on investments				264,846	18,809	283,655	
Loan proceeds				197,266	155,271	352,537	
Miscellaneous				442,743	1,682	444,425	
Bond proceeds				1,475,000	310,000	1,785,000	
Discounts and fees				(28,173)	(5,247)	(33,420)	
Transfers				768,989	(768,989)	—	
Total General Receipts and Transfers				8,135,661	(239,020)	7,896,641	
Increase in Cash Basis Net Assets				1,800,975	473,742	2,274,717	
Cash Basis Net Assets - Beginning of Year				5,300,380	466,196	5,766,576	
Cash Basis Net Assets - End of Year				\$ 7,101,355	\$ 939,938	\$ 8,041,293	
Cash Basis Net Assets							
Restricted							
Streets				\$ 353,803	\$ —	\$ 353,803	
Urban renewal purposes				2,013,741	—	2,013,741	
Debt service				—	141,687	141,687	
Unrestricted				4,733,811	798,251	5,532,062	
Total Cash Basis Net Assets				\$ 7,101,355	\$ 939,938	\$ 8,041,293	

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, 2008

	<u>Special Revenue</u>						Other Nonmajor Governmental Funds	Total
	General	Local Option Sales Tax	Public Housing	Southwest Bypass Tax Increment Financing	Debt Service			
Receipts								
Property tax	\$ 1,605,467	\$ —	\$ —	\$ —	\$ 388,290	\$ 509,459	\$ 2,503,216	
Tax increment financing collections.....	—	—	—	400,071	—	1,113,152	1,513,223	
Other city tax	202,876	679,339	—	—	—	—	882,215	
Licenses and permits.....	85,197	—	—	—	—	—	85,197	
Use of money and property	66,997	25,942	56,774	34,663	—	84,818	269,194	
Intergovernmental.....	788,691	—	171,350	—	—	2,092,905	3,052,946	
Charges for service	137,632	—	391,075	—	—	98,933	627,640	
Special assessments.....	—	—	—	—	—	2,185	2,185	
Miscellaneous.....	200,757	—	—	23,792	—	218,194	442,743	
Total Receipts	<u>3,087,617</u>	<u>705,281</u>	<u>619,199</u>	<u>458,526</u>	<u>388,290</u>	<u>4,119,646</u>	<u>9,378,559</u>	
Disbursements								
Operating								
Public safety	1,794,426	—	—	—	—	219,056	2,013,482	
Public works	483,873	—	—	—	—	682,552	1,166,425	
Health and social services.....	—	—	—	—	—	461,115	461,115	
Culture and recreation	797,046	—	—	—	—	80,282	877,328	
Community and economic development	10,678	—	395,836	303,925	—	1,310,670	2,021,109	
General government.....	869,614	—	—	—	—	—	869,614	
Debt service.....	—	—	—	—	1,929,246	34,341	1,963,587	
Capital projects.....	65,688	296,970	—	—	—	433,585	796,243	
Total Disbursements	<u>4,021,325</u>	<u>296,970</u>	<u>395,836</u>	<u>303,925</u>	<u>1,929,246</u>	<u>3,221,601</u>	<u>10,168,903</u>	
Receipts Over (Under) Disbursements	<u>(933,708)</u>	<u>408,311</u>	<u>223,363</u>	<u>154,601</u>	<u>(1,540,956)</u>	<u>898,045</u>	<u>(790,344)</u>	
Other Financing Sources (Uses)								
Interfund loan activity.....	—	—	—	—	—	29,993	29,993	
Loan proceeds.....	197,266	—	—	—	—	—	197,266	
Bond proceeds	440,000	—	—	—	760,000	275,000	1,475,000	
Discounts and fees.....	(8,624)	—	—	—	(14,896)	(4,653)	(28,173)	
Operating transfers in.....	949,773	—	—	—	1,111,853	60,496	2,122,122	
Operating transfers out.....	(70,717)	—	(39,000)	(55,925)	(93,502)	(1,093,989)	(1,353,133)	
Total Other Financing Sources (Uses)	<u>1,507,698</u>	<u>—</u>	<u>(39,000)</u>	<u>(55,925)</u>	<u>1,763,455</u>	<u>(733,153)</u>	<u>2,443,075</u>	
Increase in Cash Balances	<u>573,990</u>	<u>408,311</u>	<u>184,363</u>	<u>98,676</u>	<u>222,499</u>	<u>164,892</u>	<u>1,652,731</u>	
Cash Balances - Beginning of Year, as Reclassified, Note 15.....	651,369	453,323	1,176,381	693,286	(216,035)	2,306,121	5,064,445	
Cash Balances - End of Year	<u>\$ 1,225,359</u>	<u>\$ 861,634</u>	<u>\$ 1,360,744</u>	<u>\$ 791,962</u>	<u>\$ 6,464</u>	<u>\$ 2,471,013</u>	<u>\$ 6,717,176</u>	
Cash Basis Fund Balances								
Unreserved								
General fund.....	\$ 1,225,359	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,225,359	
Special revenue funds	—	861,634	1,360,744	791,962	—	2,468,664	5,483,004	
Debt service.....	—	—	—	—	6,464	—	6,464	
Capital projects fund.....	—	—	—	—	—	2,349	2,349	
Total Cash Basis Fund Balances	<u>\$ 1,225,359</u>	<u>\$ 861,634</u>	<u>\$ 1,360,744</u>	<u>\$ 791,962</u>	<u>\$ 6,464</u>	<u>\$ 2,471,013</u>	<u>\$ 6,717,176</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, 2008

Total Fund Balances for Governmental Funds (Page 11)..... **\$ 6,717,176**

*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.....

384,179

Cash Basis Net Assets of Governmental Activities (Page 10)..... **\$ 7,101,355**

Net Change in Cash Balances (Page 11)..... **\$ 1,652,731**

*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.....

