

CITY OF CHARLES CITY
Charles City, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS & QUESTIONED COSTS

June 30, 2010

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CITY OF CHARLES CITY

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
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
Trudy O'Donnell	City Clerk	Indefinite
Tom Brownlow	City Administrator	Indefinite
Ralph Smith	City Attorney	Indefinite

(After January 2010)

James A. Erb	Mayor	January 2014
Jerry Joerger	Mayor Pro Tem	January 2014
Dean Andrews	Council Member	January 2012
Andy Cerio	Council Member	January 2012
DeLaine Freeseaman	Council Member	January 2014
Kevin Simonson	Council Member	January 2012
Trudy O'Donnell	City Clerk	Indefinite
Tom Brownlow	City Administrator	Indefinite
Ralph Smith	City Attorney	Indefinite



Gardiner Thomsen
Certified Public Accountants

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Charles City, Iowa, as of and for the year ended June 30, 2010, 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 Charles City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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.

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 as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2010, on our consideration of the City of Charles City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Charles City'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, 2009 (which are not presented herein) and expressed an unqualified opinion on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The financial statements for the years ended June 30, 2008 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report and 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 6, 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-Project Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "Unaudited" (Schedule 5) on which we express no opinion, 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.

December 16, 2010

Gardiner Thomsen, P.C.

Basic Financial Statements

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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 20.68%, or approximately \$2,352,785, from fiscal 2009 to fiscal 2010. This was primarily due to the increased receipts of bond proceeds and grants.
- Disbursements of the City's governmental activities increased 22.54% or approximately \$2,445,403, in fiscal year 2010 from fiscal 2009. Public Safety, Debt Service, and Capital Projects showed the largest increases for 2010.
- The City's total cash basis net assets increased 7.94%, or approximately \$716,683 from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased approximately \$432,750 and the assets of the business-type activities increased by approximately \$283,933.

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 U.S. generally accepted accounting principles. 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 to be 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 \$7,626,719 a year ago to \$8,059,469. 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		
	Year Ended June 30,	
	2010	2009
Receipts		
Program Receipts		
Charges for Service	\$1,955,627	\$1,972,912
Operating Grants, Contributions and Restricted Interest	3,336,354	3,090,315
Capital Grants, Contributions and Restricted Interest	367,765	155,000
General Receipts		
Property Tax	4,101,338	4,209,286
Local Option Sales Tax	606,225	549,069
Unrestricted Investment Earnings	98,067	139,864
Bond and Loan Proceeds	1,145,672	212,000
Other General Receipts	1,684,964	599,426
Transfers, Net	431,808	447,163
Total Receipts	<u>13,727,820</u>	<u>11,375,035</u>
Disbursements		
Public Safety	2,802,953	2,345,105
Public Works	1,504,028	1,623,369
Health and Social Services	495,299	483,191
Culture and Recreation	918,949	986,846
Community and Economic Development	2,739,735	2,791,423
General Government	670,050	627,787
Debt Service	1,878,463	1,214,506
Capital projects	2,285,593	777,440
Total Disbursements	<u>13,295,070</u>	<u>10,849,667</u>
Increase in Cash Basis Net Assets	432,750	525,368
Cash Basis Net Assets – Beginning of Year	<u>7,626,719</u>	<u>7,101,351</u>
Cash Basis Net Assets – End of Year	<u>\$8,059,469</u>	<u>\$7,626,719</u>

The City's total receipts for governmental activities increased 20.68%, or \$2,352,785. The total cost of all programs and services increased \$2,445,403, or 22.54%.

The cost of all governmental activities this year was \$13,295,070 compared to \$10,849,667 last year. As shown in the Statement of Activities and Net Assets – Cash Basis, the amount taxpayers ultimately financed for these activities was only \$7,635,324 because some of the cost was paid by those directly benefiting from the programs (\$1,955,627) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$3,704,119).

Changes in Cash Basis Net Assets of Business Type Activities		
	Year Ended June 30,	
	2010	2009
Receipts		
Program Receipts		
Charges for Service		
Water	\$2,423,636	\$1,551,424
Sewer	1,271,616	1,288,395
Waste Collection	318,523	320,651
Storm Utility	159,839	101,859
Transit and Fire Extinguisher	19,232	17,893
General Receipts		
Unrestricted Interest on Investments	25,464	20,818
Miscellaneous	482	631
Bond/loan Proceeds	5,463,707	1,873,660
	<u>9,682,499</u>	<u>5,175,331</u>
Disbursements and Transfers		
Water	7,218,224	2,658,998
Sewer Improvements	791,001	807,063
Waste Collection	293,206	301,722
Storm Utility	34,132	16,024
Transit and Fire Extinguisher	93,455	92,444
Debt Service	536,740	391,799
Transfers Net	431,808	447,163
Total Disbursements and Transfers	<u>9,398,566</u>	<u>4,715,213</u>
Increase in Cash Basis Net Assets	283,933	460,118
Cash Basis Net Assets - Beginning of Year	<u>1,400,056</u>	<u>939,938</u>
Cash Basis Net Assets - End of Year	<u>\$1,683,989</u>	<u>\$1,400,056</u>

Total business-type activities receipts for the fiscal year were \$9,682,499 compared to \$5,175,331 last year. The cash balance increased approximately \$283,933 from the prior year. Total disbursements for the fiscal year increased by approximately \$4,683,353 (99%) due to the significant amount of capital outlay required in 2010 for the water and sewer project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Charles City completed the year, its governmental funds reported a combined fund balance of \$9,157,734, an increase of \$1,977,716 from last year’s total of \$7,180,018. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$55,886 from the prior year to \$823,468. This decrease was primarily due to higher public safety and general government disbursements.
- The Debt Service Fund cash balance decreased by \$22,247 to a deficit balance of \$25,124 during the fiscal year. This was primarily due to decreases in property tax collections and increases in debt payments.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$32,168 to \$655,656.
- The Sewer Fund cash balance increased by \$90,166 to \$693,536.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on May 24, 2010. Changes in receipts included increases in intergovernmental receipts, charges for services, miscellaneous and bond proceeds. Bond proceeds that were budgeted to be received in fiscal 2009, were actually received in 2010 along with funding for flood repairs. Amendments to disbursements included flood buyout expenditures, payments for Carrie Chapman Catt project, purchase of three dump trucks and the calling of two bonds. The second amendment was approved June 24, 2010. Changes to disbursements were to increase debt service disbursements for payment of principal, interest and fees prior to the end of the fiscal year.

For the year, the City’s actual receipts were \$15,529,946 compared to the final budget of \$15,976,244 and actual disbursements were \$21,478,234 compared to budgeted disbursements of \$22,798,653.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$18,734,686 in bonds and other long-term debt compared to \$13,567,538 last year, as shown below:

	Outstanding Debt at Year-End	
	Year Ended June 30,	
	2010	2009
General Obligation Bonds and Notes	\$5,692,472	\$5,709,000
Revenue Bonds and Notes	11,947,152	6,678,819
Lease Purchase Agreements	1,095,062	1,179,719
Total	\$18,734,686	\$13,567,538

The Constitution of the State of Iowa limits the amount of general obligation and tax increment financing debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation and tax increment financing debt of approximately \$6,095,481 is significantly below its constitutional debt limit of \$17,291,923. The outstanding revenue bonds include \$11,544,143 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 2011 budget, tax rates and fees that will be charged for various City activities.

For 2011, the City has incorporated estimated revenue and expenditures into the budget for several anticipated capital projects, including a UV disinfection project at the wastewater plant, a permeable paving project and the building of a cable-stayed bridge. These projects are to be financed by a state revolving fund loan, federal and state grants, local option sales tax and community pledges. The replacement of all water meters with radio read meters will be completed in fiscal year 2011. The water plant expansion was completed in 2010.

