

CITY OF CENTERVILLE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007

Peak & Gerdes, LLP
Certified Public Accountants
1051 Office Park Road
West Des Moines, IA 50265

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City of Centerville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Greg Fenton	Mayor	January, 2008
Robert Greene	Council Member	January, 2008
Louise Kennis	Council Member	January, 2008
Kris Koestner	Council Member	January, 2010
Scott Kelly*	Council Member	January, 2010
Marsha Mitchell**	Council Member	January, 2008
Mike Zintz	Council Member	January, 2008
Kristen M. May	City Clerk/Treasurer	Indefinite
Debra George	Attorney	Indefinite

* - Resigned in October, 2006

** - Appointed in November, 2006

City of Centerville

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Centerville, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Centerville's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements referred to above include only the primary government of the City of Centerville, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial data do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Centerville as of June 30, 2007, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Centerville as of June 30, 2007, 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 January 4, 2008 on our consideration of the City of Centerville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 30 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Centerville's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the four years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

January 4, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Centerville 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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- ❖ Receipts of the City's governmental activities increased 7.4%, or \$301,961, from fiscal 2006 to fiscal 2007. The majority of this increase was the result of capital grants and local option sales tax increasing \$264,233 and \$120,022 respectively. Charges for service and property taxes levied for debt service decreased \$58,805 and \$77,937, respectively. In addition, no TIF was levied in fiscal 2007.
- ❖ Disbursements increased 19.2%, or \$752,897, in fiscal 2007 from fiscal 2006. Public safety, public works, general government, and capital projects disbursements increased \$165,512, \$72,442, 118,555 and \$571,495, respectively. Community and economic development disbursements decreased \$188,081.
- ❖ The City's total cash basis net assets decreased 8.2%, or \$248,890, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased \$314,192 and the assets of the business type activities increased by \$65,302. The primary reason for the decrease in cash in the governmental activities was the result of cash used to pay for a storm water construction project and to pay for TIF related costs.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets 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 sanitary sewer system and the airport. 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, 4) the Capital Projects Fund and 5) the Permanent 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 statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

(2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains an Enterprise Fund to provide separate information for the sewer funds, considered to be a major fund of the City. The airport maintains a separate account that supports this business activity, considered to be a non-major fund of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$2,253,674 to \$1,939,482. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30, 2007	Year Ended June 30, 2006
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 265	\$ 323
Operating grants, contributions and restricted interest	751	737
Capital grants, contributions and restricted interest	665	400
General receipts:		
Property tax	1,882	1,961
Local option sales tax	550	430
Hotel-Motel Tax	70	72
Unrestricted investment earnings	89	46
Other general receipts	61	58
Sale of assets	1	-
Transfers, net	<u>24</u>	<u>30</u>
Total receipts and transfers	<u>4,358</u>	<u>4,057</u>
Disbursements:		
Public safety	1,551	1,386
Public works	547	475
Culture and recreation	424	423
Community and economic development	178	366
General government	337	218
Debt service	784	773
Capital projects	<u>851</u>	<u>279</u>
Total disbursements	<u>4,672</u>	<u>3,920</u>
Increase (Decrease) in cash basis net assets	(314)	137
Cash basis net assets beginning of year	<u>2,254</u>	<u>2,117</u>
Cash basis net assets end of year	<u>\$1,940</u>	<u>\$2,254</u>

The City's total receipts for governmental activities increased by 7.4%, or \$301,961. The total cost of all programs and services increased by 19.2% or \$752,897, with no new programs added this year. The significant increase in disbursements was primarily the result of an increase in capital projects. Major capital projects consisted of a waterworks project, a storm water project, and an airport construction project.

The City decreased property tax rates for 2007, and the City did not levy any TIF funds in 2007, resulting in a decrease overall in property tax receipts by an average of 4%. This decrease affected the City's property tax receipts, decreasing by \$78,464 in 2007.

The cost of all governmental activities this year was \$4,672,632 compared to \$3,919,735 last year. However, as shown in the Statement of Activities and Net Assets on page 15, the amount taxpayers ultimately financed for these activities was only \$2,992,010 because some of the cost was paid by those who directly benefited from the programs (\$264,513) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,416,109). The City paid for the remaining "public benefit" portion of governmental activities with \$2,992,010 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	<u>Year Ended June 30, 2007</u>	<u>Year Ended June 30, 2006</u>
Receipts and transfers:		
Program receipts:		
Charges for service:		
Sewer	\$708	\$754
Airport	63	58
General receipts:		
Unrestricted interest on investments	34	11
Other general receipts	5	12
Transfers	<u>38</u>	<u>29</u>
Total receipts and transfers	<u>848</u>	<u>864</u>
Disbursements:		
Sewer	677	740
Airport	<u>105</u>	<u>99</u>
Total disbursements	<u>782</u>	<u>839</u>
Increase in cash balance	66	25
Cash basis net assets beginning of year	<u>798</u>	<u>773</u>
Cash basis net assets end of year	<u>\$864</u>	<u>\$798</u>

