

CITY OF CHARLES CITY
Charles City, Iowa

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

June 30, 2012

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CITY OF CHARLES CITY

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
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
(After January 2012)		
James A. Erb	Mayor	January 2014
Jerry Joerger	Mayor Pro Tem	January 2014
DeLaine Freeseaman	Council Member	January 2014
Mike Hammond	Council Member	January 2016
Dan Mallaro	Council Member	January 2016
Keith Starr	Council Member	January 2016
Trudy O'Donnell	City Clerk	Indefinite
Tom Brownlow	City Administrator	Indefinite
Ralph Smith	City Attorney	Indefinite



Gardiner Thomsen

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Charles City, Iowa, as of and for the year ended June 30, 2012, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2012, 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 March 6, 2013, on our consideration of the City of Charles City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 33 through 35 be presented to supplement the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United State of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Charles City's financial statements as a whole.. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with another 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 another comprehensive basis of accounting. The 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that portion marked "Unaudited" (Schedule 5) on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underling accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In May 2013, the Iowa Economic Development Authority contacted the City of Charles City in regards to the close out of federal programs 08-DRMH-0243 and 08-DRMH-0245. The Authority noted that federal funding passed through their office to the City of Charles City and was not included on the City's Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2012. The City Clerk was not aware these funds were federal and the Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2012 has been reissued to include these receipts.

March 6, 2013

(Except for Note 14, as to which the date is December 17, 2013)

Caroline Thomsen, P.C.

Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Charles City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 19%, or approximately \$2,653,161, from fiscal 2011 to fiscal 2012. This was primarily due to the decreased receipts of bond proceeds and grants.
- Disbursements of the City's governmental activities decreased 34% or approximately \$5,210,818, in fiscal year 2012 from fiscal 2011. Capital Projects showed the largest decreases for 2012.
- The City's total cash basis net assets increased 19%, or approximately \$1,695,807 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$1,324,673 and the assets of the business-type activities increased by approximately \$371,134.

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.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets – Cash Basis reports information which helps answer this question.

The Statement of Activities and Net Assets – Cash Basis presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets – Cash Basis is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business-Type Activities include the waterworks, the sanitary sewer system, waste collection, transit and fire extinguisher funds. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, (c) the Debt Service Fund and (d) Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for Governmental Funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business-type activities. The City maintains several Enterprise Funds to provide separate information for the water, sewer, waste collection, transit and fire extinguisher funds. The water and sewer funds are considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$6,826,484 a year ago to \$8,151,157. 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,	
	2012	2011
Receipts		
Program Receipts		
Charges for Service	\$ 1,365,423	\$ 1,378,769
Operating Grants, Contributions and Restricted Interest	2,518,502	2,866,961
Capital Grants, Contributions and Restricted Interest	1,437,318	1,555,384
General Receipts		
Property Tax	4,655,969	4,488,816
Local Option Sales Tax	645,352	651,823
Unrestricted Investment Earnings	83,961	87,363
Bond and Loan Proceeds	332,494	2,439,634
Other General Receipts	281,514	597,772
Transfers, Net	464,636	371,808
Total Receipts	<u>11,785,169</u>	<u>14,438,330</u>
Disbursements		
Public Safety	2,287,509	2,432,689
Public Works	1,299,203	1,651,520
Health and Social Services	461,507	484,372
Culture and Recreation	979,939	960,236
Community and Economic Development	2,215,124	2,368,104
General Government	566,534	555,166
Debt Service	1,488,582	2,762,948
Capital projects	1,162,098	4,456,279
Total Disbursements	<u>10,460,496</u>	<u>15,671,314</u>
Increase (Decrease) in Cash Basis Net Assets	1,324,673	(1,232,984)
Cash Basis Net Assets – Beginning of Year	<u>6,826,484</u>	<u>8,059,468</u>
Cash Basis Net Assets – End of Year	<u>\$ 8,151,157</u>	<u>\$ 6,826,484</u>

The City's total receipts for governmental activities decreased 19%, or \$2,653,161. The total cost of all programs and services decreased \$5,210,818, or 34%.

The cost of all governmental activities this year was \$10,460,496 compared to \$15,671,314 last year. As shown in the Statement of Activities and Net Assets – Cash Basis, the amount taxpayers ultimately financed for these activities was only \$5,139,253 because some of the cost was paid by those directly benefiting from the programs \$(1,365,423) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest \$(3,955,820).

Changes in Cash Basis Net Assets of Business Type Activities		
	Year Ended June 30,	
	2012	2011
Receipts		
Program Receipts		
Charges for Service		
Water	\$1,785,458	\$1,900,071
Sewer	1,303,145	1,284,081
Waste Collection	318,601	318,409
Storm Utility	159,932	159,857
Transit and Fire Extinguisher	20,530	21,741
General Receipts		
Unrestricted Interest on Investments	29,285	24,639
Miscellaneous	39	583
Bond/loan Proceeds	1,235,879	912,481
	<u>4,852,869</u>	<u>4,621,862</u>
Disbursements and Transfers		
Water	2,449,686	2,502,662
Sewer Improvements	1,128,696	921,145
Waste Collection	297,523	296,082
Storm Utility	47,365	65,190
Transit and Fire Extinguisher	93,829	86,731
Transfers Net	464,636	371,808
Total Disbursements and Transfers	<u>4,481,735</u>	<u>4,243,618</u>
Increase in Cash Basis Net Assets	371,134	378,244
Cash Basis Net Assets - Beginning of Year	<u>2,062,234</u>	<u>1,683,990</u>
Cash Basis Net Assets - End of Year	<u>\$2,433,368</u>	<u>\$2,062,234</u>

Total business-type activities receipts for the fiscal year were \$4,852,869 compared to \$4,621,862 last year. The cash balance increased approximately \$371,134 from the prior year. Total disbursements for the fiscal year increased by approximately \$238,117.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Charles City completed the year, its governmental funds reported a combined fund balance of \$7,833,061, an increase of \$1,289,869 from last year's total of \$6,543,192. 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 \$173,260 from the prior year to \$1,019,774. This increase was primarily due to lower public safety and general government disbursements.
- The Debt Service Fund cash balance decreased by \$12,715 to a balance of \$20,225 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$81,374 to \$844,237.
- The Sewer Fund cash balance increased by \$143,885 to \$1,027,188.

BUDGETARY HIGHLIGHTS

Over the course of the year, the city amended its budget once. The amendment was approved on May 21, 2012. Changes in expenditures included purchase of computer software and payment for a refunding loan. For the year, the city's actual receipts were \$14,514,956 compared to \$14,701,671 that was budgeted. Actual disbursements were \$14,445,595 compared to budget of \$15,071,417.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$17,964,176 in bonds and other long-term debt compared to \$19,825,107 last year, as shown below:

	Outstanding Debt at Year-End	
	Year Ended June 30,	
	2012	2011
General Obligation Bonds and Notes	\$ 5,782,000	\$ 6,223,699
Revenue Bonds and Notes	11,271,576	12,595,955
Lease Purchase Agreements	910,600	1,005,453
Total	\$17,964,176	\$19,825,107

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 \$7,033,673 is significantly below its constitutional debt limit of \$17,752,917. The outstanding revenue bonds include \$10,789,624 of nontax increment financing debt.

ECONOMIC FACTORS

City staff and councilmembers take many factors into consideration when crafting the budget. Several years ago, an ordinance was passed that raises the water and sewer fees by a small percentage every year. This helps us keep up with inflation and avoids a big increase all at once.

There are several projects in the works for the City of Charles City, including an ultra-violet disinfection project at the wastewater treatment plant. This project has become necessary due to increasing regulations set by the DNR. We have several options available to us and we are trying the least expensive one first. If that one doesn't work, we will be forced to move on to more expensive and involved options.

The purchase and installation of new computer software has proven to be quite challenging. Once we get over the learning curve, it should prove to be a much more efficient way of monitoring the city's finances and doing the monthly utility billing.

