



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

September 14, 2011

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of St. Charles, Iowa.

The City's receipts totaled \$2,131,037 for the year ended June 30, 2010. The receipts included \$182,683 in property and other city tax, \$111,389 from charges for service, \$253,102 from operating grants, contributions and restricted interest, \$406,800 from capital grants, contributions and restricted interest, \$35,842 from local option sales tax, \$1,160 from unrestricted interest on investments, \$1,137,327 from proceeds of revenue bonds/notes and \$2,734 from other general receipts.

Disbursements for the year totaled \$1,855,582, and included \$81,136 for public works, \$62,875 for capital projects and \$59,875 for debt service. Disbursements for business type activities totaled \$1,505,980.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1022-0581-B00F.pdf>.

###



**CITY OF ST. CHARLES**

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

**JUNE 30, 2010**

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-11
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	19
Notes to Financial Statements		20-25
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		28-29
Notes to Required Supplementary Information – Budgetary Reporting		30
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	32-33
Schedule of Indebtedness	2	34-35
Note Maturities	3	36
Schedule of Expenditures of Federal Awards	4	37
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 <u>Government Auditing Standards</u>		39-40
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133		43-44
Schedule of Findings and Questioned Costs		45-54
Staff		55

**City of St. Charles**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2010)</b>		
Joan Brown	Mayor	Jan 2010
Mike Johnson	Council Member	Jan 2010
Dennis Smith	Council Member	Jan 2010
Sindy Brown	Council Member	Jan 2012
Lee Gray	Council Member	Jan 2012
Ron Kindley	Council Member	Jan 2012
Joan Naylor	City Clerk	Indefinite
Mark Smith	Attorney	Indefinite
<b>(After January 2010)</b>		
Joan Brown	Mayor	Jan 2012
Sindy Brown	Council Member	Jan 2012
Lee Gray	Council Member	Jan 2012
Ron Kindley	Council Member	Jan 2012
Ross Cornelison	Council Member	Jan 2014
Amy Reyes	Council Member	Jan 2014
Joan Naylor	City Clerk	Indefinite
Mark Smith	Attorney	Indefinite

**City of St. Charles**



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

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

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, 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 St. Charles as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2011 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of St. Charles' basic financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

August 26, 2011

---

---

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

---

---

The City of St. Charles provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### **2010 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased approximately \$173,000, due primarily to receiving a reimbursement from FEMA for disbursements in the prior fiscal year.
- The cash basis net assets of the City's business type activities increased approximately \$102,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds 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, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, 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 Water Fund and the sanitary sewer system. 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: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, and 3) the Debt Service Fund. 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 statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

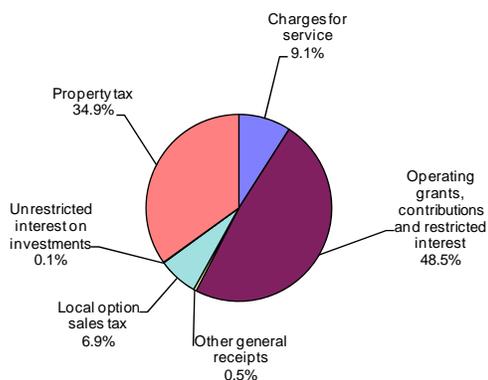
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

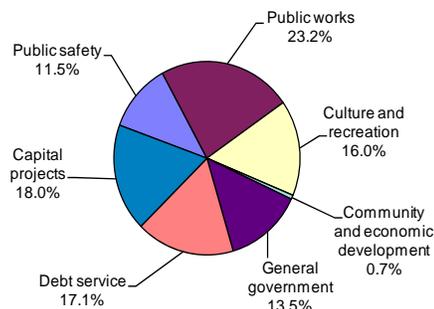
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$262,011 to \$435,184. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service	\$ 47,722
Operating grants, contributions and restricted interest	253,102
General receipts:	
Property tax	182,683
Local option sales tax	35,842
Unrestricted interest on investments	692
Other general receipts	2,734
Total receipts	<u>522,775</u>
Disbursements:	
Public safety	40,215
Public works	81,136
Culture and recreation	55,984
Community and economic development	2,321
General government	47,286
Debt service	59,785
Capital projects	62,875
Total disbursements	<u>349,602</u>
Change in cash basis net assets	173,173
Cash basis net assets beginning of year	<u>262,011</u>
Cash basis net assets end of year	<u><u>\$ 435,184</u></u>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental funds increased primarily due to the City receiving a reimbursement from FEMA during fiscal 2010 for disbursements made in fiscal year 2009.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service:	
Sewer	\$ 63,667
Capital grants, contributions and restricted interest	406,800
General receipts:	
Unrestricted interest on investments	468
Revenue bond/note proceeds	1,137,327
Total receipts	<u>1,608,262</u>
Disbursements:	
Water	880
Sewer	1,505,100
Total disbursements	<u>1,505,980</u>
Change in cash basis net assets	102,282
Cash basis net assets beginning of year	<u>153,302</u>
Cash basis net assets end of year	<u><u>\$ 255,584</u></u>

