

CITY OF CARSON

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

JUNE 30, 2008

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CITY OF CARSON

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
Lyndon K. Taylor	Mayor	January 2008
Bruce Damgaard	Mayor Pro-Tem	January 2008
Gladys Sick	Council Member	Resigned
Don Hendricks	Council Member	January 2010
Clifford Pracht	Council Member	January 2010
Joseph Riddle	Council Member	January 2010
Eric Weuve	Council Member	Appointed
Brianne Duede	City Clerk	Indefinite
Kristina Hansen	City Treasurer	Indefinite
Richard Heininger	City Attorney	Indefinite
(After January 2008)		
Lyndon K. Taylor	Mayor	January 2010
Bruce Damgaard	Mayor Pro-Tem	January 2012
Don Hendricks	Council Member	January 2010
Clifford Pracht	Council Member	January 2010
Joseph Riddle	Council Member	January 2010
Eric Weuve	Council Member	January 2012
Brianne Duede	City Clerk	Indefinite
Kristina Hansen	City Treasurer	Indefinite
Richard Heininger	City Attorney	Indefinite

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Licensed In:

Iowa
Missouri

August 20, 2008

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carson, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Carson's management. My responsibility is to express opinions on these financial statements based on my audit.

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

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

Continued . . .

August 20, 2008

Page Two

To the Honorable Mayor and
Members of the City Council:

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carson as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 20, 2008 on my consideration of the City of Carson's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

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

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Carson's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2007. The financial statements for the year ended June 30, 2005 (which are not presented herein) were audited by another auditor that expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information, included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**CITY OF CARSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

As management of the City of Carson, Iowa we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008.

Overview of the Financial Statements

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

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

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Tax, and Urban Renewal Tax Increment, 3) Debt Service Fund, and 4) the Capital Projects Funds, such as the Waste Water Treatment Plant, the Community Center, the Lewis/Lariviere Subdivision and the Tibbles Subdivision projects. The governmental fund financial statements focus on the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources to finance the City's programs and infrastructure needs.
- 2) Proprietary funds account for the City's Enterprise Funds and report business type activities. The City maintains three Enterprise Funds to provide information on the water, sewer and garbage operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Analysis of significant changes in financial position and fund balances: The cash balances for governmental activities increased \$27,756 for the fiscal year ended June 30, 2008. Community projects such as the Rodeo Drive and Tibbles Subdivision storm sewers were completed.

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

	Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for services	\$ 57,667	\$ 59,201
Operating grants, contributions and restricted interest	94,718	114,244
Capital grants, contributions and restricted interest	100,454	849,336
General receipts:		
Property tax	402,444	363,604
Local option sales tax	69,871	77,705
Unrestricted investment earnings	475	914
Bond and note proceeds	756,410	858,123
Miscellaneous	4,719	3,112
Total receipts	<u>1,486,758</u>	<u>2,326,239</u>
Disbursements:		
Public safety	113,791	114,071
Public works	70,266	70,489
Culture and recreation	59,434	20,793
Community and economic development	79,866	205,412
General government	46,178	58,873
Debt service	627,966	74,340
Capital projects	461,501	2,230,688
Total disbursements	<u>1,459,002</u>	<u>2,774,666</u>
Increase (decrease) in cash basis net assets	27,756	(448,427)
Cash basis net assets, beginning of year	<u>(10,169)</u>	<u>438,258</u>
Cash basis net assets, end of year	<u>\$ 17,587</u>	<u>\$ (10,169)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The City's cash balances of the business type activities increased \$37,633 for the fiscal year ended June 30, 2008. The increase is attributable to the issuance of additional Water and Sewer Capital Loan Note.

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

Changes in Cash Basis Net Assets of Business Type Activities			
Year ended June 30,			
	2008		2007
Receipts:			
Program receipts:			
Charges for services and sales:			
Water	\$ 109,238	\$	95,752
Sewer	115,495		98,776
Garbage	57,429		54,784
General receipts:			
Interest	18		37
Meter deposits	575		575
Bond and note proceeds	96,000		-0-
Miscellaneous	2,677		2,039
Total receipts	<u>381,432</u>		<u>251,963</u>
Disbursements:			
Water	118,552		106,473
Sewer	171,267		136,957
Garbage	53,980		52,125
Total disbursements	<u>343,799</u>		<u>295,555</u>
Increase (decrease) in cash basis net assets	37,633		(43,592)
Cash basis net assets, beginning of year	<u>40,040</u>		<u>83,632</u>
Cash basis net assets, end of year	<u>\$ 77,673</u>	\$	<u>40,040</u>

Analysis between actual and budget amounts: The City amended its budget on December 10, 2007 and May 12, 2008. The amended budget increased revenue and other financing activities by \$1,097,113 and increased disbursements by \$1,127,662, the majority of which was related to capital projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Debt Administration: At June 30, 2008, the City had \$2,328,910 in notes and other long-term debt, a three percent increase over the prior year.

Outstanding Debt at Year-End		
	2008	2007
General Obligation Notes	\$ 1,272,279	\$ 1,314,984
Revenue Capital Loan Notes	1,051,000	929,000
Lease Purchase Agreement	5,631	11,001
Total	\$ 2,328,910	\$ 2,254,985

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

Future financial statement impact: For fiscal year 2009, budget receipts are \$1,035,642 and budgeted expenditures are \$1,044,817. The budgeted net decrease to cash is \$9,175.