We continue to work through the paperwork for the proposed Net Zero project planned for the former Jefferson School site. This promises to be an exciting achievement for the City of Charles City and we are hopeful to get a demo house up on the property by spring 2013.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Trudy O'Donnell, City Clerk/Finance Officer at 105 Milwaukee Mall, Charles City, IA 50616, phone (641) 257-6300 or email trudy@cityofcharlescity.org.

Basic Financial Statements

CITY OF CHARLES CITY
Charles City, Iowa

STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
As of and for the Year Ended June 30, 2012

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions, and Restricted Interest
Functions/Programs:			
Governmental Activities:			
Public Safety	\$ 2,287,509	\$ 497,058	\$ 7,687
Public Works	1,299,203	71,332	805,525
Health and Social Services	461,507	1,369	443,006
Culture and Recreation	979,939	217,149	18,994
Community and Economic Development	2,215,124	471,463	1,224,800
General Government	566,534	103,119	8,490
Debt Service	1,488,582	0	0
Capital Projects	1,162,098	3,933	10,000
Total Governmental Activities	<u>10,460,496</u>	<u>1,365,423</u>	<u>2,518,502</u>
Business Type Activities:			
Water	2,449,686	1,785,458	0
Sewer	1,128,696	1,303,145	0
Waste Collection	297,523	318,601	0
Transit	88,989	15,400	0
Storm Utility	47,365	159,932	0
Fire Extinguishers	4,840	5,130	0
Total Business Type Activities	<u>4,017,099</u>	<u>3,587,666</u>	<u>0</u>
Total	<u>\$14,477,595</u>	<u>\$4,953,089</u>	<u>\$2,518,502</u>

General Receipts and Transfers:

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

Exhibit A

Program Receipts Capital Grants, Contributions and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business - Type Activities	Total
\$ 100,336	\$(1,682,428)	\$ 0	\$(1,682,428)
14,599	(407,747)	0	(407,747)
0	(17,132)	0	(17,132)
797	(742,999)	0	(742,999)
288,232	(230,629)	0	(230,629)
0	(454,925)	0	(454,925)
0	(1,488,582)	0	(1,488,582)
1,033,354	(114,811)	0	(114,811)
<u>1,437,318</u>	<u>(5,139,253)</u>	<u>0</u>	<u>(5,139,253)</u>
0	0	(664,228)	(664,228)
0	0	174,449	174,449
0	0	21,078	21,078
0	0	(73,589)	(73,589)
0	0	112,567	112,567
0	0	290	290
<u>0</u>	<u>0</u>	<u>(429,433)</u>	<u>(429,433)</u>
<u>\$1,437,318</u>	<u>(5,139,253)</u>	<u>(429,433)</u>	<u>(5,568,686)</u>
	3,026,548	0	3,026,548
	379,047	0	379,047
	1,250,374	0	1,250,374
	645,352	0	645,352
	83,961	29,285	113,246
	332,494	1,235,879	1,568,373
	281,514	39	281,553
	464,636	(464,636)	0
	<u>6,463,926</u>	<u>800,567</u>	<u>7,264,493</u>
	1,324,673	371,134	1,695,807
	6,826,484	2,062,234	8,888,718
	<u>\$ 8,151,157</u>	<u>\$2,433,368</u>	<u>\$10,584,525</u>
	\$ 191,900	\$0	\$ 191,900
	2,747,864	0	2,747,864
	1,416,968	0	1,416,968
	20,225	141,687	161,912
	2,371,337	0	2,371,337
	1,402,863	2,291,681	3,694,544
	<u>\$ 8,151,157</u>	<u>\$2,433,368</u>	<u>\$10,584,525</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, 2012

	General
Receipts:	
Property Tax	\$1,866,760
Tax Increment Financing	0
Other City Tax	223,933
Licenses and Permits	70,122
Use of Money and Property	34,556
Intergovernmental	529,454
Charges for Services	229,472
Special Assessments	0
Miscellaneous	199,087
Total Receipts	3,153,384
Disbursements:	
Operating:	
Public Safety	1,783,544
Public Works	275,264
Health and Social Services	19,898
Culture and Recreation	751,415
Community and Economic Development	22,136
General Government	480,795
Debt Service	0
Capital Projects	0
Total Disbursements	3,333,052
Excess (Deficiency) of Receipts Over (Under) Disbursements	(179,668)
Other Financing Sources (Uses):	
Bond Proceeds	62,000
Sale of Capital Assets	0
Transfers In	947,108
Transfers Out	(656,180)
Total Other Financing Sources (Uses)	352,928
Net Change in Cash Balances	173,260
Cash Balances Beginning of Year	846,514
Cash Balances End of Year	\$1,019,774
Cash Basis Fund Balances	
Nonspendable – Library Trusts	\$ 0
Restricted for:	
Urban Renewal Projects	0
Debt Service	0
Streets	0
Other Purposes	0
Assigned	0
Unassigned	1,019,774
Total Cash Basis Fund Balances	\$1,019,774

See Notes to Financial Statements

Exhibit B

Debt Service	Nonmajor	Total
\$ 363,179	\$ 891,979	\$ 3,121,918
0	1,250,374	1,250,374
15,868	689,228	929,029
0	0	70,122
5,905	72,830	113,291
0	2,440,579	2,970,033
0	1,376,895	1,606,367
0	3,933	3,933
0	641,629	840,716
<u>384,952</u>	<u>7,367,447</u>	<u>10,905,783</u>
0	485,712	2,269,256
0	1,019,566	1,294,830
0	441,620	461,518
0	226,627	978,042
0	2,188,485	2,210,621
0	82,952	563,747
1,488,582	0	1,488,582
0	1,162,098	1,162,098
<u>1,488,582</u>	<u>5,607,060</u>	<u>10,428,694</u>
<u>(1,103,630)</u>	<u>1,760,387</u>	<u>477,089</u>
270,000	494	332,494
0	15,650	15,650
820,915	846,262	2,614,285
0	(1,493,469)	(2,149,649)
<u>1,090,915</u>	<u>(631,063)</u>	<u>812,780</u>
(12,715)	1,129,324	1,289,869
32,940	5,663,738	6,543,192
<u>\$ 20,225</u>	<u>\$ 6,793,062</u>	<u>\$ 7,833,061</u>
\$ 0	\$ 191,900	\$ 191,900
0	1,416,968	1,416,968
20,225	0	20,225
0	2,747,864	2,747,864
0	2,371,337	2,371,337
0	252,505	252,505
0	(187,512)	832,262
<u>\$ 20,225</u>	<u>\$ 6,793,062</u>	<u>\$ 7,833,061</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
GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2012

Total Governmental Funds Cash Balances (Pg. 13) \$7,833,061

*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.