148,244

Change in Cash Basis of Governmental Activities (Page 10)..... **\$ 1,800,975**

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

As of and for the Year Ended June 30, 2008

	Enterprise Funds			Total	Internal Service Fund
	Water	Sewer	Other Nonmajor Enterprise Funds		Employee Health
Operating Receipts					
Charges for service	\$ 1,387,180	\$ 1,127,769	\$ 316,418	\$ 2,831,367	\$ 813,083
Miscellaneous	—	—	—	—	75,662
Total Operating Receipts	<u>1,387,180</u>	<u>1,127,769</u>	<u>316,418</u>	<u>2,831,367</u>	<u>888,745</u>
Operating Disbursements					
Business-type activities.....	977,962	555,596	392,965	1,926,523	—
Nonprogram	—	—	—	—	726,035
Total Operating Disbursements	<u>977,962</u>	<u>555,596</u>	<u>392,965</u>	<u>1,926,523</u>	<u>726,035</u>
Operating Receipts Over (Under)					
Operating Disbursements	<u>409,218</u>	<u>572,173</u>	<u>(76,547)</u>	<u>904,844</u>	<u>162,710</u>
Nonoperating Receipts (Disbursements)					
Property tax.....	—	—	49,454	49,454	—
Intergovernmental	1,479	203	—	1,682	—
Interest on investments.....	8,961	9,667	181	18,809	11,695
Debt service	—	(218,243)	—	(218,243)	—
Total Nonoperating Receipts (Disbursements).....	<u>10,440</u>	<u>(208,373)</u>	<u>49,635</u>	<u>(148,298)</u>	<u>11,695</u>
Receipts Over (Under)					
Disbursements.....	<u>419,658</u>	<u>363,800</u>	<u>(26,912)</u>	<u>756,546</u>	<u>174,405</u>
Other Financing Sources (Uses)					
Loan proceeds	155,271	—	—	155,271	—
Bond proceeds.....	—	310,000	—	310,000	—
Discounts and fees.....	—	(5,247)	—	(5,247)	—
Operating transfers in	—	—	52,716	52,716	—
Operating transfers out	(621,580)	(176,770)	(23,355)	(821,705)	—
Total Other Financing Sources (Uses)	<u>(466,309)</u>	<u>127,983</u>	<u>29,361</u>	<u>(308,965)</u>	<u>—</u>
Increase (Decrease) in Cash					
Balances	<u>(46,651)</u>	<u>491,783</u>	<u>2,449</u>	<u>447,581</u>	<u>174,405</u>
Cash Balances - Beginning of Year	398,198	25,913	450	424,561	277,569
Cash Balances - End of Year	<u>\$ 351,547</u>	<u>\$ 517,696</u>	<u>\$ 2,899</u>	<u>\$ 872,142</u>	<u>\$ 451,974</u>
Cash Basis Fund Balances					
Reserved for debt service	\$ 141,687	\$ —	\$ —	\$ 141,687	\$ —
Unreserved.....	209,860	517,696	2,899	730,455	451,974
Total Cash Basis Fund Balances	<u>\$ 351,547</u>	<u>\$ 517,696</u>	<u>\$ 2,899</u>	<u>\$ 872,142</u>	<u>\$ 451,974</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 - Proprietary Funds

Year Ended June 30, 2008

Total Enterprise Funds Cash Balances (Page 13)..... **\$ 872,142**

***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.....

67,796

Cash Basis Net Assets of Business-Type Activities (Page 10)..... **\$ 939,938**

Net Change in Cash Balances (Page 13)..... **\$ 447,581**

***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

26,161

Change in Cash Balance of Business-Type Activities (Page 10)..... **\$ 473,742**

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, 2008 were \$2,509,231.

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.

(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 *Local Option Sales Tax Fund* is used to account for local option sales tax collections and the project expenses they are used for.

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, 2008, disbursements exceeded the amounts budgeted in the general government and debt service functions.

(2) Deposits and Investments

The City's deposits in banks at June 30, 2008 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, 2008.

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
2009	\$ 764,000	\$ 241,537	\$ 97,000	\$ 8,879	\$ 8,606	\$ 1,558
2010	680,000	192,034	20,000	5,600	8,781	1,383
2011	690,000	170,816	20,000	4,800	8,960	1,204
2012	711,000	147,776	20,000	4,000	9,140	1,024
2013	701,000	123,697	20,000	3,200	9,329	835
2014-18	2,360,000	269,289	60,000	4,800	34,135	1,439
2019-23	215,000	27,250	—	—	—	—
2024-28	—	—	—	—	—	—
Total	<u>\$ 6,121,000</u>	<u>\$ 1,172,399</u>	<u>\$ 237,000</u>	<u>\$ 31,279</u>	<u>\$ 78,951</u>	<u>\$ 7,443</u>

Year Ending June 30,	Revenue Bonds		VeraSun Lease Purchase		Other Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 262,100	\$ 176,257	\$ 79,976	\$ 71,524	\$ 197,266	\$ —	\$ 1,408,948	\$ 499,755
2010	276,300	167,582	84,656	66,844	—	—	1,069,737	433,443
2011	285,700	157,914	89,609	61,891	155,271	—	1,249,540	396,625
2012	297,100	147,690	94,853	56,647	—	—	1,132,093	357,137
2013	303,400	136,981	100,403	51,097	—	—	1,134,132	315,810
2014-18	1,684,900	508,584	597,321	160,179	—	—	4,736,356	944,291
2019-23	1,528,400	196,539	212,877	14,373	—	—	1,956,277	238,162
2024-28	196,000	5,880	—	—	—	—	196,000	5,880
Total	<u>\$ 4,833,900</u>	<u>\$ 1,497,427</u>	<u>\$ 1,259,695</u>	<u>\$ 482,555</u>	<u>\$ 352,537</u>	<u>\$ —</u>	<u>\$ 12,883,083</u>	<u>\$ 3,191,103</u>

Urban Renewal Tax Increment Financing Revenue Bonds and Notes

The City has issued urban renewal tax increment financing revenue bonds and notes between February, 2003 and November, 2005 for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bonds are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100% of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds and notes are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$1,144,496, payable through June, 2022. For the current year, principal and interest paid and total TIF receipts were \$89,870 and \$1,513,223, respectively.

(3) Bonds and Notes Payable

Enterprise Fund Revenue Bonds

The City has pledged future water and sewer customer revenue, net of specified operating expenses, to repay \$4.83 million in water and sewer system revenue bonds issued from March, 2003 to January, 2005. Proceeds from the bonds provided financing for various water and sewer utility construction projects. The bonds are payable solely from water and sewer customer net revenue and are payable through 2024. Annual principal and interest payments on the bonds are expected to require less than 37% of net revenue. The total principal and interest remaining to be paid on the bonds is \$5,273,225. Principal and interest paid for the current year and total customer net revenue was \$358,306 and \$981,391, respectively.

The resolution providing for the issuance of the enterprise fund 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.

VeraSun Lease Purchase

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 is making semiannual payments of \$75,750 to VeraSun at 5.75% interest, which began on December 1, 2007 and ends on December 1, 2019. Total lease payments equal 45% of the project costs.