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

CITY OF CHARLES CITY

Charles City, Iowa

STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS

As of and for the Year Ended June 30, 2010

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions, and Restricted Interest
Functions/Programs:			
Governmental Activities:			
Public Safety	\$2,802,953	\$794,299	\$241,073
Public Works	1,504,028	225,817	728,224
Health & Social Services	495,299	4,492	491,563
Culture & Recreation	918,949	238,723	40,514
Community & Economic Development	2,739,735	527,319	1,782,203
General Government	670,050	162,157	25,777
Debt Service	1,878,463	0	0
Capital Projects	2,285,593	2,820	27,000
Total Governmental Activities	13,295,070	1,955,627	3,336,354
Business Type Activities:			
Water	7,536,569	2,423,636	0
Sewer	1,009,396	1,271,616	0
Waste Collection	293,206	318,523	0
Transit	88,007	13,240	0
Storm Utility	34,132	159,839	0
Fire Extinguishers	5,448	5,992	0
Total Business Type Activities	8,966,758	4,192,846	0
Total	\$22,261,828	\$6,148,473	\$3,336,354

General Receipts:

Property and Other City Tax Levied for:

General Purposes

Debt Service

Tax Increment Financing

Local Option Sales Tax

Unrestricted Interest on Investments

Bond Proceeds

Miscellaneous

Transfers

Total General Receipts & Transfers

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:

Expendable:

Streets

Urban Renewal Purposes

Debt Service

Unrestricted

Total Cash Basis Net Assets

See Notes to Financial Statements

Program Receipts Capital Grants, Contributions and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business - Type Activities	Total
\$0	\$(1,767,581)	\$0	\$(1,767,581)
0	(549,987)	0	(549,987)
0	756	0	756
0	(639,712)	0	(639,712)
0	(430,213)	0	(430,213)
0	(482,116)	0	(482,116)
0	(1,878,463)	0	(1,878,463)
367,765	(1,888,008)	0	(1,888,008)
<u>367,765</u>	<u>(7,635,324)</u>	<u>0</u>	<u>(7,635,324)</u>
0	0	(5,112,933)	(5,112,933)
0	0	262,220	262,220
0	0	25,317	25,317
0	0	(74,767)	(74,767)
0	0	125,707	125,707
0	0	544	544
<u>0</u>	<u>0</u>	<u>(4,773,912)</u>	<u>(4,773,912)</u>
<u>\$367,765</u>	<u>(7,635,324)</u>	<u>(4,773,912)</u>	<u>(12,409,236)</u>
	2,364,515	0	2,364,515
	321,298	0	321,298
	1,415,525	0	1,415,525
	606,225	0	606,225
	98,067	25,464	123,531
	1,145,672	5,463,707	6,609,379
	1,684,964	482	1,685,446
	431,808	(431,808)	0
	<u>8,068,074</u>	<u>5,057,845</u>	<u>13,125,919</u>
	432,750	283,933	716,683
	<u>7,626,719</u>	<u>1,400,056</u>	<u>9,026,775</u>
	<u>\$8,059,469</u>	<u>\$1,683,989</u>	<u>\$9,743,458</u>
	\$368,989	\$0	\$368,989
	2,141,089	0	2,141,089
	0	141,687	141,687
	<u>5,549,391</u>	<u>1,542,302</u>	<u>7,091,693</u>
	<u>\$8,059,469</u>	<u>\$1,683,989</u>	<u>\$9,743,458</u>

**CITY OF CHARLES CITY
Charles City, Iowa**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN
CASH BALANCES – GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2010**

	General	Debt Service	Nonmajor	Total
Receipts:				
Property Tax	\$1,703,269	\$321,298	\$661,246	\$2,685,813
Tax Increment Financing Collections	0	0	1,415,525	1,415,525
Other City Tax	195,647	14,769	644,217	854,633
Licenses & Permits	55,804	0	0	55,804
Use of Money & Property	16,309	0	85,617	101,926
Intergovernmental	705,409	0	3,528,947	4,234,356
Charges for Service	137,761	0	1,404,137	1,541,898
Special Assessments	0	0	2,820	2,820
Miscellaneous	270,523	0	286,739	557,262
Total Receipts	3,084,722	336,067	8,029,248	11,450,037
Disbursements:				
Operating:				
Public Safety	2,264,493	0	165,875	2,430,368
Public Works	414,275	0	1,004,333	1,418,608
Health & Social Services	2,500	0	492,487	494,987
Culture & Recreation	847,255	0	14,241	861,496
Community & Economic Development	27,561	0	2,628,479	2,656,040
General Government	603,460	0	0	603,460
Debt Service	0	1,878,463	0	1,878,463
Capital Projects	0	0	2,285,593	2,285,593
Total Disbursements	4,159,544	1,878,463	6,591,008	12,629,015
Excess (Deficiency) of Receipts Over (Under) Disbursements	(1,074,822)	(1,542,396)	1,438,240	(1,178,978)
Other Financing Sources (Uses):				
Bond Proceeds	188,700	0	956,972	1,145,672
Operating Transfers In	999,705	1,520,149	49,990	2,569,844
Operating Transfers Out	(169,469)	0	(1,968,567)	(2,138,036)
Total Other Financing Sources (Uses)	1,018,936	1,520,149	(961,605)	1,577,480
Net Change in Cash Balances	(55,886)	(22,247)	476,635	398,502
Cash Balances Beginning of Year	879,354	(2,877)	6,303,541	7,180,018
Cash Balances End of Year	\$823,468	\$(25,124)	\$6,780,176	\$7,578,520
Cash Basis Fund Balances				
Unreserved :				
General Fund	\$823,468	\$0	\$0	\$823,468
Special Revenue Funds	0	0	6,790,065	6,790,065
Debt Service Fund	0	(25,124)	0	(25,124)
Capital Projects Fund	0	0	(9,889)	(9,889)
Total Cash Basis Fund Balances	\$823,468	\$(25,124)	\$6,780,176	\$7,578,520

See Notes to Financial Statements

CITY OF CHARLES CITY
Charles City, Iowa

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS
As of and for the Year Ended June 30, 2010

Total Governmental Funds Cash Balances (Pg. 12) \$7,578,520

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

480,949

Cash Basis Net Assets of Governmental Activities (Pg. 11)

\$8,059,469

Net Change in Cash Balances (Pg. 12)

\$398,502

*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 self funding of the City's health insurance benefit plan to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with governmental activities.

34,248

Change in Cash Basis Net Assets of Governmental Activities (Pg. 11)

\$432,750

See Notes To Financial Statements.

CITY OF CHARLES CITY
Charles City, Iowa

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
 IN CASH BALANCES – PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2010

	Enterprise Funds	
	Water	Sewer
Operating Receipts:		
Charges for Service	\$2,285,711	\$1,271,616
Miscellaneous	0	0
Total Operating Receipts	2,285,711	1,271,616
Operating Disbursements:		
Business Type Activities	7,100,685	791,001
Non-Program	0	0
Total Operating Disbursements	7,100,685	791,001
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	(4,814,974)	480,615
Non-Operating Receipts (Disbursements):		
Intergovernmental	267	215
Interest on Investments	11,983	10,703
General Obligation Bond Proceeds	5,463,707	0
Debt Service	(318,345)	(218,395)
Total Non-Operating Receipts (Disbursements)	5,157,612	(207,477)
Excess of Receipts Over Disbursements	342,638	273,138
Operating Transfers In (Out)	(310,470)	(182,972)
Net Change in Cash Balances	32,168	90,166
Cash Balances Beginning of Year	623,488	603,370
Cash Balances End of Year	\$655,656	\$693,536
Cash Basis Fund Balances		
Reserved for Debt Service	\$141,687	\$0
Unreserved	513,969	693,536
Total Cash Basis Fund Balances	\$655,656	\$693,536

See Notes to Financial Statements

Exhibit D

Enterprise Funds		Internal Service Fund
Other Nonmajor Enterprise Funds	Total	Employee Health
\$497,594	\$4,054,921	\$721,853
0	0	110,948
497,594	4,054,921	832,801
420,793	8,312,479	0
0	0	783,594
420,793	8,312,479	783,594
76,801	(4,257,558)	49,207
0	482	0
1,820	24,506	6,385
0	5,463,707	0
0	(536,740)	0
1,820	4,951,955	6,385
78,621	694,397	55,592
61,634	(431,808)	0
140,255	262,589	55,592
89,767	1,316,625	530,132
\$230,022	\$1,579,214	\$585,724
\$0	\$141,687	\$0
230,022	1,437,527	585,724
\$230,022	\$1,579,214	\$585,724

CITY OF CHARLES CITY
Charles City, Iowa

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS --
PROPRIETARY FUNDS**

As of and for the Year Ended June 30, 2010

Total Enterprise Funds Cash Balances (Pg. 15) \$1,579,214

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

104,775

Cash Basis Net Assets of Business-Type Activities (Pg. 11)

\$1,683,989

Net Change in Cash Balances (Pg. 15)

\$262,589

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

21,344

Change in Cash Basis Net Assets of Business-Type Activities (Pg. 11)

\$283,933

See Notes To Financial Statements.

**City of Charles City
Charles City, Iowa**

Notes to Financial Statements

June 30, 2010

Note 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 the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City 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 which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City, but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: 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.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

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

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

Nonexpendable restricted net assets are subject to eternally imposed stipulations which require them to be maintained permanently by the City.

Expendable 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 categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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 this fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

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

The Enterprise; 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.

C. 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 U.S. generally accepted accounting principles.

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.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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, 2010, disbursements exceeded the amounts budgeted in the Debt Service Function.

Note 2: Deposits and Investments

The City's deposits in banks at June 30, 2010 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, 2010.

