

CITY OF CHARLES CITY
Charles City, Iowa

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

June 30, 2013

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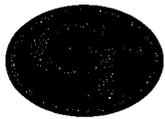
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CITY OF CHARLES CITY

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James A. Erb	Mayor	January 2014
Jerry Joerger.....	Mayor Pro Tem.....	January 2014
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



Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Charles City, Iowa, as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Charles City, Iowa's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the four years ended June 30, 2012 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. 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 Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The supplementary information, including the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 5 and 10 and 34 through 35, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2014, on our consideration of the City of Charles City, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Charles City, Iowa's internal control over financial reporting and compliance.

In April 2014, the Iowa Finance Authority contacted the City of Charles City in regards to the expenditure of \$241,957 in federal dollars through the Capitalization Grants for Drinking Water State Revolving Funds program. 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, 2013. The City Clerk was not aware these funds were a federal award and the Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2013 has been reissued to include these expenditures.

Gardiner Thomsen, P.C.

Charles City, Iowa

January 24, 2014

(Except for Note 15, as to which the date is June 3, 2014)

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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 10.29%, or approximately \$1,213,169, from fiscal 2012 to fiscal 2013. This was primarily due to the increased receipts of bond proceeds.
- Disbursements of the City's governmental activities increased 15.77% or approximately \$1,649,426, in fiscal year 2013 from fiscal 2012. Capital Projects showed the largest increases for 2013.
- The City's total cash basis net position increased 6%, or approximately \$692,979 from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased approximately \$888,416 and the cash basis net position of the business-type activities decreased by approximately \$195,437.

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 Cash Basis Statement of Activities and Net Position. 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 financial 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 and the City's indebtedness. 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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position 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 position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$8,151,157 a year ago to \$9,039,573. The analysis that follows focuses on the changes in cash basis net position for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ended June 30,	
	2013	2012
Receipts:		
Program Receipts:		
Charges for Service	\$ 1,423,865	\$ 1,365,423
Operating Grants, Contributions and Restricted Interest	2,088,151	2,518,502
Capital Grants, Contributions and Restricted Interest	728,910	1,437,318
General Receipts:		
Property Tax	3,336,797	3,405,595
Tax Increment Financing	1,193,836	1,250,374
Local Option Sales Tax	867,243	645,352
Unrestricted Investment Earnings	92,701	83,961
Bond and Loan Proceeds	1,996,573	332,494
Other General Receipts	318,834	281,514
Transfers, Net	951,428	464,636
Total Receipts	<u>12,998,338</u>	<u>11,785,169</u>
Disbursements:		
Public Safety	2,380,193	2,287,509
Public Works	1,099,819	1,299,203
Health and Social Services	436,661	461,507
Culture and Recreation	940,982	979,939
Community and Economic Development	2,035,795	2,215,124
General Government	563,280	566,534
Debt Service	1,953,991	1,488,582
Capital Projects	2,699,201	1,162,098
Total Disbursements	<u>12,109,922</u>	<u>10,460,496</u>
Change in Cash Basis Net Position	888,416	1,324,673
Cash Basis Net Position – Beginning of Year	<u>8,151,157</u>	<u>6,826,484</u>
Cash Basis Net Position – End of Year	<u>\$ 9,039,573</u>	<u>\$ 8,151,157</u>

The City's total receipts for governmental activities increased 10.29%, or \$1,213,169. The total cost of all programs and services increased \$1,649,426, or 15.77%.

The cost of all governmental activities this year was \$12,109,922 compared to \$10,460,496 last year. As shown in the Cash Basis Statement of Activities and Net Position, the amount taxpayers ultimately financed for these activities was only \$7,868,996 because some of the cost was paid by those directly benefiting from the programs \$1,423,865 or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest \$2,817,061.

Changes in Cash Basis Net Position of Business Type Activities		
	Year Ended June 30,	
	2013	2012
Receipts:		
Program Receipts:		
Charges for Service:		
Water	\$1,999,030	\$1,785,458
Sewer	1,283,241	1,303,145
Waste Collection	333,431	318,601
Storm Utility	159,872	159,932
Transit and Fire Extinguisher	26,700	20,530
General Receipts:		
Unrestricted Interest on Investments	35,629	29,285
Miscellaneous	0	39
Bond/loan Proceeds	577,169	1,235,879
	4,415,072	4,852,869
Disbursements and Transfers:		
Water	1,505,298	2,449,686
Sewer Improvements	1,536,175	1,128,696
Waste Collection	292,727	297,523
Storm Utility	217,135	47,365
Transit and Fire Extinguisher	107,746	93,829
Transfers Net	951,428	464,636
Total Disbursements and Transfers	4,610,509	4,481,735
Change in Cash Basis Net Position	(195,437)	371,134
Cash Basis Net Position - Beginning of Year	2,433,368	2,062,234
Cash Basis Net Position - End of Year	\$2,237,931	\$2,433,368

Total business type activities receipts for the fiscal year were \$4,415,072 compared to \$4,852,869 last year. The cash balance decreased approximately \$195,437 from the prior year. Total disbursements for the fiscal year increased by approximately \$128,774.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Charles City completed the year, its governmental funds reported a combined fund balance of \$8,655,295, an increase of \$822,234 from last year’s total of \$7,833,061. 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 \$224,790 from the prior year to \$1,244,564. This increase was partially due to transfers in to close out the FEMA and 2008 flood related projects.
- The Debt Service Fund cash balance increased by \$55,409 to a balance of \$75,634 during the fiscal year. The City refunded debt during the year.
- The 2011 Permeable Paving Fund cash balance decreased by \$178,377 to a balance of \$(270,516).

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$432,118 to \$1,276,355.
- The Sewer Fund cash balance decreased by \$462,821 to \$564,367.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 20, 2013. Changes in expenditures included purchase of computer software, payment for a refunding loan, purchase of the Jefferson School property, website expenses and the reclassification of some accounts. For the year, the City’s actual receipts were \$13,808,302 compared to \$13,424,811 that was budgeted. Actual disbursements were \$15,807,823 compared to budget of \$16,785,123.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$18,031,399 in bonds and other long-term debt compared to \$17,964,176 last year, as shown below:

	Outstanding Debt at Year-End	
	Year Ended June 30,	
	2013	2012
General Obligation Bonds and Notes	\$ 5,669,201	\$ 5,782,000
Revenue Bonds and Notes	11,552,001	11,271,576
Lease Purchase Agreements	810,197	910,600
Total	\$18,031,399	\$17,964,176

Debt increased as a result of drawing funds on the 2011 Permeable Paving Loan, drawing funds on the Water Plant Expansion, and drawing funds for the UV Disinfection project. The City also refunded the 2005B General Obligation Refunding Bonds during the fiscal year.

The Constitution of the State of Iowa limits the amount of general obligation and tax increment financing debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation and tax increment financing debt of approximately \$6,786,727 is significantly below its constitutional debt limit of \$17,647,841. The outstanding revenue bonds include \$11,007,018 of nontax increment financing debt.

ECONOMIC FACTORS

There are a lot of factors that go into developing a budget for the City each year. One important one is what projects do we have in the works currently and what ones are approaching on the horizon. We continue work on UV disinfection project at the wastewater treatment plant. This is in response to increase regulations set by the DNR. An SRF loan has been secured for this project and will be repaid by sewer revenues.

Within the past year, the City has installed new computer financial software and it has proven to be very beneficial. The City also launched a brand new website and we hope that becomes a useful tool for citizens to keep in touch with their City government.

The Net Zero project has been started at the former Jefferson School site. The first house is almost completed and we hope that it is the first of many to be built as part of this unique project.

