



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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**NEWS RELEASE**

FOR RELEASE

December 10, 2012

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 \$1,364,216 for the year ended June 30, 2012. The receipts included \$208,508 in property and other city tax, \$194,104 from charges for service, \$778,145 from operating grants, contributions and restricted interest, \$6,748 from capital grants, contributions and restricted interest, \$41,983 from local option sales tax, \$680 from unrestricted interest on investments, \$131,042 from proceeds of revenue bonds/loans and \$3,006 from other general receipts.

Disbursements for the year totaled \$1,963,586, and included \$689,273 for capital projects, \$105,989 for public works and \$94,110 for debt service. Disbursements for business type activities totaled \$903,730.

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/1222-0581-B00F.pdf>.

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**CITY OF ST. CHARLES**

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

**JUNE 30, 2012**

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**City of St. Charles**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2012)</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
<b>(After January 2012)</b>		
Ron Hartfield	Mayor	Jan 2014
Ross Cornelison	Council Member	(Resigned Mar 2012)
Tom Blomme (Appointed May 2012)	Council Member	Nov 2013
Amy Reyes	Council Member	Jan 2014
Sindy Brown	Council Member	Jan 2016
Lee Gray	Council Member	Jan 2016
Ron Kindley	Council Member	Jan 2016
AnnMarie Ahl-Zook	City Clerk	Indefinite
Mark Smith	Attorney	Indefinite

**City of St. Charles**



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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, the discretely presented component unit, 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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as noted in the following paragraph, 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, 2011.

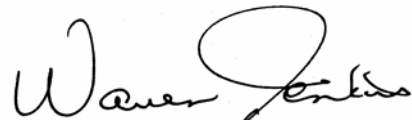
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of St. Charles as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2012 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.

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. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. 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, 2011, as discussed in the third paragraph, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 11 and 30 through 32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This 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 it.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 15, 2012



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

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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, 2012. 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.

### **2012 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities decreased approximately \$607,000, due primarily to receiving bond and note proceeds in fiscal year 2011 for a street improvement project which were disbursed in fiscal year 2012.
- The cash basis net assets of the City's business type activities increased approximately \$8,000.

### **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 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, 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 system 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, 3) the Debt Service Fund and 4) the Capital Projects 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.

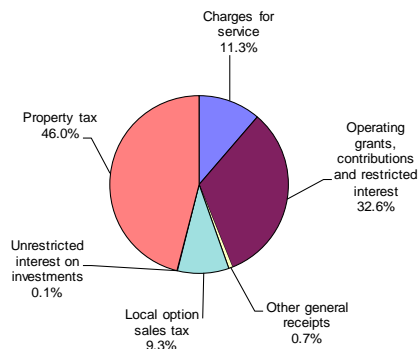
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

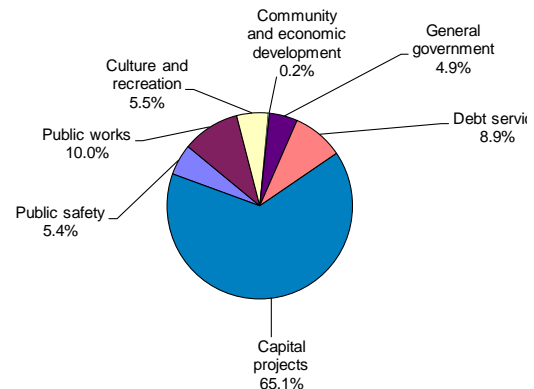
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$1,193,233 to \$585,876. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service	\$ 51,046
Operating grants, contributions and restricted interest	147,418
General receipts:	
Property tax	208,508
Local option sales tax	41,983
Unrestricted interest on investments	538
Other general receipts	3,006
Total receipts	<u>452,499</u>
Disbursements:	
Public safety	57,648
Public works	105,989
Culture and recreation	58,120
Community and economic development	2,476
General government	52,240
Debt service	94,110
Capital projects	689,273
Total disbursements	<u>1,059,856</u>
Change in cash basis net assets	(607,357)
Cash basis net assets beginning of year	<u>1,193,233</u>
Cash basis net assets end of year	<u>\$ 585,876</u>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental funds decreased primarily due to the City receiving bond and note proceeds during fiscal 2011 for disbursements made in fiscal year 2012.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service:	
Sewer	\$ 143,058
Operating grants, contributions and restricted interest	630,727
Capital grants, contributions and restricted interest	6,748
General receipts:	
Unrestricted interest on investments	142
Revenue bond/loan proceeds	131,042
Total receipts	<u>911,717</u>
Disbursements:	
Water	50,000
Sewer	853,730
Total disbursements	<u>903,730</u>
Change in cash basis net assets	7,987
Cash basis net assets beginning of year	<u>81,204</u>
Cash basis net assets end of year	<u>\$ 89,191</u>

The cash basis net assets of the City's business type activities increased 9.8%, or \$7,987.