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

BASIC FINANCIAL STATEMENTS

CITY OF CARSON

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 113,791	\$ 24,288	\$ 23,585	\$ -0-
Public works	70,266	-0-	71,133	-0-
Cultures and recreation	59,434	29,217	-0-	15,962
Community and economic development	79,866	-0-	-0-	50,979
General government	46,178	4,162	-0-	-0-
Debt service	627,966	-0-	-0-	-0-
Capital projects	461,501	-0-	-0-	33,513
Total governmental activities	1,459,002	57,667	94,718	100,454
Business type activities:				
Water	118,552	110,398	-0-	-0-
Sewer	171,267	115,495	-0-	-0-
Sanitation	53,980	59,521	-0-	-0-
Total business type activities	343,799	285,414	-0-	-0-
Total	\$ 1,802,801	\$ 343,081	\$ 94,718	\$ 100,454
General receipts:				
Property taxes levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted investment earnings				
Miscellaneous				
Bond and note proceeds				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets, beginning of year				
Cash basis net assets, end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal				
Debt service				
Water meter deposits				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

EXHIBIT A

<u>Net (Disbursements), Receipts and Changes in Cash Basis Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (65,918)	\$ -0-	\$ (65,918)
867	-0-	867
(14,255)	-0-	(14,255)
(28,887)	-0-	(28,887)
(42,016)	-0-	(42,016)
(627,966)	-0-	(627,966)
<u>(427,988)</u>	<u>-0-</u>	<u>(427,988)</u>
(1,206,163)	-0-	(1,206,163)
-0-	(8,154)	(8,154)
-0-	(55,772)	(55,772)
-0-	5,541	5,541
<u>-0-</u>	<u>(58,385)</u>	<u>(58,385)</u>
(1,206,163)	(58,385)	(1,264,548)
55,694	-0-	55,694
90,715	-0-	90,715
256,035	-0-	256,035
69,871	-0-	69,871
475	18	493
4,719	-0-	4,719
<u>756,410</u>	<u>96,000</u>	<u>852,410</u>
<u>1,233,919</u>	<u>96,018</u>	<u>1,329,937</u>
27,756	37,633	65,389
<u>(10,169)</u>	<u>40,040</u>	<u>29,871</u>
\$ <u>17,587</u>	\$ <u>77,673</u>	\$ <u>95,260</u>
\$ 14,812	\$ -0-	\$ 14,812
709,522	-0-	709,522
(135,910)	-0-	(135,910)
-0-	4,374	4,374
<u>(570,837)</u>	<u>73,299</u>	<u>(497,538)</u>
\$ <u>17,587</u>	\$ <u>77,673</u>	\$ <u>95,260</u>

CITY OF CARSON

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	<u>Special Revenue</u>	
	General	Road Use
Receipts:		
Property tax	\$ 50,643	\$ -0-
Tax increment financing	-0-	-0-
Other city tax	-0-	-0-
Licenses and permits	2,848	-0-
Use of money and property	13,888	-0-
Intergovernmental	23,403	57,229
Charges for services	35,074	-0-
Miscellaneous	6,514	1,107
Total receipts	<u>132,370</u>	<u>58,336</u>
Disbursements:		
Operating:		
Public safety	113,791	-0-
Public works	3,170	67,096
Culture and recreation	59,434	-0-
Community and economic development	-0-	-0-
General government	39,594	-0-
Debt service	-0-	-0-
Capital projects	-0-	-0-
Total disbursements	<u>215,989</u>	<u>67,096</u>
Excess (deficiency) of receipts over (under) disbursements	(83,619)	(8,760)
Other financing sources (uses):		
Loan proceeds	-0-	-0-
Operating transfers in	69,871	-0-
Operating transfers out	-0-	-0-
Total other financing sources (uses)	<u>69,871</u>	<u>-0-</u>
Net change in cash balances	(13,748)	(8,760)
Cash balances, beginning of year	<u>(112,554)</u>	<u>23,572</u>
Cash balances, end of year	<u>\$ (126,302)</u>	<u>\$ 14,812</u>
Cash Basis Fund Balances		
Reserved for debt service	\$ -0-	\$ -0-
Unreserved:		
General fund	(126,302)	-0-
Special revenue funds	-0-	14,812
Capital projects funds	-0-	-0-
Total cash basis fund balances	<u>\$ (126,302)</u>	<u>\$ 14,812</u>

See notes to financial statements.

Special Revenue		
Urban Renewal TIF	FEMA	Debt Service
\$ -0-	\$ -0-	\$ 90,715
256,035	-0-	-0-
-0-	-0-	-0-
-0-	-0-	-0-
-0-	-0-	-0-
50,979	12,798	-0-
-0-	-0-	-0-
-0-	-0-	4,719
<u>307,014</u>	<u>12,798</u>	<u>95,434</u>
-0-	-0-	-0-
-0-	-0-	-0-
-0-	-0-	-0-
79,866	-0-	-0-
-0-	-0-	-0-
-0-	-0-	627,966
-0-	-0-	-0-
<u>79,866</u>	<u>-0-</u>	<u>627,966</u>
227,148	12,798	(532,532)
-0-	-0-	393,681
-0-	-0-	-0-
-0-	-0-	-0-
<u>-0-</u>	<u>-0-</u>	<u>393,681</u>
227,148	12,798	(138,851)
482,374	-0-	2,941
<u>\$ 709,522</u>	<u>\$ 12,798</u>	<u>\$ (135,910)</u>
\$ -0-	\$ -0-	\$ (135,910)
-0-	-0-	-0-
709,522	12,798	-0-
-0-	-0-	-0-
<u>\$ 709,522</u>	<u>\$ 12,798</u>	<u>\$ (135,910)</u>