318,096

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

\$8,151,157

Net Change in Cash Balances (Pg. 13)

\$1,289,869

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

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

34,804

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

\$1,324,673

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, 2012

	Enterprise Funds	
	Water	Sewer
Operating Receipts:		
Charges for Service	\$ 1,778,361	\$1,303,145
Miscellaneous	39	0
Total Operating Receipts	1,778,400	1,303,145
Operating Disbursements:		
Business Type Activities	883,711	918,421
Non-Program	0	0
Total Operating Disbursements	883,711	918,421
Excess of Operating Receipts Over Operating Disbursements	894,689	384,724
Non-Operating Receipts (Disbursements):		
Interest on Investments	11,655	12,591
General Obligation Bond Proceeds	1,095,000	140,879
Debt Service	(1,565,777)	(210,275)
Total Non-Operating Receipts (Disbursements)	(459,122)	(56,805)
Excess of Receipts Over Disbursements	435,567	327,919
Transfers In (Out)	(354,193)	(184,034)
Net Change in Cash Balances	81,374	143,885
Cash Balances Beginning of Year	762,863	883,303
Cash Balances End of Year	\$ 844,237	\$1,027,188
Cash Basis Fund Balances		
Restricted for Debt Service	\$ 141,687	\$ 0
Unrestricted	702,550	1,027,188
Total Cash Basis Fund Balances	\$ 844,237	\$1,027,188

See Notes to Financial Statements

Exhibit D

Enterprise Funds		Internal Service Fund
Other Nonmajor Enterprise Funds	Total	Employee Health
\$499,063	\$ 3,580,569	\$740,708
0	39	38,553
499,063	3,580,608	779,261
438,717	2,240,849	0
0	0	741,639
438,717	2,240,849	741,639
60,346	1,339,759	37,622
4,319	28,565	4,801
0	1,235,879	0
0	(1,776,052)	0
4,319	(511,608)	4,801
64,665	828,151	42,423
73,591	(464,636)	0
138,256	363,515	42,423
351,192	1,997,358	348,168
\$489,448	\$ 2,360,873	\$390,591
\$ 0	\$ 141,687	\$ 0
489,448	2,219,186	390,591
\$489,448	\$ 2,360,873	\$390,591

**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, 2012

Total Enterprise Funds Cash Balances (Pg. 16) \$2,360,873

*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.

72,495

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

\$2,433,368

Net Change in Cash Balances (Pg. 16)

*Amounts reported for business-type activities in the Statement of Activities
and Net Assets are different because:*

\$ 363,515

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.

7,619

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

\$ 371,134

See Notes To Financial Statements.

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

Notes to Financial Statements

June 30, 2012

Note 1: Summary of Significant Accounting Policies

The City of Charles City is a political subdivision of the State of Iowa located in Floyd County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City, but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Floyd County Assessor's Conference Board, Floyd County Emergency Management Commission, Floyd-Mitchell-Chickasaw County Solid Waste Management Agency and Floyd County Joint E911 Service Board.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

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

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

Nonexpendable restricted net assets are subject to externally 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 not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

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

The Debt Service Fund is utilized to account for the property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

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

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost-reimbursement basis.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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-restrictive 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 the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the business type activities function.

Note 2: Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 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.

Notes to Financial Statements (Continued)

Note 2: Cash and Pooled Investments (Continued)

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, 2012.

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	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$176,000	\$16,493	\$ 633,000	\$ 165,375	\$ 288,024	\$ 336,430
2014	36,000	11,255	640,000	146,120	299,700	327,363
2015	37,000	9,917	593,000	126,383	293,100	318,062
2016	13,000	8,525	622,000	107,662	403,500	308,894
2017	14,000	7,810	455,000	87,532	601,100	296,385
2018-2022	85,000	26,400	1,438,000	276,095	3,668,900	1,185,208
2023-2027	43,000	3,575	694,000	108,660	3,922,000	584,640
2028-2032	0	0	303,000	13,710	1,611,000	74,070
Total	\$404,000	\$83,975	\$5,378,000	\$1,031,537	\$11,087,324	\$3,431,052

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
2013	\$ 9,343	\$ 821	\$100,403	\$ 51,097	\$ 1,206,770	\$ 570,216
2014	150,410	633	106,278	45,222	1,232,388	530,593
2015	9,722	442	112,496	39,004	1,045,318	493,808
2016	9,917	247	119,079	32,421	1,167,496	457,749
2017	4,860	49	126,046	25,454	1,201,006	417,230
2018-2022	0	0	346,298	30,415	5,538,198	1,518,118
2023-2027	0	0	0	0	4,659,000	696,875
2028-2032	0	0	0	0	1,914,000	87,780
Total	\$184,252	\$2,192	\$910,600	\$223,613	\$17,964,176	\$4,772,369

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 \$414,422, payable through June, 2022. For the current year, principal and interest paid and total TIF receipts were \$46,574 and \$1,250,374, 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. During the fiscal year, the City refunded the \$985,000 balance of the Water Revenue bonds Series 2003D and the \$195,000 balance of the Water Revenue bonds series 2004B with the issuance of \$1,360,000 in General Obligation Refunding Bonds Series 2011A. The total principal and interest remaining to be paid on the bonds is \$2,359,028. Principal and interest paid for the current year and total customer net revenue was \$1,438,808 and \$3,081,506, respectively.

Notes to Financial Statements (Continued)

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.

On February 11, 2009, November 18, 2009 and January 6, 2011, 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, 2012, the City drew \$0, \$5,000 and \$0, respectively, of funds for construction. These notes are payable solely from water customer net receipts and are payable through 2030. The \$100,000 balance of the Water Revenue Bonds Series 2009B was forgiven during the fiscal year. The total principal and interest paid on the remaining bonds note for the current year was \$380,273 and the total principal and interest outstanding on the notes is \$11,790,893 at June 30, 2012.

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, 2011 through June 1, 2012 at 3.57% per annum. Principal is due semiannually from December 1, 2011 through June 1, 2012. The obligation was paid in full during the fiscal year.

Notes to Financial Statements (Continued)

Note 3: Bonds and Notes Payable (Continued)

On April 21, 2011, the City issued not to exceed \$400,000 of Sewer Revenue Loan Anticipation Project Notes for the purpose of providing funds for the planning and design of the UV disinfection project. During the year ended June 30, 2012, the City drew \$140,879. This project note is due April 21, 2014, unless the City enters into a loan and disbursement agreement.

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, 2012 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, 2012 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: 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, 2012, 2011 and 2010 were \$221,768, \$202,593 and \$164,563, respectively, which met the required contribution for each year.

Notes to Financial Statements (Continued)

Note 4: Pension and Retirement Benefits (Continued)

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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011 and 2010 were \$144,782, \$127,794 and \$120,042, respectively, equal to the required contributions for each year.

Note 5: 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.

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 \$682 for single coverage and \$1,540 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$573,006 and plan members eligible for benefits contributed \$167,702 to the plan.

Notes to Financial Statements (Continued)

Note 6: Compensated Absences

City employees earn vacation at rates dependent upon years of service. Vacation leave vests on the employee's anniversary date and must be used prior to the next anniversary date. Certain employees are allowed to accumulate vested compensatory time off (vacation) for overtime at one and one-half times the hours worked. Sick leave may also be accumulated at a rate of 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, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$223,145
Compensatory	22,431
Total	<u>\$245,576</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

Note 7: Employee Health Care Plan

The Internal Service, Employee Group Health Fund was established to account for the self-funding of the City's health insurance benefit plan. The plan is funded by the employees, COBRA participants and retirees, and City contributions and is administered through a service agreement with Auxiant. The City assumes liability for claims up to the individual stop loss limitation of \$40,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Employee Group Health fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Auxiant from the Employee Group Health Fund. The City's contribution for the year ended June 30, 2012 was \$573,006.

The City has estimated costs of incurred but unsubmitted claims at June 30, 2012 to be \$30,444. Settlements have not exceeded the stop-loss coverage in any of the past three years.

Notes to Financial Statements (Continued)

Note 7: Employee Health Care Plan (Continued)

A reconciliation of changes in the aggregate liability for claims for the year ended June 30, 2012 is as follows:

Unpaid Claims – June 30, 2011	\$ 42,688
Incurred Claims (including claims incurred but not reported for the Year Ended June 30, 2012)	505,386
Claims Paid During the Year Ended June 30, 2012	<u>(517,630)</u>
Estimated Costs Incurred but not Claimed – June 30, 2012	<u>\$ 30,444</u>

Note 8: 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, 2012, there was one series of Health Facility Revenue Bonds outstanding, with a principal amount payable of \$1,897,833.

