

**CITY OF CHARLES CITY**

**Charles City, Iowa**

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

June 30, 2011

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**CITY OF CHARLES CITY**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**

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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, 2011, 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, 2011, 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 12, 2011, 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 on 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 33 through 34 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 two years ended June 30, 2010 (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 12, 2011

*Gardiner Thomsen, P.C.*

## **Basic Financial Statements**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 11.09%, or approximately \$1,522,893, from fiscal 2010 to fiscal 2011. This was primarily due to the increased receipts of bond proceeds and grants.
- Disbursements of the City's governmental activities increased 23.98% or approximately \$3,188,627, in fiscal year 2011 from fiscal 2010. Public Works, Debt Service, and Capital Projects showed the largest increases for 2011.
- The City's total cash basis net assets decreased 8.77%, or approximately \$854,740 from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased approximately \$1,232,984 and the assets of the business-type activities increased by approximately \$378,244.

### **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 decreased from \$8,059,468 a year ago to \$6,826,484. 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,	
	2011	2010
Receipts		
Program Receipts		
Charges for Service	\$2,191,152	\$1,955,627
Operating Grants, Contributions and Restricted Interest	2,866,961	3,336,354
Capital Grants, Contributions and Restricted Interest	1,555,384	367,765
General Receipts		
Property Tax	4,488,816	4,101,338
Local Option Sales Tax	651,823	606,225
Unrestricted Investment Earnings	87,363	98,067
Bond and Loan Proceeds	2,439,634	1,145,672
Other General Receipts	597,772	1,684,964
Transfers, Net	371,808	431,808
Total Receipts	<u>15,250,713</u>	<u>13,727,820</u>
Disbursements		
Public Safety	2,910,552	2,802,953
Public Works	1,755,185	1,504,028
Health and Social Services	484,790	495,299
Culture and Recreation	1,003,702	918,949
Community and Economic Development	2,470,986	2,739,735
General Government	639,255	670,050
Debt Service	2,762,948	1,878,463
Capital projects	4,456,279	2,285,593
Total Disbursements	<u>16,483,697</u>	<u>13,295,070</u>
Increase (Decrease) in Cash Basis Net Assets	(1,232,984)	432,750
Cash Basis Net Assets – Beginning of Year	<u>8,059,468</u>	<u>7,626,718</u>
Cash Basis Net Assets – End of Year	<u>\$6,826,484</u>	<u>\$8,059,468</u>

The City's total receipts for governmental activities increased 11.09%, or \$1,522,893. The total cost of all programs and services increased \$3,188,627, or 23.98%.

The cost of all governmental activities this year was \$16,483,697 compared to \$13,295,070 last year. As shown in the Statement of Activities and Net Assets – Cash Basis, the amount taxpayers ultimately financed for these activities was only \$9,870,200 because some of the cost was paid by those directly benefiting from the programs \$2,191,152 or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest \$4,422,345.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year Ended June 30,	
	2011	2010
Receipts		
Program Receipts		
Charges for Service		
Water	\$1,900,071	\$1,972,171
Sewer	1,284,081	1,271,616
Waste Collection	318,409	318,523
Storm Utility	159,857	159,839
Transit and Fire Extinguisher	21,741	19,232
General Receipts		
Unrestricted Interest on Investments	24,639	25,464
Miscellaneous	583	482
Bond/loan Proceeds	912,481	5,915,172
	<u>4,621,862</u>	<u>9,682,499</u>
Disbursements and Transfers		
Water	2,068,317	7,218,224
Sewer Improvements	710,355	791,001
Waste Collection	296,082	293,206
Storm Utility	65,190	34,132
Transit and Fire Extinguisher	86,731	93,455
Debt Service	645,135	536,740
Transfers Net	371,808	431,808
Total Disbursements and Transfers	<u>4,243,618</u>	<u>9,398,566</u>
Increase in Cash Basis Net Assets	378,244	283,933
Cash Basis Net Assets - Beginning of Year	<u>1,683,990</u>	<u>1,400,057</u>
Cash Basis Net Assets - End of Year	<u>\$2,062,234</u>	<u>\$1,683,990</u>

Total business-type activities receipts for the fiscal year were \$4,621,862 compared to \$9,682,499 last year. The cash balance increased approximately \$378,244 from the prior year. Total disbursements for the fiscal year decreased by approximately \$5,060,637 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 \$6,543,192, a decrease of \$1,035,328 from last year’s total of \$7,578,520. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$22,253 from the prior year to \$845,721. This increase was primarily due to lower public safety and general government disbursements.
- The Local Option Sales Tax Fund cash balance increased \$186,649 from the prior year to \$1,887,740. This fund was being used to account for the debt proceeds and capital project disbursement for the Permeable Paving project.
- The Debt Service Fund cash balance increased by \$58,064 to a balance of \$32,940 during the fiscal year. This was primarily due to increases in property tax collections and decreases in debt payments.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$107,207 to \$762,863.
- The Sewer Fund cash balance increased by \$189,767 to \$883,303.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the city amended it’s budget once. The amendment was approved on May 16, 2011. Changes in expenditures include calling bonds, purchase of road grader, and grant receipts/expenses. The city received an I-jobs grant and a housing grant that were not originally budgeted. The road grader was originally budgeted for the next fiscal year, but a very good purchase opportunity arose and the city decided to take advantage of the excellent pricing. For the year, the City’s actual receipts were \$15,167,553 compared to the final budget of \$16,218,623 and actual disbursements were \$19,136,852 compared to budgeted disbursements of \$21,097,485.

**DEBT ADMINISTRATION**

At June 30, 2011, the City had \$19,825,107 in bonds and other long-term debt compared to \$18,734,686 last year, as shown below:

	Outstanding Debt at Year-End	
	Year Ended June 30,	
	2011	2010
General Obligation Bonds and Notes	\$6,223,699	\$5,692,472
Revenue Bonds and Notes	12,595,955	11,947,152
Lease Purchase Agreements	1,005,453	1,095,062
<b>Total</b>	<b>\$19,825,107</b>	<b>\$18,734,686</b>

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 \$7,602,483 is significantly below its constitutional debt limit of \$17,656,768. The outstanding revenue bonds include \$12,222,624 of nontax increment financing debt.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Charles City's elected and appointed officials considered many factors when setting the fiscal year 2012 budget, tax rates and fees that will be charged for various City activities.

For 2012, 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 and another permeable paving project. These projects are to be financed with a state revolving fund loan, local option sales tax and federal and state grants. Replacement of all water meters with radio read meters was completed in fiscal year 2011, as well as a permeable paving project and the cable stayed bridge. The Riverfront Development project was also substantially completed in fiscal year 2011 and includes a whitewater course, ravine play area and boat launch. Still in progress for the Riverfront Development at the end of fiscal year 2011 is an amphitheater and labyrinth.