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

As the City of St. Charles completed the year, its governmental funds reported a combined fund balance of \$585,876, a decrease of \$607,357 from last year's total of \$1,193,233. 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 \$41,105 to \$235,152 during the fiscal year. The increase is due primarily to a decrease in street projects in the current fiscal year.
- The Special Revenue, Road Use Tax Fund cash balance increased \$18,082 to \$70,506 during the fiscal year. The increase is due to receipts exceeding disbursements during the year.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$22,476 to \$107,378 due to fewer disbursements in the current fiscal year. In the prior year, the City contributed to construction of the fire station from this fund.
- The Debt Service Fund cash balance decreased \$7,378 to a zero balance.
- The Capital Projects Fund cash balance decreased \$689,273 to \$100,727. Road use tax revenue note and general obligation bond proceeds received in fiscal year 2011 were disbursed for a street improvement project in fiscal year 2012.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$9,886 to \$40,742. This fund transferred \$10,000 to the Enterprise, Sewer Fund in the current year to help with repair costs not covered by FEMA.
- The Enterprise, Sewer Fund cash balance increased \$17,873 to \$48,449, due primarily to a decrease in disbursements from the prior year and a transfer from the Enterprise, Water Fund to help fund repair costs.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The City's receipts were \$250,586 less than budgeted due to the City receiving fewer FEMA reimbursements than budgeted. Total disbursements were \$447,666 less than budgeted. General government disbursements were \$900,019 less than budgeted while business activities disbursements were \$777,054 more than budgeted. This is due primarily to the City incorrectly budgeting disbursements related to the sewer rehabilitation project. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety and business type activities.

## DEBT ADMINISTRATION

At June 30, 2012, the City had \$2,161,595 in notes and other long-term debt outstanding, as follows:

	Outstanding Debt at Year-End	
	June 30,	
	2012	2011
General obligation notes	\$ 540,000	590,000
Road use tax revenue note	321,000	350,000
Water system improvement loan	50,000	-
Sewer revenue bonds	1,194,000	1,058,164
Capital lease purchase agreement	56,595	66,221
Total	\$ 2,161,595	2,064,385

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 \$646,595 is below its constitutional debt limit of \$1,539,527.

## 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 2013 budget, tax rates and fees charged for various City activities. The City's fiscal year 2013 tax levy rate increased \$.01637/per \$1000 of taxable valuation, or .1%, over the fiscal year 2012 levy. The actual taxable property valuation for the City in fiscal year 2012 was \$16,389,613 compared with a fiscal year 2013 actual taxable property valuation of \$15,586,778.

The fiscal year 2013 budget includes receipts of \$529,705 and disbursements of \$507,106. These amounts represent a decrease in anticipated receipts and disbursements from fiscal year 2012 due to anticipated completion of street and sewer improvement projects.

## 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 AnnMarie Ahl-Zook, 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, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
Governmental activities:				
Public safety	\$ 57,648	4,276	26,451	-
Public works	105,989	46,595	61,938	-
Culture and recreation	58,120	-	59,029	-
Community and economic development	2,476	-	-	-
General government	52,240	175	-	-
Debt service	94,110	-	-	-
Capital projects	689,273	-	-	-
Total governmental activities	1,059,856	51,046	147,418	-
Business type activities:				
Water	50,000	-	-	-
Sewer	853,730	143,058	630,727	6,748
Total business type activities	903,730	143,058	630,727	6,748
Total Primary Government	\$ 1,963,586	194,104	778,145	6,748
<b>Component Unit:</b>				
Friends of the St. Charles Library	\$ 3,052	-	5,240	-
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Revenue bond/loan proceeds, net of \$1,300 initiation fee				
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:				
Fire and rescue				
Streets				
Capital projects				
Culture and recreation				
Debt service				
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			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Friends of the St. Charles Library
(26,921)	-	(26,921)	
2,544	-	2,544	
909	-	909	
(2,476)	-	(2,476)	
(52,065)	-	(52,065)	
(94,110)	-	(94,110)	
(689,273)	-	(689,273)	
(861,392)	-	(861,392)	
-	(50,000)	(50,000)	
-	(73,197)	(73,197)	
-	(123,197)	(123,197)	
(861,392)	(123,197)	(984,589)	
			2,188
151,018	-	151,018	-
57,490	-	57,490	-
41,983	-	41,983	-
538	142	680	-
-	131,042	131,042	-
3,006	-	3,006	-
254,035	131,184	385,219	-
(607,357)	7,987	(599,370)	2,188
1,193,233	81,204	1,274,437	32,572
\$ 585,876	89,191	675,067	34,760
\$ 50,462	-	50,462	-
71,135	-	71,135	-
100,727	-	100,727	-
9,140	-	9,140	34,760
3,503	5,235	8,738	-
115,757	-	115,757	-
235,152	83,956	319,108	-
\$ 585,876	89,191	675,067	34,760