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 Financial Statements (Continued)

Note 3: Bonds and Notes Payable

Annual debt service requirements to maturity for General Obligation Notes and Bonds, Revenue Bonds and Notes and Lease Purchase are as follows:

Year Ending June 30,	General Obligation Notes		General Obligation Bonds		Revenue Bonds & Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$150,806	\$24,016	\$681,124	\$181,861	\$266,184	\$382,236
2012	156,194	18,334	704,660	159,030	277,256	372,305
2013	31,000	13,595	694,890	135,438	383,743	362,760
2014	31,000	12,190	725,126	111,444	401,231	349,964
2015	32,000	10,785	676,370	85,703	394,822	336,503
2016-20	95,000	35,725	1,096,770	184,470	2,994,278	1,432,601
2021-25	80,000	11,385	315,061	61,330	4,005,000	859,318
2026-30	0	0	222,471	19,710	3,224,638	248,430
Total	\$576,000	\$126,030	\$5,116,472	\$938,986	\$11,947,152	\$4,344,117

Year Ending June 30,	Lease Purchase		Total	
	Principal	Interest	Principal	Interest
2011	\$89,609	\$61,891	\$1,187,723	\$650,004
2012	94,853	56,647	1,232,963	606,316
2013	100,403	51,097	1,210,036	562,890
2014	106,278	45,222	1,263,635	518,820
2015	112,496	39,004	1,215,688	471,995
2016-20	591,423	88,290	4,777,471	1,741,086
2021-25	0	0	4,400,061	932,033
2026-30	0	0	3,447,109	268,140
Total	\$1,095,062	\$342,151	\$18,734,686	\$5,751,284

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 \$951,178, payable through June, 2022. For the current year, principal and interest paid and total TIF receipts were \$464,013 and \$1,415,525, respectively.

Notes to Financial Statements (Continued)

Note 3: Bonds and Notes Payable (Continued)

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 \$4,454,434. Principal and interest paid for the current year and total customer net revenue was \$352,690 and \$3,557,327, 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.

On December 5, 2006, the City entered into a lease purchase agreement with Valero Charles City, LLC (Valero) in the amount of \$1,335,250. Valero 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 Valero for a portion of the construction costs. The City is making semiannual payments of \$75,750 to Valero at 5.75% interest, which began on December 1, 2007 and end on December 1, 2019. Total lease payments equal 45% of projected costs.

Notes to Financial Statements (Continued)

Note 3: Bonds and Notes Payable (Continued)

On February 11, 2009, November 18, 2009 and January 6, 2010, the City issued not to exceed \$9,800,000, \$404,000 and \$100,000 of Water Revenue Bonds, respectively. During the year ended June 30, 2010, the City drew \$5,463,707, \$355,505 and \$100,000, respectively, of funds for construction. These notes are payable solely from water customer net receipts and are payable through 2030. The total principal and interest outstanding on the notes is \$11,330,253 at June 30, 2010. The City will continue to draw on the note as necessary.

On September 30, 2009 the City issued \$248,000 General Obligation Street Department Vehicle Acquisition notes for the purpose of providing funds to pay the cost or a portion of the costs of acquiring and equipping three dump trucks. Interest is due semiannually from June 1, 2010 through June 1, 2012 at 3.57% per annum. Principal is due semiannually from December 1, 2010 through June 1, 2012.

In 2006, the City entered into a development agreement which includes the rebate of property taxes paid by the other party into 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.

Note 4: 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 the bonds secured by the TIF revenue of the district. In turn, the County transferred the proceeds to the City to pay the expense 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
2011	\$90,000	\$30,800
2012	95,000	27,920
2013	95,000	24,785
2014	100,000	21,555
2015-18	460,000	46,040
Total	\$840,000	\$151,100

Notes to Financial Statements (Continued)

Note 5: Pension and Retirement Benefits

The City offers employees the following retirement plans:

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 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 9.40% 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, 2010, 2009 and 2008 were \$164,563, \$185,379 and \$213,514, respectively, which met the required contribution for each year.

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, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of annual 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 contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$120,042, \$110,113 and \$103,602, respectively, equal to the required contributions for each year.

Note 6: Other Postemployment Benefits (OPEB)

Plan Description -- The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 55 active and 5 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a self-funded plan administered by Auxiant. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Notes to Financial Statements (Continued)

Note 6: Other Postemployment Benefits (OPEB) (Continued)

Funding Policy -- The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$565 for single coverage and \$1,275 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$549,176 and plan members eligible for benefits contributed \$171,677 to the plan.

Note 7: Compensated Absences

City employees earn vacation at rates dependant 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 one and one-half 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, 2010, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$237,942
Compensatory	17,393
Total	<u>\$255,335</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

Note 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.

Notes to Financial Statements (Continued)

Note 8: Employee Health Care Plan (Continued)

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 \$562,111 for the year ended June 30, 2010.

The City has estimated costs of incurred but unsubmitted claims at June 30, 2010 to be \$32,692.

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, 2010:

Estimated Cost Incurred but not Claimed – June 30, 2009	\$48,607
Claims Incurred and Claimed and Estimated Costs Incurred but Claimed for the Year Ended June 30, 2010	575,208
Claims Paid During the Year Ended June 30, 2010	591,123
Estimated Costs Incurred but not Claimed – June 30, 2010	<u>\$32,692</u>

Note 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, 2010, there was one series of Health Facility Revenue Bonds outstanding, with a principal amount payable of \$2,600,840.

Notes to Financial Statements (Continued)

Note 10: Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue	
	Road Use Tax	\$40,600
	Employee Benefits	560,448
	Riverside Tax Increment Financing	12,624
	Southwest Bypass Tax Increment Financing	11,500
	South Grand Tax Increment Financing	12,624
	East Park	512
	FGP Advisory & Operating	3,000
	Public Housing	39,000
	Suspension Bridge	2,636
	2008 Housing Rehabilitation Grant	19,186
	Enterprise	
	Water	118,814
	Sewer	107,124
	Waste Collection	21,816
	Transit	10,500
Special Revenue		
Park & Rec	Special Revenue:	
	Hotel/Motel Tax	39,321
CVTC Operating	Special Revenue:	
	Road Use Tax	27,625
Debt Service	Special Revenue:	
	Park & Rec	13,833
	Road Use Tax	70,918
	Local Option Sales Tax	8,009
	Riverside Tax Increment Financing	418,083
	Southwest Bypass Tax Increment Financing	337,715
	South Grand Tax Increment Financing	340,484
	Park Avenue Tax Increment Financing	63,603
	Enterprise:	
	Water	191,656
	Sewer	75,848
Capital Projects		
Pedestrian Bridge		
Project	General	22,365

Notes to Financial Statements (Continued)

Note 10: Interfund Transfers (Continued)

Transfer To		Transfer From	Amount
Enterprise			
Transit	General		\$93,950

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

Note 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.

Note 12: Deficit Fund Balances

The Debt Service Fund had a deficit balance of \$25,124 at June 30, 2010. The deficit will be eliminated through property tax.

The Special Revenue, Fire Retirement Fund, had a deficit balance of \$2,492 at June 30, 2010. The deficit balance was a result of unexpected expenses and an insufficient levy. The deficit will be eliminated through property tax.

The Special Revenue, Police Retirement Fund, had a deficit balance of \$9,302 at June 30, 2010. The deficit balance was a result of unexpected expenses and an insufficient levy. The deficit will be eliminated through property tax.

The Special Revenue Fund, 2008 Housing Rehabilitation Grant Fund, had a deficit balance of \$41,777 at June 30, 2010. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated upon receipt of grant funds.

The Capital Projects Fund, Pedestrian Bridge, had a deficit balance of \$243,987 at June 30, 2010. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated upon receipt of FEMA funds.

The Capital Projects Fund, I-Jobs Fire Station, had a deficit balance of \$367 at June 30, 2010. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated upon receipt of grant funds.

Notes to Financial Statements (Continued)

Note 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, 2010, the City of Charles City paid Jendro Sanitation \$262,411. 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.

Note 14: Commitments and Contingencies

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

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

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.

Notes to Financial Statements (Continued)

Note 14: Commitments and Contingencies (Continued)

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.

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. The City paid \$29,051 during fiscal year 2010 for maintenance and testing.