## **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](mailto: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, 2011

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions, and Restricted Interest
<b>Functions/Programs:</b>			
Governmental Activities:			
Public Safety	\$2,910,552	\$927,730	\$9,597
Public Works	1,755,185	241,057	756,288
Health & Social Services	484,790	1,999	479,288
Culture & Recreation	1,003,702	252,889	148,422
Community & Economic Development	2,470,986	546,151	1,176,140
General Government	639,255	221,326	27,877
Debt Service	2,762,948	0	0
Capital Projects	4,456,279	0	269,349
<b>Total Governmental Activities</b>	<b>16,483,697</b>	<b>2,191,152</b>	<b>2,866,961</b>
Business Type Activities:			
Water	2,502,662	1,900,071	0
Sewer	921,145	1,284,081	0
Waste Collection	296,082	318,409	0
Transit	80,351	14,080	0
Storm Utility	65,190	159,857	0
Fire Extinguishers	6,380	7,661	0
<b>Total Business Type Activities</b>	<b>3,871,810</b>	<b>3,684,159</b>	<b>0</b>
<b>Total</b>	<b>\$20,355,507</b>	<b>\$5,875,311</b>	<b>\$2,866,961</b>

**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:  
    Non-Expendable:  
        Library Trusts  
    Expendable:  
        Streets  
        Urban Renewal Purposes  
        Debt Service  
        Other  
Unrestricted

**Total Cash Basis Net Assets**  
See Notes to Financial Statements

Program Receipts	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business - Type Activities	Total
\$0	\$(1,973,225)	\$0	\$(1,973,225)
0	(757,840)	0	(757,840)
0	(3,503)	0	(3,503)
0	(602,391)	0	(602,391)
0	(748,695)	0	(748,695)
0	(390,052)	0	(390,052)
0	(2,762,948)	0	(2,762,948)
1,555,384	(2,631,546)	0	(2,631,546)
<u>1,555,384</u>	<u>(9,870,200)</u>	<u>0</u>	<u>(9,870,200)</u>
0	0	(602,591)	(602,591)
0	0	362,936	362,936
0	0	22,327	22,327
0	0	(66,271)	(66,271)
0	0	94,667	94,667
0	0	1,281	1,281
<u>0</u>	<u>0</u>	<u>(187,651)</u>	<u>(187,651)</u>
<u>\$1,555,384</u>	<u>(9,870,200)</u>	<u>(187,651)</u>	<u>(10,057,851)</u>
	2,610,250	0	2,610,250
	361,738	0	361,738
	1,516,828	0	1,516,828
	651,823	0	651,823
	87,363	24,639	112,002
	2,439,634	912,481	3,352,115
	597,772	583	598,355
	371,808	(371,808)	0
	<u>8,637,216</u>	<u>565,895</u>	<u>9,203,111</u>
	(1,232,984)	378,244	(854,740)
	<u>8,059,468</u>	<u>1,683,990</u>	<u>9,743,458</u>
	<u>\$6,826,484</u>	<u>\$2,062,234</u>	<u>\$8,888,718</u>
	\$191,900	\$0	\$191,900
	2,233,544	0	2,233,544
	1,141,764	0	1,141,764
	32,940	141,687	174,627
	2,198,778	0	2,198,778
	<u>1,027,558</u>	<u>1,920,547</u>	<u>2,948,105</u>
	<u>\$6,826,484</u>	<u>\$2,062,234</u>	<u>\$8,888,718</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, 2011

	General
<b>Receipts:</b>	
Property Tax	\$1,795,185
Tax Increment Financing	0
Other City Tax	201,324
Licenses & Permits	82,322
Use of Money & Property	8,612
Intergovernmental	525,904
Charges for Service	151,496
Miscellaneous	316,056
Total Receipts	3,080,899
<b>Disbursements:</b>	
Operating:	
Public Safety	2,107,816
Public Works	542,430
Health & Social Services	2,500
Culture & Recreation	831,979
Community & Economic Development	22,371
General Government	534,250
Debt Service	0
Capital Projects	0
Total Disbursements	4,041,346
Excess (Deficiency) of Receipts Over (Under) Disbursements	(960,447)
<b>Other Financing Sources (Uses):</b>	
Bond Proceeds	203,600
Transfers In	956,845
Transfers Out	(177,745)
Total Other Financing Sources (Uses)	982,700
Net Change in Cash Balances	22,253
Cash Balances Beginning of Year	823,468
Cash Balances End of Year	\$845,721
<b>Cash Basis Fund Balances</b>	
Nonspendable – Library Trusts	\$0
Restricted for:	
Urban Renewal Projects	0
Debt Service	0
Streets	0
Other Purposes	0
Assigned	0
Unassigned	845,721
Total Cash Basis Fund Balances	\$845,721

See Notes to Financial Statements

**Exhibit B**

<u>Special Revenue</u>			
<u>Local Option Sales Tax</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
\$0	\$361,738	\$815,065	\$2,971,988
0	0	1,516,828	1,516,828
651,823	15,105	20,616	888,868
0	0	0	82,322
19,058	0	62,265	89,935
90,000	0	3,209,121	3,825,025
0	0	1,404,258	1,555,754
0	0	375,713	691,769
<u>760,881</u>	<u>376,843</u>	<u>7,403,866</u>	<u>11,622,489</u>
0	0	206,019	2,313,835
0	0	1,083,307	1,625,737
0	0	481,768	484,268
0	0	117,446	949,425
0	0	2,320,146	2,342,517
0	0	0	534,250
0	2,184,903	578,045	2,762,948
<u>2,532,516</u>	<u>0</u>	<u>1,923,763</u>	<u>4,456,279</u>
<u>2,532,516</u>	<u>2,184,903</u>	<u>6,710,494</u>	<u>15,469,259</u>
<u>(1,771,635)</u>	<u>(1,808,060)</u>	<u>693,372</u>	<u>(3,846,770)</u>
2,136,034	100,000	0	2,439,634
0	1,766,124	216,795	2,939,764
<u>(177,750)</u>	<u>0</u>	<u>(2,212,461)</u>	<u>(2,567,956)</u>
<u>1,958,284</u>	<u>1,866,124</u>	<u>(1,995,666)</u>	<u>2,811,442</u>
186,649	58,064	(1,302,294)	(1,035,328)
<u>1,701,091</u>	<u>(25,124)</u>	<u>5,079,085</u>	<u>7,578,520</u>
<u>\$1,887,740</u>	<u>\$32,940</u>	<u>\$3,776,791</u>	<u>\$6,543,192</u>
\$0	\$0	\$191,900	\$191,900
0	0	1,141,764	1,141,764
0	32,940	0	32,940
1,887,740	0	345,804	2,233,544
0	0	2,289,285	2,289,285
0	0	288,780	288,780
0	0	(480,742)	364,979
<u>\$1,887,740</u>	<u>\$32,940</u>	<u>\$3,776,791</u>	<u>\$6,543,192</u>

**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, 2011

**Total Governmental Funds Cash Balances (Pg. 13)** \$6,543,192

*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.

283,292

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

\$6,826,484

**Net Change in Cash Balances (Pg. 13)**

\$(1,035,328)

*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.

(197,656)

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

\$(1,232,984)

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, 2011

	Enterprise Funds	
	Water	Sewer
Operating Receipts:		
Charges for Service	\$1,736,530	\$1,284,081
Miscellaneous	0	0
Total Operating Receipts	1,736,530	1,284,081
Operating Disbursements:		
Business Type Activities	1,864,100	710,355
Non-Program	0	0
Total Operating Disbursements	1,864,100	710,355
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	(127,570)	573,726
Non-Operating Receipts (Disbursements):		
Intergovernmental	307	276
Interest on Investments	10,231	10,957
General Obligation Bond Proceeds	912,481	0
Debt Service	(434,345)	(210,790)
Total Non-Operating Receipts (Disbursements)	488,674	(199,557)
Excess of Receipts Over Disbursements	361,104	374,169
Transfers In (Out)	(253,897)	(184,402)
Net Change in Cash Balances	107,207	189,767
Cash Balances Beginning of Year	655,656	693,536
Cash Balances End of Year	\$762,863	\$883,303
<b>Cash Basis Fund Balances</b>		
Reserved for Debt Service	\$141,687	\$0
Unreserved	621,176	883,303
Total Cash Basis Fund Balances	\$762,863	\$883,303

See Notes to Financial Statements

**Exhibit D**

<u>Enterprise Funds</u>		<u>Internal Service Fund</u>
<u>Other Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Employee Health</u>
\$500,007	\$3,520,618	\$686,664
0	0	289,260
<u>500,007</u>	<u>3,520,618</u>	<u>975,924</u>
448,003	3,022,458	0
0	0	1,218,655
<u>448,003</u>	<u>3,022,458</u>	<u>1,218,655</u>
52,004	498,160	(242,731)
0	583	0
2,675	23,863	5,175
0	912,481	0
0	(645,135)	0
<u>2,675</u>	<u>291,792</u>	<u>5,175</u>
54,679	789,952	(237,556)
66,491	(371,808)	0
121,170	418,144	(237,556)
230,022	1,579,214	585,724
<u>\$351,192</u>	<u>\$1,997,358</u>	<u>\$348,168</u>
\$0	\$141,687	\$0
351,192	1,855,671	348,168
<u>\$351,192</u>	<u>\$1,997,358</u>	<u>\$348,168</u>

**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, 2011

**Total Enterprise Funds Cash Balances (Pg. 16)** \$1,997,358

*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.