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, 2012

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 143,172	-	-
Other city tax	-	-	41,983
Licenses and permits	4,451	-	-
Use of money and property	521	-	-
Intergovernmental	36,634	61,938	-
Charges for service	46,595	-	-
Miscellaneous	3,006	-	-
Total receipts	234,379	61,938	41,983
Disbursements:			
Operating:			
Public safety	23,480	-	-
Public works	62,008	43,856	-
Culture and recreation	32,845	-	-
Community and economic development	2,476	-	-
General government	49,830	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	170,639	43,856	-
Excess (deficiency) of receipts over (under) disbursements	63,740	18,082	41,983
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	(22,635)	-	(19,507)
Total other financing sources (uses)	(22,635)	-	(19,507)
Net change in cash balances	41,105	18,082	22,476
Cash balances beginning of year	194,047	52,424	84,902
Cash balances end of year	\$ 235,152	70,506	107,378
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Fire and rescue	\$ -	-	-
Streets	-	67,003	-
Capital projects	-	-	-
Culture and recreation	-	-	-
Debt service	-	3,503	-
Other purposes	-	-	107,378
Unassigned	235,152	-	-
Total cash basis fund balances	\$ 235,152	70,506	107,378

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
57,490	-	7,846	208,508
-	-	-	41,983
-	-	-	4,451
-	-	17	538
-	-	-	98,572
-	-	-	46,595
-	-	48,846	51,852
57,490	-	56,709	452,499
-	-	34,168	57,648
-	-	125	105,989
-	-	25,275	58,120
-	-	-	2,476
-	-	2,410	52,240
87,610	-	6,500	94,110
-	689,273	-	689,273
87,610	689,273	68,478	1,059,856
(30,120)	(689,273)	(11,769)	(607,357)
22,742	-	19,400	42,142
-	-	-	(42,142)
22,742	-	19,400	-
(7,378)	(689,273)	7,631	(607,357)
7,378	790,000	64,482	1,193,233
-	100,727	72,113	585,876
-	-	50,462	50,462
-	-	4,132	71,135
-	100,727	-	100,727
-	-	9,140	9,140
-	-	-	3,503
-	-	8,379	115,757
-	-	-	235,152
-	100,727	72,113	585,876

**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, 2012

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ -	143,058	143,058
Operating disbursements:			
Business type activities	-	66,911	66,911
Excess of operating receipts over operating disbursements	-	76,147	76,147
Non-operating receipts (disbursements):			
Interest on investments	114	28	142
Community Development Block grant	-	6,748	6,748
Federal Emergency Management Agency grant	-	630,727	630,727
Revenue bond proceeds, net of \$1,300 initiation fee	-	81,042	81,042
Loan proceeds	50,000	-	50,000
Capital outlay	(50,000)	(725,616)	(775,616)
Debt service	-	(61,203)	(61,203)
Net non-operating receipts (disbursements)	114	(68,274)	(68,160)
Excess of receipts over disbursements	114	7,873	7,987
Operating transfers in	-	10,000	10,000
Operating transfers out	(10,000)	-	(10,000)
Total operating transfers	(10,000)	10,000	-
Net change in cash balances	(9,886)	17,873	7,987
Cash balances beginning of year	50,628	30,576	81,204
Cash balances end of year	\$ 40,742	48,449	89,191
<b>Cash Basis Fund Balances</b>			
Restricted for debt service	\$ -	5,235	5,235
Unrestricted	40,742	43,214	83,956
Total cash basis fund balances	\$ 40,742	48,449	89,191

See notes to financial statements.

City of St. Charles

Notes to Financial Statements

June 30, 2012

**(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 St. Charles Fire Association (Association) and the St. Charles Historical Preservation Committee (Committee) are legally separate from the City, but are so intertwined with the City they are, in substance, part of the City. The Association and 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.

Pursuant to Chapter 501B of the Code of Iowa, the City of St. Charles Old Settlers (Old Settlers) is an unincorporated nonprofit association. The organization exists for charitable purposes in support of the City. In accordance with criteria set forth by the Governmental Accounting Standards Board, Old Settlers meets the definition of a component unit which should be blended. Based on these criteria, Old Settlers is legally separate from the City but is so intertwined with the City it is, in substance, the same as the City. Old Settlers is reported as part of the City and blended into the nonmajor governmental funds.

### Discretely Presented Component Unit

The Friends of the St. Charles Library (Friends) is organized under Chapter 504A of the Code of Iowa as a non-profit corporation and collects donations which are used to purchase items not included in the City's budget. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Authority meets the definition of a component unit which should be discretely presented.

### 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/components:

*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 the road use tax allocation from the State of Iowa to be used 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 property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through Enterprise Funds.

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.