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

CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
As of and for the Year Ended June 30, 2013

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions, and Restricted Interest
Functions/Programs:			
Governmental Activities:			
Public Safety	\$ 2,380,193	\$ 526,046	\$ 3,729
Public Works	1,099,819	58,793	808,131
Health and Social Services	436,661	748	434,325
Culture and Recreation	940,982	261,711	45,783
Community and Economic Development	2,035,795	459,000	795,317
General Government	563,280	117,567	866
Debt Service	1,953,991	0	0
Capital Projects	2,699,201	0	0
Total Governmental Activities	<u>12,109,922</u>	<u>1,423,865</u>	<u>2,088,151</u>
Business Type Activities:			
Water	1,505,298	1,999,030	0
Sewer	1,536,175	1,283,241	0
Waste Collection	292,727	333,431	0
Transit	98,114	15,520	0
Storm Utility	217,135	159,872	0
Fire Extinguisher	9,632	11,180	0
Total Business Type Activities	<u>3,659,081</u>	<u>3,802,274</u>	<u>0</u>
Total	<u>\$15,769,003</u>	<u>\$5,226,139</u>	<u>\$2,088,151</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
Sale of Capital Assets
Transfers
Total General Receipts and Transfers

Change in Cash Basis Net Position

Cash Basis Net Position Beginning of Year

Cash Basis Net Position End of Year

Cash Basis Net Position

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

Total Cash Basis Net Position
See Notes to Financial Statements

Program Receipts Capital Grants, Contributions and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business - Type Activities	Total
\$ 0	\$(1,850,418)	\$ 0	\$(1,850,418)
0	(232,895)	0	(232,895)
0	(1,588)	0	(1,588)
717	(632,771)	0	(632,771)
136,513	(644,965)	0	(644,965)
0	(444,847)	0	(444,847)
0	(1,953,991)	0	(1,953,991)
591,680	(2,107,521)	0	(2,107,521)
<u>728,910</u>	<u>(7,868,996)</u>	<u>0</u>	<u>(7,868,996)</u>
0	0	493,732	493,732
0	0	(252,934)	(252,934)
0	0	40,704	40,704
0	0	(82,594)	(82,594)
0	0	(57,263)	(57,263)
0	0	1,548	1,548
<u>0</u>	<u>0</u>	<u>143,193</u>	<u>143,193</u>
<u>\$728,910</u>	<u>(7,868,996)</u>	<u>143,193</u>	<u>(7,725,803)</u>
	3,003,251	0	3,003,251
	333,546	0	333,546
	1,193,836	0	1,193,836
	867,243	0	867,243
	92,701	35,629	128,330
	1,996,573	577,169	2,573,742
	282,334	0	282,334
	36,500	0	36,500
	951,428	(951,428)	0
	<u>8,757,412</u>	<u>(338,630)</u>	<u>8,418,782</u>
	888,416	(195,437)	692,979
	<u>8,151,157</u>	<u>2,433,368</u>	<u>10,584,525</u>
	<u>\$ 9,039,573</u>	<u>\$2,237,931</u>	<u>\$11,277,504</u>
	\$ 191,900	\$ 0	\$ 191,900
	3,367,273	0	3,367,273
	1,508,376	0	1,508,376
	75,634	141,687	217,321
	2,308,619	0	2,308,619
	<u>1,587,771</u>	<u>2,096,244</u>	<u>3,684,015</u>
	<u>\$ 9,039,573</u>	<u>\$2,237,931</u>	<u>\$11,277,504</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, 2013

	General
Receipts:	
Property Tax	\$1,929,361
Tax Increment Financing	0
Other City Tax	213,627
Licenses and Permits	75,440
Use of Money and Property	33,622
Intergovernmental	531,845
Charges for Services	200,916
Miscellaneous	210,469
Total Receipts	3,195,280
Disbursements:	
Operating:	
Public Safety	1,790,838
Public Works	305,385
Health and Social Services	2,250
Culture and Recreation	764,990
Community and Economic Development	35,572
General Government	478,101
Debt Service	0
Capital Projects	0
Total Disbursements	3,377,136
Excess (Deficiency) of Receipts Over (Under) Disbursements	(181,856)
Other Financing Sources (Uses):	
Bond Proceeds	0
Sale of Capital Assets	26,500
Transfers In	498,016
Transfers Out	(117,870)
Total Other Financing Sources (Uses)	406,646
Change in Cash Balances	224,790
Cash Balances Beginning of Year	1,019,774
Cash Balances End of Year	\$1,244,564
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	1,244,564
Total Cash Basis Fund Balances	\$1,244,564

See Notes to Financial Statements

Exhibit B

Debt Service	2011 Permeable Paving	Nonmajor	Total
\$ 319,716	\$ 0	\$ 933,524	\$ 3,182,601
0	0	1,193,836	1,193,836
13,830	0	915,136	1,142,593
0	0	0	75,440
204	0	84,241	118,067
0	0	1,823,593	2,355,438
0	0	1,291,712	1,492,628
0	0	203,299	413,768
333,750	0	6,445,341	9,974,371
0	0	604,827	2,395,665
0	0	798,274	1,103,659
0	0	434,442	436,692
0	0	177,722	942,712
0	0	2,003,763	2,039,335
0	0	87,282	565,383
1,953,991	0	0	1,953,991
0	2,033,895	665,306	2,699,201
1,953,991	2,033,895	4,771,616	12,136,638
(1,620,241)	(2,033,895)	1,673,725	(2,162,267)
632,000	1,364,573	0	1,996,573
0	0	10,000	36,500
1,043,650	490,945	166,278	2,198,889
0	0	(1,129,591)	(1,247,461)
1,675,650	1,855,518	(953,313)	2,984,501
55,409	(178,377)	720,412	822,234
20,225	(92,139)	6,885,201	7,833,061
\$ 75,634	\$ (270,516)	\$ 7,605,613	\$ 8,655,295
\$ 0	\$ 0	\$ 191,900	\$ 191,900
0	0	1,508,376	1,508,376
75,634	0	0	75,634
0	0	3,367,273	3,367,273
0	0	2,308,619	2,308,619
0	0	267,810	267,810
0	(270,516)	(38,365)	935,683
\$ 75,634	\$ (270,516)	\$ 7,605,613	\$ 8,655,295

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
POSITION
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2013

Total Governmental Funds Cash Balances (Pg. 14) \$8,655,295

*Amounts reported for governmental activities in the Cash Basis Statement of
Activities and Net Position 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 cash balance of the Internal Service Fund is included in
governmental activities in the Cash Basis Statement of Activities and Net
Position.

384,278

Cash Basis Net Position of Governmental Activities (Pg. 12)

\$9,039,573

Change in Cash Balances (Pg. 14)

\$ 822,234

*Amounts reported for governmental activities in the Cash Basis Statement of
Activities and Net Position 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 the cash balance of the Internal Service Fund is
reported with governmental activities in the Cash Basis Statement of
Activities and Net Position.

66,182

Change in Cash Basis Net Position of Governmental Activities (Pg. 12)

\$ 888,416

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, 2013

	Enterprise Funds	
	Water	Sewer
Operating Receipts:		
Charges for Service	\$1,995,812	\$1,283,241
Miscellaneous	0	0
Total Operating Receipts	1,995,812	1,283,241
Operating Disbursements:		
Business Type Activities	1,109,371	1,325,545
Non-Program	0	0
Total Operating Disbursements	1,109,371	1,325,545
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	886,441	(42,304)
Non-Operating Receipts (Disbursements):		
Interest on Investments	15,273	14,959
General Obligation Bond Proceeds	480,393	96,776
Debt Service	(408,031)	(210,630)
Total Non-Operating Receipts (Disbursements)	87,635	(98,895)
Excess (Deficiency) of Receipts Over (Under) Disbursements	974,076	(141,199)
Transfers In (Out)	(541,958)	(321,622)
Net Change in Cash Balances	432,118	(462,821)
Cash Balances Beginning of Year	844,237	1,027,188
Cash Balances End of Year	\$1,276,355	\$ 564,367
Cash Basis Fund Balances		
Restricted for Debt Service	\$ 141,687	\$ 0
Unrestricted	1,134,668	564,367
Total Cash Basis Fund Balances	\$1,276,355	\$ 564,367

See Notes to Financial Statements

Exhibit D

Enterprise Funds		Internal Service Fund
Other Nonmajor Enterprise Funds	Total	Employee Health
\$ 520,003	\$3,799,056	\$769,238
0	0	16,226
520,003	3,799,056	785,464
617,608	3,052,524	0
0	0	708,235
617,608	3,052,524	708,235
(97,605)	746,532	77,229
4,643	34,875	5,029
0	577,169	0
0	(618,661)	0
4,643	(6,617)	5,029
(92,962)	739,915	82,258
(87,848)	(951,428)	0
(180,810)	(211,513)	82,258
489,448	2,360,873	390,591
\$ 308,638	\$2,149,360	\$472,849
\$ 0	\$ 141,687	\$ 0
308,638	2,007,673	472,849
\$ 308,638	\$2,149,360	\$472,849

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
POSITION – PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2013

Total Enterprise Funds Cash Balances (Pg. 17) \$2,149,360

*Amounts reported for business type activities in the Cash Basis Statement of
Activities and Net Position 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 cash balance of the Internal Service Fund is included in
business type activities in the Cash Basis Statement of Activities and Net
Position.