64,876

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

\$2,062,234

**Net Change in Cash Balances (Pg. 16)**

\$418,144

*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.

(39,900)

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

\$378,244

See Notes To Financial Statements.

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

**Notes to Financial Statements**

**June 30, 2011**

**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)

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### 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)**

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### **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.

Special Revenue: The Local Option Sales Tax fund is utilized to account for the receipt of local option sales tax to be used for street improvement.

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.

## Notes to Financial Statements (Continued)

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### C. Measurement Focus and Basis of Accounting (Continued)

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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restricted classifications-committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

## Notes to Financial Statements (Continued)

### Note 2: Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 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, 2011.

#### 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.

### 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
2012	\$166,194	\$21,087	\$670,506	\$182,975	\$271,724	\$376,412
2013	176,000	16,493	565,000	167,937	377,400	389,299
2014	36,000	11,255	568,000	149,160	399,700	376,601
2015	37,000	9,917	522,000	129,882	394,100	363,092
2016	13,000	8,525	552,000	111,493	509,500	349,616
2017-2021	80,000	30,800	1,280,000	349,413	3,965,000	1,419,464
2022-2026	62,000	6,985	916,000	169,215	5,017,000	723,835
2027-2031	0	0	580,000	35,130	1,609,000	143,430
Total	\$570,194	\$105,062	\$5,653,506	\$1,295,205	\$12,543,424	\$4,141,749

## Notes to Financial Statements (Continued)

### Note 3: Bonds and Notes Payable (Continued)

Year Ending June 30,	Revenue Notes		Lease Purchase		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$9,156	\$1,008	\$94,853	\$56,647	\$1,212,433	\$638,129
2013	9,343	821	100,403	51,097	1,228,146	625,647
2014	9,531	633	106,278	45,222	1,119,509	582,871
2015	9,722	442	112,496	39,004	1,075,318	542,337
2016	9,917	247	119,079	32,421	1,203,496	502,302
2017-2021	4,861	49	472,344	55,869	5,802,205	1,855,595
2022-2026	0	0	0	0	5,995,000	900,035
2027-2031	0	0	0	0	2,189,000	178,560
Total	\$52,530	\$3,200	\$1,005,453	\$280,260	\$19,825,107	\$5,825,476

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 \$460,996, payable through June, 2022. For the current year, principal and interest paid and total TIF receipts were \$45,488 and \$1,516,828, respectively.

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 \$4,112,128. Principal and interest paid for the current year and total customer net revenue was \$342,308 and \$3,020,611, respectively.

## **Notes to Financial Statements (Continued)**

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### **Note 3: Bonds and Notes Payable (Continued)**

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.

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, 2011, the City drew \$868,986, \$43,495 and \$0, 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 paid on the note for the current year was \$296,382 and the total principal and interest outstanding on the notes is \$12,167,779 at June 30, 2011. 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.

## Notes to Financial Statements (Continued)

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### Note 3: Bonds and Notes Payable (Continued)

On December 21, 2010, the City issued \$140,000 General Obligation Motor Grader Acquisition notes for the purpose of providing funding to acquire a new motor grader. Interest is due annually commencing on December 1, 2011 at 2.74% with the entire principal due December 1, 2012. On June 2, 2011, the City issued \$105,000 General Obligation Refunding notes to refund the airport portion of the 2004C General Obligation Bond issuance. Interest is due semi annually from December 1, 2011 to June 1, 2015 at 2.89%. Principal is due annually from June 1, 2012 to June 1, 2015.

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
2012	\$95,000	\$27,920
2013	95,000	24,785
2014	100,000	21,555
2015	110,000	17,955
2016-2018	350,000	28,085
Total	<u>\$750,000</u>	<u>\$120,300</u>

## **Notes to Financial Statements (Continued)**

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### **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, 2011, 2010 and 2009 were \$202,593, \$164,563 and \$185,379, 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 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011, 2010 and 2009 were \$127,794, \$120,042 and \$110,113, 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 53 active and 3 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)

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### 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, 2011, the City contributed \$536,078 and plan members eligible for benefits contributed \$150,586 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, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$240,338
Compensatory	20,413
Total	<u>\$260,751</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

### 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)**

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### **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 \$882,320 for the year ended June 30, 2011.

The City has estimated costs of incurred but unsubmitted claims at June 30, 2011 to be \$42,688.

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, 2011:

Estimated Cost Incurred but not Claimed – June 30, 2010	\$32,692
Claims Incurred and Claimed and Estimated Costs Incurred but Claimed for the Year Ended June 30, 2011	1,041,446
Claims Paid During the Year Ended June 30, 2011	<u>1,031,450</u>
Estimated Costs Incurred but not Claimed – June 30, 2011	<u>\$42,688</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, 2011, there was one series of Health Facility Revenue Bonds outstanding, with a principal amount payable of \$2,249,091.

## Notes to Financial Statements (Continued)

### Note 10: Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Road Use Tax	\$35,903
	Employee Benefits	602,639
	Riverside Tax Increment Financing	10,634
	Southwest Bypass Tax Increment Financing	11,500
	South Grand Tax Increment Financing	10,634
	FGP Advisory & Operating	3,000
	Public Housing	34,000
	Section 8	5,000
	Enterprise	
	Water	115,409
	Sewer	105,405
	Waste Collection	22,721
		<u>956,845</u>
Special Revenue		
CVTC Operating	Special Revenue:	
	Road Use Tax	<u>27,448</u>
Public Housing	Special Revenue:	
	2009 Capital Fund	113,913
	2010 Capital Fund	434
		<u>114,347</u>
Debt Service	General	13,533
	Special Revenue:	
	Road Use Tax	84,358
	Local Option Sales Tax	177,750
	South Grand Tax Increment Financing	1,189,261
	Park Avenue Tax Increment Financing	83,737
	Enterprise:	
	Water	137,146
	Sewer	80,339
		<u>1,766,124</u>
Capital Project:		
Riverfront	General	<u>75,000</u>
Enterprise:		
Transit	General	<u>89,212</u>
		<u>\$3,028,976</u>

## **Notes to Financial Statements (Continued)**

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### **Note 10: Interfund Transfers (Continued)**

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 Special Revenue, Fire Retirement Fund, had a deficit balance of \$2,505 at June 30, 2011. The deficit balance was a result of unexpected expenses and an insufficient levy. The deficit will be eliminated through property tax.

The Special Revenue, FEMA Buy Out Fund, had a deficit balance of \$161,534 at June 30, 2011. 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 Special Revenue Fund, East Park Tax Increment Financing Fund, had a deficit balance of \$3,275 at June 30, 2011. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated upon receipt of tax increment funds.

The Capital Projects Funds, Riverfront Project, had a deficit balance of \$223,313 at June 30, 2011. 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, 2011 Permeable Paving Fund, had a deficit balance of \$21,394 at June 30, 2011. The deficit 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 \$33,966 at June 30, 2011. 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 \$34,755 at June 30, 2011. 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)

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### 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, 2011, the City of Charles City paid Jendro Sanitation \$254,413. 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)**

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### **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 \$59,507 during fiscal year 2011 for maintenance and testing.