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:

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.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

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

**(2) Cash and Pooled Investments**

The City’s deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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**

Primary Government:

Annual debt service requirements to maturity for the general obligation notes, road use tax revenue note and sewer revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Road Use Tax Revenue Note		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 50,000	21,750	30,000	12,038	24,000	32,010	104,000	65,798
2014	50,000	19,125	33,000	10,913	25,000	31,290	108,000	61,328
2015	48,000	16,500	34,000	9,675	26,000	30,540	108,000	56,715
2016	50,000	14,700	35,000	8,400	26,000	29,760	111,000	52,860
2017	52,000	12,825	35,000	7,088	27,000	28,980	114,000	48,893
2018-2022	290,000	33,375	154,000	14,625	150,000	132,150	594,000	180,150
2023-2027	-	-	-	-	175,000	108,150	175,000	108,150
2028-2032	-	-	-	-	207,000	80,070	207,000	80,070
2033-2037	-	-	-	-	242,000	47,040	242,000	47,040
2038-2040	-	-	-	-	165,000	10,020	165,000	10,020
Total	\$ 540,000	118,275	321,000	62,739	1,067,000	530,010	1,928,000	711,024

### General Obligation Notes

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 2012, the City paid principal of \$50,000 and interest of \$7,875 on the note. The balance on the note at June 30, 2012 was \$100,000.

On June 1, 2011, the City issued a \$440,000 general obligation note to provide funds to pay the cost of constructing street improvements. The note bears interest at 3.75% per annum and matures on June 1, 2022. During fiscal year 2012, the City paid interest of \$16,501 on the note. Principal payments on the note are not due until June 1, 2015.

### Road Use Tax Revenue Note

On June 1, 2011, the City entered into an agreement with Farmers & Merchants State Bank for issuance of a \$350,000 road use tax revenue note. The note was issued pursuant to Chapters 364.6, 384.24A and 384.25 of the Code of Iowa for the purpose of paying the cost of constructing street improvements. The note bears interest at 3.75% per annum and matures on June 1, 2021. During fiscal year 2012, the City paid principal of \$29,000 and interest of \$13,125 on the note. The balance on the note at June 30, 2012 was \$321,000.

The City has pledged future road use tax receipts to repay the road use tax revenue note. Annual principal and interest payments on the note are expected to require less than 70% of road use tax receipts. Total principal and interest remaining to be paid on the note is \$383,739. For the current year, principal and interest paid and total road use tax receipts were \$42,125 and \$61,938, respectively.

The resolution providing for the issuance of the road use tax revenue note includes the following provisions:

- (1) The note will only be redeemed from future road use tax receipts and the note holder holds a lien on these future receipts.
- (2) Sufficient monthly transfers shall be made to a separate road use tax revenue note sinking account for the purpose of making the note principal and interest payments when due.

The City has not established and made the required transfers to a road use tax revenue note sinking account.

### Sewer Revenue Bonds

On January 6, 2010, the City entered into an agreement with the Iowa Finance Authority (IFA) 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 IFA upon request to reimburse the City for costs as they are incurred. At June 30, 2012, the City had drawn down the entire authorized amount of \$1,112,000, 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. During fiscal year 2012, the City paid principal of \$23,000 and interest of \$31,968 on the bond. The balance of the bond at June 30, 2012 was \$1,067,000.

On April 13, 2012, the City entered into an agreement with the Iowa Finance Authority for the issuance of a sewer revenue bond of up to \$130,000 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 IFA upon request to reimburse the City for costs as they are incurred. At June 30, 2012, the City had drawn \$50,506 of the funds, including an initiation fee of \$1,300 (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. Although a final repayment schedule has not been adopted, the City paid principal of \$3,000 and interest of \$130 on the bond during fiscal year 2012 under a preliminary repayment schedule.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,242,000 of sewer revenue bonds issued in January 2010 and April 2012. The bonds are payable solely from sewer customer net receipts and are payable through 2040. Annual principal and interest payments on the bonds are expected to require less than 80% of net receipts. Excluding the interest on the revenue bond issued in April 2012, which is not included since a repayment schedule has not been adopted, the total principal and interest remaining to be paid on the bonds is \$1,724,010. For the current year, principal and interest paid and total customer net receipts were \$58,098 and \$76,147, respectively.

The resolutions providing for the issuance of the sewer revenue bonds include the following provisions:

- (1) The bonds 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.

The City has not made the required transfers to a sewer revenue bond sinking account.

#### Forgivable Loan

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 Reinvestment 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, 2012, the City had drawn down \$472,000 of the authorized amount. Since the loan is considered forgivable, it is not included on the Schedule of Indebtedness. At June 30, 2012, the City had not met the conditions required for the loan to be forgiven.

Wastewater System Loan

On October 3, 2011 the City entered into a \$50,000 general obligation water system improvement loan with the Warren Water District to provide funds to pay the cost of constructing improvements to the City's water system. The City also entered into an agreement with the Warren Water District to undertake the project. The loan bears no interest before January 15, 2017 and subsequently bears interest of 5.00% per annum on the outstanding balance until it matures on January 15, 2022. The loan is to be repaid in eight equal payments of \$6,500 beginning on July 1, 2015.