The cash basis net assets of the City's business type activities increased 67%, or \$102,282, due primarily to revenue bond/note proceeds and grants received for a new sewer treatment facility project exceeding the amount spent for that project in the current year and an increase in sewer rates.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of St. Charles completed the year, its governmental funds reported a combined fund balance of \$435,184, an increase of \$173,173 over last year's total of \$262,011. 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 \$95,324 to \$134,426 during the fiscal year. The increase is due primarily to a reimbursement from FEMA for disbursements in the previous fiscal year.
- The Special Revenue, Road Use Tax Fund cash balance increased \$38,460 to \$70,095 during the fiscal year. The increase is due to receipts exceeding disbursements during the year.
- The Special Revenue, Local Option Sales Tax Fund increased \$29,217 to \$109,634 due to receipts exceeding disbursements and transfers out during the year.
- The Debt Service Fund cash balance decreased \$535 to \$654.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased \$556 to \$51,292.
- The Sewer Fund cash balance increased \$102,838 to \$204,292, due primarily to revenue bond/note proceeds and grants received for a new sewer treatment facility project exceeding the amount spent for that project in the current year and an increase in sewer rates during the year.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The City's receipts were \$823,949 less than budgeted due to the City incorrectly budgeting the State Revolving Fund bond proceeds as intergovernmental receipts rather than other financing sources. Total disbursements were \$292,030 less than budgeted. While capital projects disbursements were \$1,315,125 less than budgeted, business type activities disbursements were \$1,130,987 more than budgeted. The City did not appropriately budget for disbursements related to the construction of the sewer treatment facility as business type activities. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions.

## DEBT ADMINISTRATION

At June 30, 2010, the City had \$1,118,673 in notes and other long-term debt outstanding as follows:

	Outstanding Debt at Year-End	
	June 30,	
	2010	2009
General obligation note	\$ 185,000	200,000
Revenue bonds/notes	858,324	111,171
Capital lease purchase agreement	75,349	84,006
Total	<u>\$1,118,673</u>	<u>395,177</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$260,349 is below its constitutional debt limit of \$1,476,800.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of St. Charles' elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees charged for various City activities. The City's fiscal year 2011 taxable valuation increased approximately \$.9 million, or 6.3%, over the fiscal year 2010 level. The census for 2010 reported a population of 653. The actual taxable property valuation for the City in fiscal year 2009 was \$13,833,540 compared with a fiscal year 2010 actual taxable property valuation of \$14,828,793.

The fiscal year 2011 budget includes receipts of \$1,427,190 and disbursements of \$1,450,802. The majority of the increase in receipts and disbursements reflects anticipated funding and related disbursements for the new sewer treatment facility.

## 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 Joan Naylor, City Clerk, 113 Lumber Street, St. Charles, Iowa 50240.

**City of St. Charles**

## **Basic Financial Statements**

City of St. Charles

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 40,215	3,763	27,831	-
Public works	81,136	43,477	57,420	-
Culture and recreation	55,984	-	44,148	-
Community and economic development	2,321	-	1,750	-
General government	47,286	482	-	-
Debt service	59,785	-	-	-
Capital projects	62,875	-	121,953	-
Total governmental activities	349,602	47,722	253,102	-
Business type activities:				
Water	880	-	-	-
Sewer	1,505,100	63,667	-	406,800
Total business type activities	1,505,980	63,667	-	406,800
Total	\$ 1,855,582	111,389	253,102	406,800
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest				
Revenue bond/note proceeds				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Capital projects				
Debt service				
Fire and rescue				
Culture and recreation				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(8,621)	-	(8,621)
19,761	-	19,761
(11,836)	-	(11,836)
(571)	-	(571)
(46,804)	-	(46,804)
(59,785)	-	(59,785)
59,078	-	59,078
(48,778)	-	(48,778)
-	(880)	(880)
-	(1,034,633)	(1,034,633)
-	(1,035,513)	(1,035,513)
(48,778)	(1,035,513)	(1,084,291)
136,668	-	136,668
46,015	-	46,015
35,842	-	35,842
692	468	1,160
-	1,137,327	1,137,327
2,734	-	2,734
221,951	1,137,795	1,359,746
173,173	102,282	275,455
262,011	153,302	415,313
\$ 435,184	255,584	690,768
\$ 70,938	-	70,938
109,634	161,747	271,381
654	9,494	10,148
72,401	-	72,401
42,314	-	42,314
4,923	-	4,923
134,320	84,343	218,663
\$ 435,184	255,584	690,768