EXHIBIT B

Capital Projects		Other Non-major Governmental Funds		Total
Community Center	Tibbles Subdivision			
\$ -0-	\$ -0-	\$ 5,051	\$	146,409
-0-	-0-	-0-		256,035
-0-	-0-	69,871		69,871
-0-	-0-	-0-		2,848
-0-	-0-	-0-		13,888
15,000	-0-	20,370		179,779
-0-	-0-	-0-		35,074
14,104	-0-	-0-		26,444
<u>29,104</u>	<u>-0-</u>	<u>95,292</u>		<u>730,348</u>
-0-	-0-	-0-		113,791
-0-	-0-	-0-		70,266
-0-	-0-	-0-		59,434
-0-	-0-	-0-		79,866
-0-	-0-	6,584		46,178
-0-	-0-	-0-		627,966
<u>200,877</u>	<u>202,021</u>	<u>58,603</u>		<u>461,501</u>
<u>200,877</u>	<u>202,021</u>	<u>65,187</u>		<u>1,459,002</u>
(171,773)	(202,021)	30,105		(728,654)
200,000	99,319	63,410		756,410
-0-	-0-	-0-		69,871
-0-	-0-	(69,871)		(69,871)
<u>200,000</u>	<u>99,319</u>	<u>(6,461)</u>		<u>756,410</u>
28,227	(102,702)	23,644		27,756
<u>(113,514)</u>	<u>(125,017)</u>	<u>(167,971)</u>		<u>(10,169)</u>
\$ <u>(85,287)</u>	\$ <u>(227,719)</u>	\$ <u>(144,327)</u>	\$	<u>17,587</u>
\$ -0-	\$ -0-	\$ -0-	\$	(135,910)
-0-	-0-	-0-		(126,302)
-0-	-0-	3,102		740,234
<u>(85,287)</u>	<u>(227,719)</u>	<u>(147,429)</u>		<u>(460,435)</u>
\$ <u>(85,287)</u>	\$ <u>(227,719)</u>	\$ <u>(144,327)</u>	\$	<u>17,587</u>

CITY OF CARSON

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Water	Sewer
Operating receipts:		
Charges for services	\$ 109,238	\$ 115,495
Miscellaneous	585	-0-
Total receipts	<u>109,823</u>	<u>115,495</u>
Operating disbursements:		
Business type activities	<u>116,126</u>	<u>97,277</u>
Total disbursements	<u>116,126</u>	<u>97,277</u>
Operating income	(6,303)	18,218
Non-operating receipts (disbursements):		
Interest	18	-0-
Meter deposits	575	-0-
Revenue note proceeds	96,000	-0-
Debt service	(2,426)	(73,990)
Total non-operating receipts (disbursements)	<u>94,167</u>	<u>(73,990)</u>
Net change in cash balances	87,864	(55,772)
Cash balances, beginning of year	<u>77,529</u>	<u>36,182</u>
Cash balances, end of year	<u>\$ 165,393</u>	<u>\$ (19,590)</u>
Cash Basis Fund Balances		
Reserved for meter deposits	\$ 4,374	\$ -0-
Unreserved	161,019	(19,590)
Total cash basis fund balances	<u>\$ 165,393</u>	<u>\$ (19,590)</u>

See notes to financial statements.

EXHIBIT C

	<u>Garbage</u>		<u>Total</u>
\$	57,429	\$	282,162
	<u>2,092</u>		<u>2,677</u>
	59,521		284,839
	 53,980		 267,383
	<u>53,980</u>		<u>267,383</u>
	 5,541		 17,456
	 -0-		 18
	 -0-		 575
	 -0-		 96,000
	 -0-		 (76,416)
	<u>-0-</u>		<u>20,177</u>
	 5,541		 37,633
	<u>(73,671)</u>		<u>40,040</u>
\$	<u>(68,130)</u>	\$	<u>77,673</u>
\$	 -0-	\$	 4,374
	<u>(68,130)</u>		<u>73,299</u>
\$	<u>(68,130)</u>	\$	<u>77,673</u>

NOTES TO FINANCIAL STATEMENTS

**CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following associations: Carson Business Club, Southwest Iowa Clerk's Association, Iowa Municipal Finance Association, Iowa League of Cities, Western Iowa Development Association, MAPA, SWIPCO, Iowa Rural Water Works Association, Southwest Iowa Coalition, and International Municipal Clerk's Institute.

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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

B. Basis of Presentation (Cont'd)

Special Revenue:

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

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

The FEMA Fund accounts for federal assistance received as a result of the March 2007 snowstorm and the May 2007 flooding.

Debt Service:

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

Capital Projects:

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

The Tibbles Subdivision Fund is utilized to account for all resources used in the development of the Tibbles Subdivision.