Capital Lease Purchase Agreement

In August 2006, the City entered into a lease purchase agreement for \$100,000 to purchase a fire tanker/pumper. The agreement has an effective interest rate of 5.45% per annum and requires annual payments of \$13,235, including interest, with the final payment due on August 8, 2016. During the year ended June 30, 2012, the City paid \$13,235 on the agreement, including principal of \$9,626 and interest of \$3,609. The balance on the agreement at June 30, 2012 was \$56,595.

The following is a schedule of future minimum lease payments and the present value of new minimum lease payments under the agreement in effect at June 30, 2012:

Year Ending June 30,	Amount
2013	\$ 13,235
2014	13,235
2015	13,235
2016	13,235
2017	13,235
Less amount representing interest	(9,580)
Present value of net minimum lease payments	\$ 56,595

Blended Component Unit

On December 8, 2010, the St. Charles Fire Association, a component unit of the City, entered into a loan agreement for \$81,150 to build a fire station. The agreement has an effective interest rate of 6.25% per annum and requires annual payments of \$6,500, including interest, with a final balloon payment of \$79,983 due on December 31, 2015.

**(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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012 was \$3,023, equal to the required contribution for the year.

**(5) Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
St. Charles Fire Department	General	\$ 14,100
St. Charles Rescue Unit	General	5,300
Debt Service	General	3,235
	Special Revenue:	
	Local Option Sales Tax	19,507
Enterprise:	Enterprise:	
Sewer	Water	10,000
Total		<u>\$ 52,142</u>

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 \$3,053,885 for street improvements and improvements to the sewer system. Unpaid contract commitments at June 30, 2012 totaled \$137,674 and will be paid as work on the projects progress. The projects are funded through a Federal Emergency Management Agency grant, general obligation notes, sewer revenue bonds and road use tax revenue notes.

**City of St. Charles**

## **Other 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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 208,508	-	-
Other city tax	41,983	-	-
Licenses and permits	4,451	-	-
Use of money and property	538	142	-
Intergovernmental	98,572	637,475	-
Charges for service	46,595	143,058	-
Miscellaneous	51,852	-	44,140
Total receipts	452,499	780,675	44,140
<b>Disbursements:</b>			
Public safety	57,648	-	8,800
Public works	105,989	-	-
Culture and recreation	58,120	-	23,595
Community and economic development	2,476	-	-
General government	52,240	-	-
Debt service	94,110	-	6,500
Capital projects	689,273	-	-
Business type activities	-	903,730	-
Total disbursements	1,059,856	903,730	38,895
Excess (deficiency) of receipts over (under) disbursements	(607,357)	(123,055)	5,245
Other financing sources (uses), net	-	131,042	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(607,357)	7,987	5,245
Balances beginning of year	1,193,233	81,204	15,306
Balances end of year	\$ 585,876	89,191	20,551

See accompanying independent auditor's report.



Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
208,508	204,808	204,808	3,700
41,983	39,973	39,973	2,010
4,451	4,275	4,275	176
680	550	550	130
736,047	994,839	994,839	(258,792)
189,653	190,475	190,475	(822)
7,712	3,200	4,700	3,012
1,189,034	1,438,120	1,439,620	(250,586)
48,848	46,235	46,235	(2,613)
105,989	179,583	224,883	118,894
34,525	37,594	39,694	5,169
2,476	5,000	5,000	2,524
52,240	52,259	952,259	900,019
87,610	71,110	87,610	-
689,273	900,000	890,000	200,727
903,730	126,676	126,676	(777,054)
1,924,691	1,418,457	2,372,357	447,666
(735,657)	19,663	(932,737)	197,080
131,042	-	113,235	17,807
(604,615)	19,663	(819,502)	214,887
1,259,131	550,497	1,220,647	38,484
654,516	570,160	401,145	253,371

City of St. Charles

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented as Other 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, the Capital Projects 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, one budget amendment increased budgeted disbursements by \$953,900. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety and business type activities functions.

## **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, 2012

			St. Charles Fire Department	St. Charles Rescue Unit
				Special
	I-Jobs	Employee Benefits		
Receipts:				
Property tax	\$ -	7,846	-	-
Use of money and property	-	-	15	2
Miscellaneous	-	-	4,706	-
Total receipts	-	7,846	4,721	2
Disbursements:				
Operating:				
Public safety	-	1,812	14,981	8,575
Public works	-	125	-	-
Culture and recreation	-	1,680	-	-
General government	-	2,410	-	-
Debt service	-	-	-	-
Total disbursements	-	6,027	14,981	8,575
Excess (deficiency) of receipts over (under) disbursements	-	1,819	(10,260)	(8,573)
Other financing sources:				
Operating transfers in	-	-	14,100	5,300
Net change in cash balances	-	1,819	3,840	(3,273)
Cash balances beginning of year	4,132	6,560	26,620	11,864
Cash balances end of year	\$ 4,132	8,379	30,460	8,591
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Fire and rescue	\$ -	-	30,460	8,591
Streets	4,132	-	-	-
Culture and recreation	-	-	-	-
Other purposes	-	8,379	-	-
Total	\$ 4,132	8,379	30,460	8,591

See accompanying independent auditor's report.