City of St. Charles

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2010

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
<b>Receipts:</b>			
Property tax	\$ 126,055	-	-
Other city tax	-	-	35,842
Licenses and permits	4,245	-	-
Use of money and property	605	-	-
Intergovernmental	157,629	54,716	-
Charges for service	43,477	-	-
Miscellaneous	2,957	-	-
<b>Total receipts</b>	<b>334,968</b>	<b>54,716</b>	<b>35,842</b>
<b>Disbursements:</b>			
<b>Operating:</b>			
Public safety	17,131	-	-
Public works	62,835	16,256	-
Culture and recreation	27,572	-	-
Community and economic development	2,321	-	-
General government	44,951	-	-
Debt service	-	-	-
Capital projects	62,875	-	-
<b>Total disbursements</b>	<b>217,685</b>	<b>16,256</b>	<b>-</b>
Excess (deficiency) of receipts over (under) disbursements	117,283	38,460	35,842
<b>Other financing sources (uses):</b>			
Operating transfers in	4,004	-	-
Operating transfers out	(25,963)	-	(6,625)
<b>Total other financing sources (uses)</b>	<b>(21,959)</b>	<b>-</b>	<b>(6,625)</b>
Net change in cash balances	95,324	38,460	29,217
Cash balances beginning of year	39,102	31,635	80,417
Cash balances end of year	\$ 134,426	70,095	109,634
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ -	-	-
<b>Unreserved:</b>			
General fund	134,426	-	-
Special revenue funds	-	70,095	109,634
<b>Total cash basis fund balances</b>	<b>\$ 134,426</b>	<b>70,095</b>	<b>109,634</b>

See notes to financial statements.

Debt Service	Nonmajor	Total
46,015	10,613	182,683
-	-	35,842
-	-	4,245
-	87	692
-	2,704	215,049
-	-	43,477
-	37,830	40,787
46,015	51,234	522,775
-	23,084	40,215
-	2,045	81,136
-	28,412	55,984
-	-	2,321
-	2,335	47,286
59,785	-	59,785
-	-	62,875
59,785	55,876	349,602
(13,770)	(4,642)	173,173
13,235	19,353	36,592
-	(4,004)	(36,592)
13,235	15,349	-
(535)	10,707	173,173
1,189	109,668	262,011
654	120,375	435,184
654	-	654
-	-	134,426
-	120,375	300,104
654	120,375	435,184

**City of St. Charles**

City of St. Charles

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2010

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ -	63,667	63,667
Operating disbursements:			
Business type activities	880	35,836	36,716
Excess (deficiency) of operating receipts over (under) operating disbursements	(880)	27,831	26,951
Non-operating receipts (disbursements):			
Interest on investments	324	144	468
Community Development Block grant	-	185,793	185,793
Wastewater financial assistance grant	-	221,007	221,007
Revenue bond/note proceeds (net of \$11,120 initiation fee)	-	1,137,327	1,137,327
Capital outlay	-	(1,062,454)	(1,062,454)
Debt service	-	(406,810)	(406,810)
Net non-operating receipts (disbursements)	324	75,007	75,331
Net change in cash balances	(556)	102,838	102,282
Cash balances beginning of year	51,848	101,454	153,302
Cash balances end of year	\$ 51,292	204,292	255,584
<b>Cash Basis Fund Balances</b>			
Reserved for:			
Sewer construction	\$ -	161,747	161,747
Debt service	-	9,494	9,494
Unreserved	51,292	33,051	84,343
Total cash basis fund balances	\$ 51,292	204,292	255,584

See notes to financial statements.

City of St. Charles

Notes to Financial Statements

June 30, 2010

**(1) Summary of Significant Accounting Policies**

The City of St. Charles is a political subdivision of the State of Iowa located in Madison County. It was first incorporated in 1855 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of St. Charles 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.

These financial statements present the City of St. Charles (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Units

The Friends of the St. Charles Library, the St. Charles Fire Association and the St. Charles Historical Preservation Committee are legally separate from the City, but are so intertwined with the City they are, in substance, part of the City. The Friends of the St. Charles Library, the St. Charles Fire Association and the St. Charles Historical Preservation Committee are organized under Chapter 504A of the Code of Iowa as non-profit corporations and collect donations which are used to purchase items not included in the City's budget. The financial transactions of these component units have been blended into the Special Revenue Funds.

Jointly Governed Organizations

The City participates in several jointly governed organizations which 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: Madison County Assessor's Conference Board, Madison County Emergency Management Commission and Madison County Joint E911 Service Board.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for receipts from the local option sales tax. The receipts are used to finance road construction and maintenance in the City.