88,571

Cash Basis Net Position of Business Type Activities (Pg. 12) \$2,237,931

Change in Cash Balances (Pg. 17) \$ (211,513)

*Amounts reported for business-type activities in the Statement of Activities
and Net Position 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 the cash balance of the Internal Service Fund is
reported with business type activities in the Cash Basis Statement of
Activities and Net Position.

16,076

Change in Cash Basis Position of Business Type Activities (Pg. 12) \$ (195,437)

See Notes To Financial Statements.

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

Notes to Financial Statements

June 30, 2013

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 Cash Basis Statement of Activities and Net Position (previously referred to as 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 Cash Basis Statement of Activities and Net Position presents the City's non-fiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consist of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies 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 2011 Permeable Paving Fund is used to account for the receipts and disbursements related to the 2011 Permeable Paving Project.

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.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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 position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

Assigned – Amounts the City 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, 2013, disbursements exceeded the amounts budgeted in the capital projects and debt service functions.

Note 2: Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments at June 30, 2013.

Interest Rate Risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Notes to Financial Statements (Continued)

Note 3: Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 78,201	\$ 28,103	\$ 704,000	\$121,362	\$ 299,717	\$ 341,794
2015	80,000	25,878	504,000	104,699	293,100	332,492
2016	56,000	23,732	519,000	93,978	403,500	323,323
2017	58,000	22,265	325,000	82,658	601,100	310,815
2018	60,000	20,725	368,000	73,315	608,500	292,344
2019-2023	331,000	77,988	1,212,000	232,990	4,054,400	1,141,174
2024-2028	287,000	35,597	701,000	87,540	4,127,000	501,480
2029-2033	232,000	10,272	154,000	4,620	893,000	27,600
Total	\$1,182,201	\$244,560	\$4,487,000	\$801,162	\$11,280,317	\$3,271,022

Year Ending June 30,	Revenue Notes		Lease Purchase		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$247,186	\$ 633	\$106,278	\$ 45,222	\$ 1,435,382	\$ 537,114
2015	9,722	442	112,496	39,004	999,318	502,515
2016	9,917	247	119,079	32,421	1,107,496	473,701
2017	4,859	49	126,046	25,454	1,115,005	441,241
2018	0	0	133,422	18,078	1,169,922	404,462
2019-2023	0	0	212,876	12,337	5,810,276	1,464,489
2024-2028	0	0	0	0	5,115,000	624,617
2029-2033	0	0	0	0	1,279,000	42,492
Total	\$271,684	\$1,371	\$810,197	\$172,516	\$18,031,399	\$4,490,631

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 \$366,747, payable through June, 2022. For the current year, principal and interest paid and total TIF receipts were \$47,276 and \$1,193,836, respectively.

Notes to Financial Statements (Continued)

Note 3: Bonds and Notes Payable (Continued)

The City has pledged future water and sewer customer revenue, net of specified operating expenses, to repay \$4.83 million in water and sewer system revenue bonds issued from March, 2003 to January, 2005. Proceeds from the bonds provided financing for various water and sewer utility construction projects. The bonds are payable solely from water and sewer customer net revenue and are payable through 2024. Annual principal and interest payments on the bonds are expected to require less than 37% of net revenue. During the fiscal year ended June 30, 2012, 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 \$3,365,028. Principal and interest paid for the current year and total customer net revenue was \$360,950 and \$3,279,053, respectively.

The resolution providing for the issuance of the enterprise fund revenue bonds includes the following provisions:

1. The bond will only be redeemed from the future earnings of the enterprise activity, and the bond holders hold a lien on the future earnings of the funds.
2. Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
3. Additional monthly transfers of \$1,000 plus 25% of the amount required in the water revenue bond sinking account to a revenue reserve account within the Enterprise Funds shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

On February 11, 2009 and November 18, 2009, the City issued not to exceed \$9,800,000 and \$404,000 of Water Revenue Bonds, respectively. During the year ended June 30, 2013, the City drew \$480,393 and \$0, respectively, of funds for construction. These notes are payable solely from water customer net receipts and are payable through 2030. The total principal and interest paid on the remaining bonds for the current year was \$382,596 and the total principal and interest outstanding on the bonds is \$12,066,768 at June 30, 2013.

Notes to Financial Statements (Continued)

Note 3: Bonds and Notes Payable (Continued)

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 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, 2013, the City drew \$96,776. 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. This obligation was paid in full during the fiscal year.

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.

Notes to Financial Statements (Continued)

Note 4: Pension and Retirement Benefits (Continued)

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, is 26.12% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2013, 2012 and 2011 were \$265,893, \$221,768 and \$202,593, respectively, which met the required contribution for each year.

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

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% 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, 2013, 2012 and 2011 were \$157,786, \$144,782 and \$127,794, 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 46 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, 2013, the City contributed \$604,483 and plan members eligible for benefits contributed \$164,755 to the plan.

Notes to Financial Statements (Continued)

Note 6: Compensated Absences

City employers accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. 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, 2013, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$228,725
Compensatory	21,304
Total	<u>\$250,029</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

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, 2013 was \$604,490.

The City has estimated costs of incurred but unsubmitted claims at June 30, 2013 to be \$15,003. 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, 2013 is as follows:

Unpaid Claims – June 30, 2012	\$ 30,444
Incurring Claims (including claims incurred but not reported for the Year Ended June 30, 2013)	463,008
Claims Paid During the Year Ended June 30, 2013	<u>478,449</u>
Estimated Costs Incurred but not Claimed – June 30, 2013	<u>\$ 15,003</u>

Note 8: Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Road Use Tax	\$ 40,425
	FEMA Buyout – Substantial	4,943
	FEMA Buyout – Non- Substantial	5,285
	2008 Flood	74,722
	Riverside Tax Increment Financing	13,160
	Southwest Bypass Tax Increment Financing	11,500
	South Grand Tax Increment Financing	13,160
	Library Trusts	10,573
	Foster Grandparent Operating	3,000
	Public Housing	34,000
	Section 8 Voucher	5,000
	Capital Project:	
	Pedestrian Bridge	21,786
	Enterprise:	
	Water	124,992
	Sewer	111,467
	Waste Collection	<u>24,003</u>
		<u>498,016</u>
Special Revenue: CVTC Operating	Special Revenue: Road Use Tax	<u>22,305</u>

Notes to Financial Statements (Continued)

Note 8: Interfund Transfers (Continued)

Transfer To	Transfer From	Amount
Debt Service	General	\$ 12,933
	Special Revenue:	
	Road Use Tax	85,170
	Local Option Sales Tax	174,645
	South Grand Tax Increment Financing	393,766
	Park Avenue Tax Increment Financing	85,595
	Enterprise:	
	Water	260,878
	Sewer	30,663
Capital Projects:		
Riverfront	General	<u>30,000</u>
Street Related Capital Improvements	Special Revenue:	<u>113,973</u>
	Local Option Sales Tax	
2011 Permeable Paving	Local Option Sales Tax	16,583
	Enterprise:	
	Water	156,088
	Sewer	179,492
	Storm Water	138,782
		<u>490,945</u>
Enterprise:		
Transit	General	<u>74,937</u>
		<u>\$2,273,826</u>

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

Note 9: Related Part Transactions

The City had business transactions between the City and City officials totaling \$19,103 during the year ended June 30, 2013.

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.

Notes to Financial Statements (Continued)

Note 11: Deficit Fund Balances

The Capital Projects Fund, 2011 Permeable Paving Fund, had a deficit balance of \$270,516 at June 30, 2013. The deficit was a result of costs incurred prior to the availability of funds. The deficit will be eliminated upon receipt of grant funds.