Other Loans

In February, 2008, the City entered into a loan agreement not to exceed \$1,149,000 with the Iowa Finance Authority under the State Revolving Fund loan program. The loan was obtained in order to provide funds to pay a portion of the cost of construction improvements and extensions to the City's water utility system. Proceeds are available as project costs are incurred. The loan is noninterest bearing and is payable in 2011. Through June 30, 2008, the City had drawn \$155,271 of the available proceeds. When the projects nears completion, the City will issue water revenue bonds, the proceeds of which will be used to pay off this loan.

In June, 2008, the City entered into an interest-free lease agreement with Elgin Sweeper Company for a street sweeper. The City received the street sweeper in June, 2008 and payment is not due until June, 2009, thus creating the debt. At that time, the City will pay Elgin Sweeper Company \$197,266, which consists of the total sales price of the sweeper, less the value of the trade-in allowance.

Notes to the Financial Statements

(3) Bonds and Notes Payable

In 2006, the City 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 6-30-08	Annual Payment	Final Due Date
Cablevision	Riverside TIF	\$ 50,000	\$ 9,853	\$ 9,853	6-1-09
Police Retirement	Riverside TIF	50,000	22,260	22,260	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. 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
2009.....	\$ 80,000	\$ 35,910
2010.....	90,000	33,590
2011.....	90,000	30,800
2012.....	95,000	27,920
2013.....	95,000	24,785
2014-18	560,000	67,595
Total	\$ 1,010,000	\$ 220,600

Notes to the Financial Statements

(6) Pension and Retirement Benefits

The City offers 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, Suite 201, West Des Moines, Iowa 50266.

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, 2008, 2007 and 2006 were \$213,514, \$223,459 and \$161,084, 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 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008, 2007 and 2006 were \$103,602, \$96,005 and \$93,181, 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, 2008, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation.....	\$ 210,000
Compensatory	14,000
Total	<u>\$ 224,000</u>

The above liabilities have been computed based on rates of pay as of June 30, 2008.

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 \$540,000 for the year ended June 30, 2008.

The City has estimated costs of incurred but unsubmitted claims at June 30, 2008 to be \$90,917.

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, 2008:

Estimated cost incurred but not claimed - June 30, 2007.....	\$ 70,000
Claims incurred and claimed and estimated costs incurred but claimed for the year ended June 30, 2008	573,961
Claims paid during the year ended June 30, 2008	<u>(553,044)</u>
Estimated Costs Incurred But Not Claimed - June 30, 2008	<u>\$ 90,917</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, 2008, there was one series of Health Facility Revenue Bonds outstanding, with a principal amount payable of \$1,816,113.

Notes to the Financial Statements

(10) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue	
	Road Use Tax	\$ 37,719
	Trust and Agency	475,468
	Riverside Tax Increment Financing	13,974
	Southwest Bypass Tax Increment Financing	11,500
	South Grand Tax Increment Financing	10,452
	FGP Advisory and Operating	3,000
	Public Housing	39,000
	FEMA Grant	26,658
	CDBG Housing Grant	3,834
	Law Enforcement Grant	1,298
	Debt Service	93,502
	Enterprise	
	Water	109,528
	Sewer	100,485
	Waste Collection	<u>23,355</u>
		<u>949,773</u>
Special Revenue CVTC Operating	Special Revenue Road Use Tax	<u>42,496</u>
Debt Service	Special Revenue	
	Riverside Tax Increment Financing	55,063
	Southwest Bypass Tax Increment Financing	44,425
	South Grand Tax Increment Financing	330,765
	Park Avenue Tax Increment Financing	34,407
	Road Use Tax	58,855
	Enterprise	
	Water	512,053
	Sewer	<u>76,285</u>
		<u>1,111,853</u>
Capital Projects Suspension Bridge	General	<u>18,000</u>
Enterprise Transit	General	<u>12,018</u>
Waste Collection	General	<u>40,698</u>
Total		<u>\$ 2,174,838</u>

Notes to the Financial Statements

(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.

(12) Deficit Fund Balances

The Special Revenue, 2008 Flood Fund, had a deficit balance of \$37,642 at June 30, 2008. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated through grants.

The Special Revenue, Fire Retirement Fund, had a deficit balance of \$27,627 at June 30, 2008. The deficit balance was a result of unexpected expenses and an insufficient levy. The deficit will be eliminated through an increase in the levy.

The Special Revenue, Charley Western Rec Trail Fund, had a deficit balance of \$28,149 at June 30, 2008. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated through grants.

The Capital Projects, Suspension Bridge Fund, had a deficit balance of \$95,326 at June 30, 2008. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated through grants.

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

The City, in conjunction with 23 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 City is obligated to remit a share of the operating and administration costs. During the year ended June 30, 2008, the City of Charles City paid Jendro Sanitation \$263,848. 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.

Notes to the Financial Statements

(14) Commitments and Contingencies

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.

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, 2008, the City incurred expenditures of \$7,061 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 \$7,000 for annual maintenance and testing fees until the EPA approves the final project.

As of June 30, 2008, the City had an outstanding commitment to purchase a police car for \$19,751.

As of June 30, 2008, the City had entered into construction contracts which had remaining balances, including retainage, totaling \$1,283,290.

(15) Reclassification of Beginning Governmental Fund Balances

The Police Asset Forfeiture, CVTC Operating, Fire Retirement and Police Retirement Funds were reclassified from General to Special Revenue fund types. These reclassifications were made so that they would more accurately reflect the activity and purpose of the fund.

	Governmental Funds					Total
	General	Special Revenue Funds				
		Police Asset Forfeiture	CVTC Operating	Fire Retire- ment	Police Retire- ment	
Fund Balance - Beginning of Year, as previously reported	\$ 905,902	\$ —	\$ —	\$ —	\$ —	\$ 905,902
Reclassify funds as noted above	<u>(254,533)</u>	<u>2,390</u>	<u>71,165</u>	<u>11,808</u>	<u>169,170</u>	<u>—</u>
Fund Balance - Beginning of Year, as Reclassified.....	<u>\$ 651,369</u>	<u>\$ 2,390</u>	<u>\$ 71,165</u>	<u>\$ 11,808</u>	<u>\$ 169,170</u>	<u>\$ 905,902</u>

(16) Subsequent Events

In October, 2008, the City awarded a contract in the amount of \$295,604 to perform services related to the drilling of a well.

In October, 2008, the City approved an engineering services agreement for a \$4.8 million prefabricated cable-stayed bridge to replace the historic suspension bridge lost in the June flood.