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

The City reports the following major proprietary funds:

The Water Fund previously accounted for maintenance of the City's water system. However, beginning in May 2007, the City no longer provides water service to its citizens. Water service is provided, instead, through the Warren Water District. The balance remaining in the Water Fund will be used by the City to cover insurance costs and remove the water tower.

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

C. Measurement Focus and 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.

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**(3) Long Term Debt**

Annual debt service requirements to maturity for the general obligation note are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 35,000	9,712	44,712
2012	50,000	7,875	57,875
2013	50,000	5,250	55,250
2014	50,000	2,625	52,625
Total	\$ 185,000	25,462	210,462

General Obligation Note

On February 8, 2002, the City issued a \$340,000 general obligation note to provide funds to pay the cost of constructing streets and related utility improvements. The note bears interest at 5.25% per annum and matures on June 1, 2014. During fiscal year 2010, the City paid principal of \$35,000 and interest of \$11,550 on the note. The balance on the note at June 30, 2010 was \$185,000.

Sewer Revenue Bond, Series 2009A

On January 6, 2010, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of a sewer revenue bond of up to \$1,112,000 with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bond was issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the sewer treatment facilities. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred. At June 30, 2010, the City had drawn down \$386,324 of the authorized amount, including an initiation fee of \$11,120 (1% of the authorized borrowing for the sewer revenue bond) charged by the Iowa Finance Authority which was withheld from the first proceeds of the sewer revenue bond. A final repayment schedule has not yet been adopted. However, during fiscal year 2010, the City paid interest of \$1,717 on the bond under a preliminary repayment schedule.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue bond. The percentage of net receipts required to pay annual principal and interest payments on the bonds and the total amount of principal and interest remaining to be paid on the bonds at June 30, 2010 are not available since a final repayment schedule has not been adopted for the bonds. For the current year, interest paid and total customer net receipts were \$1,717 and \$27,831, respectively.

The resolution providing for the issuance of the sewer revenue bond issued under a loan agreement between the City of St. Charles, the Iowa Finance Authority and the Iowa Department of Natural Resources includes the following provisions:

- (1) The bond will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (2) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

- (3) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bond falling due in the same year.

Sewer Revenue Bond, Series 2009B (Forgivable)

On January 6, 2010, the City entered into a forgivable loan agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of a \$472,000 forgivable sewer revenue bond. The bond was issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Investment Act of 2009 (ARRA) for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the municipal wastewater treatment system of the City. If the requirements of ARRA, including, but not limited to, satisfaction of applicable timing requirements, are not met and the loan is not forgiven, the City will pay interest at 3.0% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% of the authorized loan. At June 30, 2010, the City had drawn down \$472,000 of the authorized amount.

Capital Lease Purchase Agreement

In August 2006, the City entered into a lease purchase agreement for \$100,000 to purchase a Kenworth T-300 tanker/pumper fire truck. The agreement has an effective interest rate of 5.45% and requires annual payments of \$13,235, including interest, with the final payment due on August 8, 2016. During the year ended June 30, 2010, the City paid \$13,235 on the agreement, including principal of \$8,657 and interest of \$4,578. The balance on the agreement at June 30, 2010 was \$75,349.

The following is a schedule of future minimum lease payments and the present value of new minimum lease payments under the above agreement in effect at June 30, 2010:

Year Ending June 30,	Amount
2011	\$ 13,235
2012	13,235
2013	13,235
2014	13,235
2015	13,235
2016 - 2017	26,470
Total minimum lease payments	92,645
Less amount representing interest	(17,296)
Present value of net minimum lease payments	<u>\$ 75,349</u>

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2010 was \$2,197, equal to the required contributions for the year.

**(5) Interfund Transfers**

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

Transfer to	Transfer from	Amount
General	Special Revenue: Emergency	\$ 4,004
Special Revenue: St. Charles Rescue Unit	General	5,253
St. Charles Fire Department	General	14,100
Debt Service	General	6,610
	Special Revenue: Local Option Sales Tax	6,625
Total		\$ 36,592

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

**(6) Risk Management**

The 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.

**(7) Construction Contracts**

During the current and previous fiscal years, the City entered into various construction contracts totaling \$1,541,807 for improvements to the sewer system. Unpaid contract commitments as of June 30, 2010 totaled \$948,843 and will be paid as work on the project progresses. The project is being funded through a Community Development Block grant and a State revolving fund loan.

**(8) Subsequent Events**

In November 2010, the City entered into a contract for \$854,000 for a sanitary sewer rehabilitation project. The project will be funded through a FEMA grant and is scheduled to be completed in 2011.