### **Note 15: Accounting Change**

Governmental Accounting Standards Board Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011.

### **Note 16: Subsequent Events**

On November 7, 2011, the Council held a public hearing on the issuance of a \$1,400,000 loan obligation to refund bonds currently outstanding at a higher interest rate. A resolution was passed approving additional action to be taken. In December 2011, The Council approved the issuance of a \$1,360,000 loan obligation to refund bonds currently outstanding at a higher interest rate.

**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, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total
<b>Receipts:</b>				
Property Taxes	\$2,971,988	\$0	\$0	\$2,971,988
Tax Increment Financing Collections	1,516,828	0	0	1,516,828
Other City Taxes	888,868	0	0	888,868
Licenses & Permits	82,322	0	0	82,322
Use of Money & Property	89,935	29,038	5,175	113,798
Intergovernmental	3,825,025	583	0	3,825,608
Charges for Service	1,555,754	4,207,282	686,664	5,076,372
Special Assessments	0	0	0	0
Miscellaneous	691,769	289,260	289,260	691,769
<b>Total Receipts</b>	<b>11,622,489</b>	<b>4,526,163</b>	<b>981,099</b>	<b>15,167,553</b>
<b>Disbursements:</b>				
Public Safety	2,313,835	0	0	2,313,835
Public Works	1,625,737	0	0	1,625,737
Health & Social Services	484,268	0	0	484,268
Culture & Recreation	949,425	0	0	949,425
Community & Economic Development	2,342,517	0	0	2,342,517
General Government	534,250	0	0	534,250
Debt Service	2,762,948	0	0	2,762,948
Capital Projects	4,456,279	0	0	4,456,279
Business Type Activities	0	3,667,593	0	3,667,593
Non-Program	0	1,218,655	1,218,655	0
<b>Total Disbursements</b>	<b>15,469,259</b>	<b>4,886,248</b>	<b>1,218,655</b>	<b>19,136,852</b>
Excess (Deficiency) of Receipts Over (Under) Disbursements	(3,846,770)	(360,085)	(237,556)	(3,969,299)
Other Financing Sources (Uses), Net	2,811,442	540,673	0	3,352,115
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	(1,035,328)	180,588	(237,556)	(617,184)
Balances Beginning of Year	7,578,520	2,164,938	585,724	9,157,734
Balances End of Year	<u>\$6,543,192</u>	<u>\$2,345,526</u>	<u>\$348,168</u>	<u>\$8,540,550</u>

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to
Original	Final	Total
		Variance
\$2,932,135	\$2,929,933	\$42,055
1,491,141	1,491,141	25,687
814,453	885,366	3,502
88,020	60,812	21,510
148,692	165,848	(52,050)
6,445,474	6,370,612	(2,545,004)
3,861,757	3,866,102	1,210,270
5,000	0	0
330,410	448,809	242,960
16,117,082	16,218,623	(1,051,070)
2,343,155	2,867,402	553,567
1,536,466	1,751,137	125,400
530,191	533,133	48,865
995,935	1,003,616	54,191
2,092,327	2,581,747	239,230
560,002	574,275	40,025
1,519,662	3,028,093	265,145
4,742,380	4,483,253	26,974
4,424,373	4,274,829	607,236
0	0	0
18,744,491	21,097,485	1,960,633
(2,627,409)	(4,878,862)	909,563
3,126,832	4,255,915	(903,800)
499,423	(622,947)	5,763
9,485,223	9,485,223	(327,489)
\$9,984,646	\$8,862,276	\$(321,726)

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

**Notes to Required Supplementary Information – Budgetary Reporting**

**June 30, 2011**

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, one budget amendment increased budgeted disbursements by \$2,352,994. The budget amendment is reflected in the final budgeted amounts.

**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, 2011

	Special Revenue		
	Police Asset Forfeiture	Road Use Tax	Employee Benefits
<b>Receipts:</b>			
Property Tax	\$0	\$0	\$603,474
Tax Increment Financing Collections	0	0	0
Other City Tax	0	0	15,264
Use of Money & Property	0	0	0
Intergovernmental	0	748,205	0
Charges for Services	0	0	0
Miscellaneous	5,045	0	0
Total Receipts	5,045	748,205	618,738
<b>Disbursements:</b>			
<b>Operating:</b>			
Public Safety	3,426	0	0
Public Works	0	623,681	0
Health and Social Services	0	0	0
Culture & Recreation	0	0	0
Community and Economic Development	0	0	0
Debt Service	0	0	0
Capital Projects	0	0	0
Total Disbursements	3,426	623,681	0
Excess (Deficiency) of Receipts Over (Under) Disbursements	1,619	124,524	618,738
<b>Other Financing Sources (Uses):</b>			
Transfers In	0	0	0
Transfers Out	0	(147,709)	(602,639)
Total Other Financing Sources (Uses)	0	(147,709)	(602,639)
Net Changes in Cash Balances	1,619	(23,185)	16,099
Cash Balances Beginning of Year	2,053	368,989	68,213
Cash Balances End of Year	\$3,672	\$345,804	\$84,312
<b>Cash Basis Fund Balances</b>			
Nonspendable – Library Trusts	\$0	\$0	\$0
<b>Restricted for:</b>			
Urban Renewal Purposes	0	0	0
Streets	0	345,804	0
Other Purposes	0	0	84,312
Assigned	3,672	0	0
Unassigned	0	0	0
Total Cash Basis Fund Balances	\$3,672	\$345,804	\$84,312

See Accompanying Independent Auditors' Report.

Special Revenue

CVTC Operating	2008 Flood	Fire Retirement	Police Retirement	FEMA Buy Out	Riverside Tax Increment Financing
\$0	\$0	\$72,785	\$138,806	\$0	\$0
0	0	0	0	0	459,894
0	0	1,841	3,511	0	0
1,594	0	0	0	0	6,195
70,692	75,906	0	0	54,652	0
0	0	0	0	0	1,873
2,983	0	0	0	0	23,283
75,269	75,906	74,626	142,317	54,652	491,245
0	0	74,639	127,954	0	0
143,455	91,185	0	0	224,986	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	232,045
0	0	0	0	0	0
0	0	0	0	0	0
143,455	91,185	74,639	127,954	224,986	232,045
(68,186)	(15,279)	(13)	14,363	(170,334)	259,200
27,448	0	0	0	0	0
0	0	0	0	0	(10,634)
27,448	0	0	0	0	(10,634)
(40,738)	(15,279)	(13)	14,363	(170,334)	248,566
128,508	134,633	(2,492)	(9,302)	8,800	414,445
\$87,770	\$119,354	\$(2,505)	\$5,061	\$(161,534)	\$663,011
\$0	\$0	\$0	\$0	\$0	\$0
0	0	0	0	0	663,011
0	0	0	0	0	0
0	119,354	0	5,061	0	0
87,770	0	0	0	0	0
0	0	(2,505)	0	(161,534)	0
\$87,770	\$119,354	\$(2,505)	\$5,061	\$(161,534)	\$663,011