Note 9: Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Road Use Tax	\$ 36,412
	Employee Benefits	587,202
	Riverside Tax Increment Financing	10,812
	Southwest Bypass Tax Increment Financing	11,500
	South Grand Tax Increment Financing	10,812
	FGP Advisory and Operating	3,000
	Public Housing	34,000
	Section 8	5,000
	Enterprise	
	Water	119,160
	Sewer	105,972
	Waste Collection	<u>23,238</u>
		<u>\$947,108</u>

Notes to Financial Statements (Continued)

Note 9: Interfund Transfers (Continued)

Transfer To	Transfer From	Amount
Special Revenue:		
Employee Benefits	General	\$ 489,118
CVTC Operating	Special Revenue: Road Use Tax	20,123
FEMA Buyout	Special Revenue: 2008 Flood	17,513
Public Housing	Special Revenue: 2009 Capital Fund 2010 Capital Fund 2011 Capital Fund	59,387 171,242 31,879 <u>262,508</u>
2008 Housing Rehabilitation Grant	General	<u>19</u>
Debt Service	General Special Revenue: Road Use Tax Local Option Sales Tax South Grand Tax Increment Financing Park Avenue Tax Increment Financing Enterprise: Water Sewer	13,233 82,345 124,433 202,521 85,288 235,033 78,062 <u>820,915</u>
Capital Project: Riverfront	General	<u>50,000</u>
I Jobs Fire Station	General	<u>6,981</u>
Enterprise: Transit	General	<u>96,829</u>
		<u>\$2,711,114</u>

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

Notes to Financial Statements (Continued)

Note 10: 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 11: Deficit Fund Balances

The Special Revenue, FEMA Buy Out Fund, had a deficit balance of \$2,814 at June 30, 2012. 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, Fire Retirement Fund, had a deficit balance of \$1,076 at June 30, 2012. The deficit balance was a result of unexpected expenses and an insufficient levy. The deficit will be eliminated through property tax.

The Special Revenue Fund, WPC Floodwall, had a deficit balance of \$11,584 at June 30, 2012. 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, 2012. 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 Fund, Pedestrian Bridge, had a deficit balance of \$76,624 at June 30, 2012. 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, 2011 Permeable Paving Fund, had a deficit balance of \$92,139 at June 30, 2012. The deficit was a result of costs incurred prior to the availability of funds. The deficit will be eliminated upon receipt of grant funds.

Note 12: 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.

Notes to Financial Statements (Continued)

Note 12: Floyd-Mitchell-Chickasaw Solid Waste Management Agency (Continued)

The City is obligated to remit a share of the operating and administration costs. During the year ended June 30, 2012, the City of Charles City paid Jendro Sanitation \$253,497. 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 13: 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.

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 \$19,898 during fiscal year 2012 for maintenance and testing.

Notes to Financial Statements (Continued)

Note 14: Explanatory Paragraph

In May 2013, the Iowa Economic Development Authority contacted the City of Charles City in regards to the close out of federal programs 08-DRMH-0243 and 08-DRMH-245. The Authority noted that federal funding passed through their office to the City of Charles City and was not included on the City of Charles City and was not included on the City's Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2012. The City Clerk was not aware these funds were federal and the Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2012 has been reissued to include these receipts.

Note 15: Subsequent Events

Management evaluated subsequent events through March 6, 2013, the date the financial statements were available to be issued.

Other Information

CITY OF CHARLES CITY
Charles City, Iowa

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES – BUDGET AND
ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND
PROPRIETARY FUNDS – OTHER INFORMATION
Year Ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total
Receipts:				
Property Taxes	\$3,121,918	\$ 0	\$ 0	\$ 3,121,918
Tax Increment Financing Collections	1,250,374	0	0	1,250,374
Other City Taxes	929,029	0	0	929,029
Licenses & Permits	70,122	0	0	70,122
Use of Money & Property	113,291	33,366	4,801	141,856
Intergovernmental	2,970,033	0	0	2,970,033
Charges for Service	1,606,367	4,321,277	740,708	5,186,936
Special Assessments	3,933	0	0	3,933
Miscellaneous	840,716	38,592	38,553	840,755
Total Receipts	10,905,783	4,393,235	784,062	14,514,956
Disbursements:				
Public Safety	2,269,256	0	0	2,269,256
Public Works	1,294,830	0	0	1,294,830
Health & Social Services	461,518	0	0	461,518
Culture & Recreation	978,042	0	0	978,042
Community & Economic Development	2,210,621	0	0	2,210,621
General Government	563,747	0	0	563,747
Debt Service	1,488,582	0	0	1,488,582
Capital Projects	1,162,098	0	0	1,162,098
Business Type Activities	0	4,016,901	0	4,016,901
Non-Program	0	741,639	741,639	0
Total Disbursements	10,428,694	4,758,540	741,639	14,445,595
Excess (Deficiency) of Receipts Over (Under) Disbursements	477,089	(365,305)	42,423	69,361
Other Financing Sources (Uses), Net	812,780	771,243	0	1,584,023
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	1,289,869	405,938	42,423	1,653,384
Balances Beginning of Year	6,543,192	2,345,526	348,168	8,540,550
Balances End of Year	\$7,833,061	\$2,751,464	\$390,591	\$10,193,934

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to
Original	Final	Total
		Variance
\$ 3,084,042	\$ 3,084,042	\$ 37,876
1,349,829	1,349,829	(99,455)
892,125	913,288	15,741
61,800	63,100	7,022
176,323	150,315	(8,459)
3,948,610	4,646,480	(1,676,447)
3,963,314	3,870,933	1,316,003
0	2,313	1,620
144,600	621,371	219,384
13,620,643	14,701,671	(186,715)
2,389,204	2,493,520	224,264
1,559,832	1,583,437	288,607
525,567	520,598	59,080
1,024,667	1,027,334	49,292
2,162,913	2,252,500	41,879
578,292	602,485	38,738
1,154,801	1,519,727	31,145
1,802,828	1,234,794	72,696
4,036,215	3,837,022	(179,879)
0	0	0
15,234,319	15,071,417	625,822
(1,613,676)	(369,746)	439,107
2,657,645	1,373,003	211,020
1,043,969	1,003,257	650,127
8,859,835	8,540,548	2
\$ 9,903,804	\$ 9,543,805	\$ 650,129

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

Notes to Other Information – Budgetary Reporting

June 30, 2012

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

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

Formal and legal budgetary control is based upon 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 decreased budgeted disbursements by \$162,902. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the business type activities function.

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, 2012

	Special Revenue		
	Police Asset Forfeiture	Road Use Tax	Employee Benefits
Receipts:			
Property Tax	\$ 0	\$ 0	\$ 662,021
Tax Increment Financing Collections	0	0	0
Other City Tax	0	0	31,915
Use of Money and Property	0	0	0
Intergovernmental	0	725,801	0
Charges for Services	0	0	0
Special Assessments	0	0	0
Miscellaneous	6,417	0	2,490
Total Receipts	6,417	725,801	696,426
Disbursements:			
Operating:			
Public Safety	1,488	0	262,456
Public Works	0	478,449	139,293
Health and Social Services	0	0	0
Culture and Recreation	0	0	94,862
Community and Economic Development	0	0	0
General Government	0	0	82,952
Capital Projects	0	0	0
Total Disbursements	1,488	478,449	579,563
Excess (Deficiency) of Receipts Over (Under) Disbursements	4,929	247,352	116,863
Other Financing Sources (Uses):			
Bond Proceeds	0	0	0
Sale of Capital Assets	0	0	0
Transfers In	0	0	489,118
Transfers Out	0	(138,880)	(587,202)
Total Other Financing Sources (Uses)	0	(138,880)	(98,084)
Net Changes in Cash Balances	4,929	108,472	18,779
Cash Balances Beginning of Year	3,672	345,804	84,312
Cash Balances End of Year	\$8,601	\$ 454,276	\$ 103,091
Cash Basis Fund Balances:			
Nonspendable – Library Trusts	\$ 0	\$ 0	\$ 0
Restricted for:			
Urban Renewal Purposes	0	0	0
Streets	0	454,276	0
Other Purposes	0	0	103,091
Assigned	8,601	0	0
Unassigned	0	0	0
Total Cash Basis Fund Balances	\$8,601	\$ 454,276	\$ 103,091

See Accompanying Independent Auditors' Report.