In October, 2008, the City authorized the issuance of \$3,100,000 of debt as a conduit for Comprehensive Systems. Comprehensive Systems is responsible for repaying the debt and any costs associated with the issuance. The City is not liable for any of the debt or related costs.

In November, 2008, the City awarded a contract in the amount of \$71,220 to perform services related to the remodel of the housing department office.

In December, 2008, the City approved the issuance of \$212,000 of general obligation notes, which is to be used to pay for infrastructure and sewer work in the Allied Sixth Development.

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, 2008

	Governmental Funds - Actual	Proprietary Funds - Actual	Less Fund Not Required to be Budgeted	Net	Budgeted Amounts		Final to Net
					Original	Final	
Receipts							
Property taxes	\$ 2,503,216	\$ 49,454	\$ —	\$ 2,552,670	\$ 2,521,185	\$ 2,533,960	\$ 18,710
Tax increment financing collections.....	1,513,223	—	—	1,513,223	1,519,720	1,519,167	(5,944)
Other city taxes.....	882,215	—	—	882,215	754,013	793,336	88,879
Licenses and permits.....	85,197	—	—	85,197	77,585	77,585	7,612
Use of money and property	269,194	30,504	11,695	288,003	664,220	341,450	(53,447)
Intergovernmental.....	3,052,946	1,682	—	3,054,628	2,774,891	3,975,340	(920,712)
Charges for service	627,640	3,644,450	813,083	3,459,007	2,803,681	3,095,282	363,725
Special assessments.....	2,185	—	—	2,185	3,000	3,000	(815)
Miscellaneous.....	442,743	75,662	75,662	442,743	358,353	112,430	330,313
Total Receipts	9,378,559	3,801,752	900,440	12,279,871	11,476,648	12,451,550	(171,679)
Disbursements							
Public safety	2,013,482	—	—	2,013,482	2,110,192	2,100,932	87,450
Public works	1,166,425	—	—	1,166,425	983,228	1,194,711	28,286
Health and social services.....	461,115	—	—	461,115	528,396	525,817	64,702
Culture and recreation.....	877,328	—	—	877,328	860,268	1,044,342	167,014
Community and economic development	2,021,109	—	—	2,021,109	2,322,088	2,170,727	149,618
General government.....	869,614	—	—	869,614	865,728	644,636	(224,978)
Debt service.....	1,963,587	218,243	—	2,181,830	623,390	1,315,671	(866,159)
Capital projects.....	796,243	—	—	796,243	742,052	823,879	27,636
Business-type activities	—	1,926,523	—	1,926,523	2,774,729	2,769,766	843,243
Nonprogram.....	—	726,035	726,035	—	—	—	—
Total Disbursements	10,168,903	2,870,801	726,035	12,313,669	11,810,071	12,590,481	(276,812)
Receipts Over (Under) Disbursements.....	(790,344)	930,951	174,405	(33,798)	(333,423)	(138,931)	105,133
Other Financing Sources, Net	2,443,075	(308,965)	—	2,134,110	332,000	626,734	1,507,376
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	1,652,731	621,986	174,405	2,100,312	(1,423)	487,803	1,612,509
Balances - Beginning of Year	5,064,445	702,130	277,569	5,489,006	5,813,553	5,489,008	(2)
Balances - End of Year.....	\$ 6,717,176	\$ 1,324,116	\$ 451,974	\$ 7,589,318	\$ 5,812,130	\$ 5,976,811	\$ 1,612,507

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 \$780,410 and budgeted receipts by \$974,902. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the general government and debt service functions.

Other Supplementary Information

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

Year Ended June 30, 2008

	Special Revenue								
	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.....	—	—	56,054	—	555,699	—	493,252	8,147	—
Use of money and property	—	—	4,594	1,379	17,934	—	24,332	—	—
Intergovernmental.....	669,275	93,165	—	—	—	5,561	—	—	278,653
Charges for service	—	—	—	6,722	658	—	—	—	—
Special assessments.....	—	—	—	—	—	—	—	—	—
Miscellaneous.....	—	464	—	—	—	—	—	—	170,456
Total Receipts	<u>669,275</u>	<u>93,629</u>	<u>60,648</u>	<u>8,101</u>	<u>574,291</u>	<u>5,561</u>	<u>517,584</u>	<u>8,147</u>	<u>449,109</u>
Disbursements									
Operating									
Public safety	—	—	—	—	—	—	—	—	—
Public works	582,571	—	—	—	—	—	—	—	—
Health and social services.....	—	—	—	—	—	—	—	—	461,115
Culture and recreation	—	—	—	—	—	—	—	—	—
Community and economic development	—	—	140,611	5,953	263,907	18,440	30,436	—	—
Debt service.....	—	—	—	—	34,341	—	—	—	—
Capital projects.....	—	21,469	—	—	—	—	—	—	—
Total Disbursements	<u>582,571</u>	<u>21,469</u>	<u>140,611</u>	<u>5,953</u>	<u>298,248</u>	<u>18,440</u>	<u>30,436</u>	<u>—</u>	<u>461,115</u>
Receipts Over (Under) Disbursements.....	<u>86,704</u>	<u>72,160</u>	<u>(79,963)</u>	<u>2,148</u>	<u>276,043</u>	<u>(12,879)</u>	<u>487,148</u>	<u>8,147</u>	<u>(12,006)</u>
Other Financing Sources (Uses)									
Interfund loan activity.....	—	—	—	—	—	—	—	—	—
Bond proceeds	—	—	165,000	—	—	—	—	—	—
Discounts and fees.....	—	—	(2,772)	—	—	—	—	—	—
Operating transfers in.....	—	—	—	—	—	—	—	—	—
Operating transfers out.....	(139,070)	(3,834)	(34,407)	—	(69,037)	(26,658)	(341,217)	—	(3,000)
Total Other Financing Sources (Uses)	<u>(139,070)</u>	<u>(3,834)</u>	<u>127,821</u>	<u>—</u>	<u>(69,037)</u>	<u>(26,658)</u>	<u>(341,217)</u>	<u>—</u>	<u>(3,000)</u>
Increase (Decrease) in Cash Balances.....	<u>(52,366)</u>	<u>68,326</u>	<u>47,858</u>	<u>2,148</u>	<u>207,006</u>	<u>(39,537)</u>	<u>145,931</u>	<u>8,147</u>	<u>(15,006)</u>
Cash Balances - Beginning of Year, as reclassified, Note 15	406,169	(68,326)	12,049	29,245	358,880	39,537	449,545	(7,637)	49,047
Cash Balances - End of Year	<u>\$ 353,803</u>	<u>\$ —</u>	<u>\$ 59,907</u>	<u>\$ 31,393</u>	<u>\$ 565,886</u>	<u>\$ —</u>	<u>\$ 595,476</u>	<u>\$ 510</u>	<u>\$ 34,041</u>
Cash Basis Fund Balances									
Unreserved									
Special revenue funds	\$ 353,803	\$ —	\$ 59,907	\$ 31,393	\$ 565,886	\$ —	\$ 595,476	\$ 510	\$ 34,041
Capital projects funds.....	—	—	—	—	—	—	—	—	—
Total Cash Basis Fund Balances	<u>\$ 353,803</u>	<u>\$ —</u>	<u>\$ 59,907</u>	<u>\$ 31,393</u>	<u>\$ 565,886</u>	<u>\$ —</u>	<u>\$ 595,476</u>	<u>\$ 510</u>	<u>\$ 34,041</u>