In May 2011, the City entered into a contract for \$569,000 for a street resurfacing project. The project will be funded with general obligation bonds and road use tax revenue bonds issued in June 2011.

On June 1, 2011, the City issued a \$440,000 general obligation street improvement note, the proceeds of which will be used to pay the costs associated with street repairs and improvements. The note will be repaid through an annual tax on all taxable property in the City.

On June 1, 2011, the City issued a \$350,000 road use tax revenue note, the proceeds of which will be used to pay the costs associated with street repairs and improvements. The note will be repaid through annual road use tax collections.

**City of St. Charles**

**Required Supplementary Information**

City of St. Charles  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 182,683	-	-
Other city tax	35,842	-	-
Licenses and permits	4,245	-	-
Use of money and property	692	468	-
Intergovernmental	215,049	406,800	-
Charges for service	43,477	63,667	-
Miscellaneous	40,787	-	27,833
Total receipts	522,775	470,935	27,833
<b>Disbursements:</b>			
Public safety	40,215	-	2,155
Public works	81,136	-	-
Culture and recreation	55,984	-	24,502
Community and economic development	2,321	-	-
General government	47,286	-	-
Debt service	59,785	-	-
Capital projects	62,875	-	-
Business type activities	-	1,505,980	-
Total disbursements	349,602	1,505,980	26,657
Excess (deficiency) of receipts over (under) disbursements	173,173	(1,035,045)	1,176
Other financing sources (uses), net	-	1,137,327	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	173,173	102,282	1,176
Balances beginning of year	262,011	153,302	48,301
Balances end of year	\$ 435,184	255,584	49,477

See accompanying independent auditor's report.

---

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
182,683	179,900	179,900	2,783
35,842	44,881	38,881	(3,039)
4,245	1,575	1,475	2,770
1,160	2,000	850	310
621,849	433,020	1,444,620	(822,771)
107,144	93,725	118,600	(11,456)
12,954	3,050	5,500	7,454
965,877	758,151	1,789,826	(823,949)
38,060	59,960	59,110	21,050
81,136	137,247	136,283	55,147
31,482	44,638	55,638	24,156
2,321	2,000	2,000	(321)
47,286	52,296	55,146	7,860
59,785	59,785	59,785	-
62,875	-	1,378,000	1,315,125
1,505,980	401,592	374,993	(1,130,987)
1,828,925	757,518	2,120,955	292,030
(863,048)	633	(331,129)	(531,919)
1,137,327	-	270,300	867,027
274,279	633	(60,829)	335,108
367,012	316,008	309,295	57,717
641,291	316,641	248,466	392,825

City of St. Charles

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units. 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, the Special Revenue Funds, the Debt Service Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$1,363,437. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions.

**Other Supplementary Information**

City of St. Charles

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2010

	I-Jobs	Employee Benefits	Emergency Levy
Receipts:			
Property tax	\$ -	6,715	3,898
Use of money and property	-	-	-
Intergovernmental	2,704	-	-
Mjiscellaneous	-	-	-
Total receipts	2,704	6,715	3,898
Disbursements:			
Operating:			
Public safety	-	1,602	-
Public works	1,861	184	-
Culture and recreation	-	1,315	-
General government	-	2,335	-
Total disbursements	1,861	5,436	-
Excess (deficiency) of receipts over (under) disbursements	843	1,279	3,898
Other financing source (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	-	(4,004)
Total other financing sources (uses)	-	-	(4,004)
Net change in cash balances	843	1,279	(106)
Cash balances beginning of year	-	3,644	-
Cash balances end of year	\$ 843	4,923	(106)
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	\$ 843	4,923	(106)

See accompanying independent auditor's report.

Special Revenue							
St. Charles Fire Department	St. Charles Rescue Unit	St. Charles Old Settlers	Friends of the St. Charles Library	St. Charles Fire Association	St. Charles Historical Preservation Committee		Total
-	-	-	-	-	-	-	10,613
59	28	-	-	-	-	-	87
-	-	-	-	-	-	-	2,704
7,057	-	2,940	4,108	1,109	22,616	-	37,830
7,116	28	2,940	4,108	1,109	22,616	-	51,234
13,580	5,747	-	-	2,155	-	-	23,084
-	-	-	-	-	-	-	2,045
-	-	2,595	1,193	-	23,309	-	28,412
-	-	-	-	-	-	-	2,335
13,580	5,747	2,595	1,193	2,155	23,309	-	55,876
(6,464)	(5,719)	345	2,915	(1,046)	(693)	-	(4,642)
14,100	5,253	-	-	-	-	-	19,353
-	-	-	-	-	-	-	(4,004)
14,100	5,253	-	-	-	-	-	15,349
7,636	(466)	345	2,915	(1,046)	(693)	-	10,707
35,816	20,139	1,768	23,979	10,322	14,000	-	109,668
43,452	19,673	2,113	26,894	9,276	13,307	-	120,375
43,452	19,673	2,113	26,894	9,276	13,307	-	120,375