Revenue			
St. Charles Fire Association	St. Charles Historical Preservation Committee	St. Charles Old Settlers	Total
-	-	-	7,846
-	-	-	17
19,610	20,847	3,683	48,846
19,610	20,847	3,683	56,709
8,800	-	-	34,168
-	-	-	125
-	21,071	2,524	25,275
-	-	-	2,410
6,500	-	-	6,500
15,300	21,071	2,524	68,478
4,310	(224)	1,159	(11,769)
-	-	-	19,400
4,310	(224)	1,159	7,631
7,101	5,221	2,984	64,482
11,411	4,997	4,143	72,113
11,411	-	-	50,462
-	-	-	4,132
-	4,997	4,143	9,140
-	-	-	8,379
11,411	4,997	4,143	72,113

City of St. Charles  
Schedule of Indebtedness  
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Primary Government:			
General obligation notes:			
Corporate purpose	Feb 8, 2002	5.25 %	\$ 340,000
Street improvement	Jun 1, 2011	3.75	440,000
Total			:
Revenue note:			
Road use tax	Jun 1, 2011	3.75 %	\$ 350,000
Revenue bonds:			
Sewer, Series 2009A	Jan 6, 2010 *	3.00 %	\$ 1,112,000
Sewer, Series 2012	Apr 13, 2012 *	3.00	130,000
Total			:
Warren Water System loan:			
Water system improvement	Oct 3, 2011	5.00 %	\$ 50,000
Capital lease purchase agreement:			
Fire tanker/pumper	Aug 8, 2006	5.45 %	\$ 100,000
Blended Component Unit:			
St. Charles Fire Association:			
Building loan	Dec 8, 2010	6.25 %	\$ 81,150

\*The agreements also require the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year
150,000	-	50,000	100,000
440,000	-	-	440,000
<b>\$ 590,000</b>	<b>-</b>	<b>50,000</b>	<b>540,000</b>
<b>350,000</b>	<b>-</b>	<b>29,000</b>	<b>321,000</b>
1,058,164	31,836	23,000	1,067,000
-	50,506	3,000	127,000
<b>\$ 1,058,164</b>	<b>82,342</b>	<b>26,000</b>	<b>1,194,000</b>
-	50,000	-	50,000
66,221	-	9,626	56,595
81,150	-	1,150	80,000

**Schedule 3**

City of St. Charles

Bond and Note Maturities

June 30, 2012

General Obligation Notes					
Year Ending June 30,	Corporate Purpose Issued Feb 8, 2002		Street Improvements Issued Jun 1, 2011		Total
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2013	5.25 %	\$ 50,000	3.75 %	\$ -	50,000
2014	5.25	50,000	3.75	-	50,000
2015	5.25	-	3.75	48,000	48,000
2016	5.25	-	3.75	50,000	50,000
2017	5.25	-	3.75	52,000	52,000
2018	5.25	-	3.75	54,000	54,000
2019	5.25	-	3.75	56,000	56,000
2020	5.25	-	3.75	58,000	58,000
2021	5.25	-	3.75	60,000	60,000
2022	5.25	-	3.75	62,000	62,000
Total		<u>\$ 100,000</u>		<u>\$ 440,000</u>	<u>540,000</u>

Year Ending June 30,	Revenue Note Road Use Tax Issued Jun 1, 2011		Revenue Bond Sewer 2009A Issued Jan. 6, 2010	
	Interest		Interest	
	Rates	Amount	Rates	Amount
2013	3.75 %	\$ 30,000	3.00 %	\$ 24,000
2014	3.75	33,000	3.00	25,000
2015	3.75	34,000	3.00	26,000
2016	3.75	35,000	3.00	26,000
2017	3.75	35,000	3.00	27,000
2018	3.75	37,000	3.00	28,000
2019	3.75	38,000	3.00	29,000
2020	3.75	39,000	3.00	30,000
2021	3.75	40,000	3.00	31,000
2022		-	3.00	32,000
2023		-	3.00	33,000
2024		-	3.00	34,000
2025		-	3.00	35,000
2026		-	3.00	36,000
2027		-	3.00	37,000
2028		-	3.00	39,000
2029		-	3.00	40,000
2030		-	3.00	41,000
2031		-	3.00	43,000
2032		-	3.00	44,000
2033		-	3.00	45,000
2034		-	3.00	47,000
2035		-	3.00	48,000
2036		-	3.00	50,000
2037		-	3.00	52,000
2038		-	3.00	53,000
2039		-	3.00	55,000
2040		-	3.00	57,000
Total		<u>\$321,000</u>		<u>\$ 1,067,000</u>

See accompanying independent auditor's report.



City of St. Charles  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2012

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	\$ 6,748
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>630,727</u>
Total			<u>\$ 637,475</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 in 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

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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, the discretely presented component unit, 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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 15, 2012. 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, 2011. 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

The management of the City of St. Charles is responsible for establishing and maintaining effective 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-12 through II-C-12 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-12 and II-E-12 to be significant deficiencies.