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

Year Ended June 30, 2008

	Special Revenue								
	Section 8 Voucher	Trust and Agency	Capital Funds	RUOK	Law Enforce- ment Grant	Library	Cablevision	Police Asset Forfeiture	CVTC Operating
Receipts									
Property tax	\$ —	\$ 458,553	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Tax increment financing collections.....	—	—	—	—	—	—	—	—	—
Use of money and property	12,105	—	—	—	—	15,437	1,237	—	4,689
Intergovernmental.....	664,658	—	61,295	—	—	—	—	—	91,593
Charges for service	305	—	—	—	—	—	91,248	—	—
Special assessments.....	—	—	—	—	—	—	—	—	—
Miscellaneous.....	—	—	—	462	—	35,780	—	4,826	6,206
Total Receipts	<u>677,068</u>	<u>458,553</u>	<u>61,295</u>	<u>462</u>	<u>—</u>	<u>51,217</u>	<u>92,485</u>	<u>4,826</u>	<u>102,488</u>
Disbursements									
Operating									
Public safety	—	—	—	382	—	—	—	5,160	—
Public works	—	—	—	—	—	—	—	—	99,981
Health and social services.....	—	—	—	—	—	—	—	—	—
Culture and recreation	—	—	—	—	—	27,883	—	—	—
Community and economic development	641,379	—	61,295	—	—	—	111,007	—	—
Debt service.....	—	—	—	—	—	—	—	—	—
Capital projects.....	—	—	—	—	—	—	—	—	—
Total Disbursements	<u>641,379</u>	<u>—</u>	<u>61,295</u>	<u>382</u>	<u>—</u>	<u>27,883</u>	<u>111,007</u>	<u>5,160</u>	<u>99,981</u>
Receipts Over (Under) Disbursements.....	<u>35,689</u>	<u>458,553</u>	<u>—</u>	<u>80</u>	<u>—</u>	<u>23,334</u>	<u>(18,522)</u>	<u>(334)</u>	<u>2,507</u>
Other Financing Sources (Uses)									
Interfund loan activity.....	—	—	—	—	—	—	7,819	—	—
Bond proceeds	—	—	—	—	—	—	—	—	—
Discounts and fees.....	—	—	—	—	—	—	—	—	—
Operating transfers in.....	—	—	—	—	—	—	—	—	42,496
Operating transfers out.....	—	(475,468)	—	—	(1,298)	—	—	—	—
Total Other Financing Sources (Uses)	<u>—</u>	<u>(475,468)</u>	<u>—</u>	<u>—</u>	<u>(1,298)</u>	<u>—</u>	<u>7,819</u>	<u>—</u>	<u>42,496</u>
Increase (Decrease) in Cash Balances.....	<u>35,689</u>	<u>(16,915)</u>	<u>—</u>	<u>80</u>	<u>(1,298)</u>	<u>23,334</u>	<u>(10,703)</u>	<u>(334)</u>	<u>45,003</u>
Cash Balances - Beginning of Year, as reclassified, Note 15	205,418	119,819	—	(80)	1,298	270,706	84,213	2,390	71,165
Cash Balances - End of Year	<u>\$ 241,107</u>	<u>\$ 102,904</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 294,040</u>	<u>\$ 73,510</u>	<u>\$ 2,056</u>	<u>\$ 116,168</u>
Cash Basis Fund Balances									
Unreserved									
Special revenue funds	\$ 241,107	\$ 102,904	\$ —	\$ —	\$ —	\$ 294,040	\$ 73,510	\$ 2,056	\$ 116,168
Capital projects funds.....	—	—	—	—	—	—	—	—	—
Total Cash Basis Fund Balances	<u>\$ 241,107</u>	<u>\$ 102,904</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 294,040</u>	<u>\$ 73,510</u>	<u>\$ 2,056</u>	<u>\$ 116,168</u>

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

Year Ended June 30, 2008

	Special Revenue				Capital Projects		Total
	2008 Flood	Fire Retirement	Police Retirement	Charley Western Rec Trail	2008 Housing Rehabilitation Grant	Suspension Bridge	
Receipts							
Property tax	\$ —	\$ 50,906	\$ —	\$ —	\$ —	\$ —	\$ 509,459
Tax increment financing collections.....	—	—	—	—	—	—	1,113,152
Use of money and property	—	—	3,111	—	—	—	84,818
Intergovernmental.....	—	—	—	24,250	19,999	—	2,092,905
Charges for service	—	—	—	—	—	—	98,933
Special assessments.....	—	—	—	—	—	—	2,185
Miscellaneous.....	—	—	—	—	—	—	218,194
Total Receipts	—	50,906	3,111	24,250	19,999	—	4,119,646
Disbursements							
Operating							
Public safety	—	90,341	123,173	—	—	—	219,056
Public works	—	—	—	—	—	—	682,552
Health and social services.....	—	—	—	—	—	—	461,115
Culture and recreation	—	—	—	52,399	—	—	80,282
Community and economic development	37,642	—	—	—	—	—	1,310,670
Debt service.....	—	—	—	—	—	—	34,341
Capital projects.....	—	—	—	—	—	208,852	203,264
Total Disbursements	37,642	90,341	123,173	52,399	—	208,852	3,221,601
Receipts Over (Under) Disbursements.....	(37,642)	(39,435)	(120,062)	(28,149)	19,999	(208,852)	898,045
Other Financing Sources (Uses)							
Interfund loan activity.....	—	—	22,174	—	—	—	29,993
Bond proceeds	—	—	—	—	—	110,000	275,000
Discounts and fees.....	—	—	—	—	—	(1,881)	(4,653)
Operating transfers in.....	—	—	—	—	—	18,000	60,496
Operating transfers out.....	—	—	—	—	—	—	(1,093,989)
Total Other Financing Sources (Uses)	—	—	22,174	—	—	126,119	(733,153)
Increase (Decrease) in Cash Balances.....	(37,642)	(39,435)	(97,888)	(28,149)	19,999	(82,733)	164,892
Cash Balances - Beginning of Year, as reclassified, Note 15	—	11,808	169,170	—	—	(12,593)	2,306,121
Cash Balances - End of Year	\$ (37,642)	\$ (27,627)	\$ 71,282	\$ (28,149)	\$ 19,999	\$ (95,326)	\$ 2,471,013
Cash Basis Fund Balances							
Unreserved							
Special revenue funds	\$ (37,642)	\$ (27,627)	\$ 71,282	\$ (28,149)	\$ 19,999	\$ —	\$ 2,468,664
Capital projects funds.....	—	—	—	—	—	(95,326)	2,349
Total Cash Basis Fund Balances	\$ (37,642)	\$ (27,627)	\$ 71,282	\$ (28,149)	\$ 19,999	\$ (95,326)	\$ 2,471,013