The City reports the following major proprietary funds:

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

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

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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

B. Basis of Presentation (Cont'd)

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

Special Revenue:

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

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

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

Capital Projects:

Other non-major capital projects funds include the Rodeo Drive Storm Sewer Project, the Wastewater Treatment Plant and the Lewis/Lariviere Subdivision projects.

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the general government and business type activities functions.

**CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 2 DEPOSITS AND INVESTMENTS

The City's deposits in banks at June 30, 2008, were covered entirely by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of June 30, 2008, the City's cash balance was \$95,260 and consisted of cash on hand, cash in bank and certificates of deposit which were held within the State of Iowa in the City's name.

NOTE 3 NOTES PAYABLE

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

Year Ending June 30,	General Obligation Notes		Urban Renewal General Obligation Notes	
	Principal	Interest	Principal	Interest
2009	\$ 165,000	\$ 48,435	\$ 55,000	\$ 13,058
2010	175,000	40,132	55,000	10,660
2011	185,000	31,115	55,000	8,187
2012	100,000	21,464	55,000	5,640
2013	152,279	22,778	15,000	3,038
2014-2018	200,000	17,100	60,000	4,960
2019-2023	-0-	-0-	-0-	-0-
2024-2027	-0-	-0-	-0-	-0-
Total	\$ <u>977,279</u>	\$ <u>181,024</u>	\$ <u>295,000</u>	\$ <u>45,543</u>

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 NOTES PAYABLE (Continued)

Year Ending June 30,	Sewer Revenue Notes		Tractor Lease Purchase		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 53,000	\$ 32,958	\$ 5,631	\$ 274	\$ 278,631	\$ 94,725
2010	53,000	31,268	-0-	-0-	283,000	82,060
2011	54,000	29,568	-0-	-0-	294,000	68,870
2012	56,000	27,828	-0-	-0-	211,000	54,932
2013	58,000	26,018	-0-	-0-	225,279	51,834
2014-2018	314,000	100,083	-0-	-0-	574,000	122,143
2019-2023	303,000	51,810	-0-	-0-	303,000	51,810
2024-2027	160,000	8,430	-0-	-0-	160,000	8,430
Total	\$ 1,051,000	\$ 307,963	\$ 5,631	\$ 274	2,328,910	\$ 534,804

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

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

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

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

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

NOTE 4 LEASE PURCHASE AGREEMENT

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

**CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 5 PENSION AND RETIREMENT BENEFITS

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

Most regular plan members are required to contribute a 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$9,998, \$9,352, and \$10,128, respectively, equal to the required contributions for each year.

NOTE 6 COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation for payment upon termination, retirement or death and sick leave hours for subsequent use during employment. As of November 12, 2001, full-time employees may elect compensatory time in lieu of overtime pay. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payments payable to employees at June 30, 2008, is as follows:

Type of Benefit	Amount June 30, 2008
Vacation	\$ 5,502
Compensatory time	5,053
Total	\$ <u>10,555</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7 PROPERTY TAXES

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

NOTE 8 INTERFUND TRANSFERS

The following operating transfer was made to move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources: \$69,871 from the Special Revenue, Local Option Tax Fund to the General Fund.

NOTE 9 RELATED PARTY TRANSACTIONS

The City had the following business transactions between the City and relatives of City officials during the year ended June 30, 2008.

	Amount
Jon Taylor, owner Lycos Co., cabinets	\$ 975
James Taylor, website upgrades and web hosting fees	1,400
Keith McClain, P&Z Commissioner, McClain's Cabinets	<u>150</u>
Total	\$ <u>2,525</u>

NOTE 10 RISK MANAGEMENT

The City of Carson is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 11 DEFICIT FUND BALANCES

At June 30, 2008, the City had the following deficit fund balances:

General Fund	\$	126,302
Special Revenue, Tort Liability Levy Fund		82
Debt Service		135,910
Capital Projects, Community Center		85,287
Capital Projects, Wastewater Treatment Plant		17,218
Capital Projects, Rodeo Drive		22,580
Capital Projects, Lewis/Lariviere Subdivision		107,631
Capital Projects, Tibbles Subdivision		227,719
Proprietary, Sewer Fund		19,590
Proprietary, Garbage Fund		68,130
Total	\$	<u>810,449</u>

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

NOTE 12 URBAN RENEWAL

Carson Urban Renewal Area

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

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

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 12 URBAN RENEWAL (Continued)

Lewis/Lariviere Urban Renewal Area

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

Tibbles Urban Renewal Area

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

NOTE 13 IOWA WEST FOUNDATION GRANTS

Fire Department Grant

During the fiscal year, the Carson Volunteer Fire Department received grants totaling \$7,456 from the Iowa West Foundation for miscellaneous fire equipment.

Park Land Acquisition Grant

On April 14, 2008, The City was awarded a \$61,250 grant from Iowa West Foundation to fund up to 50% (or up to \$61,250) of the acquisition cost of 9.21 acres of riverside land. No funds were received during the year ended June 30, 2008. The grant expires on March 31, 2009.

NOTE 14 CDBG HOUSING REHABILITATION GRANT

In March 2005, the City was awarded a \$206,000 Community Development Block Grant (CDBG) from the Iowa Department of Economic Development. The project consisted of the rehabilitation of eleven single family owner occupied units whose income was at or below the 50% area median income within the City. The total estimated cost of the project was \$270,000. The housing rehabilitation project was completed in December 2007. The City received \$182,369 of the CDBG grant funds and expended \$184,105 for the housing rehabilitation project.

**CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

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

On August 13, 2007, the City was awarded a CITIES Grant from the Pottawattamie County Board of Supervisors for Rodeo Drive Storm Sewer Improvements. The grant required a 50/50 match. The project was completed in December 2007. The City received \$20,370 and expended \$42,950 on the storm sewer project.

NOTE 16 MISCELLANEOUS GRANTS

In March 2008, the City received a \$1,000 Trees Please Grant from MidAmerican Energy. The grant funded the purchase of trees for the community center.

NOTE 17 COMMITMENTS

Water Tower Lease Agreement

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

Development Agreement

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

Billing Services Agreement

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

CITY OF CARSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 17 COMMITMENTS (Continued)

Garbage Collection Service Agreement

On November 13, 2006, the City renewed an agreement with M & K Mills Tree Service, Inc. for the collection of garbage, rubbish, and recyclables. The contract runs from November 13, 2006 to November 13, 2009. The contracted amount per residential unit for up to four 32-gallon containers per week is \$12.21 per month. The contracted amount for commercial, industrial and institutional premises per yard per dump is \$5.30 and \$.75 per unit per month for recyclables.

Law Enforcement Service Contract

The City renewed its Law Enforcement Services Contract with Pottawattamie County for the services of the Pottawattamie County Sheriff's Department as of July 1, 2008. The contract is payable in four installments of \$2,923 on July 1 and October 1, 2008 and January 1 and April 1, 2009.

Gas and Electric Franchises

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CARSON

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

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 146,409	\$ -0-
Tax increment financing	256,035	-0-
Other city tax	69,871	-0-
Licenses and permits	2,848	-0-
Use of money and permits	13,888	18
Intergovernmental	179,779	-0-
Charges for services	35,074	285,414
Miscellaneous	26,444	-0-
Total receipts	730,348	285,432
Disbursements:		
Public safety	113,791	-0-
Public works	70,266	-0-
Culture and recreation	59,434	-0-
Community and economic development	79,866	-0-
General government	46,178	-0-
Debt service	627,966	-0-
Capital projects	461,501	-0-
Business type activities	-0-	343,799
Total disbursements	1,459,002	343,799
Excess (deficiency) of receipts over (under) disbursements	(728,654)	(58,367)
Other financing sources, net	756,410	96,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	-27,756	37,633
Balances beginning of year	(10,169)	40,040
Balances end of year	\$ 17,587	\$ 77,673

See Accompanying Independent Auditor's Report

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 146,409	\$ 140,432	\$ 147,182	\$ (773)
256,035	262,297	306,363	(50,328)
69,871	81,825	75,144	(5,273)
2,848	1,950	2,825	23
13,906	26,750	19,950	(6,044)
179,779	109,287	345,773	(165,994)
320,488	307,884	325,703	(5,215)
26,444	3,400	18,555	7,889
<u>1,015,780</u>	<u>933,825</u>	<u>1,241,495</u>	<u>(225,715)</u>
113,791	132,559	118,759	4,968
70,266	70,274	75,606	5,340
59,434	26,798	68,295	8,861
79,866	255,502	291,970	212,104
46,178	42,973	45,357	(821)
627,966	91,471	655,960	27,994
461,501	39,896	462,218	717
343,799	269,769	338,739	(5,060)
<u>1,802,801</u>	<u>929,242</u>	<u>2,056,904</u>	<u>254,103</u>
(787,021)	4,583	(815,409)	28,388
<u>852,410</u>	<u>-0-</u>	<u>789,443</u>	<u>62,967</u>
65,389	4,583	(25,966)	91,355
<u>29,871</u>	<u>29,871</u>	<u>29,871</u>	<u>-0-</u>
\$ <u>95,260</u>	\$ <u>34,454</u>	\$ <u>3,905</u>	\$ <u>91,355</u>

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING**

JUNE 30, 2008

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$1,127,662. 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 business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CARSON

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue		
	Local Option Tax	Employee Benefits	Tort Liability
Receipts:			
Property taxes	\$ -0-	\$ 4,982	\$ 69
Other city taxes	69,871	-0-	-0-
Intergovernmental	-0-	-0-	-0-
Total receipts	<u>69,871</u>	<u>4,982</u>	<u>69</u>
Disbursements:			
Operations:			
General government	-0-	6,584	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	<u>-0-</u>	<u>6,584</u>	<u>-0-</u>
Excess (deficiency) of receipts over (under) disbursements	69,871	(1,602)	69
Other financing sources (uses):			
Loan proceeds	-0-	-0-	-0-
Transfers out	(69,871)	-0-	-0-
Net financing sources (uses)	<u>(69,871)</u>	<u>-0-</u>	<u>-0-</u>
Net changes in cash balances	-0-	(1,602)	69
Cash balances, beginning of year	-0-	4,786	(151)
Cash balances, end of year	\$ <u>-0-</u>	\$ <u>3,184</u>	\$ <u>(82)</u>
Cash Basis Fund Balances			
Unreserved:			
Special Revenue	\$ -0-	\$ 3,184	\$ (82)
Capital projects	-0-	-0-	-0-
Total cash basis fund balances	\$ <u>-0-</u>	\$ <u>3,184</u>	\$ <u>(82)</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 1