Required Supplementary Information

CITY OF CHARLES CITY
Charles City, Iowa

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS & CHANGES IN BALANCES – BUDGET AND
ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND
PROPRIETARY FUNDS – REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total
Receipts:				
Property Taxes	\$2,685,813	\$0	\$0	\$2,685,813
Tax Increment Financing Collections	1,415,525	0	0	1,415,525
Other City Taxes	854,633	0	0	854,633
Licenses & Permits	55,804	0	0	55,804
Use of Money & Property	101,926	30,891	6,385	126,432
Intergovernmental	4,234,356	482	0	4,234,838
Charges for Service	1,541,898	4,776,774	721,853	5,596,819
Special Assessments	2,820	0	0	2,820
Miscellaneous	557,262	110,948	110,948	557,262
Total Receipts	11,450,037	4,919,095	839,186	15,529,946
Disbursements:				
Public Safety	2,430,368	0	0	2,430,368
Public Works	1,418,608	0	0	1,418,608
Health & Social Services	494,987	0	0	494,987
Culture & Recreation	861,496	0	0	861,496
Community & Economic Development	2,656,040	0	0	2,656,040
General Government	603,460	0	0	603,460
Debt Service	1,878,463	0	0	1,878,463
Capital Projects	2,285,593	0	0	2,285,593
Business Type Activities	0	8,849,219	0	8,849,219
Non-Program	0	783,594	783,594	0
Total Disbursements	12,629,015	9,632,813	783,594	21,478,234
Excess (Deficiency) of Receipts Over (Under) Disbursements	(1,178,978)	(4,713,718)	55,592	(5,948,288)
Other Financing Sources (Uses), Net	1,577,480	5,031,899	0	6,609,379
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	398,502	318,181	55,592	661,091
Balances Beginning of Year	7,180,018	1,846,757	530,132	8,496,643
Balances End of Year	\$7,578,520	\$2,164,938	\$585,724	\$9,157,734

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to
Original	Final	Total
		Variance
\$2,702,956	\$2,702,956	\$(17,143)
1,416,669	1,416,669	(1,144)
811,813	876,571	(21,938)
86,020	71,020	(15,216)
229,246	169,962	(43,530)
5,047,077	6,477,358	(2,242,520)
3,734,450	3,904,425	1,692,394
2,500	5,000	(2,180)
173,775	352,283	204,979
14,204,506	15,976,244	(446,298)
2,452,619	2,524,376	94,008
1,533,454	1,981,074	562,466
522,830	526,233	31,246
1,009,290	1,024,909	163,413
2,714,512	2,799,727	143,687
604,839	615,090	11,630
1,202,786	1,877,492	(971)
1,610,200	2,375,991	90,398
8,717,215	9,073,761	224,542
0	0	0
20,367,745	22,798,653	1,320,419
(6,163,239)	(6,822,409)	874,121
6,417,446	7,037,753	(428,374)
254,207	215,344	445,747
8,322,587	8,322,587	174,056
\$8,576,794	\$8,537,931	\$619,803

**City of Charles City
Charles City, Iowa**

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects and Enterprise 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 \$2,430,908. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the Debt Service function.

Other Supplementary Information

CITY OF CHARLES CITY
Charles City, Iowa

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCES – NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2010

	Special Revenue		
	Police Asset Forfeiture	Road Use Tax	Employee Benefits
Receipts:			
Property Tax	\$0	\$0	\$494,149
Tax Increment Financing Collections	0	0	0
Other City Tax	0	0	28,392
Use of Money & Property	0	0	0
Intergovernmental	0	724,654	0
Charges for Services	0	0	0
Special Assessments	0	0	0
Miscellaneous	12	0	0
Total Receipts	12	724,654	522,541
Disbursements:			
Operating:			
Public Safety	1,312	0	0
Public Works	0	799,784	0
Health and Social Services	0	0	0
Culture & Recreation	0	0	0
Community and Economic Development	0	0	0
Capital Projects	0	0	0
Total Disbursements	1,312	799,784	0
Excess (Deficiency) of Receipts Over (Under) Disbursements	(1,300)	(75,130)	522,541
Other Financing Sources (Uses):			
Bond Proceeds	0	248,000	0
Operating Transfers In	0	0	0
Operating Transfers Out	0	(139,143)	(560,448)
Total Other Financing Sources (Uses)	0	108,857	(560,448)
Net Changes in Cash Balances	(1,300)	33,727	(37,907)
Cash Balances Beginning of Year	3,353	335,262	106,120
Cash Balances End of Year	\$2,053	\$368,989	\$68,213
Cash Basis Fund Balances			
Unreserved:			
Special Revenue Funds	\$2,053	\$368,989	\$68,213
Capital Project Funds	0	0	0
Total Cash Basis Fund Balances	\$2,053	\$368,989	\$68,213

See Accompanying Independent Auditors' Report.

Special Revenue

CVTC Operating	2008 Flood	Fire Retirement	Police Retirement	FEMA Buy Out	Local Option Sales Tax	Riverside Tax Increment Financing
\$0	\$0	\$81,532	\$85,565	\$0	\$0	\$0
0	0	0	0	0	0	455,777
0	0	4,684	4,916	0	606,225	0
1,555	0	0	0	0	13,388	9,005
68,033	119,134	0	0	465,091	0	0
0	0	0	0	0	0	2,571
0	0	0	0	0	0	0
2,403	1,543	0	0	0	0	6,533
71,991	120,677	86,216	90,481	465,091	619,613	473,886
0	0	61,113	103,450	0	0	0
99,292	105,257	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	456,291	0	247,836
0	0	0	0	0	490,692	0
99,292	105,257	61,113	103,450	456,291	490,692	247,836
(27,301)	15,420	25,103	(12,969)	8,800	128,921	226,050
0	0	0	0	0	708,972	0
27,625	0	0	0	0	0	0
0	0	0	0	0	(8,009)	(430,707)
27,625	0	0	0	0	700,963	(430,707)
324	15,420	25,103	(12,969)	8,800	829,884	(204,657)
128,184	119,213	(27,595)	3,667	0	871,207	619,102
\$128,508	\$134,633	\$(2,492)	\$(9,302)	\$8,800	\$1,701,091	\$414,445
\$128,508	\$134,633	\$(2,492)	\$(9,302)	\$8,800	\$1,701,091	\$414,445
0	0	0	0	0	0	0
\$128,508	\$134,633	\$(2,492)	\$(9,302)	\$8,800	\$1,701,091	\$414,445

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCES – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)

	Special Revenue		
	Southwest Bypass Tax Increment Financing	South Grand Tax Increment Financing	East Park Tax Increment Financing
Receipts:			
Property Tax	\$0	\$0	\$0
Tax Increment Financing Collections	399,995	454,574	0
Other City Tax	0	0	0
Use of Money & Property	11,679	12,495	0
Intergovernmental	0	0	0
Charges for Services	0	0	0
Special Assessments	0	0	0
Miscellaneous	15,600	0	0
Total Receipts	427,274	467,069	0
Disbursements:			
Operating:			
Public Safety	0	0	0
Public Works	0	0	0
Health and Social Services	0	0	0
Culture & Recreation	0	0	0
Community and Economic Development	282,074	33,755	0
Capital Projects	0	0	0
Total Disbursements	282,074	33,755	0
Excess (Deficiency) of Receipts Over (Under) Disbursements	145,200	433,314	0
Other Financing Sources (Uses):			
Bond Proceeds	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	(349,215)	(353,108)	(512)
Total Other Financing Sources (Uses)	(349,215)	(353,108)	(512)
Net Changes in Cash Balances	(204,015)	80,206	(512)
Cash Balances Beginning of Year	887,020	856,234	512
Cash Balances End of Year	\$683,005	\$936,440	\$0
Cash Basis Fund Balances			
Unreserved:			
Special Revenue Funds	\$683,005	\$936,440	\$0
Capital Project Funds	0	0	0
Total Cash Basis Fund Balances	\$683,005	\$936,440	\$0

See Accompanying Independent Auditors' Report.

Schedule 1 (Continued)

Special Revenue						
Park Avenue Tax Increment Financing	Carrie Chapman Catt	Library	Foster Grandparent Advisory and Operating	Public Housing Security Deposits	Public Housing	Section 8 Voucher
\$0	\$0	\$0	\$0	\$0	\$0	\$0
105,179	0	0	0	0	0	0
0	0	0	0	0	0	0
1,463	0	9,286	0	408	19,477	2,590
0	61,853	0	308,233	0	0	480
0	0	0	0	7,008	626,372	682,071
0	0	0	0	0	0	0
0	0	17,565	187,497	0	0	0
106,642	61,853	26,851	495,730	7,416	645,849	685,141
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	492,487	0	0	0
0	0	14,241	0	0	0	0
17,634	61,853	0	0	6,404	454,668	740,596
0	0	0	0	0	0	0
17,634	61,853	14,241	492,487	6,404	454,668	740,596
89,008	0	12,610	3,243	1,012	191,181	(55,455)
0	0	0	0	0	0	0
0	0	0	0	0	0	0
(63,603)	0	0	(3,000)	0	(39,000)	0
(63,603)	0	0	(3,000)	0	(39,000)	0
24,405	0	12,610	243	1,012	152,181	(55,455)
81,794	0	286,829	24,794	33,158	1,517,396	238,622
\$107,199	\$0	\$299,439	\$25,037	\$34,170	\$1,669,577	\$183,167
\$107,199	\$0	\$299,439	\$25,037	\$34,170	\$1,669,577	\$183,167
0	0	0	0	0	0	0
\$107,199	\$0	\$299,439	\$25,037	\$34,170	\$1,669,577	\$183,167

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCES – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)