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

As of and for the Year Ended June 30, 2008

	Enterprise Funds			
	Waste Collection	Transit	Fire Extinguisher	Total
Operating Receipts				
Charges for service	\$ 298,400	\$ 12,700	\$ 5,318	\$ 316,418
Operating Disbursements				
Business-type activities	<u>315,924</u>	<u>70,320</u>	<u>6,721</u>	<u>392,965</u>
Operating Receipts Over (Under)				
Operating Disbursements	<u>(17,524)</u>	<u>(57,620)</u>	<u>(1,403)</u>	<u>(76,547)</u>
Nonoperating Receipts (Disbursements)				
Property tax	—	49,454	—	49,454
Interest on investments	<u>181</u>	<u>—</u>	<u>—</u>	<u>181</u>
Total Nonoperating Receipts (Disbursements)	<u>181</u>	<u>49,454</u>	<u>—</u>	<u>49,635</u>
Receipts Over (Under) Disbursements	<u>(17,343)</u>	<u>(8,166)</u>	<u>(1,403)</u>	<u>(26,912)</u>
Other Financing Sources (Uses)				
Operating transfers in	40,698	12,018	—	52,716
Operating transfers out.....	<u>(23,355)</u>	<u>—</u>	<u>—</u>	<u>(23,355)</u>
Total Other Financing Sources (Uses)	<u>17,343</u>	<u>12,018</u>	<u>—</u>	<u>29,361</u>
Increase (Decrease) in Cash Balances	—	3,852	(1,403)	2,449
Cash Balances - Beginning of Year.....	<u>—</u>	<u>(3,852)</u>	<u>4,302</u>	<u>450</u>
Cash Balances - End of Year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,899</u>	<u>\$ 2,899</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,899</u>	<u>\$ 2,899</u>

Schedule of Indebtedness

Year Ended June 30, 2008

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance July 1, 2007	Issued During Year	Redeemed During Year	Balance June 30, 2008	Previously Refunded	Actual Outstanding for City	Interest Paid
General Obligation Bonds										
Essential corporate purpose.....	9-1-99	4.85 - 5.20%	\$1,550,000	\$ 405,000	\$ —	\$ 405,000	\$ —	\$ —	\$ —	\$ 20,678
Water utility.....	9-1-00	5.10	1,180,000	815,000	—	60,000	755,000	690,000	65,000	43,235
Corporate purpose.....	4-1-02	4.20	1,410,000	1,055,000	—	90,000	965,000	875,000	90,000	49,825
Corporate purpose.....	2-13-03	2.85 - 4.20	980,000	780,000	—	60,000	720,000	—	720,000	29,620
Corporate purpose.....	2-18-03	3.50 - 4.50	139,000	90,000	—	14,000	76,000	—	76,000	3,607
Refunding.....	7-1-03	2.60 - 3.25	1,235,000	800,000	—	155,000	645,000	—	645,000	22,708
Refunding.....	9-1-04	3.50 - 4.00	1,340,000	1,210,000	—	70,000	1,140,000	—	1,140,000	45,670
Refunding.....	6-1-05	3.10 - 3.75	1,620,000	1,620,000	—	—	1,620,000	—	1,620,000	—
Corporate purpose.....	7-11-07	4.30 - 5.00	585,000	—	585,000	20,000	565,000	—	565,000	24,271
Corporate purpose.....	5-15-08	2.45 - 3.65	440,000	—	440,000	—	440,000	—	440,000	—
Refunding.....	5-15-08	2.45 - 3.15	760,000	—	760,000	—	760,000	—	760,000	—
Total General Obligation Bonds.....				\$ 6,775,000	\$ 1,785,000	\$ 874,000	\$ 7,686,000	\$ 1,565,000	\$ 6,121,000	\$ 239,614
General Obligation Notes										
Corporate purpose.....	5-29-03	4.00%	\$ 260,000	\$ 180,000	\$ —	\$ 20,000	\$ 160,000	\$ —	\$ 160,000	\$ 7,200
Refunding.....	6-1-04	3.22	359,000	151,000	—	74,000	77,000	—	77,000	4,588
Total General Obligation Notes.....				\$ 331,000	\$ —	\$ 94,000	\$ 237,000	\$ —	\$ 237,000	\$ 11,788
Revenue Bonds										
Urban renewal.....	2-13-03	3.40 - 4.75%	\$ 585,000	\$ 470,000	\$ —	\$ 35,000	\$ 435,000	\$ —	\$ 435,000	\$ 20,463
Water utility.....	3-13-03	3.50 - 4.90	1,400,000	1,215,000	—	55,000	1,160,000	—	1,160,000	52,700
Sewer utility.....	7-1-03	3.00	3,000,000	2,655,000	—	122,000	2,533,000	—	2,533,000	83,355
Urban renewal.....	12-23-03	4.00	136,000	128,600	—	7,700	120,900	—	120,900	5,068
Water 2004B.....	7-8-04	3.50 - 5.00	320,000	275,000	—	20,000	255,000	—	255,000	12,363
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	85,000	—	10,000	75,000	—	75,000	2,888
Total Revenue Bonds.....				\$ 5,083,600	\$ —	\$ 249,700	\$ 4,833,900	\$ —	\$ 4,833,900	\$ 188,312
Revenue Notes										
Road use tax.....	6-24-99	5.10 - 5.50%	\$ 520,000	\$ 445,000	\$ —	\$ 445,000	\$ —	\$ —	\$ —	\$ 23,855
Urban renewal.....	11-1-05	2.00	95,684	87,392	—	8,441	78,951	—	78,951	1,723
Total Revenue Notes.....				\$ 532,392	\$ —	\$ 453,441	\$ 78,951	\$ —	\$ 78,951	\$ 25,578
Interfund Loan Agreements										
Police retirement.....	12-17-01	7.00%	\$ 100,000	\$ 15,167	\$ —	\$ 15,167	\$ —	\$ —	\$ —	\$ 1,062
Cablevision.....	7-1-02	7.00	50,000	17,672	—	7,819	9,853	—	9,853	1,237
Police retirement.....	7-1-02	7.00	50,000	29,267	—	7,007	22,260	—	22,260	2,049
Total Interfund Loan Agreements.....				\$ 62,106	\$ —	\$ 29,993	\$ 32,113	\$ —	\$ 32,113	\$ 4,348
Lease Purchase Agreement (VeraSun).....	12-5-06	5.70%	\$1,335,250	\$ 1,335,250	\$ —	\$ 75,555	\$ 1,259,695	\$ —	\$ 1,259,695	\$ 75,945
Other Loans										
Street Sweeper Loan.....	6-17-08	—	\$ 197,266	\$ —	\$ 197,266	\$ —	\$ 197,266	\$ —	\$ 197,266	\$ —
Sewer Project Note.....	3-12-08	—	1,149,000*	—	155,271	—	155,271	—	155,271	—
Total Other Loans.....				\$ —	\$ 352,537	\$ —	\$ 352,537	\$ —	\$ 352,537	\$ —