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
<b>Receipts:</b>			
Property Tax	\$0	\$0	\$0
Tax Increment Financing Collections	400,107	531,587	0
Other City Tax	0	0	0
Use of Money & Property	8,607	13,380	0
Intergovernmental	0	0	0
Charges for Services	0	0	0
Miscellaneous	15,992	0	0
Total Receipts	424,706	544,967	0
<b>Disbursements:</b>			
<b>Operating:</b>			
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	258,565	180,463	3,275
Debt Service	578,045	0	0
Capital Projects	0	0	0
Total Disbursements	836,610	180,463	3,275
Excess (Deficiency) of Receipts Over (Under) Disbursements	(411,904)	364,504	(3,275)
<b>Other Financing Sources (Uses):</b>			
Transfers In	0	0	0
Transfers Out	(11,500)	(1,199,895)	0
Total Other Financing Sources (Uses)	(11,500)	(1,199,895)	0
Net Changes in Cash Balances	(423,404)	(835,391)	(3,275)
Cash Balances Beginning of Year	683,005	936,440	0
Cash Balances End of Year	\$259,601	\$101,049	\$(3,275)
<b>Cash Basis Fund Balances</b>			
Nonspendable – Library Trusts	\$0	\$0	\$0
<b>Restricted for:</b>			
Urban Renewal Purposes	259,601	101,049	0
Streets	0	0	0
Other Purposes	0	0	0
Assigned	0	0	0
Unassigned	0	0	(3,275)
Total Cash Basis Fund Balances	\$259,601	\$101,049	\$(3,275)

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
125,240	0	0	0	0	0	0
0	0	0	0	0	0	0
1,744	0	6,551	0	414	20,248	2,214
0	33,149	0	304,437	0	0	0
0	0	0	0	6,757	626,428	684,937
0	0	37,561	176,432	0	0	0
126,984	33,149	44,112	480,869	7,171	646,676	687,151
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	481,768	0	0	0
0	0	36,727	0	0	0	0
32,343	33,149	0	0	6,435	640,598	688,880
0	0	0	0	0	0	0
0	0	0	0	0	0	0
32,343	33,149	36,727	481,768	6,435	640,598	688,880
94,641	0	7,385	(899)	736	6,078	(1,729)
0	0	0	0	0	114,347	0
(83,737)	0	0	(3,000)	0	(34,000)	(5,000)
(83,737)	0	0	(3,000)	0	80,347	(5,000)
10,904	0	7,385	(3,899)	736	86,425	(6,729)
107,199	0	299,439	25,037	34,170	1,669,577	183,167
\$118,103	\$0	\$306,824	\$21,138	\$34,906	\$1,756,002	\$176,438
\$0	\$0	\$191,900	\$0	\$0	\$0	\$0
118,103	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	21,138	34,906	1,756,002	176,438
0	0	114,924	0	0	0	0
0	0	0	0	0	0	0
\$118,103	\$0	\$306,824	\$21,138	\$34,906	\$1,756,002	\$176,438

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

	Special Revenue	
	Capital Funds	2008 Housing Rehabilitation Grant
<b>Receipts:</b>		
Property Tax	\$0	\$0
Tax Increment Financing Collections	0	0
Other City Tax	0	0
Use of Money & Property	0	0
Intergovernmental	114,347	252,349
Charges for Services	0	0
Miscellaneous	0	35,388
Total Receipts	114,347	287,737
<b>Disbursements:</b>		
Operating:		
Public Safety	0	0
Public Works	0	0
Health and Social Services	0	0
Culture & Recreation	0	0
Community and Economic Development	0	244,393
Debt Service	0	0
Capital Projects	0	0
Total Disbursements	0	244,393
Excess (Deficiency) of Receipts Over (Under) Disbursements	114,347	43,344
<b>Other Financing Sources (Uses):</b>		
Transfers In	0	0
Transfers Out	(114,347)	0
Total Other Financing Sources (Uses)	(114,347)	0
Net Changes in Cash Balances	0	43,344
Cash Balances Beginning of Year	0	(41,777)
Cash Balances End of Year	\$0	\$1,567
<b>Cash Basis Fund Balances</b>		
Nonspendable – Library Trusts	\$0	\$0
Restricted for:		
Urban Renewal Purposes	0	0
Streets	0	0
Other Purposes	0	1,567
Assigned	0	0
Unassigned	0	0
Total Cash Basis Fund Balances	\$0	\$1,567

See Accompanying Independent Auditors' Report.

**Schedule 1 (Continued)**

Special Revenue		Capital Projects					
Cablevision	Street Capital Improvements	Riverfront Project	Pedestrian Bridge	I Jobs Fire Station	2011 Permeable Paving	Total	
\$0	\$0	\$0	\$0	\$0	\$0	\$815,065	
0	0	0	0	0	0	1,516,828	
0	0	0	0	0	0	20,616	
0	0	1,318	0	0	0	62,265	
0	0	152,080	1,003,640	399,664	0	3,209,121	
84,263	0	0	0	0	0	1,404,258	
0	0	79,029	0	0	0	375,713	
84,263	0	232,427	1,003,640	399,664	0	7,403,866	
0	0	0	0	0	0	206,019	
0	0	0	0	0	0	1,083,307	
0	0	0	0	0	0	481,768	
80,719	0	0	0	0	0	117,446	
0	0	0	0	0	0	2,320,146	
0	0	0	0	0	0	578,045	
0	21,430	653,268	793,619	434,052	21,394	1,923,763	
80,719	21,430	653,268	793,619	434,052	21,394	6,710,494	
3,544	(21,430)	(420,841)	210,021	(34,388)	(21,394)	693,372	
0	0	75,000	0	0	0	216,795	
0	0	0	0	0	0	(2,212,461)	
0	0	75,000	0	0	0	(1,995,666)	
3,544	(21,430)	(345,841)	210,021	(34,388)	(21,394)	(1,302,294)	
78,870	111,937	122,528	(243,987)	(367)	0	5,079,085	
\$82,414	\$90,507	\$(223,313)	\$(33,966)	\$(34,755)	\$(21,394)	\$3,776,791	
\$0	\$0	\$0	\$0	\$0	\$0	\$191,900	
0	0	0	0	0	0	1,141,764	
0	0	0	0	0	0	345,804	
0	90,507	0	0	0	0	2,289,285	
82,414	0	0	0	0	0	288,780	
0	0	(223,313)	(33,966)	(34,755)	(21,394)	(480,742)	
\$82,414	\$90,507	\$(223,313)	\$(33,966)	\$(34,755)	\$(21,394)	\$3,776,791	

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, 2011

	Waste Collection	Transit	Storm Water Utility	Fire Extinguisher	Total
Operating Receipts					
Charges for Service	\$318,409	\$14,080	\$159,857	\$7,661	\$500,007
Operating Disbursements					
Business-Type Activities	296,082	80,351	65,190	6,380	448,003
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	22,327	(66,271)	94,667	1,281	52,004
Non-Operating Receipts (Disbursements)					
Interest on Investments	45	0	2,630	0	2,675
Total Non-Operating Receipts (Disbursements)	45	0	2,630	0	2,675
Excess (Deficiency) of Receipts Over (Under) Disbursements	22,372	(66,271)	97,297	1,281	54,679
Transfers In (Out)	(22,721)	89,212	0	0	66,491
Net Change in Cash Balances	(349)	22,941	97,297	1,281	121,170
Cash Balances Beginning of Year	3,606	8,683	213,629	4,104	230,022
Cash Balances End of Year	\$3,257	\$31,624	\$310,926	\$5,385	\$351,192
<b>Cash Basis Fund Balances</b>					
Unreserved	\$3,257	\$31,624	\$310,926	\$5,385	\$351,192

See Accompanying Independent Auditors' Report.