Special Revenue

CVTC Operating	FEMA Buy Out	2008 Flood	Fire Retirement	Police Retirement	WPC Flood Wall	Local Option Sales Tax
\$ 0	\$ 0	\$ 0	\$76,136	\$153,822	\$ 0	\$ 0
0	0	0	0	0	0	0
0	0	0	3,958	8,003	0	645,352
1,111	0	0	0	0	0	24,702
57,703	388,131	0	0	0	11,667	10,000
0	0	0	0	0	0	0
0	0	0	0	0	0	0
5,456	0	0	0	0	0	0
64,270	388,131	0	80,094	161,825	11,667	680,054
0	0	0	78,665	143,103	0	0
84,315	246,924	47,334	0	0	23,251	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	150,267
84,315	246,924	47,334	78,665	143,103	23,251	150,267
(20,045)	141,207	(47,334)	1,429	18,722	(11,584)	529,787
0	0	0	0	0	0	494
0	0	0	0	0	0	0
20,123	17,513	0	0	0	0	0
0	0	(17,513)	0	0	0	(124,433)
20,123	17,513	(17,513)	0	0	0	(123,939)
78	158,720	(64,847)	1,429	18,722	(11,584)	405,848
87,770	(161,534)	119,354	(2,505)	5,061	0	1,887,740
\$87,848	\$ (2,814)	\$ 54,507	\$ (1,076)	\$ 23,783	\$(11,584)	\$2,293,588
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
0	0	0	0	0	0	0
0	0	0	0	0	0	2,293,588
0	0	54,507	0	23,783	0	0
87,848	0	0	0	0	0	0
0	(2,814)	0	(1,076)	0	(11,584)	0
\$87,848	\$ (2,814)	\$ 54,507	\$ (1,076)	\$ 23,783	\$(11,584)	\$2,293,588

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

	Special Revenue		
	Riverside Tax Increment Financing	Southwest Bypass Tax Increment Financing	South Grand Tax Increment Financing
Receipts:			
Property Tax	\$ 0	\$ 0	\$ 0
Tax Increment Financing Collections	301,153	601,333	208,299
Other City Tax	0	0	0
Use of Money and Property	7,759	4,015	2,198
Intergovernmental	0	0	0
Charges for Services	3,630	0	0
Special Assessments	0	0	0
Miscellaneous	1,218	0	0
Total Receipts	313,760	605,348	210,497
Disbursements:			
Operating:			
Public Safety	0	0	0
Public Works	0	0	0
Health and Social Services	0	0	0
Culture and Recreation	0	0	0
Community and Economic Development	272,197	395,584	0
General Government	0	0	0
Capital Projects	0	0	0
Total Disbursements	272,197	395,584	0
Excess (Deficiency) of Receipts Over (Under) Disbursements	41,563	209,764	210,497
Other Financing Sources (Uses):			
Bonds Proceeds	0	0	0
Sales of Capital Assets	15,650	0	0
Transfers In	0	0	0
Transfers Out	(10,812)	(11,500)	(213,333)
Total Other Financing Sources (Uses)	4,838	(11,500)	(213,333)
Net Changes in Cash Balances	46,401	198,264	(2,836)
Cash Balances Beginning of Year	663,011	259,601	101,049
Cash Balances End of Year	\$709,412	\$457,865	\$ 98,213
Cash Basis Fund Balances:			
Nonspendable – Library Trusts	\$ 0	\$ 0	\$ 0
Restricted for:			
Urban Renewal Purposes	709,412	457,865	98,213
Streets	0	0	0
Other Purposes	0	0	0
Assigned	0	0	0
Unassigned	0	0	0
Total Cash Basis Fund Balances	\$709,412	\$457,865	\$ 98,213

See Accompanying Independent Auditors' Report.

Schedule 1 (Continued)

Special Revenue						
East Park Tax Increment Financing	Park Avenue Tax Increment Financing	Library	Foster Grandparent Advisory and Operating	Public Housing Security Deposits	Public Housing	Section 8 Voucher
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
0	139,589	0	0	0	0	0
0	0	0	0	0	0	0
0	2,086	6,736	0	415	21,607	2,201
0	0	0	313,909	0	0	0
0	0	0	0	7,271	554,017	728,902
0	0	0	0	0	0	0
0	0	672	133,890	0	0	0
0	141,675	7,408	447,799	7,686	575,624	731,103
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	441,620	0	0	0
0	0	68,289	0	0	0	0
0	23,012	0	0	6,483	714,408	749,491
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	23,012	68,289	441,620	6,483	714,408	749,491
0	118,663	(60,881)	6,179	1,203	(138,784)	(18,388)
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	262,508	0
0	(85,288)	0	(3,000)	0	(34,000)	(5,000)
0	(85,288)	0	(3,000)	0	228,508	(5,000)
0	33,375	(60,881)	3,179	1,203	89,724	(23,388)
(3,275)	118,103	306,824	20,345	34,906	1,756,002	176,438
\$(3,275)	\$ 151,478	\$245,943	\$ 23,524	\$36,109	\$1,845,726	\$153,050
\$0	\$ 0	\$191,900	\$ 0	\$ 0	\$ 0	\$ 0
0	151,478	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	23,524	36,109	1,845,726	153,050
0	0	54,043	0	0	0	0
(3,275)	0	0	0	0	0	0
\$(3,275)	\$ 151,478	\$245,943	\$ 23,524	\$36,109	\$1,845,726	\$153,050

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

	Special Revenue		
	Capital Funds	2008 Housing Rehabilitation Grant	Cablevision
Receipts:			
Property Tax	\$ 0	\$ 0	\$ 0
Tax Increment Financing Collections	0	0	0
Other City Tax	0	0	0
Use of Money & Property	0	0	0
Intergovernmental	262,508	25,724	0
Charges for Services	0	0	83,075
Special Assessments	0	0	0
Miscellaneous	0	0	0
Total Receipts	262,508	25,724	83,075
Disbursements:			
Operating:			
Public Safety	0	0	0
Public Works	0	0	0
Health and Social Services	0	0	0
Culture & Recreation	0	0	63,476
Community and Economic Development	0	27,310	0
General Government	0	0	0
Capital Projects	0	0	0
Total Disbursements	0	27,310	63,476
Excess (Deficiency) of Receipts Over (Under) Disbursements	262,508	(1,586)	19,599
Other Financing Sources (Uses):			
Bond Proceeds	0	0	0
Sale of Capital Assets	0	0	0
Transfers In	0	19	0
Transfers Out	(262,508)	0	0
Total Other Financing Sources (Uses)	(262,508)	19	0
Net Changes in Cash Balances	0	(1,567)	19,599
Cash Balances Beginning of Year	0	1,567	82,414
Cash Balances End of Year	\$ 0	\$ 0	\$102,013
Cash Basis Fund Balances:			
Nonspendable – Library Trusts	\$ 0	\$ 0	\$ 0
Restricted for:			
Urban Renewal Purposes	0	0	0
Streets	0	0	0
Other Purposes	0	0	0
Assigned	0	0	102,013
Unassigned	0	0	0
Total Cash Basis Fund Balances	\$ 0	\$ 0	\$102,013

See Accompanying Independent Auditors' Report.