City of St. Charles  
Schedule of Indebtedness  
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation note:			
Corporate Purpose	Feb 8, 2002	5.25 %	\$ 340,000
Revenue bonds:			
Sewer, Series 2009A	Jan 6, 2010	3.00 %	\$ 1,112,000
Sewer, Series 2009B (ARRA Forgivable)	Jan 6, 2010	3.00	472,000
Total			
Revenue interim and project anticipation notes:			
Sewer revenue interim planning and development	Aug 27, 2008	0.00 %	\$ 131,000
Sewer revenue anticipation project note	Dec 30, 2009	4.55	270,294
Total			
Capital lease purchase agreement:			
Fire tanker/pumper	Aug 8, 2006	5.45 %	\$ 100,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
220,000	-	35,000	185,000	11,550
-	386,324	-	386,324	1,717
-	472,000	-	472,000	-
\$ -	858,324	-	858,324	1,717
111,171	19,829	131,000	-	-
-	270,294	270,294	-	1,019
\$ 111,171	290,123	401,294	-	1,019
84,006	-	8,657	75,349	4,578

**Schedule 3**

---

City of St. Charles

Note Maturities

June 30, 2010

<u>General Obligation Note</u>		
<u>Corporate Purpose</u>		
<u>Issued Feb. 8, 2002</u>		
<u>Year</u>	<u>Interest</u>	
<u>Ending</u>	<u>Rates</u>	<u>Amount</u>
<u>June 30,</u>		
2011	5.25 %	\$ 35,000
2012	5.25	50,000
2013	5.25	50,000
2014	5.25	50,000
Total		<u>\$185,000</u>

See accompanying independent auditor's report.

City of St. Charles  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2010

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	08-WS-064	185,793
U.S. Department of Transportation:			
Iowa Department of Transportation:			
ARRA - Highway Planning and Construction	20.205		739
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	CS-192390-01	472,000
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants_ Public Assistance (Presidentially Declared Disaster)	97.036	DRIA 1763	<u>56,588</u>
Total			<u>\$ 715,120</u>

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

See accompanying independent auditor's report.

**City of St. Charles**



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of St. Charles, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 26, 2011. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

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

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of St. Charles' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

August 26, 2011

**City of St. Charles**

**Independent Auditor's Report on Compliance**  
**with Requirements That Could Have a Direct and Material Effect**  
**on Each Major Program and on Internal Control over Compliance in Accordance**  
**with OMB Circular A-133**



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the City of St. Charles, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of St. Charles' major federal program for the year ended June 30, 2010. The City of St. Charles' major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of St. Charles' management. Our responsibility is to express an opinion on the City of St. Charles' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of St. Charles' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of St. Charles' compliance with those requirements.

In our opinion, the City of St. Charles complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the City of St. Charles is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of St. Charles' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of St. Charles' internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

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 a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

The City of St. Charles' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's response, we did not audit the City of St. Charles' response and, accordingly, we express no opinion on it.

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



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

August 26, 2011

City of St. Charles  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2010

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

- (a) Qualified 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 program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was 66.458 – ARRA – Capitalization Grants for Clean Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of St. Charles did not qualify as a low-risk auditee.

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-10 Segregation of Duties – One important aspect of internal accounting control is segregation of duties among employees and officials to prevent an individual employee from handling duties which are incompatible. For the City, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, recording, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparation, posting and distribution.
- (5) Long-term debt – recording, debt payment processing and reconciling.
- (6) Financial reporting – preparing and reconciling.
- (7) Information systems (computer usage) – performing all general accounting functions and controlling all data and output.
- (8) Journal entries – preparing and journalizing.

For the St. Charles Fire Department, St. Charles Rescue Unit, St. Charles Old Settlers, St. Charles Fire Association, Friends of the St. Charles Library and St. Charles Historical Preservation Committee accounts (separately maintained accounts and component units), one individual has control over each of the following areas.

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, recording, depositing and reconciling.
- (3) Disbursements – preparing, signing, recording, and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. The City, Fire Department, Rescue Unit, Old Settlers, Fire Association, Friends of the Library and Historical Preservation Committee should review their control procedures, including utilizing Council and Board members, to obtain the maximum internal control possible under the circumstances.