CITY OF CHARLES CITY

Charles City, Iowa

SCHEDULE OF INDEBTEDNESS  
Year Ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
<b>General Obligation Bonds:</b>			
Corporate Purpose	02-01-03	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*
<b>Total General Obligation Bonds</b>			
<b>General Obligation Notes:</b>			
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
Corporate Purpose	12-21-10	2.74%	140,000
Refunding	06-22-11	2.89%	105,000
<b>Total General Obligation Notes</b>			
<b>Revenue Bonds:</b>			
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*
<b>Total Revenue Bonds</b>			
<b>Revenue Notes:</b>			
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 7-1-10	Issued During Year	Redeemed During Year	Balance 6-30-11	Interest Paid
\$305,000	\$0	\$35,000	\$270,000	\$12,065
47,000	0	15,000	32,000	2,062
330,000	0	165,000	165,000	10,478
955,000	0	955,000	0	37,099
1,450,000	0	175,000	1,275,000	50,685
525,000	0	35,000	490,000	24,725
310,000	0	10,000	300,000	10,558
460,000	0	110,000	350,000	13,595
186,785	2,052,721	99,000	2,140,506	33,229
547,687	83,313	0	631,000	0
<b>\$5,116,472</b>	<b>\$2,136,034</b>	<b>\$1,599,000</b>	<b>\$5,653,506</b>	<b>\$194,496</b>
\$120,000	\$0	\$120,000	\$0	\$3,321
208,000	0	9,000	199,000	11,440
248,000	0	121,806	126,194	7,776
0	140,000	0	140,000	0
0	105,000	0	105,000	0
<b>\$576,000</b>	<b>\$245,000</b>	<b>\$250,806</b>	<b>\$570,194</b>	<b>\$22,537</b>
\$1,045,000	\$0	\$60,000	\$985,000	\$46,725
2,188,000	0	126,000	2,062,000	65,640
104,500	0	8,700	95,800	4,094
215,000	0	20,000	195,000	10,263
237,000	0	12,000	225,000	10,530
51,000	0	12,000	39,000	10,530
7,589,638	868,986	1,000	8,457,624	243,052
355,505	43,495	15,000	384,000	11,820
100,000	0	0	100,000	0
<b>\$11,885,643</b>	<b>\$912,481</b>	<b>\$254,700</b>	<b>\$12,543,424</b>	<b>\$402,654</b>
\$61,509	\$0	\$8,979	\$52,530	\$1,186
<b>\$1,095,063</b>	<b>\$0</b>	<b>\$89,610</b>	<b>\$1,005,453</b>	<b>\$61,891</b>

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

**Schedule of Bond and Note Maturities**  
**June 30, 2011**

Year Ending June 30,	General Obligation Bonds			
	Corporate Purpose		Corporate Purpose	
	Issued 2-1-03		Issued 2-18-03	
	Interest Rates	Amount	Interest Rates	Amount
2012	3.75%	\$35,000	4.40%	\$16,000
2013	3.75	35,000	4.50	16,000
2014	4.00	35,000	0.00	0
2015	4.00	40,000	0.00	0
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>\$270,000</u>		<u>\$32,000</u>

Year Ending June 30,	General Obligation Bonds			
	Refunding		Refunding	
	Issued 7-1-03		Issued 6-1-05	
	Interest Rates	Amount	Interest Rates	Amount
2012	3.25%	\$165,000	3.30%	\$185,000
2013	0.00	0	3.40	200,000
2014	0.00	0	3.50	200,000
2015	0.00	0	3.60	270,000
2016	0.00	0	3.65	290,000
2017	0.00	0	3.75	130,000
2018	0.00	0	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>\$165,000</u>		<u>\$1,275,000</u>

See Accompanying Independent Auditors' Report.

## Schedule of Bond and Note Maturities (Continued)

Year Ending June 30,	General Obligation Bonds					
	Corporate Purpose		Corporate Purpose		Refunding	
	Issued 7-11-07		Issued 5-15-08		Issued 5-15-08	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2012	4.45%	\$35,000	3.00%	\$10,000	2.90%	\$110,000
2013	4.50	35,000	3.00	40,000	3.00	120,000
2014	4.55	35,000	3.30	55,000	3.15	120,000
2015	4.60	35,000	3.30	50,000	0.00	0
2016	4.65	40,000	3.65	50,000	0.00	0
2017	4.70	45,000	3.65	35,000	0.00	0
2018	4.75	50,000	4.00	60,000	0.00	0
2019	4.80	50,000	0.00	0	0.00	0
2020	4.85	50,000	0.00	0	0.00	0
2021	4.90	50,000	0.00	0	0.00	0
2022	4.95	50,000	0.00	0	0.00	0
2023	5.00	15,000	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>\$490,000</u>		<u>\$300,00</u>		<u>\$350,000</u>

Year Ending June 30,	General Obligation Bonds				
	Street Improvements		Street Improvements		Total
	Issued 2-16-10		Issued 2-16-10		
	Interest Rates	Amount	Interest Rates	Amount	
2012	3.00%	\$88,506	3.00%	\$26,000	\$670,506
2013	3.00	92,000	3.00	27,000	565,000
2014	3.00	95,000	3.00	28,000	568,000
2015	3.00	98,000	3.00	29,000	522,000
2016	3.00	102,000	3.00	30,000	552,000
2017	3.00	105,000	3.00	31,000	386,000
2018	3.00	108,000	3.00	32,000	295,000
2019	3.00	112,000	3.00	33,000	195,000
2020	3.00	116,000	3.00	34,000	200,000
2021	3.00	119,000	3.00	35,000	204,000
2022	3.00	123,000	3.00	36,000	209,000
2023	3.00	127,000	3.00	38,000	180,000
2024	3.00	131,000	3.00	39,000	170,000
2025	3.00	136,000	3.00	40,000	176,000
2026	3.00	140,000	3.00	41,000	181,000
2027	3.00	145,000	3.00	43,000	188,000
2028	3.00	149,000	3.00	44,000	193,000
2029	3.00	154,000	3.00	45,000	199,000
2030	3.00	0	3.00	0	0
Total		<u>\$2,140,506</u>		<u>\$631,000</u>	<u>\$5,653,506</u>

## Schedule of Bond and Note Maturities (Continued)

Year Ending June 30,	General Obligation Notes					
	Corporate Purpose		Corporate Purpose		Corporate Purpose	
	Issued 12-16-18		Issued 9-30-09		Issued 12-21-10	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2012	5.50%	\$10,000	3.75%	\$62,539	2.74%	\$0
2013	5.50	11,000	3.75	63,655	2.74	140,000
2014	5.50	11,000	0.00	0	0.00	0
2015	5.50	12,000	0.00	0	0.00	0
2016	5.50	13,000	0.00	0	0.00	0
2017	5.50	14,000	0.00	0	0.00	0
2018	5.50	15,000	0.00	0	0.00	0
2019	5.50	16,000	0.00	0	0.00	0
2020	5.50	17,000	0.00	0	0.00	0
2021	5.50	18,000	0.00	0	0.00	0
2022	5.50	19,000	0.00	0	0.00	0
2023	5.50	21,000	0.00	0	0.00	0
2024	5.50	22,000	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>\$199,000</u>		<u>\$126,194</u>		<u>\$140,000</u>

Year Ending June 30,	General Obligation Notes			
	Refunding			
	Issued 6-2-11			
Interest Rates	Amount	Total		
2012	2.89%	\$30,000	\$102,539	
2013	2.89	25,000	239,655	
2014	2.89	25,000	36,000	
2015	2.89	25,000	37,000	
2016	0.00	0	13,000	
2017	0.00	0	14,000	
2018	0.00	0	15,000	
2019	0.00	0	16,000	
2020	0.00	0	17,000	
2021	0.00	0	18,000	
2022	0.00	0	19,000	
2023	0.00	0	21,000	
2024	0.00	0	22,000	
2025	0.00	0	0	
2026	0.00	0	0	
2027	0.00	0	0	
2028	0.00	0	0	
2029	0.00	0	0	
2030	0.00	0	0	
Total		<u>\$105,000</u>	<u>\$570,194</u>	