The Special Revenue Fund, WPC Floodwall, had a deficit balance of \$32,367 at June 30, 2013. 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, South Grand Tax Increment Financing Fund, had a deficit balance of \$647 at June 30, 2013. 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 Special Revenue, 2012 Housing Rehabilitation Grant Fund, had a deficit balance of \$28 at June 30, 2013. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated upon receipt of grant funds.

The Capital Projects, Street Capital Improvements Fund, had a deficit balance of \$2,860 at June 30, 2013. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated through the collection of special assessments.

The Capital Projects Fund, Clark Street Trail Projects, had a deficit balance of \$8 at June 30, 2013. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated upon receipt of grant funds.

The Capital Projects Fund, 9th Street Permeable Paving Fund, had a deficit balance of \$2,455 at June 30, 2013. The deficit was a result of costs incurred prior to the availability of funds. The deficit will be eliminated upon receipts 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, 2013, the City of Charles City paid Jendro Sanitation \$253,597. 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 \$16,765 during fiscal year 2013 for maintenance and testing.

Notes to Financial Statements (Continued)

Note 14: Restatement of Beginning Balances

During the fiscal year, the City completed the process of converting its software used for financial reporting. During the process, the City combined the Fire Retirement fund and the Police Retirement into the Employee Benefits Fund. The beginning cash balances have been restated as follows:

	Employee Benefits	Fire Retirement	Police Retirement
Cash balances, June 30, 2012, as previously reported	\$103,091	\$(1,076)	\$ 23,783
Adjustment	22,707	1,076	(23,783)
Cash Balances, June 30, 2012 as restated	<u>\$125,798</u>	<u>\$ 0</u>	<u>\$ 0</u>

Note 15: Explanatory Paragraph

In April 2014, the Iowa Finance Authority contacted the City of Charles City in regards to the expenditure of \$241,957 in federal dollars through the Capitalization Grants for Drinking Water State Revolving Funds program. 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, 2013. The City Clerk was not aware these funds were a federal award and the Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2013 has been reissued to include these expenditures.

Note 16: Subsequent Events

Management evaluated subsequent events through June 3, 2014, 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, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total
Receipts:				
Property Taxes	\$ 3,182,601	\$ 0	\$ 0	\$ 3,182,601
Tax Increment Financing Collections	1,193,836	0	0	1,193,836
Other City Taxes	1,142,593	0	0	1,142,593
Licenses and Permits	75,440	0	0	75,440
Use of Money and Property	118,067	39,904	5,029	152,942
Intergovernmental	2,355,438	0	0	2,355,438
Charges for Service	1,492,628	4,568,294	769,238	5,291,684
Miscellaneous	413,768	16,226	16,226	413,768
Total Receipts	9,974,371	4,624,424	790,493	13,808,302
Disbursements:				
Public Safety	2,395,665	0	0	2,395,665
Public Works	1,103,659	0	0	1,103,659
Health and Social Services	436,692	0	0	436,692
Culture and Recreation	942,712	0	0	942,712
Community and Economic Development	2,039,335	0	0	2,039,335
General Government	565,383	0	0	565,383
Debt Service	1,953,991	0	0	1,953,991
Capital Projects	2,699,201	0	0	2,699,201
Business Type Activities	0	3,671,185	0	3,671,185
Non-Program	0	708,235	708,235	0
Total Disbursements	12,136,638	4,379,420	708,235	15,807,823
Excess (Deficiency) of Receipts Over (Under) Disbursements	(2,162,267)	245,004	82,258	(1,999,521)
Other Financing Sources (Uses), Net	2,984,501	(374,259)	0	2,610,242
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	822,234	(129,255)	82,258	610,721
Balances Beginning of Year	7,833,061	2,751,464	390,591	10,193,934
Balances End of Year	\$ 8,655,295	\$2,622,209	\$472,849	\$10,804,655

See Accompanying Independent Auditor's Report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
\$ 3,159,588	\$ 3,159,588	\$ 23,013
1,296,663	1,296,663	(102,827)
884,738	884,738	257,855
63,100	63,100	12,340
132,079	132,079	20,863
3,818,611	3,818,611	(1,463,173)
3,942,132	3,942,132	1,349,552
127,900	127,900	285,868
13,424,811	13,424,811	383,491
2,500,204	2,537,105	141,440
1,406,942	1,406,942	303,283
497,188	497,188	60,496
1,023,204	1,032,452	89,740
2,206,987	2,462,675	423,340
584,383	610,599	45,216
1,141,616	1,379,775	(574,216)
2,498,375	2,817,221	118,020
4,030,470	4,041,166	369,981
0	0	0
15,889,369	16,785,123	977,300
(2,464,558)	(3,360,312)	1,360,791
3,166,250	3,166,250	(556,008)
701,692	(194,062)	804,783
10,892,384	10,892,384	(698,450)
\$11,594,076	\$10,698,322	\$ 106,333

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

Notes to Other Information – Budgetary Reporting

June 30, 2013

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 increased budgeted disbursements by \$895,754. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the capital projects and debt service functions.

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, 2013

	Special Revenue		
	Police Asset Forfeiture	Road Use Tax	Employee Benefits
Receipts:			
Property Tax	\$ 0	\$ 0	\$933,524
Tax Increment Financing Collections	0	0	0
Other City Tax	0	0	47,893
Use of Money and Property	0	0	0
Intergovernmental	0	732,801	0
Charges for Services	0	0	0
Miscellaneous	1,714	0	3,813
Total Receipts	<u>1,714</u>	<u>732,801</u>	<u>985,230</u>
Disbursements:			
Operating:			
Public Safety	5,920	0	598,907
Public Works	0	560,140	157,763
Health and Social Services	0	0	0
Culture and Recreation	0	0	99,361
Community and Economic Development	0	0	0
General Government	0	0	87,282
Capital Projects	0	0	0
Total Disbursements	<u>5,920</u>	<u>560,140</u>	<u>943,313</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>(4,206)</u>	<u>172,661</u>	<u>41,917</u>
Other Financing Sources (Uses):			
Sale of Capital Assets	0	0	0
Transfers In	0	0	0
Transfers Out	0	(147,900)	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>(147,900)</u>	<u>0</u>
Change in Cash Balances	(4,206)	24,761	41,917
Cash Balances Beginning of Year, As Restated	<u>8,601</u>	<u>454,276</u>	<u>125,798</u>
Cash Balances End of Year	<u>\$4,395</u>	<u>\$479,037</u>	<u>\$167,715</u>
Cash Basis Fund Balances:			
Nonspendable – Library Trusts	\$ 0	\$ 0	\$ 0
Restricted for:			
Urban Renewal Purposes	0	0	0
Streets	0	479,037	0
Other Purposes	0	0	167,715
Assigned	4,395	0	0
Unassigned	0	0	0
Total Cash Basis Fund Balances	<u>\$4,395</u>	<u>\$479,037</u>	<u>\$167,715</u>

See Accompanying Independent Auditor's Report.