Responses –

City: Currently the City Clerk is the only “office employee” and is responsible for items (1) through (8) above. Ideally, the City would hire additional office personnel but that is not possible. The City Clerk is going to request Council

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

members become more involved in the process and have them perform reviews of the above items monthly. This should help protect the City's interest, the City Clerk and provide Council members with a better understanding of how the City's finances are handled and reporting procedures.

Separately maintained accounts and component units: We will contact the component units for a year-end report on receipts and disbursements.

Conclusions – City response accepted. The Fire Department, Rescue Unit, Old Settlers, Fire Association, Friends of the Library and Historical Preservation Committee should review their control procedures, including utilizing Board members, to obtain the maximum internal control possible.

- II-B-10 Financial Reporting – During the audit, we identified material amounts of receipts and disbursements recorded to an incorrect fund in the City's accounting records and material activity related to the St. Charles Fire Department, St. Charles Rescue Unit and St. Charles Old Settlers accounts omitted from the accounting records. This was properly adjusted for reporting purposes.

Recommendation – The City should implement procedures to ensure all receipts, disbursements and outside bank account activity are properly recorded in the City's accounting records and financial statements.

Response – It is noted that our sewer project should have been in an enterprise fund rather than a capital project fund. Since the project is almost complete it will remain as is. This will be monitored more closely for future projects. There will be discussions with the Fire/Rescue Department, Old Settlers and the City on accounting procedures.

Conclusion – Response accepted.

- II-C-10 Sewer and Garbage Collections – The City contracts with Warren Water District for billing and collecting for the City's sewer and garbage service. The City does not have procedures in place to identify what should be collected for sewer and garbage service each billing period and to reconcile what should be collected to actual collections. This should be done through obtaining billing reports and delinquent listings from the Warren Water District each billing period and reconciling collections, billings and delinquencies for the period. In addition, Warren Water District charges a \$250 monthly fee which is withheld from payments to the City.

Recommendation – The City should establish procedures to ensure the proper amount of sewer and garbage fees are collected, including reconciling billings, collections and delinquencies for each billing cycle. The City should remit a check to the Warren Water District for the monthly service fee rather than allowing it to be withheld from collections.

Response – The City has been advised by Warren Water that it will cost the City more than the \$250 monthly fee to provide additional services. The City will

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

meet with Warren Water to determine how best to obtain the additional information and what the cost will be to the City. A determination will be made at that time whether to continue with Warren Water providing the information or to grant additional hours and overtime to the City Clerk.

Conclusion – Response acknowledged. Additional services should not be required of the Warren Water District. Rather, additional information already in their system should be provided to the City to aid the City in reconciling amounts billed, collected and delinquent for each billing cycle.

II-D-10 Accounting Policies and Procedures Manual - The City does not have an accounting policies and procedures manual.

Recommendation - An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Response – The City is in agreement and will start work on an accounting policies and procedures manual to include getting Council members more involved in the review of the accounting procedures.

Conclusion – Response accepted.

II-E-10 Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City’s computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- Requiring the maintenance of password privacy and confidentiality.
- Requiring passwords be changed at least every 60-90 days.
- Requiring backups of system information.
- Installing software from a vendor and ensuring only software licensed to the City is installed on computers.
- Running an anti-virus program on computers.

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

- Usage of the internet.
- Personal use of computer equipment and software.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer based systems. A written disaster recovery plan should be developed. At a minimum, the plan should identify computer equipment needed for temporary processing and paper supplies, such as checks, warrants, purchase orders, etc., which should be located off-site. Additionally, copies of user documentation and the disaster plan itself should be maintained at an off-site location.

Response – The City is in agreement that written policies are necessary for the aforementioned items. The City has an off-site computer back up system. All policies will be prepared on the computer and stored off-site by our back-up.

Conclusion – Response accepted.

II-F-10 Payroll - Time sheets do not include dates worked and are not signed by the employee.

Recommendation - Time sheets should be prepared and signed by all employees and include the dates and times worked.

Response – The City Clerk has initiated a timesheet for all employees requiring dates and hours worked. They will be required to sign their time sheets before being processed.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 66.458: ARRA - Capitalization Grants for Clean Water State Revolving Funds**

**Federal Award Year: 2010**

**U.S. Environmental Protection Agency**

**Passed through the Iowa Department of Natural Resources**

- III-A-10 Segregation of Duties – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-10.

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

IV-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the culture and recreation and business type activities 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 – Funds of \$345 were left over from a grant awarded to the Tourism Department the previous year for printing brochures. The Clerk did not put it on the budget amendment as we were not over on the General Fund.

Conclusion – Response acknowledged. The City should ensure the budget is amended as required before disbursements are allowed to exceed the budget.

IV-B-10 Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s Opinion dated April 25, 1979 were noted.