## Schedule of Bond and Note Maturities (Continued)

Year Ending June 30,	Revenue Bonds			
	Water Utility		Sewer Utility	
	Issued 3-13-03		Issued 6-17-03	
	Interest Rates	Amount	Interest Rates	Amount
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	3.00	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		\$985,000		\$2,062,000

Year Ending June 30,	Revenue Bonds			
	Urban Renewal		Water 2004B	
	Issued 12-23-03		Issued 7-8-04	
	Interest Rates	Amount	Interest Rates	Amount
2012	4.00%	\$9,100	4.50%	\$20,000
2013	4.00	9,400	4.50	20,000
2014	4.00	9,700	4.75	25,000
2015	4.00	10,100	4.75	25,000
2016	4.00	10,500	4.75	25,000
2017	4.00	11,100	5.00	25,000
2018	4.00	11,500	5.00	25,000
2019	4.00	11,900	5.00	30,000
2020	4.00	12,500	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		\$95,800		\$195,000

## Schedule of Bond and Note Maturities (Continued)

Year Ending June 30,	Revenue Bonds					
	Tax Increment Financing		Water Pollution Control		Water Revenue	
	Issued 1-10-05		Issued 1-10-05		Issued 2-11-09	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2012	4.50%	\$14,000	3.00%	\$12,000	3.00%	\$1,624
2013	4.50	15,000	3.00	13,000	3.00	100,000
2014	4.50	16,000	3.00	14,000	3.00	105,000
2015	4.50	18,000	0.00	0	3.00	105,000
2016	4.50	18,000	0.00	0	3.00	210,000
2017	4.50	20,000	0.00	0	3.00	400,000
2018	4.50	22,000	0.00	0	3.00	400,000
2019	4.50	23,000	0.00	0	3.00	415,000
2020	4.50	25,000	0.00	0	3.00	530,000
2021	4.50	26,000	0.00	0	3.00	603,000
2022	4.50	28,000	0.00	0	3.00	623,000
2023	0.00	0	0.00	0	3.00	643,000
2024	0.00	0	0.00	0	3.00	664,000
2025	0.00	0	0.00	0	3.00	686,000
2026	0.00	0	0.00	0	3.00	708,000
2027	0.00	0	0.00	0	3.00	731,000
2028	0.00	0	0.00	0	3.00	755,000
2029	0.00	0	0.00	0	3.00	778,000
2030	0.00	0	0.00	0	0.00	0
<b>Total</b>		<u>\$225,000</u>		<u>\$39,000</u>		<u>\$8,457,624</u>

Year Ending June 30,	Revenue Bonds				
	Water Revenue		Water Meters		
	Issued 11-18-09		Issued 1-6-10		
	Interest Rates	Amount	Interest Rates	Amount	Total
2012	3.00%	\$16,000	3.00%	\$4,000	\$271,724
2013	3.00	17,000	3.00	4,000	377,400
2014	3.00	17,000	3.00	4,000	399,700
2015	3.00	18,000	3.00	5,000	394,100
2016	3.00	18,000	3.00	5,000	509,500
2017	3.00	19,000	3.00	5,000	712,100
2018	3.00	19,000	3.00	5,000	724,500
2019	3.00	20,000	3.00	5,000	752,900
2020	3.00	21,000	3.00	5,000	851,500
2021	3.00	21,000	3.00	6,000	924,000
2022	3.00	22,000	3.00	6,000	958,000
2023	3.00	23,000	3.00	6,000	962,000
2024	3.00	23,000	3.00	6,000	884,000
2025	3.00	24,000	3.00	6,000	716,000
2026	3.00	25,000	3.00	7,000	740,000
2027	3.00	26,000	3.00	7,000	764,000
2028	3.00	27,000	3.00	7,000	789,000
2029	3.00	28,000	3.00	7,000	813,000
2030	0.00	0	0.00	0	0
<b>Total</b>		<u>\$384,000</u>		<u>\$100,000</u>	<u>\$12,543,424</u>

## Schedule of Bond and Note Maturities (Continued)

Revenue Note		
Urban Renewal		
Issued 11-1-05		
Year Ending June 30,	Interest Rates	Amount
2012	2.00%	\$9,156
2013	2.00	9,343
2014	2.00	9,531
2015	2.00	9,722
2016	2.00	9,917
2017	2.00	4,861
2018	0.00	0
2019	0.00	0
2020	0.00	0
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		\$52,530

Lease Purchase Agreement		
Valero		
Issued 12-5-06		
Year Ending June 30,	Interest Rates	Amount
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	71,647
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		\$1,005,453

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

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

	2011	2010	2009
<b>Receipts:</b>			
Property Tax	\$2,971,988	\$2,685,813	\$2,583,039
Tax Increment Financing Collections	1,516,828	1,415,525	1,626,247
Other City Tax	888,868	854,633	778,285
Licenses & Permits	82,322	55,804	62,657
Use of Money & Property	89,935	101,926	145,245
Intergovernmental	3,825,025	4,234,356	2,709,406
Charges for Services	1,555,754	1,541,898	1,491,376
Special Assessments	0	2,820	7,036
Miscellaneous	691,769	557,262	641,437
<b>Total Receipts</b>	<b>\$11,622,489</b>	<b>\$11,450,037</b>	<b>\$10,044,728</b>
<b>Disbursements:</b>			
<b>Operating:</b>			
Public Safety	\$2,313,835	\$2,430,368	\$2,022,438
Public Works	1,625,737	1,418,608	1,614,536
Health & Social Services	484,268	494,987	482,928
Culture & Recreation	949,425	861,496	927,521
Community and Economic Development	2,342,517	2,656,040	2,633,188
General Government	534,250	603,460	568,489
Debt Service	2,762,948	1,878,463	1,214,506
Capital Projects	4,456,279	2,285,593	777,440
<b>Total Disbursements</b>	<b>\$15,469,259</b>	<b>\$12,629,015</b>	<b>\$10,241,046</b>

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, 2011

Grantor/Program Title	CFDA Number	Agency Pass-Through Number	Program Expenditures
<b>Direct:</b>			
U.S Department of Housing and Urban Development:			
Public and Indian Housing	14.850	KC-9056	\$205,998
Section 8 Housing Choice Vouchers	14.871	KC-9079V	677,766
Public Housing Capital Fund			
Fiscal Year 2009	14.872	IA05P00250109	113,913
Fiscal Year 2010	14.872	IA05P00250110	434
			<u>114,347</u>
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607		<u>1,453</u>
Corporation for National and Community Service:			
Foster Grandparent Program	94.011	09SFNIA005	<u>295,254</u>
Total Direct			<u>1,294,818</u>
<b>Indirect:</b>			
National Highway Traffic Safety Administration:			
Iowa Department of Public Safety:			
Traffic Safety Bureau:			
Equipment	20.604		<u>3,900</u>
Environmental Protection Agency			
ARRA – Capitalization Grants for Clean Water –			
State Revolving Funds	66.458	CS-CW1011	<u>2,136,034</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency			
Management Division:			
Disaster Grants – Public Assistance	97.036	FEMA-1763-DR1A	<u>1,079,546</u>
(Presidentially Declared Disasters)			
Hazard Mitigation Program	97.039	HMPG-DR-1763-0043-01	14,750
Hazard Mitigation Program	97.039	HMPG-DR-1763-0045-01	38,250
			<u>53,000</u>
Total Indirect			<u>3,272,480</u>
Total			<u>\$4,567,298</u>

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

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***

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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, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 12, 2011. 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-11 and II-B-11 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-11 to be a significant deficiency.