CVTC Operating	FEMA Buy Out	2008 Flood	WPC Flood Wall	Local Option Sales Tax
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
0	0	0	0	0
0	0	0	0	867,243
1,104	0	0	0	32,606
49,625	13,042	29,362	136,513	0
0	0	0	0	0
4,085	0	0	0	0
54,814	13,042	29,362	136,513	899,849
0	0	0	0	0
80,371	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	9,147	157,296	0
0	0	0	0	0
0	0	0	0	0
80,371	0	9,147	157,296	0
(25,557)	13,042	20,215	(20,783)	899,849
0	0	0	0	0
22,305	0	0	0	0
0	(10,228)	(74,722)	0	(305,201)
22,305	(10,228)	(74,722)	0	(305,201)
(3,252)	2,814	(54,507)	(20,783)	594,648
87,848	(2,814)	54,507	(11,584)	2,293,588
\$ 84,596	\$ 0	\$ 0	\$(32,367)	\$2,888,236
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
0	0	0	0	0
0	0	0	0	2,888,236
0	0	0	0	0
84,596	0	0	0	0
0	0	0	(32,367)	0
\$ 84,596	\$ 0	\$ 0	\$(32,367)	\$2,888,236

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	325,231	400,000	305,303
Other City Tax	0	0	0
Use of Money and Property	8,303	7,105	2,763
Intergovernmental	0	0	0
Charges for Services	2,510	0	0
Miscellaneous	0	0	0
Total Receipts	336,044	407,105	308,066
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	339,755	252,447	0
General Government	0	0	0
Capital Projects	0	0	0
Total Disbursements	339,755	252,447	0
Excess (Deficiency) of Receipts Over (Under) Disbursements	(3,711)	154,658	308,066
Other Financing Sources (Uses):			
Sales of Capital Assets	10,000	0	0
Transfers In	0	0	0
Transfers Out	(13,160)	(11,500)	(406,926)
Total Other Financing Sources (Uses)	(3,160)	(11,500)	(406,926)
Change in Cash Balances	(6,871)	143,158	(98,860)
Cash Balances Beginning of Year, As Restated	709,412	457,865	98,213
Cash Balances End of Year	\$702,541	\$601,023	\$ (647)
Cash Basis Fund Balances:			
Nonspendable – Library Trusts	\$ 0	\$ 0	\$ 0
Restricted for:			
Urban Renewal Purposes	702,541	601,023	0
Streets	0	0	0
Other Purposes	0	0	0
Assigned	0	0	0
Unassigned	0	0	(647)
Total Cash Basis Fund Balances	\$702,541	\$601,023	\$ (647)

See Accompanying Independent Auditor's 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
24,837	138,465	0	0	0	0	0
0	0	0	0	0	0	0
107	2,565	5,542	0	438	22,197	1,511
0	0	0	308,416	0	0	0
0	0	0	0	6,359	540,834	660,160
0	0	24,306	130,535	0	0	0
24,944	141,030	29,848	438,951	6,797	563,031	661,671
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	434,442	0	0	0
0	0	15,445	0	0	0	0
0	23,770	0	0	5,720	504,707	709,893
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	23,770	15,445	434,442	5,720	504,707	709,893
24,944	117,260	14,403	4,509	1,077	58,324	(48,222)
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	(85,595)	(10,573)	(3,000)	0	(34,000)	(5,000)
0	(85,595)	(10,573)	(3,000)	0	(34,000)	(5,000)
24,944	31,665	3,830	1,509	1,077	24,324	(53,222)
(3,275)	151,478	245,943	23,524	36,109	1,845,726	153,050
\$21,669	\$183,143	\$249,773	\$ 25,033	\$37,186	\$1,870,050	\$ 99,828
\$ 0	\$ 0	\$191,900	\$ 0	\$ 0	\$ 0	\$ 0
21,669	183,143	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	25,033	37,186	1,870,050	99,828
0	0	57,873	0	0	0	0
0	0	0	0	0	0	0
\$21,669	\$183,143	\$249,773	\$ 25,033	\$37,186	\$1,870,050	\$ 99,828

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

	Special Revenue		Capital Projects	
	2012 Housing Rehabilitation Grant	Cablevision	Street Capital Improvements	Clark Street Trail Project
Receipts:				
Property Tax	\$ 0	\$ 0	\$ 0	\$ 0
Tax Increment Financing Collections	0	0	0	0
Other City Tax	0	0	0	0
Use of Money and Property	0	0	0	0
Intergovernmental	1,000	0	376,679	0
Charges for Services	0	81,849	0	0
Miscellaneous	0	0	0	0
Total Receipts	<u>1,000</u>	<u>81,849</u>	<u>376,679</u>	<u>0</u>
Disbursements:				
Operating:				
Public Safety	0	0	0	0
Public Works	0	0	0	0
Health and Social Services	0	0	0	0
Culture and Recreation	0	62,916	0	0
Community and Economic Development	1,028	0	0	0
General Government	0	0	0	0
Capital Projects	0	0	534,174	8
Total Disbursements	<u>1,028</u>	<u>62,916</u>	<u>534,174</u>	<u>8</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>(28)</u>	<u>18,933</u>	<u>(157,495)</u>	<u>(8)</u>
Other Financing Sources (Uses):				
Sale of Capital Assets	0	0	0	0
Transfers In	0	0	113,973	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>113,973</u>	<u>0</u>
Change in Cash Balances	(28)	18,933	(43,522)	(8)
Cash Balances Beginning of Year, As	0	102,013	40,662	0
Cash Balances End of Year	<u>\$ (28)</u>	<u>\$120,946</u>	<u>\$ (2,860)</u>	<u>\$(8)</u>
Cash Basis Fund Balances:				
Nonspendable – Library Trusts	\$ 0	\$ 0	\$ 0	\$ 0
Restricted for:				
Urban Renewal Purposes	0	0	0	0
Streets	0	0	0	0
Other Purposes	0	0	0	0
Assigned	0	120,946	0	0
Unassigned	(28)	0	(2,860)	(8)
Total Cash Basis Fund Balances	<u>\$ (28)</u>	<u>\$120,946</u>	<u>\$ (2,860)</u>	<u>\$(8)</u>

See Accompanying Independent Auditor's Report.

Schedule 1 (Continued)

Capital Projects

Riverfront Project	Pedestrian Bridge	9 th Street Permeable Paving	Net Zero Project	2011 Capital Project	2012 Capital Project	Total
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 933,524
0	0	0	0	0	0	1,193,836
0	0	0	0	0	0	915,136
0	0	0	0	0	0	84,241
0	98,410	0	15,422	58,723	3,600	1,823,593
0	0	0	0	0	0	1,291,712
38,846	0	0	0	0	0	203,299
38,846	98,410	0	15,422	58,723	3,600	6,445,341
0	0	0	0	0	0	604,827
0	0	0	0	0	0	798,274
0	0	0	0	0	0	434,442
0	0	0	0	0	0	177,722
0	0	0	0	0	0	2,003,763
0	0	0	0	0	0	87,282
50,924	0	2,455	15,422	58,723	3,600	665,306
50,924	0	2,455	15,422	58,723	3,600	4,771,616
(12,078)	98,410	(2,455)	0	0	0	1,673,725
0	0	0	0	0	0	10,000
30,000	0	0	0	0	0	166,278
0	(21,786)	0	0	0	0	(1,129,591)
30,000	(21,786)	0	0	0	0	(953,313)
17,922	76,624	(2,455)	0	0	0	720,412
90,885	(76,624)	0	0	0	0	6,885,201
\$108,807	\$ 0	\$(2,455)	\$ 0	\$ 0	\$ 0	\$7,605,613
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 191,900
0	0	0	0	0	0	1,508,376
0	0	0	0	0	0	3,367,273
108,807	0	0	0	0	0	2,308,619
0	0	0	0	0	0	267,810
0	0	(2,455)	0	0	0	(38,365)
\$108,807	\$ 0	\$(2,455)	\$ 0	\$ 0	\$ 0	\$7,605,613

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, 2013

	Waste Collection	Transit	Storm Water Utility	Fire Extinguisher	Total
Operating Receipts:					
Charges for Service	\$333,431	\$ 15,520	\$ 159,872	\$11,180	\$520,003
Operating Disbursements:					
Business Type Activities	292,727	98,114	217,135	9,632	617,608
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	40,704	(82,594)	(57,263)	1,548	(97,605)
Non-Operating Receipts (Disbursements)					
Interest on Investments	0	0	4,643	0	4,643
Total Non-Operating Receipts (Disbursements)	0	0	4,643	0	4,643
Excess (Deficiency) of Receipts Over (Under) Disbursements	40,704	(82,594)	(52,620)	1,548	(92,962)
Transfers In (Out)	(24,003)	74,937	(138,782)	0	(87,848)
Net Change in Cash Balances	16,701	(7,657)	(191,402)	1,548	(180,810)
Cash Balances Beginning of Year	1,126	54,864	427,783	5,675	489,448
Cash Balances End of Year	\$ 17,827	\$ 47,207	\$ 236,381	\$ 7,223	\$308,638
Cash Basis Fund Balances					
Unreserved	\$ 17,827	\$ 47,207	\$ 236,381	\$ 7,223	\$308,638

See Accompanying Independent Auditor's Report.