*Maximum amount.

Schedule of Bond and Note Maturities

At June 30, 2008

Year Ending June 30,	General Obligation Bonds									
	Water Utility		Corporate Purpose		Corporate Purpose		Corporate Purpose		Refunding	
	Issued 9-1-00		Issued 4-1-02		Issued 2-13-03		Issued 2-18-03		Issued 7-1-03	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2009	5.10%	\$ 65,000	4.20%	\$ 90,000	2.85%	\$ 60,000	3.50%	\$ 14,000	2.60%	\$ 155,000
2010		—		—	3.40	60,000	4.00	15,000	2.80	160,000
2011		—		—	3.40	65,000	4.25	15,000	3.10	165,000
2012		—		—	3.75	70,000	4.40	16,000	3.25	165,000
2013		—		—	3.75	70,000	4.50	16,000		—
2014		—		—	4.00	70,000		—		—
2015		—		—	4.00	75,000		—		—
2016		—		—	4.20	80,000		—		—
2017		—		—	4.20	80,000		—		—
2018		—		—	4.20	90,000		—		—
2019		—		—		—		—		—
2020		—		—		—		—		—
2021		—		—		—		—		—
2022		—		—		—		—		—
2023		—		—		—		—		—
Total		\$ 65,000		\$ 90,000		\$ 720,000		\$ 76,000		\$ 645,000

Year Ending June 30,	General Obligation Bonds										
	Refunding		Refunding		Corporate Purpose		Corporate Purpose		Refunding		Total
	Issued 9-1-04		Issued 6-1-05		Issued 7-11-07		Issued 5-15-08		Issued 5-15-08		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2009	4.00%	\$ 90,000		\$ —	4.30%	\$ 20,000	2.45%	\$ 120,000	2.45%	\$ 150,000	\$ 764,000
2010	4.00	95,000	3.10%	170,000	4.35	20,000	3.00	10,000	2.60	150,000	680,000
2011	4.00	115,000	3.20	175,000	4.40	35,000	3.00	10,000	2.75	110,000	690,000
2012	3.50	120,000	3.30	185,000	4.45	35,000	3.00	10,000	2.90	110,000	711,000
2013	3.60	220,000	3.40	200,000	4.50	35,000	3.00	40,000	3.00	120,000	701,000
2014	3.70	250,000	3.50	200,000	4.55	35,000	3.30	55,000	3.15	120,000	730,000
2015	3.80	250,000	3.60	270,000	4.60	35,000	3.30	50,000		—	680,000
2016		—	3.65	290,000	4.65	40,000	3.65	50,000		—	460,000
2017		—	3.75	130,000	4.70	45,000	3.65	35,000		—	290,000
2018		—		—	4.75	50,000	3.65	60,000		—	200,000
2019		—		—	4.80	50,000		—		—	50,000
2020		—		—	4.85	50,000		—		—	50,000
2021		—		—	4.90	50,000		—		—	50,000
2022		—		—	4.95	50,000		—		—	50,000
2023		—		—	5.00	15,000		—		—	15,000
Total		\$ 1,140,000		\$ 1,620,000		\$ 565,000		\$ 440,000		\$ 760,000	\$ 6,121,000

Schedule of Bond and Note Maturities

At June 30, 2008

Year Ending June 30,	General Obligation Notes					Revenue Note	
	Corporate Purpose		Refunding		Total	Urban Renewal	
	Issued 5-29-03		Issued 6-1-04			Issued 11-1-05	
	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount
2009	4.00%	\$ 20,000	3.22%	\$ 77,000	\$ 97,000	2.00%	\$ 8,606
2010	4.00	20,000		—	20,000	2.00	8,781
2011	4.00	20,000		—	20,000	2.00	8,960
2012	4.00	20,000		—	20,000	2.00	9,140
2013	4.00	20,000		—	20,000	2.00	9,329
2014	4.00	20,000		—	20,000	2.00	9,519
2015	4.00	20,000		—	20,000	2.00	9,713
2016	4.00	20,000		—	20,000	2.00	9,899
2017		—		—	—	2.00	5,004
Total		<u>\$ 160,000</u>		<u>\$ 77,000</u>	<u>\$ 237,000</u>		<u>\$ 78,951</u>

Schedule of Bond and Note Maturities

At June 30, 2008

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
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		\$ 435,000		\$ 1,160,000		\$ 2,533,000		\$ 120,900		\$ 255,000

Year Ending June 30,	Other Loans											
	Revenue Bonds					Lease Purchase Agreement VeraSun Issued 12-5-06		Street Sweeper Loan Elgin Sweeper Company Issued 6-17-08		Sewer Project Note Issued 3-12-08		
	Tax Increment Financing Issued 1-10-05		Water Pollution Control Issued 1-10-05		Total	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2009	4.50%	\$ 6,000	3.50%	\$ 12,000	\$ 262,100	5.70%	\$ 79,976	0.00%	\$ 197,266	0.00%	\$ —	\$ 197,266
2010	4.50	12,000	3.50	12,000	276,300	5.70	84,656		—	0.00	—	—
2011	4.50	12,000	3.50	12,000	285,700	5.70	89,609		—	0.00	155,271	155,271
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		\$ 75,000	\$ 4,833,900		\$ 1,259,695		\$ 197,266		\$ 155,271	\$ 352,537