Capital Projects				
Wastewater Treatment Plant	Rodeo Drive	Lewis/Lariviere Subdivision	Total	
\$ -0-	\$ -0-	\$ -0-	\$	5,051
-0-	-0-	-0-		69,871
-0-	20,370	-0-		20,370
<u>-0-</u>	<u>20,370</u>	<u>-0-</u>		<u>95,292</u>
-0-	-0-	-0-		6,584
14,701	42,950	952		58,603
<u>14,701</u>	<u>42,950</u>	<u>952</u>		<u>65,187</u>
(14,701)	(22,580)	(952)		30,105
63,410	-0-	-0-		63,410
-0-	-0-	-0-		(69,871)
<u>63,410</u>	<u>-0-</u>	<u>-0-</u>		<u>(6,461)</u>
48,709	(22,580)	(952)		23,644
<u>(65,927)</u>	<u>-0-</u>	<u>(106,679)</u>		<u>(167,971)</u>
<u>\$ (17,218)</u>	<u>\$ (22,580)</u>	<u>\$ (107,631)</u>	<u>\$</u>	<u>(144,327)</u>
\$ -0-	\$ -0-	\$ -0-	\$	3,102
<u>(17,218)</u>	<u>(22,580)</u>	<u>(107,631)</u>		<u>(147,429)</u>
<u>\$ (17,218)</u>	<u>\$ (22,580)</u>	<u>\$ (107,631)</u>	<u>\$</u>	<u>(144,327)</u>

CITY OF CARSON
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2008

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<u>General Obligation Notes:</u>			
Water Tower Bond	Feb 1, 1998	4.10 - 5.25%	\$ 380,000
Wilbur/TIF Subdivision	Nov 1, 2001	3.50 - 5.10%	\$ 355,000
Ambulance	Sep 1, 2002	3.00 - 4.80%	\$ 140,000
Fire Truck	Dec 11, 2003	3.25 - 6.50%	\$ 150,000
Tibbles/TIF Subdivision	Aug 1, 2005	3.25 - 4.20%	\$ 165,000
Community Center Grant Anticipation Note	Sep 14, 2005	7.75%	\$ 600,000
Community Center Bond	Mar 29, 2006	5.75%	\$ 375,000
Street/Storm Sewer Note	Oct 30, 2006	4.00 - 4.50%	\$ 135,000
Community Center Note	Aug 15, 2007	6.00%	\$ 200,000
Capital Loan Note	Nov 30, 2007	4.10 - 4.75%	\$ 495,000
<u>Revenue Capital Loan Notes:</u>			
Sewer	Sep 29, 2004	3.00%	\$ 750,000
Sewer	Sep 1, 2006	3.00%	\$ 250,000
Sewer	Jun 28, 2007	3.00%	\$ 59,000
Water	Nov 30, 2007	4.00 - 4.75%	\$ 100,000
<u>Lease Purchase Agreement:</u>			
Tractor, Loader & Mower	Nov 17, 2004	4.75%	\$ 26,910

See Accompanying Independent Auditor's Report.

SCHEDULE 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 185,000	\$ -0-	\$ 185,000	\$ -0-	\$ 9,389	\$ -0-
195,000	-0-	35,000	160,000	9,452	655
90,000	-0-	15,000	75,000	4,043	286
78,340	-0-	16,061	62,279	3,649	360
150,000	-0-	15,000	135,000	5,700	433
171,644	-0-	171,644	-0-	5,198	-0-
310,000	-0-	70,000	240,000	17,825	2,300
135,000		10,000	125,000	5,713	443
-0-	200,000	200,000	-0-	3,533	-0-
-0-	495,000	20,000	475,000	11,353	1,803
693,000	-0-	30,000	663,000	22,277	1,657
241,000	-0-	10,000	231,000	6,345	578
-0-	59,000	2,000	57,000	885	152
-0-	100,000	-0-	100,000	2,226	369
11,001	-0-	5,370	5,631	534	211
\$ <u>2,259,985</u>	\$ <u>854,000</u>	\$ <u>785,075</u>	\$ <u>2,328,910</u>	\$ <u>108,122</u>	\$ <u>9,247</u>

CITY OF CARSON
BOND AND NOTE MATURITIES
YEAR ENDED JUNE 30, 2008
General Obligation Notes

Year Ended June 30,	Capital Loan Note Issued November 30, 2007		Ambulance Issued September 1, 2005	
	Interest Rate	Amount	Interest Rate	Amount
2009	4.75%	\$ 50,000	4.30%	\$ 15,000
2010	4.75%	55,000	4.45%	15,000
2011	4.75%	55,000	4.60%	15,000
2012	4.70%	55,000	4.70%	15,000
2013	4.70%	60,000	4.80%	15,000
2014	4.70%	65,000	--	-0-
2015	4.10%	65,000	--	-0-
2016	4.15%	70,000	--	-0-
2017	--	-0-	-	-0-
Total		\$ 475,000		\$ 75,000

See Accompanying Independent Auditor's Report.

SCHEDULE 3
(Continued)

Year Ended June 30,	Fire Pumper Truck Issued December 11, 2003		Community Center Bond Issued March 29, 2006	
	Interest Rate	Amount	Interest Rate	Amount
2009	5.55%	\$ 15,000	5.75%	\$ 75,000
2010	5.90%	15,000	5.75%	80,000
2011	6.10%	15,000	5.75%	85,000
2012	6.25%	15,000	--	-0-
2013	6.50%	2,279	--	-0-
2014-2017	--	-0-	--	-0-
Total		\$ 62,279		\$ 240,000

See Accompanying Independent Auditor's Report.