CITY OF CHARLES CITY
Charles City, Iowa

SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds:			
Corporate Purpose	02-18-03	3.50-4.50%	\$ 139,000
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
Refunding	12-01-11	2.00-2.30%	1,360,000
Refunding	03-06-13	0.95%	632,000
Total General Obligation Bonds			
General Obligation Notes:			
Corporate Purpose	12-18-08	5.50%	212,000
Corporate Purpose	12-21-10	2.74%	140,000
Refunding	06-22-11	2.89%	105,000
Corporate Purpose	11-09-12	1.75%	1,400,000
Total General Obligation Notes			
Revenue Bonds:			
Sewer Utility	07-01-03	3.00%	2,910,000
Urban Renewal	12-23-03	4.00%	136,000
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
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 Auditor's Report.

Schedule 3

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 16,000	\$ 0	\$ 16,000	\$ 0	\$ 720
1,090,000	0	1,090,000	0	46,840
455,000	0	35,000	420,000	21,628
290,000	0	40,000	250,000	9,958
240,000	0	120,000	120,000	7,380
2,052,000	0	92,000	1,960,000	61,560
1,235,000	0	130,000	1,105,000	25,150
0	632,000	0	632,000	0
\$ 5,378,000	\$ 632,000	\$1,523,000	\$ 4,487,000	\$173,236
\$ 189,000	\$ 0	\$ 11,000	\$ 178,000	\$ 10,395
140,000	0	140,000	0	3,783
75,000	0	25,000	50,000	2,198
0	1,364,573	410,372	954,201	9,673
\$ 404,000	\$1,364,573	\$ 586,372	\$ 1,182,201	\$ 26,049
\$ 1,932,000	\$ 0	\$ 134,000	\$ 1,798,000	\$ 57,960
86,700	0	9,400	77,300	3,374
211,000	0	15,000	196,000	9,338
27,000	0	13,000	14,000	840
8,456,624	480,393	100,000	8,837,017	255,376
374,000	0	16,000	358,000	11,220
\$11,087,324	\$ 480,393	\$ 287,400	\$11,280,317	\$338,108
\$ 43,373	\$ 0	\$ 9,344	\$ 34,029	\$ 820
140,879	96,776	0	237,655	0
\$ 184,252	\$ 96,776	\$ 9,344	\$ 271,684	\$ 820
\$ 910,600	\$ 0	\$ 100,403	\$ 810,197	\$ 51,097

CITY OF CHARLES CITY
Charles City, Iowa

Schedule of Bond and Note Maturities
June 30, 2013

Year Ending June 30,	General Obligation Bonds			
	Corporate Purpose		Corporate Purpose	
	Issued 7-11-07		Issued 5-15-08	
	Interest Rates	Amount	Interest Rates	Amount
2014	4.55%	\$ 35,000	3.30%	\$ 55,000
2015	4.60	35,000	3.30	50,000
2016	4.65	40,000	3.65	50,000
2017	4.70	45,000	3.65	35,000
2018	4.75	50,000	3.65	60,000
2019	4.80	50,000	0.00	0
2020	4.85	50,000	0.00	0
2021	4.90	50,000	0.00	0
2022	4.95	50,000	0.00	0
2023	5.00	15,000	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
2031	0.00	0	0.00	0
2032	0.00	0	0.00	0
Total		<u>\$420,000</u>		<u>\$250,000</u>

Year Ending June 30,	General Obligation Bonds			
	Refunding		Street Improvement	
	Issued 5-15-08		Issued 2-16-10	
	Interest Rates	Amount	Interest Rates	Amount
2014	3.15%	\$120,000	3.00%	\$ 95,000
2015	0.00	0	3.00	98,000
2016	0.00	0	3.00	102,000
2017	0.00	0	3.00	105,000
2018	0.00	0	3.00	108,000
2019	0.00	0	3.00	112,000
2020	0.00	0	3.00	116,000
2021	0.00	0	3.00	119,000
2022	0.00	0	3.00	123,000
2023	0.00	0	3.00	127,000
2024	0.00	0	3.00	131,000
2025	0.00	0	3.00	136,000
2026	0.00	0	3.00	140,000
2027	0.00	0	3.00	145,000
2028	0.00	0	3.00	149,000
2029	0.00	0	3.00	154,000
2030	0.00	0	0.00	0
2031	0.00	0	0.00	0
2032	0.00	0	0.00	0
Total		<u>\$120,000</u>		<u>\$1,960,000</u>

See Accompanying Independent Auditor's Report.

Schedule of Bond and Note Maturities (Continued)

General Obligation Bonds			General Obligation Bonds			Total
Refunding			Refunding			
Issued 12-1-11			Issued 3-6-13			
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount		
2014	2.00%	\$ 135,000	0.95%	\$264,000	\$ 704,000	
2015	2.00	140,000	0.95	181,000	504,000	
2016	2.00	140,000	0.95	187,000	519,000	
2017	2.00	140,000	0.00	0	325,000	
2018	2.00	150,000	0.00	0	368,000	
2019	2.00	100,000	0.00	0	262,000	
2020	2.00	100,000	0.00	0	266,000	
2021	2.15	100,000	0.00	0	269,000	
2022	2.30	100,000	0.00	0	273,000	
2023	0.00	0	0.00	0	142,000	
2024	0.00	0	0.00	0	131,000	
2025	0.00	0	0.00	0	136,000	
2026	0.00	0	0.00	0	140,000	
2027	0.00	0	0.00	0	145,000	
2028	0.00	0	0.00	0	149,000	
2029	0.00	0	0.00	0	154,000	
2030	0.00	0	0.00	0	0	
2031	0.00	0	0.00	0	0	
2032	0.00	0	0.00	0	0	
Total		<u>\$1,105,000</u>		<u>\$632,000</u>	<u>\$4,487,000</u>	

General Obligation Notes							
Corporate Purpose			Refunding		Corporate Purpose		
Issued 12-18-08			Issued 6-22-11		Issued 11-9-12		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2014	5.50%	\$ 11,000	2.89%	\$25,000	1.75%	\$ 42,201	\$ 78,201
2015	5.50	12,000	2.89	25,000	1.75	43,000	80,000
2016	5.50	13,000	0.00	0	1.75	43,000	56,000
2017	5.50	14,000	0.00	0	1.75	44,000	58,000
2018	5.50	15,000	0.00	0	1.75	45,000	60,000
2019	5.50	16,000	0.00	0	1.75	46,000	62,000
2020	5.50	17,000	0.00	0	1.75	47,000	64,000
2021	5.50	18,000	0.00	0	1.75	48,000	66,000
2022	5.50	19,000	0.00	0	1.75	49,000	68,000
2023	5.50	21,000	0.00	0	1.75	50,000	71,000
2024	5.50	22,000	0.00	0	1.75	51,000	73,000
2025	0.00	0	0.00	0	1.75	52,000	52,000
2026	0.00	0	0.00	0	1.75	53,000	53,000
2027	0.00	0	0.00	0	1.75	54,000	54,000
2028	0.00	0	0.00	0	1.75	55,000	55,000
2029	0.00	0	0.00	0	1.75	56,000	56,000
2030	0.00	0	0.00	0	1.75	57,000	57,000
2031	0.00	0	0.00	0	1.75	59,000	59,000
2032	0.00	0	0.00	0	1.75	60,000	60,000
Total		<u>\$178,000</u>		<u>\$50,000</u>		<u>\$954,201</u>	<u>\$1,182,201</u>

Schedule of Bond and Note Maturities (Continued)