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

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

Name, Title, and Business Connection	Transaction Description	Amount
Leonard Brown, Mayor’s spouse	Labor	\$ 319
Bernard Gray, father of Randy Gray, Public Works employee	Services and mileage	3,244

In accordance with Chapter 362.5(k) of the Code of Iowa, the transactions with Leonard Brown do not appear to represent a conflict of interest since the disbursements were less than \$2,500.

In accordance with Chapter 362.5(e) of the Code of Iowa, the transactions for services and mileage with Bernard Gray do not appear to represent a conflict of interest since the public works employee’s employment is not directly affected as a result of the contract and the duties of employment do not directly involve procurement or preparation of any part of the contract.

IV-E-10 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

IV-F-10 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

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

IV-H-10 Revenue Note/Bonds – The City has not established and made the required transfers to a revenue bond sinking account as required by the sewer bond resolution.

Recommendation – The City should establish a sewer revenue bond sinking account and make the necessary transfers as required by the sewer bond resolution.

Response – Since the audit a sinking fund has been established.

Conclusion – Response accepted.

IV-I-10 Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...". The City's Annual Financial Report reported receipts, disbursements and fund balances that do not materially agree with City records.

Recommendation – The City should ensure future annual financial reports are supported by the City's records.

Response – This will be monitored.

Conclusion – Response accepted.

IV-J-10 Separately Maintained Records – The St. Charles Fire Department, St. Charles Rescue Unit and St. Charles Old Settlers maintain bank accounts for activity separate from the City Clerk's accounting records. The transactions and the resulting balances were not included in the City's accounting records and were not included in the City's annual budget, monthly financial reports or Annual Financial Reports. However, the transactions and resulting balances are included in these financial statements.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and annual budget and should be reported to the Council on a monthly basis.

Response – There will be discussions with the Fire/Rescue Department about current procedures.

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Conclusion – Response acknowledged. The financial activity and balances of all City accounts should be included in the City’s accounting records and annual budget as required.

IV-K-10 Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks outstanding for more than two years, to the State Treasurer’s Office annually. The City did not remit these obligations as required.

Recommendation – The outstanding checks should be reviewed annually and items over two years old should be remitted to the State Treasurer’s Office as required.

Response – Currently we have five checks more than two years old totaling \$125. Our clerk was not aware of this requirement and is working on resolving it. The outstanding checks will be monitored and items over two years old will be remitted to the State Treasurer’s Office as required.

Conclusion – Response accepted.

IV-L-10 Public Hearing - The City did not hold a public hearing prior to approving a short term note to purchase land for the sewer project as required by Chapter 384.24A of the Code of Iowa.

Recommendation - The City should hold required public hearings prior to entering into future loan agreements.

Response – We worked with the bonding attorney and the bank and published everything the bonding attorney prepared and advised us to publish. A Public Hearing was held on November 9, 2009 for the purchase of the land. It was published in the Madisonian on November 4, 2009. Council held a Special Meeting on December 20, 2009 and passed a resolution authorizing interim financing for the purchase of the land

Conclusion – Response acknowledged. A public hearing should be held, as required, prior to entering into future loan agreements.

IV-M-10 Financial Condition – The Special Revenue, Emergency Fund had a deficit balance of \$106 at June 30, 2010.

Recommendation – The City should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

Response – This will be monitored.

Conclusion – Response accepted.

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

- IV-N-10 Bequest to the St. Charles Volunteer Fire and Rescue Department – In 2008, the St. Charles Volunteer Fire and Rescue Department was named as a beneficiary in a last will and testament which bequeaths a percentage of the trust income to the department. According to City personnel, beginning in fiscal year 2011, the City intends to remit receipts from the trust to the St. Charles Fire Association, a private non-profit organization formed pursuant to Chapter 504A of the Code of Iowa, to be used to make principal and interest payments on the Association's fire station loan.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 states, "No public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly."

Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee or other person and which show the receipt, use, and disposition of all city property."

Recommendation – We are not aware of any statutory authority for the City to relinquish these public funds to a separate non-profit organization. The City should consult legal counsel prior to making any payments directly (or indirectly via direct payments of principal and interest on the Association's debt) to the private non-profit organization.

Response – The funds are not given to the City to disburse. The City has never had control of these funds. Per the attorney and the executor of the estate in question, it was the intent of the donor that the money was to go directly to the Fire Department and not through the City. We have previously discussed with legal counsel.

Conclusion – Response acknowledged. Since the Fire Department is a department of the City, the funds belong to and should be accounted for by the City in accordance with the Iowa Constitution and Chapter 384.20 of the Code of Iowa. The funds may not be relinquished to the St. Charles Fire Association, a separate non-profit organization.

---

City of St. Charles

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager  
Karen J. Kibbe, Senior Auditor  
Justin Youngberg, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State