Total business type activities receipts and transfers for the fiscal year were \$846,638 compared to \$863,938 last year. The cash balance increased by \$65,302 from the prior year. Total disbursements for the fiscal year decreased by 6.8% to a total of \$781,336.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Centerville completed the year, its governmental funds reported a combined fund balance of \$1,806,871, a decrease of \$318,380 from last year's total of \$2,125,251. 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 \$27,338 from the prior year to \$114,642. This increase was due to an increase in interest income.
- ❖ The Road Use Tax Fund cash balance decreased by \$36,683 to \$187,230 as of June 30, 2007. An increase in fuel prices and materials decreased the cash balance in this fund.
- ❖ The Local Option Sales Tax Fund cash balance as of June 30, 2007 was \$824,397. The balance in this account will be used for various projects such as the payment of debt related to the purchase of a new fire truck, public library renovation and payments to Centerville Schools for a school project. The City currently has 2 bonds, one for the fire truck and one for the library, which are paid out of this fund. This fund is also accumulating resources for a pool project.
- ❖ The Debt Service Fund cash balance decreased by \$62,432 to \$30,660 as of June 30, 2007. This decrease was due to a decrease in property tax collections.
- ❖ The Employee Benefits Fund cash balance increased by \$8,562 to \$87,055 as of June 30, 2007. The increase was due to an increase in property tax collections.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- ❖ The Sewer Fund cash balance increased by \$57,317 to \$841,177, due primarily to increase in sewer rates during the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The budget amendments were approved on May 21, 2007 to provide for additional disbursements in certain City departments. Budget amended included: Police \$46,408 for grants and salaries; Fire \$52,477 for FEMA grant; Animal Control \$252 for spay/neuter; Road Use \$25,000 for purchase of equipment; Street Lights \$10,300 for electricity; Park and Recreation each \$7,000 for operating expenses; Youth Center \$1,518 for operating expenses; Airport \$20,000 for airport construction projects; Library \$108,186 for additional expense to be paid out of savings and renovation fund; McGraw/TIF \$106,878 for payments and additional expenses; Hotel/Motel \$20,000 for payments as a result of additional monies received; Policy and administration \$115,940 for additional expense and land purchase; Debt service \$135,969 to account for debt service payments; Election \$657 for special election requested by the taxpayers; CDBG Water \$200,000 added project; CDBG Storm Sewer \$750,000 for an added project and Waste Water \$118,000 for additional operating expenses.

DEBT ADMINISTRATION

At June 30, 2007 and 2006, the City had \$3,109,800 and \$3,860,627, respectfully, in bonds and other long-term debt, as shown below.

Outstanding Debt Year-End (Expressed in Thousands)		
	<u>June 30, 2007</u>	<u>June 30, 2006</u>
General obligation bonds	\$2,960	\$3,590
Revenue bonds	110	215
Notes payable	33	43
Lease-purchase agreements	<u>7</u>	<u>12</u>
Total	<u>\$3,110</u>	<u>\$3,860</u>

Debt decreased primarily as a result of making \$750,000 of scheduled bond and other debt payments.

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 \$2,960,000 is significantly below its constitutional debt limit of \$8,811,845.

More detailed information about the City's long-term debt is presented in Notes 3 and 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Centerville elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for various City activities. These indicators were taken into account when adopting the budget for fiscal year 2008. Receipts are budgeted to increase by \$265,416. Disbursements are budgeted to increase by \$809,758. The majority of this increase in receipts is due to capital projects, business type receipts and local option sales tax and hotel/motel monies. The majority of the increase in disbursements is in the capital projects, public safety and business type expenses. The City has added no major new programs or initiatives to the 2008 budget. If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$471,783 by the close of 2008.

In addition, the unemployment rate in the City and County is about the highest in the State of Iowa. This can be attributed to the closing of two major manufacturing plants within the past couple of years. These two major manufacturing plants employed a significant number of area individuals. However, it appears that one of the manufacturing plants will be in operation with a new owner in the near future. In addition, a new Super Wal-Mart is planned for the community, and the resort park in the County is expected to open within a couple of years. These new developments will hopefully spur new population, economic and employment growth in the City.

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 Kris May, City Clerk, 312 East Maple, P.O. Box 578, Centerville, Iowa 52544.