### 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, 2011 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 12, 2011

*Garthner Thomsen, P.C.*



**Gardiner Thomsen**  
Certified Public Accountants

## **Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

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

### Compliance

We have audited the City of Charles City's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the City of Charles City's major federal programs for the year ended June 30, 2011. The City of Charles City's major federal programs are indentified 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

## 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.

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

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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

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 12, 2011

*Gardiner Thomsen, P.C.*

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

**Schedule of Findings and Questioned Costs**

**Year Ended June 30, 2011**

**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 14.850 – Public and Indian Housing, 14.871 – Section 8 Housing Vouchers and 66.458 – ARRA – Capitalization Grants for Clean Water – State Revolving Funds.
- 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-11 Segregation of Duties**

**Condition** – Various functions of the City are performed by the same person.

**Cause** – Limited staff available to segregate duties.

**Criteria** – Due to the limited staff, the City Council should monitor the operations of the City on a continuing basis.

**Effect** – Because of lack of segregation of duties, unauthorized transactions could occur in the City's operations.

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

**Response and Corrective Action Planned** – We have reviewed 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, 2011

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

**II-B-11 Preparation of Full Disclosure Financial Statements**

**Condition** – During the audit, we noted that the internal control system does not include a process for preparing the annual financial statements and the related disclosures in accordance with GAAP.

**Cause** – Management requested that Gardiner Thomsen, P.C. assist in preparing the draft of the financial statements, including the related footnote disclosures. The outsourcing is a result of management's cost/benefit decision to use our accounting expertise rather than incurring this internal resource cost.

**Criteria** – Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements, in conformity with U.S. Generally Accepted Accounting Principles (GAAP).

**Effect** – Although the auditors are preparing the financial statements and the related footnotes, management of the City thoroughly reviews them and accepts responsibility for their completeness and accuracy.

**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 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 and Corrective Action Planned** – We recognize our limitations, however it is not fiscally responsible to add additional staff at this time.

**II-C-11 Credit Card Policy**

**Condition** – During the audit, we noted that the City does not have a credit card policy to regulate the use of credit cards by city officials and employees.

**Cause** – The City has several credit cards for use by various employees for city business.

**Criteria** – The City should adopt a written credit card policy to regulate the use of credit cards by city officials and employees.

**Effect** – Because of the lack of a written policy, improper transactions could occur and questionable disbursements could be made.

**Recommendation** – The City should adopt and enforce a written credit card policy.

**Response and Corrective Action Planned** – We will consider developing and implementing a credit card policy.

**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, 2011**

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

**CFDA Number 14.850 Public and Indian Housing, 14.871 Section 8 Housing Vouchers and 66.458 – ARRA-Capitalization Grants for Clean Water-State Revolving Funds.**

No matters were reported.

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 14.850 Public and Indian Housing, 14.871 Section 8 Housing Vouchers and 66.458 – ARRA-Capitalization Grants for Clean Water-State Revolving Funds.**

No matters were reported.

**Part IV: Other Findings Related to Required Statutory Reporting:**

**IV-A-11** Certified Budget – Disbursements during the year ended June 30, 2011, did not exceed the amounts budgeted.

**IV-B-11** 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-11** Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**IV-D-11** Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title & Business Connection	Transaction Description	Amount
<b>Virginia Titus, Deputy City Clerk</b> Titus Lock Service, Owned by Husband	Lock Repair & Maintenance	\$952
<b>Dave Boehmer, Assistant Fire Chief</b> Joyce Bohmer, Wife, Section 8 Housing Landlord Hometown Construction, Owned by Son	Landlord Services Construction for Housing	2,250 47,475
Scott Boehmer, Son, Section 8 Housing Landlord	Landlord Services	2,304

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

**Schedule of Findings and Questioned Costs (Continued)**

**Year Ended June 30, 2011**

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

**IV-D-11 (Continued)**

Name, Title & Business Connection	Transaction Description	Amount
<b>Curt Teeter, Fire Department</b> Teeter Specialty, Owned by Father	Office Supplies	\$2,814
<b>Trudy O'Donnell, City Clerk</b> Elizabeth Fox, Mother, Foster Grandparent	Foster Grandparent Stipends & Travel Reimbursements	1,967
<b>Linn Wolf, Street Department</b> Willard Wolf, Father, Section 8 Housing Landlord	Landlord Services	10,220
<b>Sue Davis, Swimming Pool</b> Outdoor Design, Owned by Sue Davis and Husband	Maintenance & Snow Removal	9,689
<b>Chris Guthart, City Hall</b> Owner of Guthart Gallery	Two Bird's Eyes Views & Food for City Golf Tournament	471
<b>Bradley Worrall, Police Department</b> Bradley Worrall, Section 8 Housing Landlord	Landlord Services	317
<b>Bryan Quade, Street Department</b> Bridgette Quade, Section 8 Housing Landlord	Landlord Services	2,852
<b>William Vetter, Police Department</b> Working Women Owned by Wife	Paper Bags for Evidence	157

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Virginia Titus, Chris Guthart, Bradley Worrall and William Vetter do not appear to represent conflicts of interest since the total transactions with each individual are less than \$1,500 during the fiscal year.

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

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

**Schedule of Findings and Questioned Costs (Continued)**

**Year Ended June 30, 2011**

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

**IV-E-11** 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-11** 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 July 6, 2010 and June 15, 2011 and the Council 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-11** 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.

**IV-H-11** Excess Fund Balances – We noted the fund balances in the Special Revenue Funds: Police Asset Forfeiture, 2008 Flood, Riverside Tax Increment Financing, Park Avenue Tax Increment Financing, Library Trust, Public Housing Security Deposits, Public Housing Security Deposits, Public Housing and Capital Projects: 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 Fund contains money to be used to pay for future safety programs. The 2008 Flood Fund contains an advance for a large project that will be continued in FY2012. The Tax Increment Financing Funds contain dollars for loan payments and current projects. The Library Trust fund only spends the interest earned on the certificates of deposit held for investment. The Public Housing Security Deposit Fund contains security deposits that will be returned if certain conditions are met at the end of the contracts. The Street Related Capital Improvements Fund will be used to fund future street and bridge projects.

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

**Schedule of Findings and Questioned Costs (Continued)**

**Year Ended June 30, 2011**

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

**IV-H-11** (Continued)

*Conclusion* – Response accepted.

**IV-I-11** Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

**IV-J-11** Financial Position – We noted that the Special Revenue: FEMA Buy-Out, Fire Retirement, East Park Tax Increment Financing, and Capital Projects: Riverfront Project, Pedestrian Bridge, I-Jobs Fire Station and 2011 Permeable Paving Funds had deficit fund balances of \$161,534, \$2,505, \$3,275, \$223,313, \$33,966, \$34,755, \$21,394, respectively.

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

*Response* – The FEMA Buy-Out deficit is due to disbursements being made on the project before grant receipts were received. The Fire Retirement deficit is due to underfunding in prior years and a levy that is not great enough to generate sufficient receipts. The City will adjust the levy in future years to eliminate this deficit. The East Park Tax Increment Financing deficit is due to disbursements being made prior to the collection of TIF receipts. The Riverfront Project, Pedestrian Bridge, I-Jobs Fire Station and 2011 Permeable Paving deficits are due to disbursements being made on the capital projects before grant receipts were received.

*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 \$19,500,767 for the year ended June 30, 2011, a 12% decrease from the prior year. The receipts included \$2,971,988 in property tax, \$1,516,828 from tax increment financing collections, \$5,875,311 from charges for service, \$2,866,961 from operating grants, contributions and restricted interest, \$1,555,384 from capital grants, contributions and restricted interest, \$651,823 from local option sales tax, \$112,002 from unrestricted investment earnings, \$3,352,115 from Bond proceeds and \$598,355 from other general receipts.

Disbursements for the year totaled \$20,355,507, a 9% decrease from the prior year, and included \$2,470,986 for Community and Economic Development, \$2,910,552 for Public Safety, and \$4,456,279 for Capital Projects. Also, disbursements for business type activities totaled \$3,871,810.

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>.