#### Compliance and Other Matters

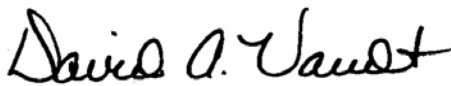
As part of obtaining reasonable assurance about whether the City of St. Charles' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and 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, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

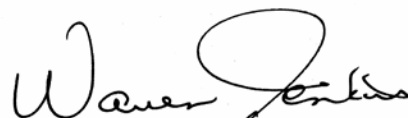
The City of St. Charles' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of St. Charles' responses and, accordingly, we express no opinion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

November 15, 2012

**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**



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Independent Auditor's Report on Compliance  
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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, 2012. 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, 2012.

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-12 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

November 15, 2012



City of St. Charles  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2012

**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 CFDA Number 97.036 – Disaster Grants\_Public Assistance (Presidentially Declared Disaster).
- (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.

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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

**INTERNAL CONTROL DEFICIENCIES:**

II-A-12 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) Computer systems – 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 Fire Association, St. Charles Historical Preservation Committee and St. Charles Old Settlers (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, Fire Association, Historical Preservation Committee and Old Settlers should review their control procedures, including utilizing City Council and Board members, to obtain the maximum internal control possible under the circumstances.

Response – The City Clerk/Treasurer is the only “office employee” and responsible for items (1) through (8) above. Due to the population of St. Charles, hiring additional office personnel is not warranted. Efforts will be made to have Council Members become more involved in the process and perform monthly spot reviews. The City has our bank financial statements sent to a Council Member for opening and review monthly prior to the reconciliation by the City Clerk.

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

The City will contact our component units that separately maintain accounts to advise more internal control procedures are needed and request that all cash, receipts and disbursements will be reviewed at least annually by a Council Member and the City Clerk.

Conclusion – Response accepted.

- II-B-12 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 financial activity related to the St. Charles Fire Department and the St. Charles Rescue Unit's accounts omitted from the accounting records. These items were 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 – The City will discuss and implement changes necessary with the Fire and Rescue Departments to include their accounts in the City's financial statements and accounting records. Special care will be taken to ensure that all future projects are handled under the appropriate type of fund in the City's accounting records.

Conclusion – Response accepted.

- II-C-12 Sewer and Garbage Collections – The City contracts with the 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 amounts which should be collected for sewer and garbage service each billing period and to reconcile amounts which should be collected to actual collections. In October 2011, the City began utilizing the services of Waste Management, Inc. for garbage pick-up. During the nine months the City was serviced by this company, Waste Management billed the City for 284 homes each month. However, based on review of the billing records, only 265 to 267 homes were actually serviced. It appears the City may have been over billed approximately \$1,900 for this nine month period. In addition, the \$250 monthly fee charged by the Warren Water District 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. 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. 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 working with Warren Water to obtain more information monthly to identify if there are any delinquent accounts which are not identified on the actual collections and revenue report that accompanies the

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

sewer and garbage/recycling revenue check. If there is a charge for programming a custom-made report by Warren Water, the City will consider incurring the additional charge. The City will advise Warren Water that we would prefer to issue a check for the monthly \$250 service fee rather than have it withheld from the collections. Waste Management relied on the residential home count of 284 which was provided by McCoy Sanitation when they purchased the company. The City has worked with Waste Management and reconciled the actual customer list which is 264 homes being serviced and now billed for garbage and recycling. In addition, the commercial listing and billing is now accurate.

Conclusion – Response accepted. The City should work with Waste Management to obtain reimbursement for the \$1,900 overpayment.

II-D-12 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 continues to work on a procedures manual and accounting policies which is beneficial to our new City Clerk.

Conclusion – Response accepted.

II-E-12 Computer Systems – During our review of internal control, the existing control activities in the City’s computer 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 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.

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

- Installing software from a vendor and ensuring only software licensed to the City is installed on City computers.
- Running an anti-virus program on computers.
- 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 its computer 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 recovery 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 backup system. All passwords have been changed with our new City Clerk. Only licensed software is installed on the City computer and we have an anti-virus program.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 97.036: Disaster Grants\_Public Assistance (Presidentially Declared Disaster)  
Federal Award Year: 2012  
U.S. Department of Homeland Security  
Passed through the Iowa Department of Public Defense**

- III-A-12 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-12.

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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

IV-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public safety 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.” In addition, Chapter 362.3 of the Code of Iowa requires notice of public hearing for the budget be published not less than four nor more than twenty days prior to the hearing. The City published notice of the public hearing twenty three days prior to the hearing.

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. The City should also publish notice of the budget hearing in accordance with Chapter 362.3 of the Code of Iowa.

Response – The City is in agreement that budget amendments should be done prior to disbursements exceeding the actual budget. Future publication of the budget hearings will be in accordance with Chapter 362.3 of the Code of Iowa.

Conclusion – Response accepted.