Schedule 1 (Continued)

Capital Projects

Street Capital Improvements	Riverfront Project	Pedestrian Bridge	I Jobs Fire Station	2011 Permeable Paving	Total
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 891,979
0	0	0	0	0	1,250,374
0	0	0	0	0	689,228
0	0	0	0	0	72,830
0	544,800	0	100,336	0	2,440,579
0	0	0	0	0	1,376,895
3,933	0	0	0	0	3,933
0	488,554	0	0	2,932	641,629
3,933	1,033,354	0	100,336	2,932	7,367,447
0	0	0	0	0	485,712
0	0	0	0	0	1,019,566
0	0	0	0	0	441,620
0	0	0	0	0	226,627
0	0	0	0	0	2,188,485
0	0	0	0	0	82,952
53,778	769,156	42,658	72,562	73,677	1,162,098
53,778	769,156	42,658	72,562	73,677	5,607,060
(49,845)	264,198	(42,658)	27,774	(70,745)	1,760,387
0	0	0	0	0	494
0	0	0	0	0	15,650
0	50,000	0	6,981	0	846,262
0	0	0	0	0	(1,493,469)
0	50,000	0	6,981	0	(631,063)
(49,845)	314,198	(42,658)	34,755	(70,745)	1,129,324
90,507	(223,313)	(33,966)	(34,755)	(21,394)	5,663,738
\$ 40,662	\$ 90,885	\$(76,624)	\$ 0	\$(92,139)	\$6,793,062
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 191,900
0	0	0	0	0	1,416,968
0	0	0	0	0	2,747,864
40,662	90,885	0	0	0	2,371,337
0	0	0	0	0	252,505
0	0	(76,624)	0	(92,139)	(187,512)
\$ 40,662	\$ 90,885	\$(76,624)	\$ 0	\$(92,139)	\$6,793,062

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, 2012

	Waste Collection	Transit	Storm Water Utility	Fire Extinguisher	Total
Operating Receipts:					
Charges for Service	\$318,601	\$ 15,400	\$159,932	\$5,130	\$499,063
Operating Disbursements:					
Business-Type Activities	297,523	88,989	47,365	4,840	438,717
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	21,078	(73,589)	112,567	290	60,346
Non-Operating Receipts (Disbursements)					
Interest on Investments	29	0	4,290	0	4,319
Total Non-Operating Receipts (Disbursements)	29	0	4,290	0	4,319
Excess (Deficiency) of Receipts Over (Under) Disbursements	21,107	(73,589)	116,857	290	64,665
Transfers In (Out)	(23,238)	96,829	0	0	73,591
Net Change in Cash Balances	(2,131)	23,240	116,857	290	138,256
Cash Balances Beginning of Year	3,257	31,624	310,926	5,385	351,192
Cash Balances End of Year	\$ 1,126	\$ 54,864	\$427,783	\$5,675	\$489,448
Cash Basis Fund Balances					
Unreserved	\$ 1,126	\$ 54,864	\$427,783	\$5,675	\$489,448

See Accompanying Independent Auditors' Report.

CITY OF CHARLES CITY
Charles City, Iowa

SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds:			
Corporate Purpose	02-01-03	3.40-4.20%	\$ 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	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
Refunding	12-01-11	2.00-2.30%	1,360,000
Total General Obligation Bonds			
General Obligation Notes:			
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
Total General Obligation Notes			
Revenue Bonds:			
Water Utility	03-13-03	3.50-4.90%	1,400,000
Sewer Utility	07-01-03	3.00%	2,910,000
Urban Renewal	12-23-03	4.00%	136,000
Water 2004B	07-08-04	3.50-5.00%	320,000
Tax Increment Financing	01-10-05	4.50%	255,000
Water Pollution Control	01-10-05	3.50%	110,000
Water Revenue	02-11-09	3.00%	9,800,000
Water Revenue	11-18-09	3.00%	404,000
Water Revenue (Forgiveable)	01-13-10	3.00%	100,000
Total Revenue Bonds			
Revenue Notes:			
Urban Renewal	11-01-05	2.00%	95,684
UV Disinfection	04-21-11	0.00%	400,000
Lease Purchase Agreement (Valero)	12-05-06	5.70%	1,335,250

See Accompanying Independent Auditors' Report.

Schedule 3

Balance 7-1-11	Issued During Year	Redeemed During Year	Balance 6-30-12	Interest Paid
\$ 270,000	\$ 0	\$ 270,000	\$ 0	\$ 6,344
32,000	0	16,000	16,000	1,424
165,000	0	165,000	0	5,363
1,275,000	0	185,000	1,090,000	45,085
490,000	0	35,000	455,000	23,185
300,000	0	10,000	290,000	10,258
350,000	0	110,000	240,000	10,570
2,140,506	494	89,000	2,052,000	64,226
631,000	0	631,000	0	0
0	1,360,000	125,000	1,235,000	13,825
\$ 5,653,506	\$1,360,494	\$1,636,000	\$ 5,378,000	\$180,280
\$ 199,000	\$ 0	\$ 10,000	\$ 189,000	\$ 10,945
126,194	0	126,194	0	3,389
140,000	0	0	140,000	3,676
105,000	0	30,000	75,000	3,077
\$ 570,194	\$ 0	\$ 166,194	\$ 404,000	\$ 21,087
\$ 985,000	\$ 0	\$ 985,000	\$ 0	\$ 44,325
2,062,000	0	130,000	1,932,000	61,860
95,800	0	9,100	86,700	3,742
195,000	0	195,000	0	9,363
225,000	0	14,000	211,000	9,968
39,000	0	12,000	27,000	1,260
8,457,624	0	1,000	8,456,624	253,658
384,000	5,000	15,000	374,000	11,615
100,000	0	100,000	0	0
\$12,543,424	\$ 5,000	\$1,461,100	\$11,087,324	\$359,791
\$ 52,530	\$ 0	\$ 9,157	\$ 43,373	\$ 1,008
0	140,879	0	140,879	0
\$ 52,530	\$ 140,879	\$ 9,157	\$ 184,252	\$ 1,008
\$ 1,005,453	\$ 0	\$ 94,853	\$ 910,600	\$ 56,647

CITY OF CHARLES CITY
Charles City, Iowa

Schedule of Bond and Note Maturities
June 30, 2012

General Obligation Bonds				
Year Ending June 30,	Corporate Purpose		Corporate Purpose	
	Issued 2-18-03		Issued 7-11-07	
	Interest Rates	Amount	Interest Rates	Amount
2013	4.50%	\$16,000	4.50%	\$35,000
2014	0.00	0	4.55	35,000
2015	0.00	0	4.60	35,000
2016	0.00	0	4.65	40,000
2017	0.00	0	4.70	45,000
2018	0.00	0	4.75	50,000
2019	0.00	0	4.80	50,000
2020	0.00	0	4.85	50,000
2021	0.00	0	4.90	50,000
2022	0.00	0	4.95	50,000
2023	0.00	0	5.00	15,000
2024	0.00	0	0.00	0
2025	0.00	0	0.00	0
2026	0.00	0	0.00	0
2027	0.00	0	0.00	0
2028	0.00	0	0.00	0
2029	0.00	0	0.00	0
2030	0.00	0	0.00	0
Total		\$16,000		\$455,000

General Obligation Bonds				
Year Ending June 30,	Refunding		Refunding	
	Issued 6-1-05		Issued 5-15-08	
	Interest Rates	Amount	Interest Rates	Amount
2013	3.40%	\$ 200,000	3.00%	\$120,000
2014	3.50	200,000	3.15	120,000
2015	3.60	270,000	0.00	0
2016	3.65	290,000	0.00	0
2017	3.75	130,000	0.00	0
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		\$1,090,000		\$240,000

See Accompanying Independent Auditors' Report.