	Special Revenue		
	SCT Roofing Project	Capital Funds	2008 Housing Rehabilitation Grant
Receipts:			
Property Tax	\$0	\$0	\$0
Tax Increment Financing Collections	0	0	0
Other City Tax	0	0	0
Use of Money & Property	0	0	0
Intergovernmental	220,072	21,036	0
Charges for Services	0	0	0
Special Assessments	0	0	0
Miscellaneous	0	0	24,586
Total Receipts	220,072	21,036	24,586
Disbursements:			
Operating:			
Public Safety	0	0	0
Public Works	0	0	0
Health and Social Services	0	0	0
Culture & Recreation	0	0	0
Community and Economic Development	220,072	21,036	0
Capital Projects	0	0	52,177
Total Disbursements	220,072	21,036	52,177
Excess (Deficiency) of Receipts Over (Under) Disbursements	0	0	(27,591)
Other Financing Sources (Uses):			
Bond Proceeds	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	0	0	(19,186)
Total Other Financing Sources (Uses)	0	0	(19,186)
Net Changes in Cash Balances	0	0	(46,777)
Cash Balances Beginning of Year	0	0	5,000
Cash Balances End of Year	\$0	\$0	\$(41,777)
Cash Basis Fund Balances			
Unreserved:			
Special Revenue Funds	\$0	\$0	\$(41,777)
Capital Project Funds	0	0	0
Total Cash Basis Fund Balances	\$0	\$0	\$(41,777)

See Accompanying Independent Auditors' Report.

Schedule 1 (Continued)

Special Revenue		Capital Projects					
Cablevision	Suspension Bridge	Street Capital Improvements	Riverfront Project	Pedestrian Bridge	I Jobs Fire Station	Total	
\$0	\$0	\$0	\$0	\$0	\$0	\$661,246	
0	0	0	0	0	0	1,415,525	
0	0	0	0	0	0	644,217	
0	0	0	4,271	0	0	85,617	
0	0	18,757	349,008	1,172,596	0	3,528,947	
86,115	0	0	0	0	0	1,404,137	
0	0	2,820	0	0	0	2,820	
0	0	0	31,000	0	0	286,739	
<u>86,115</u>	<u>0</u>	<u>21,577</u>	<u>384,279</u>	<u>1,172,596</u>	<u>0</u>	<u>8,029,248</u>	
0	0	0	0	0	0	165,875	
0	0	0	0	0	0	1,004,333	
0	0	0	0	0	0	492,487	
0	0	0	0	0	0	14,241	
86,260	0	0	0	0	0	2,628,479	
0	241	140	424,680	1,317,296	367	2,285,593	
<u>86,260</u>	<u>241</u>	<u>140</u>	<u>424,680</u>	<u>1,317,296</u>	<u>367</u>	<u>6,591,008</u>	
(145)	(241)	21,437	(40,401)	(144,700)	(367)	1,438,240	
0	0	0	0	0	0	956,972	
0	0	0	0	22,365	0	49,990	
0	(2,636)	0	0	0	0	(1,968,567)	
0	(2,636)	0	0	22,365	0	(961,605)	
(145)	(2,877)	21,437	(40,401)	(122,335)	(367)	476,635	
79,015	2,877	90,500	162,929	(121,652)	0	6,303,541	
<u>\$78,870</u>	<u>\$0</u>	<u>\$111,937</u>	<u>\$122,528</u>	<u>\$(243,987)</u>	<u>\$(367)</u>	<u>\$6,780,176</u>	
\$78,870	\$0	\$0	\$0	\$0	\$0	\$6,790,065	
0	0	111,937	122,528	(243,987)	(367)	(9,889)	
<u>\$78,870</u>	<u>\$0</u>	<u>\$111,937</u>	<u>\$122,528</u>	<u>\$(243,987)</u>	<u>\$(367)</u>	<u>\$6,780,176</u>	

CITY OF CHARLES CITY
Charles City, Iowa

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH
BALANCES – NONMAJOR PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2010

	Waste Collection	Transit	Storm Water Utility	Fire Extinguisher	Total
Operating Receipts					
Charges for Service	\$318,523	\$13,240	\$159,839	\$5,992	\$497,594
Operating Disbursements					
Business-Type Activities	293,206	88,007	34,132	5,448	420,793
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	25,317	(74,767)	125,707	544	76,801
Non-Operating Receipts					
Interest on Investments	105	0	1,715	0	1,820
Total Non-Operating Receipts	105	0	1,715	0	1,820
Excess (Deficiency) of Receipts Over (Under) Disbursements	25,422	(74,767)	127,422	544	78,621
Operating Transfers In (Out)	(21,816)	83,450	0	0	61,634
Net Change in Cash Balances	3,606	8,683	127,422	544	140,255
Cash Balances Beginning of Year	0	0	86,207	3,560	89,767
Cash Balances End of Year	\$3,606	\$8,683	\$213,629	\$4,104	\$230,022
Cash Basis Fund Balances					
Unreserved	\$3,606	\$8,683	\$213,629	\$4,104	\$230,022

See Accompanying Independent Auditors' Report.

CITY OF CHARLES CITY
Charles City, Iowa

SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds:			
Corporate Purpose	02-13-03	2.85-4.20%	\$980,000
Corporate Purpose	02-18-03	3.50-4.50	139,000
Refunding	07-01-03	2.60-3.25	1,235,000
Refunding	09-01-04	3.50-4.00	1,340,000
Refunding	06-01-05	3.10-3.75	1,620,000
Corporate Purpose	07-11-07	4.30-5.00	585,000
Corporate Purpose	05-15-08	2.45-3.65	440,000
Refunding	05-15-08	2.45-3.15	760,000
Street Improvement	02-16-10	3.00	2,550,000*
Street Improvement (Forgiveable)	02-16-10	3.00	631,000*
Total General Obligation Bonds			
General Obligation Notes			
Corporate Purpose	05-29-03	4.00	260,000
Corporate Purpose	12-18-08	5.50	212,000
Corporate Purpose	09-30-09	3.80	248,000
Total General Obligation Notes			
Revenue Bonds			
Urban Renewal	02-13-03	3.40-4.75	585,000
Water Utility	03-13-03	3.50-4.90	1,400,000
Sewer Utility	07-01-03	3.00	2,910,000
Urban Renewal	12-23-03	4.00	136,000
Water 2004B	07-08-04	3.50-5.00	320,000
Tax Increment Financing	01-10-05	4.50	255,000
Water Pollution Control	01-10-05	3.50	110,000
Water Revenue	02-11-09	3.00	9,800,000*
Water Revenue	11-18-09	3.00	404,000*
Water Revenue (Forgiveable)	01-13-10	3.00	100,000*
Total Revenue Bonds			
Revenue Notes			
Urban Renewal	11-01-05	2.00	95,684
Lease Purchase Agreement (Valero)	12-05-06	5.70	1,335,250

* Maximum Amount

See Accompanying Independent Auditors' Report.

Schedule 3

Balance 7-1-09	Issued During Year	Redeemed During Year	Balance 6-30-10	Interest Paid
\$660,000	\$0	\$355,000	\$305,000	\$26,140
62,000	0	15,000	47,000	2,662
490,000	0	160,000	330,000	14,957
1,050,000	0	95,000	955,000	39,270
1,620,000	0	170,000	1,450,000	55,955
545,000	0	20,000	525,000	25,595
320,000	0	10,000	310,000	10,857
610,000	0	150,000	460,000	17,495
0	186,785	0	186,785	1,634
0	547,687	0	547,687	0
\$5,357,000	\$734,472	\$975,000	\$5,116,472	\$194,565
\$140,000	\$0	\$20,000	\$120,000	\$5,600
212,000	0	4,000	208,000	11,660
0	248,000	0	248,000	5,902
\$352,000	\$248,000	\$24,000	\$576,000	\$23,162
\$400,000	\$0	\$400,000	\$0	\$18,048
1,105,000	0	60,000	1,045,000	49,125
2,316,776	224	129,000	2,188,000	69,503
112,800	0	8,300	104,500	4,430
235,000	0	20,000	215,000	10,962
249,000	0	12,000	237,000	11,070
63,000	0	12,000	51,000	2,100
2,126,931	5,463,707	1,000	7,589,638	150,882
0	355,505	0	355,505	0
0	100,000	0	100,000	0
\$6,608,507	\$5,919,436	\$642,300	\$11,885,643	\$316,120
\$70,311	\$0	\$8,802	\$61,509	\$1,363
\$1,179,719	\$0	\$84,656	\$1,095,063	\$66,844