Basic Financial Statements

City of Centerville

Statement of Activities and Net Assets - Cash Basis

Exhibit A

As of and for the year ended June 30, 2007

Functions / Programs	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating	Capital Grants,	Governmental Activities	Business Type Activities	Total
			Grants, Contributions and Restricted Interest	Grants, Contributions and Restricted Interest			
Governmental activities:							
Public safety	\$ 1,551,133	179,661	209,743	43,780	(1,117,949)	-	(1,117,949)
Public works	547,174	7,234	493,735	6,106	(40,099)	-	(40,099)
Culture and recreation	424,158	59,383	47,990	129,099	(187,686)	-	(187,686)
Community and economic development	178,143	-	-	84,787	(93,356)	-	(93,356)
General government	336,572	18,235	-	-	(318,337)	-	(318,337)
Debt service	784,457	-	-	3,668	(780,789)	-	(780,789)
Capital projects	850,995	-	-	397,201	(453,794)	-	(453,794)
Total governmental activities	4,672,632	264,513	751,468	664,641	(2,992,010)	-	(2,992,010)
Business type activities:							
Airport	104,613	62,643	-	-	-	(41,970)	(41,970)
Sewer	676,723	707,437	-	-	-	30,714	30,714
Total business type activities	781,336	770,080	-	-	-	(11,256)	(11,256)
Total	\$ 5,453,968	1,034,593	751,468	664,641	(2,992,010)	(11,256)	(3,003,266)
General Receipts:							
Property tax and other city tax levied for:							
General purposes					1,605,283	-	1,605,283
Debt service					276,983	-	276,983
Local option sales tax					549,797	-	549,797
Grants and contributions not restricted to specific purpose					50,087	-	50,087
Hotel-Motel tax					70,317	-	70,317
Unrestricted interest on investments					89,254	34,155	123,409
Miscellaneous					10,948	4,802	15,750
Sale of assets					1,000	-	1,000
Transfers					24,149	37,601	61,750
Total general receipts and transfers					2,677,818	76,558	2,754,376
Change in cash basis net assets					(314,192)	65,302	(248,890)
Cash basis net assets beginning of year					2,253,674	798,878	3,052,552
Cash basis net assets end of year					\$ 1,939,482	864,180	2,803,662
Cash Basis Net Assets							
Restricted:							
Streets					\$ 187,230	-	187,230
Urban renewal purposes					154,994	-	154,994
Debt service					30,660	67,217	97,877
Local option sales tax					824,397	-	824,397
Other purposes					494,948	-	494,948
Unrestricted					247,253	796,963	1,044,216
Total cash basis net assets					\$ 1,939,482	864,180	2,803,662

See notes to financial statements.

City of Centerville

Exhibit B

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

As of and for the year ended June 30, 2007

	Special Revenue			Debt Service	Nonmajor	Total
	General	Road Use Tax	Local Option Sales Tax			
Receipts:						
Property tax	\$ 1,048,424	-	-	556,859	276,983	-
Other city tax	70,317	-	549,797	-	-	-
Licenses and permits	67,657	-	-	-	-	-
Use of money and property	65,686	-	18,833	-	3,668	32,220
Intergovernmental	606,214	493,735	-	-	-	232,929
Charges for service	133,100	-	-	-	-	-
Special assessments	1,503	-	-	-	-	-
Miscellaneous	112,500	-	-	4,167	-	28,600
Total receipts	2,105,401	493,735	568,630	561,026	280,651	323,848
Disbursements:						
Operating:						
Public safety	1,113,037	-	-	439,715	-	1,350
Public works	17,072	529,876	-	951	-	-
Culture and recreation	393,861	-	-	22,473	-	7,983
Community and economic development	105,129	-	-	-	-	73,014
General government	296,423	-	-	40,484	-	-
Debt service	-	-	-	-	784,457	-
Capital projects	150,579	-	109,988	-	-	590,428
Total disbursements	2,076,101	529,876	109,988	503,623	784,457	672,775
Excess (deficiency) of receipts over (under) disbursements	29,300	(36,141)	458,642	57,403	(503,806)	(348,927)
Other financing sources (uses):						
Sale of capital assets	1,000	-	-	-	-	-
Operating transfers in	70,027	-	-	-	441,374	107,221
Operating transfers out	(72,989)	(542)	(256,094)	(48,841)	-	(216,007)
Total other financing sources (uses)	(1,962)	(542)	(256,094)	(48,841)	441,374	(108,786)
Net change in cash balances	27,338	(36,683)	202,548	8,562	(62,432)	(457,713)
Cash balances beginning of year	87,304	223,913	621,849	78,493	93,092	1,020,600
Cash balances end of year	\$ 114,642	187,230	824,397	87,055	30,660	562,887
Cash Basis Fund Balances						
Reserved:						
Debt service	\$ -	-	-	-	30,660	-
Unreserved:						
General fund	114,642	-	-	-	-	-
Special revenue funds	-	187,230	824,397	87,055	-	178,726
Capital projects funds	-	-	-	-	-	241,826
Permanent fund	-	-	-	-	-	142,335
Total cash basis fund balances	\$ 114,642	187,230	824,397	87,055	30,660	562,887

See notes to financial statements.

City of Centerville

Exhibit C

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2007

Total governmental funds cash balances (page 16) \$ 1,806,871

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

The Internal Service Fund is used by management to charge the costs of self funding of the City's health insurance benefit plan to individuals. A portion of the assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

132,611

Cash basis net assets of governmental activities (page 15) \$ 1,939,482

Net change in cash balances (page 16) \$ (318,380)

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

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

4,188

Change in cash balance of governmental activities (page 15) \$ (314,192)

See notes to financial statements.