Schedule of Bond and Note Maturities (Continued)

Year Ending June 30,	Corporate Purpose Issued 5-15-08	
	Interest Rates	Amount
2013	3.00%	\$ 40,000
2014	3.30	55,000
2015	3.30	50,000
2016	3.65	50,000
2017	3.65	35,000
2018	4.00	60,000
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		\$290,000

Year Ending June 30,	General Obligation Bonds Street Improvements Issued 2-16-10		General Obligation Bonds Refunding Issued 12-1-11		Total
	Interest Rates	Amount	Interest Rates	Amount	
	2013	3.00%	\$92,000	2.00%	
2014	3.00	95,000	2.00	135,000	640,000
2015	3.00	98,000	2.00	140,000	593,000
2016	3.00	102,000	2.00	140,000	622,000
2017	3.00	105,000	2.00	140,000	455,000
2018	3.00	108,000	2.00	150,000	368,000
2019	3.00	112,000	2.00	100,000	262,000
2020	3.00	116,000	2.00	100,000	266,000
2021	3.00	119,000	2.15	100,000	269,000
2022	3.00	123,000	2.30	100,000	273,000
2023	3.00	127,000	0.00	0	142,000
2024	3.00	131,000	0.00	0	131,000
2025	3.00	136,000	0.00	0	136,000
2026	3.00	140,000	0.00	0	140,000
2027	3.00	145,000	0.00	0	145,000
2028	3.00	149,000	0.00	0	149,000
2029	3.00	154,000	0.00	0	154,000
2030	3.00	0	0.00	0	0
Total		\$2,052,000		\$1,235,000	\$5,378,000

Schedule of Bond and Note Maturities (Continued)

General Obligation Notes				
Corporate Purpose			Corporate Purpose	
Issued 12-18-08			Issued 12-21-10	
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount
2013	5.50%	\$ 11,000	2.74%	\$140,000
2014	5.50	11,000	0.00	0
2015	5.50	12,000	0.00	0
2016	5.50	13,000	0.00	0
2017	5.50	14,000	0.00	0
2018	5.50	15,000	0.00	0
2019	5.50	16,000	0.00	0
2020	5.50	17,000	0.00	0
2021	5.50	18,000	0.00	0
2022	5.50	19,000	0.00	0
2023	5.50	21,000	0.00	0
2024	5.50	22,000	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		\$189,000		\$140,000

General Obligation Notes			
Refunding			
Issued 6-22-11			
Year Ending June 30,	Interest Rates	Amount	Total
2013	2.89%	\$25,000	\$176,000
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		\$75,000	\$404,000

Schedule of Bond and Note Maturities (Continued)

Revenue Bonds				
Year Ending June 30,	Sewer Utility Issued 7-1-03		Urban Renewal Issued 12-23-03	
	Interest Rates	Amount	Interest Rates	Amount
2013	3.00%	\$ 134,000	4.00%	\$ 9,400
2014	3.00	139,000	4.00	9,700
2015	3.00	143,000	4.00	10,100
2016	3.00	148,000	4.00	10,500
2017	3.00	152,000	4.00	11,100
2018	3.00	157,000	4.00	11,500
2019	3.00	163,000	4.00	11,900
2020	3.00	168,000	4.00	12,500
2021	3.00	173,000	0.00	0
2022	3.00	179,000	0.00	0
2023	3.00	185,000	0.00	0
2024	3.00	191,000	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		\$1,932,000		\$86,700

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
2013	4.50%	\$15,000	3.50%	\$13,000	3.00%	\$100,624
2014	4.50	16,000	3.50	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
Total		\$211,000		\$27,000		\$8,456,624

Year Ending June 30,	Water Revenue		
	Issued 11-18-09		
Interest Rates	Amount	Total	
2013	3.00%	\$16,000	\$ 288,024
2014	3.00	16,000	299,700
2015	3.00	17,000	293,100
2016	3.00	17,000	403,500
2017	3.00	18,000	601,100
2018	3.00	18,000	608,500
2019	3.00	19,000	631,900
2020	3.00	20,000	755,500
2021	3.00	20,000	822,000
2022	3.00	21,000	851,000
2023	3.00	21,000	849,000
2024	3.00	22,000	877,000
2025	3.00	23,000	709,000
2026	3.00	24,000	732,000
2027	3.00	24,000	755,000
2028	3.00	25,000	780,000
2029	3.00	26,000	804,000
2030	3.00	27,000	27,000
Total		\$374,000	\$11,087,324

Schedule of Bond and Note Maturities (Continued)

Year Ending June 30,	Revenue Notes			
	Urban Renewal		UV Disinfection	
	Issued 11-1-05		Issued 4-21-11	
	Interest Rates	Amount	Interest Rates	Amount
2013	2.00%	\$ 9,343	0.00%	\$ 0
2014	2.00	9,531	0.00	140,879
2015	2.00	9,722	0.00	0
2016	2.00	9,917	0.00	0
2017	2.00	4,861	0.00	0
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		\$43,374		\$140,879

Year Ending June 30,	Lease Purchase Agreement	
	Valero	
	Issued 12-5-06	
	Interest Rates	Amount
2013	2.00%	\$100,403
2014	2.00	106,278
2015	2.00	112,496
2016	2.00	119,079
2017	2.00	126,046
2018	0.00	133,422
2019	0.00	141,229
2020	0.00	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		\$910,600

CITY OF CHARLES CITY
Charles City, Iowa

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

	2012	2011	2010
Receipts:			
Property Tax	\$ 3,121,918	\$2,971,988	\$2,685,813
Tax Increment Financing Collections	1,250,374	1,516,828	1,415,525
Other City Tax	929,029	888,868	854,633
Licenses & Permits	70,122	82,322	55,804
Use of Money and Property	113,291	89,935	101,926
Intergovernmental	2,970,033	3,825,025	4,234,356
Charges for Services	1,606,367	1,555,754	1,541,898
Special Assessments	3,933	0	2,820
Miscellaneous	840,716	691,769	557,262
Total Receipts	\$10,905,783	\$11,622,489	\$11,450,037
Disbursements:			
Operating:			
Public Safety	\$ 2,269,256	\$2,313,835	\$2,430,368
Public Works	1,294,830	1,625,737	1,418,608
Health and Social Services	461,518	484,268	494,987
Culture and Recreation	978,042	949,425	861,496
Community and Economic Development	2,210,621	2,342,517	2,656,040
General Government	563,747	534,250	603,460
Debt Service	1,488,582	2,762,948	1,878,463
Capital Projects	1,162,098	4,456,279	2,285,593
Total Disbursements	\$10,428,694	\$15,469,259	\$12,629,015

See Accompanying Independent Auditors' Report.

2009	Unaudited			
	2008	2007	2006	2005
\$ 2,583,039	\$ 2,503,216	\$2,342,749	\$2,288,779	\$ 2,010,746
1,626,247	1,513,223	1,446,835	1,409,929	1,278,706
778,285	882,215	780,460	751,310	741,546
62,657	85,197	73,198	80,847	98,716
145,245	269,194	301,274	667,531	545,075
2,709,406	3,052,946	2,493,665	2,578,251	4,107,983
1,491,376	627,640	843,353	459,281	468,856
7,036	2,185	2,735	3,633	1,623
641,437	442,743	610,435	418,135	595,563
<u>\$10,044,728</u>	<u>\$ 9,378,559</u>	<u>\$8,894,704</u>	<u>\$8,657,696</u>	<u>\$ 9,848,814</u>
\$ 2,022,438	\$ 2,013,482	\$1,912,405	\$1,846,906	\$ 1,799,353
1,614,536	1,166,425	1,063,393	737,060	423,513
482,928	461,115	494,914	501,019	472,537
927,521	877,328	784,743	757,459	598,711
2,633,188	2,021,109	1,820,229	2,181,687	2,329,510
568,489	869,614	666,212	610,326	665,739
1,214,506	1,963,587	1,466,941	692,919	1,638,919
777,440	796,243	1,449,244	883,349	3,599,929
<u>\$10,241,046</u>	<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, 2012