SCHEDULE 3
(Continued)

Year Ended June 30,	Street/Storm Sewer Capital Loan Note Issued October 30, 2006		Total
	Interest Rate	Amount	
2009	4.00%	\$ 10,000	\$ 165,000
2010	4.05%	10,000	175,000
2011	4.10%	15,000	185,000
2012	4.15%	15,000	100,000
2013	4.25%	15,000	92,279
2014	4.30%	15,000	80,000
2015	4.35%	15,000	80,000
2016	4.40%	15,000	85,000
2017	4.50%	15,000	15,000
Total		\$ <u>125,000</u>	\$ <u>977,279</u>

See Accompanying Independent Auditor's Report.

Urban Renewal General Obligation Notes

Year Ended June 30,	<u>Tibbles Subdivision</u> <u>Issued August 1, 2005</u>		<u>Wilbur Subdivision</u> <u>Issued November 1, 2001</u>		Total
	Interest Rates	Amount	Interest Rates	Amount	
2009	3.45%	\$ 15,000	4.70%	\$ 40,000	\$ 55,000
2010	3.55%	15,000	4.85%	40,000	55,000
2011	3.65%	15,000	5.00%	40,000	55,000
2012	3.75%	15,000	5.10%	40,000	55,000
2013	3.85%	15,000	--	-0-	15,000
2014	4.00%	20,000	--	-0-	20,000
2015	4.10%	20,000	--	-0-	20,000
2016	4.20%	20,000	--	-0-	20,000
Total		\$ 135,000		\$ 160,000	\$ 295,000

Capital Lease

John Deere Tractor
Issued November 17, 2004

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

See Accompanying Independent Auditor's Report.

SCHEDULE 3
(Continued)

Revenue Notes

Year Ended June 30,	<u>Sewer Revenue Note</u> <u>Issued Sep 29, 2004</u>		<u>Sewer Revenue Note</u> <u>Issued Sep 1, 2006</u>	
	Interest Rates	Amount	Interest Rates	Amount
2009	3.00%	\$ 31,000	3.00%	\$ 10,000
2010	3.00%	31,000	3.00%	10,000
2011	3.00%	32,000	3.00%	10,000
2012	3.00%	33,000	3.00%	11,000
2013	3.00%	34,000	3.00%	11,000
2014	3.00%	35,000	3.00%	11,000
2015	3.00%	36,000	3.00%	12,000
2016	3.00%	38,000	3.00%	12,000
2017	3.00%	39,000	3.00%	13,000
2018	3.00%	40,000	3.00%	13,000
2019	3.00%	41,000	3.00%	13,000
2020	3.00%	42,000	3.00%	14,000
2021	3.00%	43,000	3.00%	14,000
2022	3.00%	45,000	3.00%	15,000
2023	3.00%	46,000	3.00%	15,000
2024	3.00%	48,000	3.00%	15,000
2025	3.00%	49,000	3.00%	16,000
2026	--	-0-	3.00%	16,000
2027	--	-0-	--	-0-
		\$ 663,000		\$ 231,000

See Accompanying Independent Auditor's Report.

SCHEDULE 3
(Continued)

Revenue Notes (Continued)

Year Ended June 30,	<u>Sewer Revenue Note</u> <u>Issued Jun 28, 2007</u>		<u>Sewer Revenue Note</u> <u>Issued Sep 1, 2006</u>		Total
	Interest Rates	Amount	Interest Rates	Amount	
2009	3.00%	\$ 2,000	4.00%	\$ 10,000	\$ 53,000
2010	3.00%	2,000	4.10%	10,000	53,000
2011	3.00%	2,000	4.20%	10,000	54,000
2012	3.00%	2,000	4.30%	10,000	56,000
2013	3.00%	3,000	4.40%	10,000	58,000
2014	3.00%	3,000	4.50%	10,000	59,000
2015	3.00%	3,000	4.60%	10,000	61,000
2016	3.00%	3,000	4.70%	15,000	68,000
2017	3.00%	3,000	4.75%	15,000	70,000
2018	3.00%	3,000	--	-0-	56,000
2019	3.00%	3,000	--	-0-	57,000
2020	3.00%	3,000	--	-0-	59,000
2021	3.00%	3,000	--	-0-	60,000
2022	3.00%	3,000	--	-0-	63,000
2023	3.00%	3,000	--	-0-	64,000
2024	3.00%	4,000	--	-0-	67,000
2025	3.00%	4,000	--	-0-	69,000
2026	3.00%	4,000	--	-0-	20,000
2027	3.00%	4,000	--	-0-	4,000
		\$ <u>57,000</u>		\$ <u>100,000</u>	\$ <u>1,051,000</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 4