City of Centerville

Exhibit D

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

As of and for the year ended June 30, 2007

	Enterprises Funds			Internal
	Other Nonmajor			Service Fund
	Sewer	- Airport	Total	Employee Health
Operating receipts:				
Use of money and property	\$ -	21,815	21,815	1,184
Charges for service	704,743	40,828	745,571	538,341
Miscellaneous	2,694	-	2,694	28,113
Total operating receipts	<u>707,437</u>	<u>62,643</u>	<u>770,080</u>	<u>567,638</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	217,254
Public works	-	-	-	52,874
Culture and recreation	-	-	-	11,870
General government	-	-	-	154,385
Business type activities	572,005	104,613	676,618	53,235
Total operating disbursements	<u>572,005</u>	<u>104,613</u>	<u>676,618</u>	<u>489,618</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>135,432</u>	<u>(41,970)</u>	<u>93,462</u>	<u>78,020</u>
Non-operating receipts (disbursements):				
Interest on investments	34,155	-	34,155	-
Miscellaneous	4,802	-	4,802	-
Debt service	(116,800)	-	(116,800)	-
Total non-operating receipts (disbursements)	<u>(77,843)</u>	<u>-</u>	<u>(77,843)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>57,589</u>	<u>(41,970)</u>	<u>15,619</u>	<u>78,020</u>
Other financing sources (uses):				
Operating transfers in	-	37,873	37,873	-
Operating transfers out	(272)	-	(272)	(61,750)
Total other financing sources (uses)	<u>(272)</u>	<u>37,873</u>	<u>37,601</u>	<u>(61,750)</u>
Net change in cash balances	57,317	(4,097)	53,220	16,270
Cash balances beginning of year	<u>783,860</u>	<u>4,064</u>	<u>787,924</u>	<u>139,377</u>
Cash balances end of year	<u>\$ 841,177</u>	<u>(33)</u>	<u>841,144</u>	<u>155,647</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ 67,217	-	67,217	-
Unreserved	<u>773,960</u>	<u>(33)</u>	<u>773,927</u>	<u>155,647</u>
Total cash basis fund balances	<u>\$ 841,177</u>	<u>(33)</u>	<u>841,144</u>	<u>155,647</u>

See notes to financial statements.

City of Centerville

Exhibit E

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2007

Total enterprise funds cash balances (page 18) \$ 841,144

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

The Internal Service Fund is used by management to charge the costs of self funding of the City's health insurance benefit plan to individual funds. A portion of the assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

23,036

Cash basis net assets of business type activities (page 15)

\$ 864,180

Net change in cash balances (page 18)

\$ 53,220

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

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

12,082

Change in cash balance of business type activities (page 15)

\$ 65,302

See notes to financial statements.

City of Centerville

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Centerville is a political subdivision of the State of Iowa located in Appanoose 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

Except as discussed below, for financial reporting purposes, the City of Centerville 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 Centerville (the primary government) and exclude all component units. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Unit

The Centerville Municipal Waterworks was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to, or impose specific burdens on the City. The Municipal Waterworks is governed by a five-member board appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Waterworks administrative office.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Appanoose County Assessor's Conference Board, Appanoose County Emergency Management Commission, and Appanoose 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 the business type activities, which rely to a significant extent on fees and charges for service.

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

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

Unrestricted net assets consist of net assets that do not meet 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 that are 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 that are not paid from other funds.

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax receipts and the projects financed with these receipts.

The Employee Benefits Fund is used to account for property tax receipts and the related payment of employee benefits.

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

The City reports the following major proprietary fund:

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

The City also reports the following additional proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2007 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.

At June 30, 2007, the City had no investments meeting the disclosure requirements of Government Accounting Standards Board Statement No. 3 as amended by Statement No. 40.

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

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 300,000	99,790	110,000	2,750	410,000	102,540
2009	415,000	99,433	-	-	415,000	99,433
2010	415,000	85,608	-	-	415,000	85,608
2011	425,000	71,256	-	-	425,000	71,256
2012	290,000	56,016	-	-	290,000	56,016
2013	300,000	44,920	-	-	300,000	44,920
2014	305,000	33,033	-	-	305,000	33,033
2015	185,000	22,915	-	-	185,000	22,915
2016	195,000	14,680	-	-	195,000	14,680
2017	65,000	5,784	-	-	65,000	5,784
2018	65,000	2,925	-	-	65,000	2,925
	<u>\$ 2,960,000</u>	<u>536,360</u>	<u>110,000</u>	<u>2,750</u>	<u>3,070,000</u>	<u>539,110</u>

Revenue Notes:

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

- (a) The notes will only be redeemed from the future earnings of the Sewer Utility Fund and the note holders hold a lien on the future earnings of the sewer utility fund.
- (b) Sufficient monthly cash transfers shall be made to the Sewer Utility Operation and Maintenance Fund to meet the current expenses of the month plus an amount equal to one-twelfth of the expenses payable on an annual basis.
- (c) Sufficient monthly cash transfers shall be made to the Sewer Revenue Note and Interest Sinking Fund for the purpose of making the note principal and interest payments when due. The balance in this restricted account is required to be \$9,396 at June 30, 2007.

This account can only be used for the retirement of note principal and interest.

- (d) A Debt Service Reserve Fund shall be maintained for the purpose of paying principal and interest on the notes when insufficient funds are available in the Sinking Fund. The balance in this restricted account is required to be \$61,500 at June 30, 2007.

Notes Payable – US Bank

The City is indebted to US Bank in the amount of \$33,127. The note is due in five annual installments of \$11,956 including interest at 4.05 percent per annum. The final payment, consisting of the unpaid principal and interest, is due on April 15, 2010.