CITY OF CHARLES CITY
Charles City, Iowa

Schedule of Bond and Note Maturities
June 30, 2010

Year Ending June 30,	General Obligation Bonds			
	Corporate Purpose		Refunding	
	Issued 2-13-03		Issued 9-1-04	
	Interest Rates	Amount	Interest Rates	Amount
2011	3.40%	\$35,000	4.00%	\$115,000
2012	3.75	35,000	3.50	120,000
2013	3.75	35,000	3.60	220,000
2014	4.00	35,000	3.70	250,000
2015	4.00	40,000	3.80	250,000
2016	4.20	40,000	0.00	0
2017	4.20	40,000	0.00	0
2018	4.20	45,000	0.00	0
2019	0.00	0	0.00	0
2020	0.00	0	0.00	0
2021	0.00	0	0.00	0
2022	0.00	0	0.00	0
2023	0.00	0	0.00	0
2024	0.00	0	0.00	0
2025	0.00	0	0.00	0
2026	0.00	0	0.00	0
2027	0.00	0	0.00	0
2028	0.00	0	0.00	0
2029	0.00	0	0.00	0
2030	0.00	0	0.00	0
Total		<u>\$305,000</u>		<u>\$955,000</u>

Year Ending June 30,	General Obligation Bonds			
	Refunding		Corporate Purpose	
	Issued 6-1-05		Issued 7-11-07	
	Interest Rates	Amount	Interest Rates	Amount
2011	3.20%	\$175,000	4.40%	\$35,000
2012	3.30	185,000	4.45	35,000
2013	3.40	200,000	4.50	35,000
2014	3.50	200,000	4.55	35,000
2015	3.60	270,000	4.60	35,000
2016	3.65	290,000	4.65	40,000
2017	3.75	130,000	4.70	45,000
2018	0.00	0	4.75	50,000
2019	0.00	0	4.80	50,000
2020	0.00	0	4.85	50,000
2021	0.00	0	4.90	50,000
2022	0.00	0	4.95	50,000
2023	0.00	0	5.00	15,000
2024	0.00	0	0.00	0
2025	0.00	0	0.00	0
2026	0.00	0	0.00	0
2027	0.00	0	0.00	0
2028	0.00	0	0.00	0
2029	0.00	0	0.00	0
2030	0.00	0	0.00	0
Total		<u>\$1,450,000</u>		<u>\$525,000</u>

See Accompanying Independent Auditors' Report.

Schedule of Bond and Note Maturities (Continued)

Year Ending June 30,	General Obligation Bonds							
	Corporate Purpose		Refunding		Street Improvement		Street Improvement	
	Issued 2-18-03		Issued 7-1-03		Issued 2-16-10		Issued 2-16-10	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	4.25%	\$15,000	3.10%	\$165,000	3.00%	\$7,437	3.00%	\$13,687
2012	4.40	16,000	3.25	165,000	3.00	7,660	3.00	21,000
2013	4.50	16,000	0.00	0	3.00	7,890	3.00	21,000
2014	0.00	0	0.00	0	3.00	8,126	3.00	22,000
2015	0.00	0	0.00	0	3.00	8,370	3.00	23,000
2016	0.00	0	0.00	0	3.00	8,621	3.00	24,000
2017	0.00	0	0.00	0	3.00	8,880	3.00	24,000
2018	0.00	0	0.00	0	3.00	9,146	3.00	25,000
2019	0.00	0	0.00	0	3.00	9,420	3.00	26,000
2020	0.00	0	0.00	0	3.00	9,703	3.00	27,000
2021	0.00	0	0.00	0	3.00	9,994	3.00	28,000
2022	0.00	0	0.00	0	3.00	10,294	3.00	29,000
2023	0.00	0	0.00	0	3.00	10,603	3.00	29,000
2024	0.00	0	0.00	0	3.00	10,921	3.00	30,000
2025	0.00	0	0.00	0	3.00	11,249	3.00	31,000
2026	0.00	0	0.00	0	3.00	11,586	3.00	32,000
2027	0.00	0	0.00	0	3.00	11,934	3.00	34,000
2028	0.00	0	0.00	0	3.00	12,291	3.00	35,000
2029	0.00	0	0.00	0	3.00	12,660	3.00	36,000
2030	0.00	0	0.00	0	3.00	0	3.00	37,000
Total		<u>\$47,000</u>		<u>\$330,000</u>		<u>\$186,785</u>		<u>\$547,687</u>

Year Ending June 30,	General Obligation Bonds				
	Corporate Purpose		Refunding		Total
	Issued 5-15-08		Issued 5-15-08		
	Interest Rates	Amount	Interest Rates	Amount	
2011	3.00%	\$10,000	2.75%	\$110,000	\$681,124
2012	3.00	10,000	2.90	110,000	704,660
2013	3.00	40,000	3.00	120,000	694,890
2014	3.30	55,000	3.15	120,000	725,126
2015	3.30	50,000	0.00	0	676,370
2016	3.65	50,000	0.00	0	452,621
2017	3.65	35,000	0.00	0	282,880
2018	3.65	60,000	0.00	0	189,146
2019	0.00	0	0.00	0	85,420
2020	0.00	0	0.00	0	86,703
2021	0.00	0	0.00	0	87,994
2022	0.00	0	0.00	0	89,294
2023	0.00	0	0.00	0	54,603
2024	0.00	0	0.00	0	40,921
2025	0.00	0	0.00	0	42,249
2026	0.00	0	0.00	0	43,586
2027	0.00	0	0.00	0	45,934
2028	0.00	0	0.00	0	47,291
2029	0.00	0	0.00	0	48,660
2030	0.00	0	0.00	0	37,000
Total		<u>\$310,000</u>		<u>\$460,000</u>	<u>\$5,116,472</u>

Schedule of Bond and Note Maturities (Continued)

Year Ending June 30,	General Obligation Notes						
	Corporate Purpose		Corporate Purpose		Corporate Purpose		Total
	Issued 5-29-03		Issued 12-18-08		Issued 9-30-09		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2011	4.00%	\$20,000	5.50%	\$9,000	3.80%	\$121,806	
2012	4.00	20,000	5.50	10,000	3.80	126,194	156,194
2013	4.00	20,000	5.50	11,000	0.00	0	31,000
2014	4.00	20,000	5.50	11,000	0.00	0	31,000
2015	4.00	20,000	5.50	12,000	0.00	0	32,000
2016	4.00	20,000	5.50	13,000	0.00	0	33,000
2017	4.00	0	5.50	14,000	0.00	0	14,000
2018	0.00	0	5.50	15,000	0.00	0	15,000
2019	0.00	0	5.50	16,000	0.00	0	16,000
2020	0.00	0	5.50	17,000	0.00	0	17,000
2021	0.00	0	5.50	18,000	0.00	0	18,000
2022	0.00	0	5.50	19,000	0.00	0	19,000
2023	0.00	0	5.50	21,000	0.00	0	21,000
2024	0.00	0	5.50	22,000	0.00	0	22,000
2025	0.00	0	0.00	0	0.00	0	0
2026	0.00	0	0.00	0	0.00	0	0
2027	0.00	0	0.00	0	0.00	0	0
2028	0.00	0	0.00	0	0.00	0	0
2029	0.00	0	0.00	0	0.00	0	0
2030	0.00	0	0.00	0	0.00	0	0
Total		<u>\$120,000</u>		<u>\$208,000</u>		<u>\$248,000</u>	<u>\$576,000</u>

Year Ending June 30,	Revenue Note	
	Urban Renewal	
	Issued 11-1-05	
Interest Rates	Amount	
2011	\$8,979	
2012	9,156	
2013	9,343	
2014	9,531	
2015	9,722	
2016	9,917	
2017	4,861	
2018	0	
2019	0	
2020	0	
2021	0	
2022	0	
2023	0	
2024	0	
2025	0	
2026	0	
2027	0	
2028	0	
2029	0	
2030	0	
Total	<u>\$61,509</u>	

Schedule of Bond and Note Maturities (Continued)

Year Ending June 30,	Revenue Bonds			
	Water Utility		Sewer Utility	
	Issued 3-13-03		Issued 7-1-03	
	Interest Rates	Amount	Interest Rates	Amount
2011	4.00%	\$60,000	3.00%	\$126,000
2012	4.00	65,000	3.00	130,000
2013	4.00	65,000	3.00	134,000
2014	4.10	70,000	3.00	139,000
2015	4.20	70,000	3.00	143,000
2016	4.30	75,000	3.00	148,000
2017	4.40	80,000	3.00	152,000
2018	4.50	85,000	3.00	157,000
2019	4.60	85,000	3.00	163,000
2020	4.70	90,000	3.00	168,000
2021	4.80	95,000	3.00	173,000
2022	4.90	100,000	3.00	179,000
2023	4.90	105,000	3.00	185,000
2024	0.00	0	0.00	191,000
2025	0.00	0	0.00	0
2026	0.00	0	0.00	0
2027	0.00	0	0.00	0
2028	0.00	0	0.00	0
2029	0.00	0	0.00	0
2030	0.00	0	0.00	0
Total		<u>\$1,045,000</u>		<u>\$2,188,000</u>