CITY OF CARSON

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

FOR THE LAST FOUR YEARS

	2008	2007	2006	2005
Receipts:				
Property tax	\$ 146,409	\$ 149,263	\$ 112,198	\$ 115,291
Tax increment financing	256,035	214,341	237,576	222,747
Other city tax	69,871	77,705	83,583	67,769
License and permits	2,848	1,987	1,852	2,666
Use of money and property	13,888	20,084	5,695	862
Intergovernmental	179,779	597,304	968,980	154,309
Charges for service	35,074	56,147	22,888	12,962
Miscellaneous	26,444	348,173	84,182	59,867
Total	\$ 730,348	\$ 1,465,004	\$ 1,516,954	\$ 636,473
 Disbursements:				
Operating:				
Public safety	\$ 113,791	\$ 114,071	\$ 129,467	\$ 116,961
Public works	70,266	70,489	78,928	51,922
Culture and recreation	59,434	20,793	30,897	32,607
Community and economic development	79,866	205,412	205,902	159,736
General government	46,178	58,873	84,268	60,152
Debt service	627,966	74,340	57,224	91,263
Capital projects	461,501	2,230,688	1,751,328	429,624
Total	\$ 1,459,002	\$ 2,774,666	\$ 2,338,014	\$ 942,265

See Accompanying Independent Auditor's Report.

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

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

August 20, 2008

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

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Licensed In:

Iowa
Missouri

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carson, Iowa as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated August 20, 2008. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Continued . . .

August 20, 2008
To the Honorable Mayor and
Members of the City Council:
Page Two

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

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe item II-A-08 is a material weakness.

Compliance and Other Matters

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

Continued . . .

August 20, 2008
To the Honorable Mayor and
Members of the City Council:
Page Three

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Carson and other parties to whom the City of Carson may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Musplatt Associates, CPA, P.C.

CITY OF CARSON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2008

PART I: SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

- a. Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- c. The audit did not disclose any non-compliance which is material to the financial statements.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

SIGNIFICANT DEFICIENCIES

II-A-08 Segregation of Duties

Comment - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response - We will consider this.

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

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

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF CARSON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

PART III: OTHER FINDINGS RELATED TO STATUTORY REPORTING:

III-A-08 Certified Budget - Disbursements during the year ended June 30, 2008, exceeded the amounts budgeted in the general government and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion - Response accepted.

III-B-08 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-C-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-08 Business Transactions - Business transactions between the City and City officials, employees or relatives of City officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jon Taylor, Owner of Lycos Co	Cabinets, per bid	\$ 975
James Taylor, Consultant	Consulting and web hosting fees	\$ 1,400
Keith McClain, Owner of McClain's Custom Cabinets	Cabinets	\$ 150

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the mayor's sons, Jon and James, do not appear to represent a conflict of interest since transactions were less than \$1,500 during the fiscal year.

CITY OF CARSON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2008

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

- III-E-08 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.
- III-F-08 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.
- III-G-08 Revenue Notes - The City is in compliance with all covenants of their Sewer Revenue Note resolutions.
- III-H-08 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's deposit and investment policy were noted.
- III-I-08 Official Depositories - A resolution naming official depositories and maximum deposit amount has been approved by the City.
- III-J-08 Payment of General Obligation Debt - The Wilbur Subdivision TIF Note was paid in part from the Urban Renewal Tax Increment Financing Fund. The Tibbles Subdivision TIF Note was paid in part from the Tibbles Capital Projects Fund. The Community Center Capital Loan Note was paid from the Community Center Capital Projects Fund. And the Tractor Lease with JD Credit was paid in part from the General Fund, the Road Use Tax Fund and the Water Fund. Chapter 384.4 of the Code of Iowa states, in part *Monies pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund.*

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

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

Conclusion - Response accepted.

CITY OF CARSON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

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

III-K-08 Financial Condition - At June 30, 2008, the City's funds had the following deficit balances:

General Fund	\$	126,302
Special Revenue, Tort Liability Levy Fund		82
Debt Service		135,910
Capital Projects, Community Center		85,287
Capital Projects, Wastewater Treatment Plant		17,218
Capital Projects, Rodeo Drive		22,580
Capital Projects, Lewis/Lariviere Subdivision		107,631
Capital Projects, Tibbles Subdivision		227,719
Proprietary, Sewer Fund		19,590
Proprietary, Garbage Fund		68,130
Total	\$	<u>810,449</u>

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition. The Urban Renewal Tax Increment Financing Fund has balance of \$709,522. Obviously, TIF funds are not being transferred to capital projects funds all of which are in Urban Renewal areas of the City.

Response - The City will be transferring the TIF funds during the fiscal year ending June 30, 2009. The proprietary garbage fund deficit will be restored eventually through the collection of fees. The general fund deficit will be monitored closely.

Conclusion - Response accepted.

CITY OF CARSON
CARSON, IOWA 51525

NEWS RELEASE

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

The City's receipts totaled \$1,868,190 for the year ended June 30, 2008, a 28 percent decrease from 2007. The receipts included \$146,409 from property tax, \$256,035 from tax increment financing, \$343,081 from charges for services, \$94,718 from operating grants, contributions and restricted interest, \$100,454 from capital grants, contributions and restricted interest, \$69,871 from local option sales tax, \$493 from unrestricted investment earnings, \$4,719 from miscellaneous receipts and \$852,410 from loan proceeds.

Disbursements for the year totaled \$1,802,801, a 41 percent decrease from 2007, and included \$627,966 for debt service, \$461,501 for capital projects, and \$171,267 for the sewer utility.

A copy of the audit report is available for review in the City Clerk's office, in the office of the Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports.htm>.