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

IV-D-12 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	\$ 1,051
Bernard Gray, father of Randy Gray, Public Works employee	Services and mileage	810

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

IV-E-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-12 Council Minutes – Except as noted, no transactions were found that we believe should have been approved in the Council minutes but were not.

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Certain transfers were not approved by the City Council or listed in the minutes record.

Recommendation – The City Council should ensure all transfers are approved and recorded in the minutes.

Response – The City is in agreement and transfers are now being handled as resolutions with Council approval and recorded in the minutes.

Conclusion – Response accepted.

IV-G-12 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-12 Revenue Note/Bonds – The City has not established and made the required transfers to a road use tax revenue note sinking account as required by the road use tax revenue note resolution. Also, although the City has established a sewer revenue bond sinking account, the required transfers were not made to this account during the fiscal year. In addition, Section 6 of the series 2012 sewer revenue bond resolution requires the City to pay for sewer use. The City does not pay for sewer use.

Recommendation – The City should establish a road use tax revenue note sinking account and make the necessary transfers as required. The City should also make the required transfers to the sewer revenue bond sinking account to ensure adequate funds are reserved to pay principal and interest on the bond. The City should pay for sewer use as required by the series 2012 revenue bond resolution.

Response – The City has established a road use tax revenue note sinking account with monthly transfers of \$5,000 for fiscal year 2013. Monthly transfers of \$6,000 are being made to the sewer revenue bond sinking account for fiscal year 2013 to ensure that adequate funds are reserved to pay principal and interest on the bond. Council will review and make the necessary motion/approval for the City to begin paying for sewer use.

Conclusion – Response accepted.

IV-I-12 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 which 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 closely.

Conclusion – Response accepted.

City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

- IV-J-12 Separately Maintained Records – The St. Charles Fire Department and St. Charles Rescue Unit 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 and Rescue Department about the current procedures and the need for all financial activity and balances to be included in the City’s accounting records and annual budget.

Conclusion – Response accepted.

- IV-K-12 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. The St. Charles Volunteer Fire and Rescue Department is a department of the City.

The City received disbursements from the trust of \$6,500 in December 2009, \$7,500 in December 2010 and \$8,500 in December 2011. The trust receipts from 2009 were deposited in the St. Charles Fire Department account, a separately maintained account within the City, and the Fire Department wrote a check for \$6,500 to the St. Charles Fire Association. The 2010 and 2011 trust receipts were deposited directly with the St. Charles Fire Association. The St. Charles Fire Association is a private non-profit organization formed pursuant to Chapter 504A of the Code of Iowa.

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.”



City of St. Charles

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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 further payments directly or indirectly (via direct payments of principal and interest on the Association's loan) or allowing City trust distributions to be deposited directly with the private non-profit organization. The consultation with legal counsel should include the need to request the trust distribution be returned to the City.

Response – Legal counsel reviewed and handled the initial bequest and establishment of the St. Charles Fire Association. 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. The City will have legal counsel review this matter.

Conclusion – Response acknowledged. In accordance with the bequest and the Constitution of the State of Iowa, the trust income should be remitted directly to the St. Charles Volunteer Fire and Rescue Department, a department of the City, not to the St. Charles Fire Association, an entity legally separate from the City.

IV-L-12 Fire Station Construction – In January 2011, the City purchased a partially built fire station for \$60,000. Based on representations from current and former City personnel, the \$60,000 paid to Farmers and Merchants State Bank for the station was put into an account used for construction of the fire station. In addition, the Fire Association took out a bank note totaling \$81,150 shortly before the sale of the property in 2011 which is being repaid with proceeds from the bequest discussed in IV-K-12 above (i.e., City funds). With no further information available, the cost of the fire station project was at least \$141,250. The fire station has an insured value at June 30, 2012 of approximately \$523,000.

Chapter 26 of the Code of Iowa discusses public construction bidding and requires when public improvements are funded in whole or in part with public funds, the governmental entity must follow certain competitive procedures. Specifically, Chapters 26.3 through 26.13 outline a required competitive bid and public hearing process when the estimated total cost of the improvement exceeds the competitive bid threshold of \$100,000. The City appears to have violated provisions of Chapter 26 of the Code of Iowa, circumventing requirements by remitting public funds to a private, non-profit entity to handle the construction.

Recommendation – The City should consult legal counsel to determine the disposition of this matter and should comply with Chapter 26 of the Code of Iowa for future projects funded, in whole or in part, with public funds.

Response – Recommendation noted and the City will consult legal counsel on this matter. Any future projects funded, in whole or in part, with public funds will comply with Chapter 26 of the Code of Iowa.

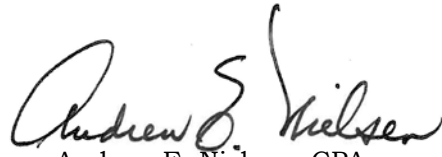
Conclusion – Response accepted.

City of St. Charles

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager  
Karen J. Kibbe, Senior Auditor II  
Tracey L. Gerrish, Staff Auditor  
Robert W. Endriss, CPA, Assistant 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