Future principal requirements of the notes payable is as follows:

Year Ending June 30,	Amount
2008	\$ 10,590
2009	11,027
2010	11,510
Total	<u>\$ 33,127</u>

(4) **Interfund Loan**

During fiscal year 2005, the Capital Projects – Tax Increment Financing Fund loaned \$120,000 to the Internal Service Fund. This loan began in December 2004, and was for one year at an interest rate of 3.5%. During fiscal year 2006, this loan was extended for another year. During fiscal year 2006, \$65,581 was repaid, consisting of \$60,000 principal and \$5,581 interest. During fiscal year 2007, \$61,750 was repaid, consisting of \$60,000 principal and \$1,750 interest. Therefore, at June 30, 2007, the interfund loan balance outstanding was \$0.

(5) **Lease Purchase Obligation**

The City is purchasing office equipment under capital lease contracts. Future payments in relation to these leases are as follows:

Year Ended June 30,	Principal	Interest	Total Payment
2008	\$ 4,646	297	4,943
2009	2,027	33	2,060
Total	\$ 6,673	330	7,003

(6) **Operating Lease Agreements**

The City Library is leasing computer equipment and a copy machine for \$255 per month. Future required payments are:

Year Ended June 30,	Amount
2008	\$ 3,041
2009	2,344
2010	1,215
	\$ 6,600

Total rent expense during the fiscal year on these agreements was \$2,974.

(7) **Pension and Retirement Benefits**

Iowa Public Employees Retirement System

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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$46,910, \$44,280, and \$44,631 respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits, which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, West Des Moines, IA 50263.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, can not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2007, 2006 and 2005 were \$155,621, \$145,994, and \$137,971 respectively, which met the required contribution rate for each year.

(8) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory, and personal hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory and personal hours payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Personal time	\$ 491
Compensatory time	37,349
Vacation	<u>99,842</u>
Total	<u>\$137,682</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 48,841
	Capital Projects:	
	Airport Construction	11,580
	Permanent:	
	Cemetery Perpetual Care	<u>9,606</u>
		70,027
Debt Service	General	11,956
	Special Revenue:	
	Special Assessment	28,600
	Local Option Sales Tax	256,094
	Road Use Tax	542
	Urban Renewal Tax Increment	143,910
	Enterprise:	
	Sewer	<u>272</u>
		441,374
Enterprise: Airport	General	15,562
	Capital Projects:	
	Airport Construction	<u>22,311</u>
		37,873
Capital Projects: Tax Increment Financing	Internal Service:	
	Employee Health	<u>61,750</u>
Capital Projects: Airport Construction	General	<u>45,471</u>
		<u>\$ 656,495</u>

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

(10) Related Party Transactions

The City had business transactions between the City and City officials totaling \$761 during the year ended June 30, 2007.

(11) Industrial Development Revenue Bonds

The City has issued a total of \$7,000,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest does not constitute liabilities of the City.

(12) Self-Insured Medical Plan

The City of Centerville has a self-insured medical plan for City employees. A fixed monthly fee per participating employee is paid to an insurance administrative company to administer the plan and evaluate claims. The plan is funded by both employee and city contributions.

The City escrows funds each month to be used to pay medical claims incurred. The maximum exposure by the City for one individual in a twelve-month period is \$20,000. Claims in excess of this amount are paid by the insurance administrative company through the purchase of stop loss insurance. The maximum aggregate benefit to be paid by the insurance company in a contract year is \$1,000,000. The City records the plan receipts and disbursements of the City of Centerville Health Insurance Fund as an Internal Service Fund.

(13) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2007 were \$90,129.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are

retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contracts with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and airport owners liability. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(14) Community Economic Betterment Account (CEBA) Grants

Local businesses were awarded CEBA grants of \$860,000 with the money for these grants passed through the City. Under the grant agreements, the businesses must meet certain employment goals within a specified period to have \$370,000 of the loans forgiven. The balance, or \$490,000, is to be amortized and paid back over a seven-year period.

In the event of default, the City's liability is limited to the amount it can collect from the businesses. The City also has the responsibility to enforce the security interests against the businesses in the event of default.

(15) Agreement with Appanoose County

The City entered into an agreement with Appanoose County to provide sewer services to a group of residents not previously served by the City. Appanoose County obtained a loan to finance the cost of construction related to this project. The total loan obtained by Appanoose County was \$116,200.

The City collects the sewer fees from the users of the service. The City then pays Appanoose County once a year at an amount equal to the lesser of sewer fees collected or principal and interest due on the loan. At June 30, 2007, the total principal balance of the loan outstanding was \$108,066. Total principal and interest paid by the City from the Sewer Utility Fund to Appanoose County for this loan in fiscal year 2007 was \$6,440. The City's liability is limited to the amount of fees collected from the users of this system.

(16) Development and Rebate Agreement

The City entered into a development and rebate agreement during the year ended June 30, 2004 to assist in an urban renewal project. The City agreed to rebate incremental taxes paid by the developer in exchange for infrastructure improvements with an estimated taxable value of \$200,000 constructed by the developer as set forth in the urban renewal plan. The incremental taxes to be received by the City under Chapter 403.10 of the Code of Iowa from the developer will be rebated for a period of seven years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. Future payments under the development and rebate agreement are as follows:

Year Ended June 30,	Principal	Interest	Total Payment
2008	\$ 6,693	1,685	8,378
2009	7,066	1,312	8,378
2010	7,455	923	8,378
2011	7,865	513	8,378
2012	1,464	81	1,545
Total	\$ 30,543	4,514	35,057

During the year ended June 30, 2007, the City rebated \$6,349 of incremental taxes and \$2,029 in related interest to the developer. The cumulative amount rebated to the developer from March 2004 through June 30, 2007 was \$16,756.