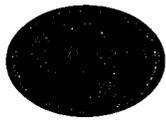
Grantor/Program Title	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct:			
U.S Department of Housing and Urban Development: Public and Indian Housing	14.850	KC-9056	\$ 95,447
Section 8 Housing Choice Vouchers	14.871	KC-9079V	723,751
Public Housing Capital Fund			
Fiscal Year 2009	14.872	IA05P00250109	59,387
Fiscal Year 2010	14.872	IA05P00250110	171,242
Fiscal Year 2011	14.872	IA05P00250111	31,879
			<u>262,508</u>
U.S. Department of Justice: Bulletproof Vest Partnership Program	16.607		332
Corporation for National and Community Service: Foster Grandparent Program	94.011	09SFNIA005	301,955
Total Direct			<u>1,383,993</u>
Indirect:			
U.S. Department of Housing and Urban Development: Community Development Block Grants/State Program and Non-Entitlement Grants in Hawaii	14.228	08-HSG-055	29,588
National Highway Traffic Safety Administration: Iowa Department of Public Safety: Traffic Safety Bureau:			
Highway Safety Program	20.604	11-03 Task 431	600
Equipment	20.600	12-03 Task 126	4,500
			<u>5,100</u>
Environmental Protection Agency ARRA – Capitalization Grants for Clean Water – State Revolving Funds	66.458	CS-CW1011	494
U.S. Department of Homeland Security Iowa Department of Economic Development			
Disaster Housing Funds	97.039	08-DRMH0243	54,952
Disaster Housing Funds	97.039	08-DRMH-0245	75,272
			<u>130,224</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

Grantor/Program Title	CFDA Number	Agency Pass-Through Number	Program Expenditures
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Hazard Mitigation Program	97.039	HMPG-DR-1763-0043-01	\$ 90,285
Hazard Mitigation Program	97.039	HMPG-DR-1763-0045-01	162,948
Hazard Mitigation Program	97.039	HMPG-DR-1880-0013-01	10,294
			<u>263,527</u>
Total Indirect			<u>428,933</u>
Total			<u>\$1,812,926</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Charles City and is presented in conformity with another 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 Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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, 2012, which collectively comprise the City's financial statements listed in the table of contents, and have issued our report thereon dated March 6, 2013. Our report expressed unmodified opinions on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Charles City is responsible for establishing and maintaining effective 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 an 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-12 and II-B-12 to be material weaknesses.

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, 2012 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.

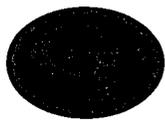
The City of Charles City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Charles City's responses and, accordingly, we express no 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.

March 6, 2013

Gardiner Thomsen, P.C.



Gardiner Thomsen
Certified Public Accountants

Independent Auditor's 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

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

Compliance

We have audited the City of Charles City, Iowa'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, 2012. The City of Charles City's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Charles City's management. Our responsibility is to express an opinion on the City of Charles City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether 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'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, 2012.

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.

March 6, 2013

Gardiner Thompson, P.C.

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

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 and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- 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 14.871 – Section 8 Housing Vouchers and 94.011 – Foster Grandparent Program.
- f. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- g. The City of Charles City did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 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, 2012

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

II-B-12 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.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

CFDA Number 14.871 Section 8 Housing Vouchers and 94.011 Foster Grandparent Program.

No matters were reported.

City of Charles City
Charles City, Iowa

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2012

Part III: Findings and Questioned Costs for Federal Awards (Continued):

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 14.871 Section 8 Housing Vouchers and 94.011 Foster Grandparent Program.

No matters were reported.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

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

Conclusion – Response accepted.

IV-B-12 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-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

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

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2012

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

IV-D-12 Business transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title & Business Connection	Transaction Description	Amount
Virginia Titus, Deputy City Clerk Titus Lock Service owned by Husband of Virginia Titus	Back Door Lock Repair	\$ 1,661
Dave Boehmer, Assistant Fire Chief Joyce Boehmer, Wife, Section 8 Housing Landlord Hometown Construction, Owned by son	Landlord Services Construction for Burks Property-Grant, 1907 Bailey Street – Final Payment	2,136 19,864
Scott Boehmer, Son, Section 8 Housing Landlord	Landlord Services	1,856
Curt Teeter, Fire Department Teeter Specialty, owned by father	Decals, Labels	1,080
Trudy O'Donnell Elizabeth Fox, mother, Foster Grandparent	Foster Grandparent Stipends and Travel Reimbursement	1,763
Linn Wolf, Street Department Willard Wolf, father, Section 8 Housing Landlord	Landlord Services	5,798
Sue Davis, Swimming Pool Outdoor Design, owned by Sue Davis and husband	Snow Removal – City Hall and Bridges, Repair Work on Clark Street Houses	4,509
Bradley Worrall, Police Department Bradley Worrall, Section 8 Housing Landlord	Landlord Services	4,988
Bryan Quade, Street Department Bridgette Quade, Section 8 Housing Landlord	Landlord Services	3,242

It appears that the related party transactions with Teeter Specialty are in accordance with Chapter 362.5 (3) of the Code of Iowa as the transactions did not exceed the \$1,500 threshold for the fiscal year under audit.

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

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2012

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

In accordance with Chapter 362.5(3) of the Code of Iowa, the transactions with Titus Lock Service, Joyce Boehmer, Hometown Construction, Scott Boehmer, Elizabeth Fox, Willard Wolf, Outdoor Design, Bradley Worall and Bridgette Quade do not appear to represent conflicts of interest since Dave Boehmer, Trudy O'Donnell, Bradley Worrall, Sue Davis, Bryan Quade, Linn Wolf and Virginia Titus do not participate in acquiring the above services.

IV-E-12 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-12 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not. The Council went into closed session on June 21, 2012 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-12 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-12 Excess Fund Balances – We noted the fund balances in the Special Revenue Funds: Police Asset Forfeiture, CVTC Operating, 2008 Flood, Local Option Sales Tax, Riverside Tax Increment Financing, Park Avenue Tax Increment Financing, South Grand Tax Increment Financing, Library Trust, Public Housing Security Deposits, Public Housing and Cablevision were in excess of disbursements for the current year.

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

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

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2012

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

IV-H-12 (Continued)

Response – The Police Asset Forfeiture Fund contains money to be used to pay for future safety programs. The CVTC Operating Fund contains funds for the operation of the Cedar Valley transportation Center which will be used as needed. The 2008 Flood Fund contains an advance for a large project that will be continued in FY2012. The Local Option Sales Tax Fund will be used for future Street and roadway improvement. 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 Public Housing Fund contains funds for maintaining public housing. The Cablevision Fund will be used for a broadband study.

Conclusion – Response accepted.

IV-I-12 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

IV-J-12 Financial Position – We noted that the Special Revenue: FEMA Buy-Out, Fire Retirement, WPC Flood Wall, East Park Tax Increment Financing, and Capital Projects: Pedestrian Bridge, and 2011 Permeable Paving Funds had deficit fund balances of \$2,814, \$1,076, \$11,584, \$3,275, \$76,624, \$92,139, 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 WPC Flood Wall deficit is due to project costs incurred prior to the funding being received by the City. The East Park Tax Increment Financing deficit is due to disbursements being made prior to the collection of TIF receipts. The Pedestrian Bridge, and 2011 Permeable Paving deficits are due to disbursements being made on the capital projects before grant receipts were received.

Conclusion – Response accepted.

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

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2012

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

In accordance with Chapter 362.5(3) of the Code of Iowa, the transactions with Titus Lock Service, Joyce Boehmer, Hometown Construction, Scott Boehmer, Elizabeth Fox, Willard Wolf, Outdoor Design, Bradley Worall and Bridgette Quade do not appear to represent conflicts of interest since Dave Boehmer, Trudy O'Donnell, Bradley Worrall, Sue Davis, Bryan Quade, Linn Wolf and Virginia Titus do not participate in acquiring the above services.

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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-12 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.

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

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

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2012

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

IV-H-12 (Continued)

Response – The Police Asset Forfeiture Fund contains money to be used to pay for future safety programs. The CVTC Operating Fund contains funds for the operation of the Cedar Valley transportation Center which will be used as needed. The 2008 Flood Fund contains an advance for a large project that will be continued in FY2012. The Local Option Sales Tax Fund will be used for future Street and roadway improvement. 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 Public Housing Fund contains funds for maintaining public housing. The Cablevision Fund will be used for a broadband study.

Conclusion – Response accepted.

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Conclusion – Response accepted.