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

Years Ended June 30, 2005 Through 2008

	2008	2007	2006	2005
Receipts				
Property tax	\$ 2,503,216	\$ 2,342,749	\$ 2,288,779	\$ 2,010,746
Tax increment financing collections	1,513,223	1,446,835	1,409,929	1,278,706
Other city tax	882,215	780,460	751,310	741,546
Licenses and permits.....	85,197	73,198	80,847	98,716
Use of money and property	269,194	301,274	667,531	545,075
Intergovernmental.....	3,052,946	2,493,665	2,578,251	4,107,983
Charges for service	627,640	843,353	459,281	468,856
Special assessments.....	2,185	2,735	3,633	1,623
Miscellaneous.....	<u>442,743</u>	<u>610,435</u>	<u>418,135</u>	<u>595,563</u>
Total Receipts	<u>\$ 9,378,559</u>	<u>\$ 8,894,704</u>	<u>\$ 8,657,696</u>	<u>\$ 9,848,814</u>
Disbursements				
Operating				
Public safety.....	\$ 2,013,482	\$ 1,912,405	\$ 1,846,906	\$ 1,799,353
Public works.....	1,166,425	1,063,393	737,060	423,513
Health and social services	461,115	494,914	501,019	472,537
Culture and recreation	877,328	784,743	757,459	598,711
Community and economic development.....	2,021,109	1,820,229	2,181,687	2,329,510
General government	869,614	666,212	610,326	665,739
Debt service.....	1,963,587	1,466,941	692,919	1,638,919
Capital projects.....	<u>796,243</u>	<u>1,449,244</u>	<u>883,349</u>	<u>3,599,929</u>
Total Disbursements	<u>\$ 10,168,903</u>	<u>\$ 9,658,081</u>	<u>\$ 8,210,725</u>	<u>\$ 11,528,211</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

Grantor/Program Title	CFDA Number	Agency Pass-Through Number	Program Expendi- tures
U.S. Department of Housing and Urban Development			
Direct			
Section 8 Housing Choice Vouchers	14.871	KC-9079V	\$ 664,658
Public Housing Capital Fund			
Fiscal Year 2006	14.872	IA05POO250105	14,283
Fiscal Year 2007	14.872	IA05POO250106	47,012
Public and Indian Housing	14.850	IA00200104J	<u>171,350</u>
Total Direct			<u>897,303</u>
Indirect			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228		<u>1,649</u>
Total U.S. Department of Housing and Urban Development			<u>898,952</u>
Department of Justice			
Direct			
Bulletproof Vest Partnership Program	16.607		<u>929</u>
Total Department of Justice			<u>929</u>
U.S. Department of Transportation			
Indirect			
Highway Planning and Construction	20.205		<u>184,456</u>
Total U.S. Department of Transportation			<u>184,456</u>
Corporation for National and Community Service			
Direct			
Foster Grandparent Program.....	94.011	01SFNA003	<u>275,362</u>
Total Corporation for National and Community Service			<u>275,362</u>
Total			<u>\$ 1,359,699</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 (cash basis). 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.

Financial Assistance Section



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, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 2, 2008. 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 three deficiencies we consider to be a material weakness.

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 08-II-R-1, 08-II-R-2 and 08-II-R-3 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, 2008 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
December 2, 2008

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, 2008. The City of Charles City, Iowa's major federal programs are identified in Part I 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, 2008.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies, including a material weakness.

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. Of the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider it to be a material weakness.

The City of Charles City, Iowa's responses to the 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
December 2, 2008

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

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
20.205

Name of Federal Program or Cluster

Section 8 Housing Choice Vouchers
Highway Planning and Construction

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, 2008

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

08-II-R-1 Segregation of Duties

Prior Year 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 several incompatible duties being performed by one person, including one individual that reconciles the bank statement also has access to the blank check stock and the signature stamp.

Current Year Finding - We found that the same condition exists.

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. It is important that City management be aware of this condition and the risks associated with it.

City's Response - We will consider this.

Auditor's Conclusion - Response accepted.

08-II-R-2 Certificates of Deposit

Finding - We noted that a certificate of deposit matured on June 11, 2008 and that the library director held the proceeds check until July 21, 2008 when it was deposited into a City savings account.

Auditor's Recommendation - We recommend that the City always deposit funds into its bank accounts immediately.

City's Response - The City will make sure that funds are deposited in a timely manner.

Auditor's Conclusion - Response accepted.

08-II-R-3 Financial Statement Preparation

Finding - The City does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with generally accepted accounting principles. As is inherent in many organizations of this size, the City has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully apply cash basis accounting principles in preparing the financial statements and the related disclosures.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

Auditor's Recommendation - The City should obtain additional knowledge through reading relevant accounting literature and attending local professional education courses.

City's Response - The City will consider obtaining additional knowledge where cost effective but will continue to rely on its audit firm for assistance with drafting the financial statements and disclosures.

Auditor's Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Noncompliance

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

Significant Deficiencies

**CFDA Number 20.205 Highway Planning and Construction
Federal Award Year 2008
U.S. Department of Transportation
Passed Through the Iowa Department of Transportation**

08-III-R-1 Segregation of Duties - Adequate control procedures through the segregation of employee duties is difficult to achieve due to the limited number of staff administering grants and performing accounting functions. See Finding 08-II-R-1 for additional information.

Part IV: Other Findings Related to Statutory Reporting

08-IV-A Certified Budget - Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in the general government and debt service 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.

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.

08-IV-B Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion.

08-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.

08-IV-D Business Transactions - We noted no business transactions between the City and City officials or employees which may appear to be conflicts of interest.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

08-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.

08-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 - This was corrected during the year under audit. A disbursement breakdown by fund is being included in the minutes published from each Council meeting.

Auditor's Conclusion - Response accepted.

08-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.

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

08-IV-I Financial Condition - The Special Revenue Funds, 2008 Flood, Fire Retirement and Charley Western Rec Trail had deficit balances at June 30, 2008 of \$37,642, \$27,627 and \$28,149, respectively. The Capital Projects Fund, Suspension Bridge, had a deficit balance at June 30, 2008 of \$95,326.

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.

08-IV-J 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.