Schedule of Bond and Note Maturities (Continued)

Year Ending June 30,	Revenue Bonds					
	Urban Renewal		Water 2004B		Tax Increment Financing	
	Issued 12-23-03		Issued 7-8-04		Issued 1-10-05	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	4.00%	\$8,700	4.50%	\$20,000	4.50%	\$12,000
2012	4.00	9,100	4.50	20,000	4.50	14,000
2013	4.00	9,400	4.50	20,000	4.50	15,000
2014	4.00	9,700	4.75	25,000	4.50	16,000
2015	4.00	10,100	4.75	25,000	4.50	18,000
2016	4.00	10,500	4.75	25,000	4.50	18,000
2017	4.00	11,100	5.00	25,000	4.50	20,000
2018	4.00	11,500	5.00	25,000	4.50	22,000
2019	4.00	11,900	5.00	30,000	4.50	23,000
2020	4.00	12,500	0.00	0	4.50	25,000
2021	0.00	0	0.00	0	4.50	26,000
2022	0.00	0	0.00	0	4.50	28,000
2023	0.00	0	0.00	0	0.00	0
2024	0.00	0	0.00	0	0.00	0
2025	0.00	0	0.00	0	0.00	0
2026	0.00	0	0.00	0	0.00	0
2027	0.00	0	0.00	0	0.00	0
2028	0.00	0	0.00	0	0.00	0
2029	0.00	0	0.00	0	0.00	0
2030	0.00	0	0.00	0	0.00	0
Total		<u>\$104,500</u>		<u>\$215,000</u>		<u>\$237,000</u>

Year Ending June 30,	Revenue Bonds			
	Water Revenue		Water 2004B	
	Issued 11-18-09		Issued 1-3-10	
	Interest Rates	Amount	Interest Rates	Amount
2011	3.00%	\$12,505	3.00%	\$5,000
2012	3.00	13,000	3.00	4,000
2013	3.00	14,000	3.00	4,000
2014	3.00	14,000	3.00	4,000
2015	3.00	15,000	3.00	4,000
2016	3.00	15,000	3.00	5,000
2017	3.00	16,000	3.00	5,000
2018	3.00	16,000	3.00	5,000
2019	3.00	17,000	3.00	5,000
2020	3.00	17,000	3.00	5,000
2021	3.00	18,000	3.00	5,000
2022	3.00	18,000	3.00	5,000
2023	3.00	19,000	3.00	6,000
2024	3.00	20,000	3.00	6,000
2025	3.00	20,000	3.00	6,000
2026	3.00	21,000	3.00	6,000
2027	3.00	21,000	3.00	6,000
2028	3.00	22,000	3.00	7,000
2029	3.00	23,000	3.00	7,000
2030	3.00	24,000	3.00	0
Total		<u>\$355,505</u>		<u>\$100,000</u>

Schedule of Bond and Note Maturities (Continued)

Year Ending June 30,	Revenue Bonds				
	Water Pollution Control		Water 2010		
	Issued 1-10-05		Issued 2-11-09		
	Interest Rates	Amount	Interest Rates	Amount	Total
2011	3.50%	\$12,000	3.00%	\$1,000	\$257,205
2012	3.50	12,000	3.00	1,000	268,100
2013	3.50	13,000	3.00	100,000	374,400
2014	3.50	14,000	3.00	100,000	391,700
2015	0.00	0	3.00	100,000	385,100
2016	0.00	0	3.00	200,000	496,500
2017	0.00	0	3.00	200,000	509,100
2018	0.00	0	3.00	300,000	621,500
2019	0.00	0	3.00	300,000	634,900
2020	0.00	0	3.00	400,000	717,500
2021	0.00	0	3.00	400,000	717,000
2022	0.00	0	3.00	500,000	830,000
2023	0.00	0	3.00	500,000	815,000
2024	0.00	0	3.00	700,000	917,000
2025	0.00	0	3.00	700,000	726,000
2026	0.00	0	3.00	725,000	752,000
2027	0.00	0	3.00	750,000	777,000
2028	0.00	0	3.00	800,000	829,000
2029	0.00	0	3.00	812,638	842,638
2030	0.00	0	0.00	0	24,000
Total		<u>\$51,000</u>		<u>\$7,589,638</u>	<u>\$11,885,643</u>

See Accompanying Independent Auditors' Report.

Schedule of Bond and Note Maturities (Continued)

Year Ending June 30,	Lease Purchase Agreement	
	Valero	
	Issued 12-5-06	
	Interest Rates	Amount
2011	5.70%	\$89,609
2012	5.70	94,853
2013	5.70	100,403
2014	5.70	106,278
2015	5.70	112,496
2016	5.70	119,079
2017	5.70	126,046
2018	5.70	133,422
2019	5.70	141,229
2020	5.70	71,648
2021	0.00	0
2022	0.00	0
2023	0.00	0
2024	0.00	0
2025	0.00	0
2026	0.00	0
2027	0.00	0
2028	0.00	0
2029	0.00	0
2030	0.00	0
Total		<u>\$1,095,063</u>

CITY OF CHARLES CITY
Charles City, Iowa

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS
 BY FUNCTION – ALL GOVERNMENTAL FUNDS
 For the Last Six Years

	2010	2009
Receipts:		
Property Tax	\$2,685,813	\$2,583,039
Tax Increment Financing Collections	1,415,525	1,626,247
Other City Tax	854,633	778,285
Licenses & Permits	55,804	62,657
Use of Money & Property	101,926	145,245
Intergovernmental	4,234,356	2,709,406
Charges for Services	1,541,898	1,491,376
Special Assessments	2,820	7,036
Miscellaneous	557,262	641,437
Total Receipts	<u>\$11,450,037</u>	<u>\$10,044,728</u>
Disbursements:		
Operating:		
Public Safety	\$2,430,368	\$2,022,438
Public Works	1,418,608	1,614,536
Health & Social Services	494,987	482,928
Culture & Recreation	861,496	927,521
Community and Economic Development	2,656,040	2,633,188
General Government	603,460	568,489
Debt Service	1,878,463	1,214,506
Capital Projects	2,285,593	777,440
Total Disbursements	<u>\$12,629,015</u>	<u>\$10,241,046</u>

See Accompanying Independent Auditors' Report.

Schedule 5

Unaudited			
2008	2007	2006	2005
\$2,503,216	\$2,342,749	\$2,288,779	\$2,010,746
1,513,223	1,446,835	1,409,929	1,278,706
882,215	780,460	751,310	741,546
85,197	73,198	80,847	98,716
269,194	301,274	667,531	545,075
3,052,946	2,493,665	2,578,251	4,107,983
627,640	843,353	459,281	468,856
2,185	2,735	3,633	1,623
442,743	610,435	418,135	595,563
<u>\$9,378,559</u>	<u>\$8,894,704</u>	<u>\$8,657,696</u>	<u>\$9,848,814</u>
\$2,013,482	\$1,912,405	\$1,846,906	\$1,799,353
1,166,425	1,063,393	737,060	423,513
461,115	494,914	501,019	472,537
877,328	784,743	757,459	598,711
2,021,109	1,820,229	2,181,687	2,329,510
869,614	666,212	610,326	665,739
1,963,587	1,466,941	692,919	1,638,919
796,243	1,449,244	883,349	3,599,929
<u>\$10,168,903</u>	<u>\$9,658,081</u>	<u>\$8,210,725</u>	<u>\$11,528,211</u>

CITY OF CHARLES CITY
Charles City, Iowa

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010

Grantor/Program Title	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture Community Facilities Program	10.766		<u>\$87,500</u>
U.S. Department of Housing and Urban Development Public and Indian Housing	14.850	KC-9056	<u>203,806</u>
Section 8 Housing Choice Vouchers	14.871	KC-9079V	<u>676,156</u>
Public Housing Capital Fund Fiscal Year 2008	14.872	IA05P00250108	21,036
ARRA-Fiscal Year 2009	14.872	IA05S0025009	<u>220,072</u>
			<u>241,108</u>
U.S. Department of Justice: Bulletproof Vest Partnership Program	16.607		<u>659</u>
Corporation for National and Community Service: Foster Grandparent Program	94.011	09SFNIA005	<u>293,801</u>
Total Direct			<u>1,503,030</u>
Indirect:			
U.S. Department of Agriculture Iowa Department of Natural Resources -- Division of Conservation and Recreation Forestry Bureau Cooperative Volunteer Fire Assistance Program	10.664		<u>3,500</u>
Federal Highway Administration Iowa Department of Transportation Highway Planning and Construction	20.205	STP-U-1242-(609)-70-34	<u>18,757</u>
National Highway Traffic Safety Administration: Iowa Department of Public Safety: Traffic Safety Bureau: Seat Belt Use Incentive Grant	20.604		<u>4,500</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

Grantor/Program Title	CFDA Number	Agency Pass-Through Number	Program Expenditures
Indirect (Continued):			
Environmental Protection Agency			
ARRA – Capitalization Grants for Clean Water – State Revolving Funds	66.458	CS-CW1011	<u>\$734,472</u>
ARRA – Capitalization Grants for Drinking Water – State Revolving Funds	66.468	CS-FS-34-10-DWSRF-030	<u>100,000</u>
U.S. Department of Education			
Iowa Department of Transportation			
ARRA – State Fiscal Stabilization Fund (SFSF) Government Services, Recovery Act	84.397	S397A090016A	<u>9,329</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1763-DR1A	<u>1,274,219</u>
Hazard Mitigation Program	97.039	HMPG-DR-1763-0043-01	137,734
Hazard Mitigation Program	97.039	HMPG-DR-1763-0045-01	288,844
			<u>426,578</u>
Total Indirect			<u>2,571,355</u>
Total			<u>\$4,074,385</u>

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

See accompanying independent auditors' report.