Revenue Bonds								
Year Ending June 30,	Sewer Utility Issued 6-17-03		Urban Renewal Issued 12-23-03		Tax Increment Financing Issued 1-10-05		Water Pollution Control Issued 1-10-05	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2014	3.00%	\$ 139,000	4.00%	\$ 9,700	4.50%	\$ 16,000	3.50%	\$14,000
2015	3.00	143,000	4.00	10,100	4.50	18,000	0.00	0
2016	3.00	148,000	4.00	10,500	4.50	18,000	0.00	0
2017	3.00	152,000	4.00	11,100	4.50	20,000	0.00	0
2018	3.00	157,000	4.00	11,500	4.50	22,000	0.00	0
2019	3.00	163,000	4.00	11,900	4.50	23,000	0.00	0
2020	3.00	168,000	4.00	12,500	4.50	25,000	0.00	0
2021	3.00	173,000	0.00	0	4.50	26,000	0.00	0
2022	3.00	179,000	0.00	0	4.50	28,000	0.00	0
2023	3.00	185,000	0.00	0	0.00	0	0.00	0
2024	3.00	191,000	0.00	0	0.00	0	0.00	0
2025	0.00	0	0.00	0	0.00	0	0.00	0
2026	0.00	0	0.00	0	0.00	0	0.00	0
2027	0.00	0	0.00	0	0.00	0	0.00	0
2028	0.00	0	0.00	0	0.00	0	0.00	0
2029	0.00	0	0.00	0	0.00	0	0.00	0
2030	0.00	0	0.00	0	0.00	0	0.00	0
2031	0.00	0	0.00	0	0.00	0	0.00	0
2032	0.00	0	0.00	0	0.00	0	0.00	0
Total		<u>\$1,798,000</u>		<u>\$77,300</u>		<u>\$196,000</u>		<u>\$14,000</u>

Revenue Bonds					
Year Ending June 30,	Water Plant Expansion Issued 2-11-09		Water Meters Issued 11-18-09		Total
	Interest Rates	Amount	Interest Rates	Amount	
2014	3.00%	\$ 105,017	3.00%	\$ 16,000	\$ 299,717
2015	3.00	105,000	3.00	17,000	293,100
2016	3.00	210,000	3.00	17,000	403,500
2017	3.00	400,000	3.00	18,000	601,100
2018	3.00	400,000	3.00	18,000	608,500
2019	3.00	415,000	3.00	19,000	631,900
2020	3.00	530,000	3.00	20,000	755,500
2021	3.00	650,000	3.00	20,000	869,000
2022	3.00	671,000	3.00	21,000	899,000
2023	3.00	693,000	3.00	21,000	899,000
2024	3.00	715,000	3.00	22,000	928,000
2025	3.00	739,000	3.00	23,000	762,000
2026	3.00	763,000	3.00	24,000	787,000
2027	3.00	788,000	3.00	24,000	812,000
2028	3.00	813,000	3.00	25,000	838,000
2029	3.00	840,000	3.00	26,000	866,000
2030	3.00	0	3.00	27,000	27,000
2031	0.00	0	0.00	0	0
2032	0.00	0	0.00	0	0
Total		<u>\$8,837,017</u>		<u>\$358,000</u>	<u>\$11,280,317</u>

Schedule of Bond and Note Maturities (Continued)

Year Ending June 30,	Revenue Notes				Total
	Urban Renewal		UV Disinfection		
	Issued 11-1-05		Issued 4-21-11		
	Interest Rates	Amount	Interest Rates	Amount	
2014	2.00	\$ 9,531	0.00%	\$237,655	\$247,186
2015	2.00	9,722	0.00	0	9,722
2016	2.00	9,917	0.00	0	9,917
2017	2.00	4,859	0.00	0	4,859
2018	0.00	0	0.00	0	0
2019	0.00	0	0.00	0	0
2020	0.00	0	0.00	0	0
2021	0.00	0	0.00	0	0
2022	0.00	0	0.00	0	0
2023	0.00	0	0.00	0	0
2024	0.00	0	0.00	0	0
2025	0.00	0	0.00	0	0
2026	0.00	0	0.00	0	0
2027	0.00	0	0.00	0	0
2028	0.00	0	0.00	0	0
2029	0.00	0	0.00	0	0
2030	0.00	0	0.00	0	0
2031	0.00	0	0.00	0	0
2032	0.00	0	0.00	0	0
Total		\$34,029		\$237,655	\$271,684

Year Ending June 30,	Lease Purchase Agreement	
	Valero	
	Issued 12-5-06	
	Interest Rates	Amount
2014	2.00%	\$106,278
2015	2.00	112,496
2016	2.00	119,079
2017	2.00	126,046
2018	2.00	133,422
2019	2.00	141,229
2020	2.00	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
2031	0.00	0
2032	0.00	0
Total		\$810,197

CITY OF CHARLES CITY
Charles City, Iowa

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

	2013	2012	2011
Receipts:			
Property Tax	\$ 3,182,601	\$ 3,121,918	\$ 2,971,988
Tax Increment Financing Collections	1,193,836	1,250,374	1,516,828
Other City Tax	1,142,593	929,029	888,868
Licenses and Permits	75,440	70,122	82,322
Use of Money and Property	118,067	113,291	89,935
Intergovernmental	2,355,438	2,970,033	3,825,025
Charges for Services	1,492,628	1,606,367	1,555,754
Special Assessments	0	3,933	0
Miscellaneous	413,768	840,716	691,769
Total Receipts	\$ 9,974,371	\$10,905,783	\$11,622,489
Disbursements:			
Operating:			
Public Safety	\$ 2,395,665	\$ 2,269,256	\$ 2,313,835
Public Works	1,103,659	1,294,830	1,625,737
Health and Social Services	436,692	461,518	484,268
Culture and Recreation	942,712	978,042	949,425
Community and Economic Development	2,039,335	2,210,621	2,342,517
General Government	565,383	563,747	534,250
Debt Service	1,953,991	1,488,582	2,762,948
Capital Projects	2,699,201	1,162,098	4,456,279
Total Disbursements	\$12,136,638	\$10,428,694	\$15,469,259

See Accompanying Independent Auditor's Report.

Schedule 5

Unaudited					
2010	2009	2008	2007	2006	2005
\$ 2,685,813	\$ 2,583,039	\$ 2,503,216	\$2,342,749	\$2,288,779	\$ 2,010,746
1,415,525	1,626,247	1,513,223	1,446,835	1,409,929	1,278,706
854,633	778,285	882,215	780,460	751,310	741,546
55,804	62,657	85,197	73,198	80,847	98,716
101,926	145,245	269,194	301,274	667,531	545,075
4,234,356	2,709,406	3,052,946	2,493,665	2,578,251	4,107,983
1,541,898	1,491,376	627,640	843,353	459,281	468,856
2,820	7,036	2,185	2,735	3,633	1,623
557,262	641,437	442,743	610,435	418,135	595,563
<u>\$11,450,037</u>	<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>
\$ 2,430,368	\$ 2,022,438	\$ 2,013,482	\$1,912,405	\$1,846,906	\$ 1,799,353
1,418,608	1,614,536	1,166,425	1,063,393	737,060	423,513
494,987	482,928	461,115	494,914	501,019	472,537
861,496	927,521	877,328	784,743	757,459	598,711
2,656,040	2,633,188	2,021,109	1,820,229	2,181,687	2,329,510
603,460	568,489	869,614	666,212	610,326	665,739
1,878,463	1,214,506	1,963,587	1,466,941	692,919	1,638,919
2,285,593	777,440	796,243	1,449,244	883,349	3,599,929
<u>\$12,629,015</u>	<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, 2013

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	\$ 91,753
Section 8 Housing Choice Vouchers	14.871	KC-9079V	655,762
Public Housing Capital Fund Fiscal Year 2011	14.872	IA05P002501-11	58,723
Fiscal Year 2012	14.872	IA05P002501-12	3,600
			<u>62,323</u>
U.S. Department of Justice: Bulletproof Vest Partnership Program	16.607		1,180
Corporation for National and Community Service: Foster Grandparent Program	94.011	12SFNIA002	295,814
Total Direct			<u>1,106,832</u>
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Department of Economic Development Community Development Block Grants/State Program and Non-Entitlement Grants in Hawaii Owner Occupied Rehabilitation	14.228	12-HSG-002	1,000
Sustainable Community Demonstration	14.228	12-OT-0001	15,422
Disaster Housing Funds	97.039	08-DRMR-243	2,028
Disaster Housing Funds	97.039	08-DRMH-245	2,026
			<u>20,476</u>
Federal Highway Administration: Iowa Department of Transportation: Highway Planning and Construction	20.205	STP-U-1242(613)--70-34	376,679
Environmental Protection Agency Iowa Finance Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	D0064R	241,957
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-1880-0013-01	120,453
Total Indirect			<u>759,565</u>
Total			<u>\$1,866,397</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Charles City and is presented in conformity with 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 Auditor's 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, in accordance with the 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, the 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, 2013, and the related notes to the financial statements, which collectively comprise the City of Charles City, Iowa's basic financial statements and have issued our report thereon dated January 24, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Charles City, Iowa's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Charles City, Iowa's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-13 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item II-B-13 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Charles City, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which 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, 2013 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.