(17) Deficit Balance

The Capital Projects – Airport Construction Fund had a deficit balance of \$6,867 at June 30, 2007. The Enterprise - Airport Fund had a deficit balance of \$33 at June 30, 2007. These deficits were the result of costs in excess of income. These deficits will be eliminated through transfers from the General Fund.

(18) Litigation/Contingency

The City is the defendant in lawsuits relating to various City matters. The possibility, and amount of loss, if any, is undeterminable.

The City receives payments in lieu of taxes from the local housing agency. The City is in the process of determining whether some of these funds received in prior years from the local housing agency should have been distributed to political subdivisions in the County. The amount of funds the City received from the local housing agency which would be distributed to the political subdivisions, if any, is undeterminable.

The City participates in a number of Federal and State grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

(19) Construction Project

The City entered into a 28-E agreement with Appanoose County to replace a bridge which is part in the City and part in the County. The cost of this bridge is funded with federal grant funds and local match. Appanoose County directly receives the federal funds and provides the local match for this project. Appanoose County is also responsible for all procedural and substantive matters related to this project. The financial activity for this project is included in the books and records of Appanoose County and not the City of Centerville.

(20) Commitments/Subsequent Events

As of June 30, 2007, the City has awarded contracts for various construction projects. All of these construction projects will be primarily funded by grants. The City was awarded various grants, with approximately \$900,000 outstanding as of June 30, 2007. It is anticipated that most of these projects will be completed in fiscal year 2008.

In fiscal year 2008, the City sold the McGraw building for \$160,000.

Required Supplementary Information

City of Centerville

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds - Primary Government

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts:							
Property tax	\$ 1,882,266	-	-	1,882,266	1,709,433	1,709,433	172,833
Other city tax	620,114	-	-	620,114	746,266	791,266	(171,152)
Licenses and permits	67,657	-	-	67,657	66,000	66,000	1,657
Use of money and property	120,407	57,154	1,184	176,377	26,300	26,300	150,077
Intergovernmental	1,332,878	-	-	1,332,878	1,390,998	2,291,516	(958,638)
Charges for service	133,100	1,314,719	566,454	881,365	954,385	954,385	(73,020)
Special assessments	30,103	-	-	30,103	17,893	17,893	12,210
Miscellaneous	146,766	4,802	-	151,568	108,631	112,692	38,876
Total receipts	4,333,291	1,376,675	567,638	5,142,328	5,019,906	5,969,485	(827,157)
Disbursements:							
Public safety	1,554,102	217,254	217,254	1,554,102	1,475,527	1,575,064	20,962
Public works	547,899	52,874	52,874	547,899	532,463	567,763	19,864
Culture and recreation	424,317	11,870	11,870	424,317	311,973	435,677	11,360
Community and economic development	178,143	-	-	178,143	180,000	331,879	153,736
General government	336,907	154,385	154,385	336,907	230,653	349,250	12,343
Debt service	784,457	-	-	784,457	663,990	799,959	15,502
Capital projects	850,995	-	-	850,995	2,120,800	3,070,800	2,219,805
Business type activities	-	846,653	53,235	793,418	711,687	849,687	56,269
Total disbursements	4,676,820	1,283,036	489,618	5,470,238	6,227,093	7,980,079	2,509,841
Excess (deficiency) of receipts over (under) disbursements	(343,529)	93,639	78,020	(327,910)	(1,207,187)	(2,010,594)	1,682,684
Other financing sources, net	25,149	(24,149)	(61,750)	62,750	968,232	968,232	(905,482)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(318,380)	69,490	16,270	(265,160)	(238,955)	(1,042,362)	777,202
Balances beginning of year	2,125,251	927,301	139,377	2,913,175	3,681,733	3,681,733	(768,558)
Balances end of year	\$ 1,806,871	996,791	155,647	2,648,015	3,442,778	2,639,371	8,644

See accompanying independent auditor's report.

City of Centerville

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2007

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary 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 \$1,752,986. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Centerville

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

As of and for the year ended June 30, 2007

	Special				
	Urban Renewal Tax Increment	Friends of Oakland Cemetery	Crime Stoppers	Canine	Special Law Enforcement
Receipts:					
Use of money and property	\$ 13,693	803	-	-	-
Intergovernmental	-	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	-	50	-	-	452
Total receipts	<u>13,693</u>	<u>853</u>	<u>-</u>	<u>-</u>	<u>452</u>
Disbursements:					
Operating:					
Public safety	-	-	828	70	452
Culture and recreation	-	495	-	-	-
Community and economic development	46,834	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	<u>46,834</u>	<u>495</u>	<u>828</u>	<u>70</u>	<u>452</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(33,141)</u>	<u>358</u>	<u>(828)</u>	<u>(70)</u>	<u>-</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	(143,910)	-	-	-	-
Total other financing sources (uses)	<u>(143,910)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(177,051)	358	(828)	(70)	-
Cash balances beginning of year	<u>313,042</u>	<u>28,455</u>	<u>3,427</u>	<u>2,485</u>	<u>2,295</u>
Cash balances end of year	<u>135,991</u>	<u>28,813</u>	<u>2,599</u>	<u>2,415</u>	<u>2,295</u>
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	135,991	28,813	2,599	2,415	2,295
Capital project fund	-	-	-	-	-
Permanent fund	-	-	-	-	-
Total cash basis fund balances	<u>\$ 135,991</u>	<u>28,813</u>	<u>2,599</u>	<u>2,415</u>	<u>2,295</u>

See accompanying independent auditor's report.