Gardiner Thomsen
Certified Public Accountants

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Charles City, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 16, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Charles City'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Charles City'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Charles City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 and II-B-10 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies in internal control, which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-C-10 to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 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'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'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 and other parties to whom the City of Charles City may report including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Charles City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

December 16, 2010

Gardiner Thomsen, P.C.



Gardiner Thomsen
Certified Public Accountants

Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program 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, 2010. The City of Charles City'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's management. Our responsibility is to express an opinion on the City of Charles City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, 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 non-compliance 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe 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 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, 2010.

Internal Control Over Compliance

The management of the City of Charles City 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'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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

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

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

December 16, 2010

Gardiner Thomsen, P.C.

**City of Charles City
Charles City, Iowa**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

Part I: Summary of the Independent Auditors' Results:

- a. Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. An unqualified opinion was issued on compliance with requirements applicable to the major program.
- e. The major programs were CFDA Numbers 66.458 – ARRA – Capitalization Grants for Clean Water – State Revolving Funds, 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disaster), 97.039 – Hazard Mitigation Grant Program and 94.011 – Foster Grandparent Program.
- f. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- g. The City of Charles City did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

Recommendation – We 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 review the procedures as suggested. We are in the process of cross training employees to further segregate duties.

City of Charles City
Charles City, Iowa

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2010

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

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

- II-B-10** Preparation of Full Disclosure Financial Statements – Internal controls over financial reporting include the actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The City of Charles City does not have the internal resources to prepare the full-disclosure financial statements required by an other comprehensive basis of accounting for external reporting. While this circumstance is not uncommon for most governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – We recognize that with a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, we recommend that City officials continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – We recognize our limitations, however it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged.

- II-C-10** Credit Card Policy – The City has several credit cards for use by various employees for city business. The City does not have a credit card policy to regulate the use of credit cards.

Recommendation – The City should adopt a written credit card policy to regulate the use of Credit Cards by city officials and employees.

Response – We will consider developing and implementing a credit card policy.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Charles City
Charles City, Iowa

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2010

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

CFDA Number 66.458 – ARRA-Capitalization Grants for Clean Water-State Revolving Funds, 97.036 – Disaster Grants-Public Assistance (Presidentially Declared Disasters), 97.039 – Hazard Mitigation Program, and 94.011 – Foster Grandparent Program.

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 66.458 – ARRA-Capitalization Grants for Clean Water-State Revolving Funds, 97.036 – Disaster Grants-Public Assistance (Presidentially Declared Disasters), 97.039 – Hazard Mitigation Program and 94.011 – Foster Grandparent Program.

No matters were reported.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget – Disbursements during the year ended June 30, 2010, exceeded the amounts budgeted in the Debt Service function. Chapter 384.20 of the Code of Iowa states in part, that “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-B-10 Questionable Disbursements – No disbursements were noted that do not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

IV-C-10 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**City of Charles City
Charles City, Iowa**

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

IV-D-10 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title & Business Connection	Transaction Description	Amount
Ginny Titus, Deputy City Clerk Husband is owner of Titus Lock Service	Lock Repair and Maintenance	\$333
Dave Boehmer, Assistant Fire Chief Wife is a landlord for Section 8 Housing	Landlord Services	2,208
Trudy O'Donnell, City Clerk Mother, Elizabeth Fox, is Foster Grandparent	Stipend and Travel Reimbursement	1,881
Curt Teeter, Fire Department Father is owner of Teeter's Specialty	Other Supplies, Mugs, Fire Extinguisher Decals	1,959
Marty Parcher, Fire Department Owner of Parcher Enterprises	Training Materials	156
Jerry Joerger, City Council Owner of Yeg's Sports	Mailbox Nameplate, Baseball Plates, Recognition	224
Stacy Tynan, Library Father is landlord for Section 8 Housing	Landlord Services	1,091
Linn Wolf, Street Department Father is landlord for Section 8 Housing	Landlord Services	11,694
Steve Redmond, Maintenance, Housing Brother performs snow removal	Contract for Snow Removal	485
Sue Davis, Swimming Pool, Swim Lesson Teacher She and her husband own Outdoor Design, Inc.	Maintenance and Snow Removal	24,826
Dave Boehmer, Assistant Fire Chief Son owns Hometown Construction	Performed Construction for Housing	42,414

**City of Charles City
Charles City, Iowa**

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

IV-D-10 (Continued)

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Ginny Titus, Marty Parcher, Jerry Joerger, Stacy Tynan and Steve Redmond do not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year.

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Dave Boehmer, Trudy O'Donnell, Curt Teeter, Sue Davis and Linn Wolf do not appear to represent conflicts of interest since Dave Boehmer, Trudy O'Donnell, Curt Teeter, Sue Davis and Linn Wolf do not participate in acquiring the above services.

Recommendation – The City should consult legal counsel for the disposition of this matter. The City should refrain from conducting business with related parties.

Response – We will refrain from conducting business with related parties when possible.

Conclusion - Response acknowledged.

IV-E-10 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 ensure that the coverage is adequate for current operations.

IV-F-10 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not. The Council went into closed session on June 28, 2010. However, the minutes did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open meetings law.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa.

Response – We will comply with Code requirements for closed sessions.

Conclusion - Response accepted.

IV-G-10 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

**City of Charles City
Charles City, Iowa**

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

IV-H-10 Excess Fund Balances – We noted the fund balances in the Special Revenue Funds: Police Asset Forfeiture, CVTC Fund, 2008 Flood Fund, Local Option Sales Tax, Tax Increment Financing (3), Library Trust, Public Housing Security Deposit, and Capital Projects – Communication Equipment and Street Related Capital Improvements were in excess of disbursements for the current year.

Recommendation – The City should investigate alternatives to eliminate the excesses.

Response – The Police Asset Forfeiture excess will be used to pay for future safety programs. The CVTC Funds will be used for upgrades and maintenance to the facility. The 2008 Flood Fund contains an advance for a large project to be continued in fiscal year 2011. Lost and street related excess Capital improvements will be used up in 2011 on the next street project (major projects every two years). The tax increment financing excess will be used for bond payments and projects. The library only uses the interest on CD's for projects. The Public Housing Security Deposit Fund contains security deposits that will be returned to customers if certain requirements are met. Communication Equipment excess is earmarked for future replacement of equipment in the communications center.

Conclusion – Response accepted.

IV-I-10 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

IV-J-10 Financial Position – We noted that the Special Revenue – Fire Retirement, Police Retirement, 2008 Housing Rehabilitation, Debt Service and Capital Projects – Pedestrian Bridge Funds had deficit fund balances of \$2,492, \$9,302 \$41,777, \$25,124, \$243,987 and \$367, respectively at June 30, 2010.

Recommendation - The City should investigate alternatives to eliminate these deficits.

Response – The deficits in the Debt Service and Fire and Police Retirement will be addressed when we do the next budget and we will levy extra money for them. The 2008 Housing Rehabilitation, Pedestrian Bridge and I-Jobs Fire Station deficit will be resolved when we receive the money from the grants for the project.

Conclusion – Response accepted.

NEWS RELEASE

Gardiner Thomsen, Certified Public Accountants, today released an audit report on the City of Charles City.

The City's receipts totaled \$21,978,511 for the year ended June 30, 2010, a 36% increase from the prior year. The receipts included \$2,685,813 in property tax, \$1,415,525 from tax increment financing collections, \$6,148,473 from charges for service, \$3,336,354 from operating grants, contributions and restricted interest, \$367,765 from capital grants, contributions and restricted interest, \$606,225 from local option sales tax, \$98,067 from unrestricted investment earnings, \$6,609,379 from Bond proceeds and \$1,684,964 from other general receipts.

Disbursements for the year totaled \$22,261,828, a 47% increase from the prior year, and included \$2,739,735 for Community and Economic Development, \$2,802,953 for Public Safety, and \$2,285,593 for Capital Projects. Also, disbursements for business type activities totaled \$8,966,758.

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