City of Charles City, Iowa's Response to Findings

The City of Charles City, Iowa's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Charles City, Iowa's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

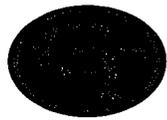
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Charles City, Iowa 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.

January 24, 2014

Garland Thomsen, P.C.



Gardiner Thomsen
Certified Public Accountants

Independent Auditor's Report on Compliance for Each Major Federal Program, on Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Charles City, Iowa's, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Charles City, Iowa's major federal programs for the year ended June 30, 2013. The City of Charles City, Iowa's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Charles City, Iowa's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Charles City, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Charles City, Iowa's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Charles City, Iowa complied, in all material respects, with the types of compliance 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, 2013.

Report on Internal Control Over Compliance

Management of the City of Charles City, Iowa is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Charles City, Iowa's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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, Iowa's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule to Finding and Questioned Costs as items III-A-13 and III-B-13 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City of Charles City, Iowa's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Charles City, Iowa's response was not subjected to the auditing procedures applied in the audit of Compliance and, accordingly we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

January 24, 2014

Garliner Thomsen, P.C.

Charles City, Iowa

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Part I: Summary of the Independent Auditor's Results:

- a. Unmodified 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. A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- e. An unmodified opinion was issued on compliance with requirements applicable to the major program.
- f. The major programs were CFDA Numbers 14.871 – Section 8 Housing Vouchers and 20.205 Highway Planning and Construction.
- g. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- h. 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-13 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, 2013

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

II-B-13 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 the basis of cash receipts and disbursements which is a basis of accounting other than U.S. Generally Accepted Accounting Principles (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 the basis of cash receipts and disbursements.

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#14.871 Section 8 Housing Vouchers
Agency Number: KC-9079V
Federal Award Year: 2013
U.S. Department of Housing and Urban Development**

City of Charles City
Charles City, Iowa

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2013

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

CFDA#20.205 Highway Planning and Construction
Pass Through Number: STP-U-1242(613)—70-34
Federal Award Year 2013
Federal Highway Administration
Passed through the Iowa Department of Transportation

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

CFDA#14.871 Section 8 Housing Vouchers
Agency Number: KC-9079V
Federal Award Year: 2013
U.S. Department of Housing and Urban Development

CFDA#20.205 Highway Planning and Construction
Pass Through Number: STP-U-1242(613)—70-34
Federal Award Year: 2013
Federal Highway Administration
Passed through the Iowa Department of Transportation

III-A-13 Segregation of Duties Over Federal Receipts - The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-13.

III-B-13 Preparation of the Schedule of Expenditures of Federal Awards

Condition – It was noted that the schedule of expenditures of federal awards did not include all amounts expended for the fiscal year ended June 30, 2013.

Cause – The internal control system does not include a process for preparing the schedule of expenditures or a process to ensure the accuracy of the programs and amounts included on the schedule of expenditures of federal awards.

Criteria – Management is responsible for the preparation and fair presentation of the schedule of expenditures of federal awards in accordance with OMB circular A-133.

Effect – The schedule of expenditures of federal awards had an omission.

III-B-13 Preparation of the Schedule of Expenditures of Federal Awards (Continued)

Recommendation – The City should review its procedures associated with the expenditure of federal awards and implement procedures to ensure the accuracy and completeness of the schedule of expenditures of federal awards.

Response and Corrective Action Planned – We will review the current procedures and will make modifications to ensure all federal awards are reported on the schedule of expenditures of federal awards.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-13 Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the capital projects and debt service functions. 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.

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

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2013

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

IV-B-13 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-13 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-13 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	Security System at Wildwood, Door Repair, Keys for File Cabinets, Service Calls	\$1,194
Curt Teeter, Fire Department Teeter Specialty, owned by Father	Labels for Fire Department, Pens, Business Cards	526
Trudy O’Donnell Elizabeth Fox, Mother, Foster Grandparent	Foster Grandparent Stipends and Travel Reimbursement	2,571
Frank Fox, Brother, Fox Auction Company	3 File Cabinets for the Business Office	75
Linn Wolf, Street Department Willard Wolf, Father, Section 8 Housing Landlord	Landlord Services	930
Sue Davis, Swimming Pool Outdoor Design, owned by Sue Davis and Husband	Snow Removal – City Hall and Bridges, Street Repairs, Retaining Wall, Weed Granular	4,723
Chris Guthart, City Hall Guthart Gallery & Framing, owned by Chris & John Guthart	Repair work to picture frame in the Library	35

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

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2013

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

Name, Title & Business Connection	Transaction Description	Amount
Bryan Quade, Street Department		
Bridgette Quade, Section 8 Housing Landlord	Landlord Service	\$5,989
William Vetter, Police Department		
The Rustic Corner, Owned by Tami Vetter, Wife	Landlord Service	164
Paul Krueger, City Bus Driver for Foster Grandparents		
Patricia Krueger, Foster Grandparent, Wife	Foster Grandparent Stripends and Travel Reimbursement	2,896

It appears that the related party transactions with Titus Lock Service, Teeter Specialties, Frank Fox, Willard Wolf, Guthart Gallery & Framing, and the Rustic Corner 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.

In accordance with Chapter 362.5(3) of the Code of Iowa, the transactions with Elizabeth Fox, Outdoor Design, Bridgette Quade and Patricia Krueger do not appear to represent conflicts of interest since Trudy O'Donnell, Sue Davis, Bryan Quade, and Paul Krueger do not participate in acquiring the above services.

IV-E-13 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-13 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 August 20, 2012, October 1, 2012, November 5, 2012, January 7, 2013 and January 30, 2013 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.

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

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2013

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

IV-G-13 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-13 Excess Fund Balance – We noted the fund balances in the Special Revenue Funds: CVTC Operating, Local Option Sales Tax, Riverside Tax Increment Financing, S.W. Bypass Tax Increment Financing, East Park Tax Increment Financing, Park Avenue Tax Increment Financing, Library, Public Housing Security Deposits, Public Housing, Cablevision and Riverfront Project Funds were in excess of disbursements for the current year.

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

Response – The CVTC Operating Fund contains funds for the operation of the Cedar Valley Transportation Center which will be used as needed. 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. The dollars are transferred out of the Tax Increment Funds into the Debt Service Fund for payment of these obligations. The Library 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 future broadband studies and improvements. The Riverfront Project Fund will be used for future projects.

Conclusion – Response accepted.

IV-I-13 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

IV-J-13 Financial Position – We noted that the Capital Projects: 2011 Permeable Paving Fund, Special Revenue: WPC Flood Wall, South Grand Tax Increment Financing, 2012 Housing Rehabilitation Grant, and Capital Projects: Street Capital Improvements, Clark Street Trail Project, and 9th Street Permeable Paving Funds had deficit fund balances of \$270,516, \$32,367, \$647, \$28, \$2,860, \$8 and \$2,455, respectively at June 30, 2013.

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

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

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2013

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

Response – The 2011 Permeable Paving Fund deficit is due to disbursements made before grant receipts were received. The WPC Flood Wall deficit is due to project costs incurred prior to the funding being received by the City. The South Grand Tax Increment Financing deficit is due to disbursement being made prior to the collection of TIF receipts. The 2012 Housing Rehabilitation Grant is due to costs being incurred prior to the receipt of grant funds. The Street Capital Improvements deficit is a result of costs incurred prior to the availability of funds. The deficit will be eliminated through the collection of special assessments. The Clark Street Trail Project and the 9th Street Permeable Paving Project deficits are a result of project costs incurred prior to the receipts of grant funding.

Conclusion – Response accepted.

IV-K-13 Urban Renewal Annual Report – The urban renewal annual report was approved but was not certified to the Iowa Department of Management on or before December 1. The report was filed on January 7, 2013.

Recommendation – The City should file the urban renewal annual report timely.

Response – Next year’s report will be filed timely as required.

Conclusion – Response accepted.