Schedule 1

Revenue		Capital Projects			Permanent	
Library Memorial	Special Assessment	Library Construction	Tax Increment Financing	Airport Construction	Cemetery Perpetual Care	Total
-	-	7,942	4,736	-	5,046	32,220
-	-	-	94,458	138,471	-	232,929
-	28,600	-	-	-	-	28,600
6,254	-	21,157	-	-	2,186	30,099
6,254	28,600	29,099	99,194	138,471	7,232	323,848
-	-	-	-	-	-	1,350
7,488	-	-	-	-	-	7,983
-	-	-	26,180	-	-	73,014
-	-	8,613	424,897	156,918	-	590,428
7,488	-	8,613	451,077	156,918	-	672,775
(1,234)	28,600	20,486	(351,883)	(18,447)	7,232	(348,927)
-	-	-	61,750	45,471	-	107,221
-	(28,600)	-	-	(33,891)	(9,606)	(216,007)
-	(28,600)	-	61,750	11,580	(9,606)	(108,786)
(1,234)	-	20,486	(290,133)	(6,867)	(2,374)	(457,713)
7,847	-	209,204	309,136	-	144,709	1,020,600
6,613	-	229,690	19,003	(6,867)	142,335	562,887
6,613	-	-	-	-	-	178,726
-	-	229,690	19,003	(6,867)	-	241,826
-	-	-	-	-	142,335	142,335
6,613	-	229,690	19,003	(6,867)	142,335	562,887

City of Centerville

Schedule 2

Schedule of Indebtedness
All Primary Government Fund Types

Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds -									
Corporate Purpose	September 1, 2001	3.40-4.70%	\$ 1,400,000	1,135,000	-	95,000	1,040,000	48,610	-
Capital Loan Notes	May 1, 2003	1.25-4.50%	1,195,000	760,000	-	170,000	590,000	26,852	-
Capital Loan Notes	July 1, 2003	1.20-3.20%	500,000	410,000	-	95,000	315,000	15,037	-
Capital Loan Notes	September 1, 2003	3.00-4.00%	700,000	525,000	-	120,000	405,000	25,157	-
Refunding Capital Loan Notes	April 1, 2005	3.00-3.375%	910,000	760,000	-	150,000	610,000	24,900	-
				<u>\$ 3,590,000</u>		<u>630,000</u>	<u>2,960,000</u>	<u>140,556</u>	
Revenue Notes -									
Refunding Capital Loan Notes	April 1, 2003	1.20-2.50%	\$ 615,000	215,000	-	105,000	110,000	5,060	-
Notes Payable -									
Vehicle Loan	April 15, 2005	4.05%	\$ 53,064	43,297	-	10,170	33,127	1,786	-
Lease Purchase Agreements									
Equipment	August 20, 2003	6.50%	\$ 21,054	11,028	-	4,355	6,673	588	-
Equipment	May 24, 2004	13.8125%	3,713	1,302	-	1,302	-	91	-
				<u>\$ 12,330</u>		<u>5,657</u>	<u>6,673</u>	<u>679</u>	

See accompanying independent auditor's report.

City of Centerville

Bond and Note Maturities

Schedule 3

June 30, 2007

General Obligation Bonds

Year Ending June 30,	Corporate Purpose		Capital Loan Notes Issued May 1, 2003		Capital Loan Notes Issued July 1, 2003		Capital Loan Notes Issued September 1, 2003		Refunding Capital Loan Notes Issued April 1, 2005		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2008	3.90%	\$ 100,000	2.80%	\$ 45,000	-	-	-	-	3.375%	\$ 155,000	\$ 300,000
2009	4.00%	100,000	3.10%	45,000	2.20%	50,000	3.100%	65,000	3.375%	155,000	415,000
2010	4.10%	105,000	3.35%	45,000	2.50%	50,000	3.125%	65,000	3.375%	150,000	415,000
2011	4.20%	110,000	3.60%	50,000	2.80%	50,000	3.500%	65,000	3.250%	150,000	425,000
2012	4.30%	115,000	3.75%	50,000	2.95%	55,000	3.700%	70,000	-	-	290,000
2013	4.40%	120,000	3.90%	55,000	3.05%	55,000	3.800%	70,000	-	-	300,000
2014	4.50%	125,000	4.00%	55,000	3.20%	55,000	4.000%	70,000	-	-	305,000
2015	4.60%	130,000	4.10%	55,000	-	-	-	-	-	-	185,000
2016	4.70%	135,000	4.25%	60,000	-	-	-	-	-	-	195,000
2017	-	-	4.40%	65,000	-	-	-	-	-	-	65,000
2018	-	-	4.50%	65,000	-	-	-	-	-	-	65,000
		<u>\$ 1,040,000</u>		<u>\$ 590,000</u>		<u>\$ 315,000</u>		<u>\$ 405,000</u>		<u>\$ 610,000</u>	<u>\$ 2,960,000</u>

Revenue Notes

Year Ending June 30,	Refunding Capital Loan Notes Issued April 1, 2003		Total
	Interest Rates	Amount	
2008	2.50%	\$ 110,000	\$ 110,000
		<u>\$ 110,000</u>	<u>\$ 110,000</u>

See accompanying independent auditor's report.

City of Centerville

Schedule of Receipts By Source and Disbursements by Function -
All Governmental Funds

Schedule 4

For the Last Five Years

	2007	2006	2005	2004	2003
Receipts:					
Property tax	\$ 1,882,266	1,955,748	1,724,719	1,603,776	1,683,007
Tax increment financing	-	4,983	391,046	274,364	290,210
Other city tax	620,114	502,078	401,423	443,487	-
Licenses and permits	67,657	66,598	71,047	22,613	18,727
Use of money and property	120,407	59,455	40,907	27,520	36,951
Intergovernmental	1,332,878	915,365	889,884	700,127	1,039,512
Charges for service	133,100	161,539	130,839	199,013	194,348
Special assessments	30,103	17,965	35,863	44,222	48,777
Miscellaneous	146,766	342,640	194,059	292,803	268,235
Total	\$ 4,333,291	4,026,371	3,879,787	3,607,925	3,579,767
Disbursements:					
Operating:					
Public safety	\$ 1,554,102	1,435,742	1,294,664	1,682,274	1,378,363
Public works	547,899	487,234	582,726	581,046	923,440
Culture and recreation	424,317	426,005	363,190	305,340	323,633
Community and economic development	178,143	366,224	259,328	37,797	206,258
General government	336,907	237,911	214,897	213,895	302,050
Debt service	784,457	772,593	820,223	652,947	849,128
Capital projects	850,995	279,500	769,504	98,068	1,096,109
Non-program	-	-	-	49,923	25
Total	\$ 4,676,820	4,005,209	4,304,532	3,621,290	5,079,006

See accompanying independent auditor's report.

City of Centerville

Schedule 5

Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct -			
U.S. Department of Agriculture - Community Facilities Loans and Grants	10.766	N/A	\$ <u>8,000</u>
U.S. Department of Transportation - Airport Improvement Program	20.106	3-19-0013-06 3-19-0013-02	22,943 <u>107,528</u> <u>130,471</u>
U.S. Department of Homeland Security - Office of Domestic Preparedness - Assistance to Firefighter's Grant	97.044	EMW-2004-FG-12350	<u>43,731</u>
Subtotal - Direct			<u>182,202</u>
Indirect -			
U.S. Department of Housing and Urban Development - Iowa Department of Economic Development - Community Development Block Grants/State's Program - Passed through to Centerville Municipal Waterworks	14.228	05-WS-019-04	150,579
Community Development Block Grants/State's Program	14.228	03-HSG-069	97,303
Community Development Block Grants/State's Program	14.228	06-CF-004	<u>293,070</u> <u>540,952</u>
U.S. Department of Justice - Governor's Office of Drug Control Policy - Developing, Testing and Demonstrating Promising New Programs	16.541	N/A	<u>3,616</u>
Governor's Office of Drug Control Policy - Public Safety Partnership and Community Policing Grants - Passed through to City of Creston	16.710	HS-A17	26,933
Public Safety Partnership and Community Policing Grants	16.710	HS-A17	<u>53,464</u> <u>80,397</u>
Governor's Office of Drug Control Policy - Edward Byrne Memorial Justice Assistance Grant Program - Passed through to City of Creston	16.738	06-JAG	19,786
Edward Byrne Memorial Justice Assistance Grant Program	16.738	06-JAG	<u>39,274</u> <u>59,060</u>

City of Centerville

Schedule 5

Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
U.S. Department of Transportation State of Iowa - Governor's Traffic Safety Bureau - Safety Incentive Grants for Use of Seatbelts	20.604	N/A	\$ 1,231
Subtotal - Indirect			<u>685,256</u>
Total			<u>\$ 867,458</u>

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

See accompanying independent auditor's report.

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
WEST DES MOINES, IOWA 50265

(515) 277-3077

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 primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Centerville, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 4, 2008. Our report expressed unqualified opinions on the primary government financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects City of Centerville's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Centerville's financial statements that is more than inconsequential will not be prevented or detected by City of Centerville's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Centerville's internal control.

Our consideration of the internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Centerville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance 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 that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Centerville's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Centerville's responses and, accordingly, we do not express an 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 Centerville and other parties to whom the City of Centerville 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 Centerville 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.

Peak & Gerdes, LLP
Certified Public Accountants

January 4, 2008

PEAK & GERDES, LLP
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1051 OFFICE PARK ROAD
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Independent Auditor's Report on Compliance with Requirements
Applicable to 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 compliance of the City of Centerville, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2007. The City of Centerville's 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 Centerville's management. Our responsibility is to express an opinion on the City of Centerville's compliance based on our audit.

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

In our opinion, the City of Centerville complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items III-A-07, III-B-07 and III-C-07.

Internal Control Over Compliance

The management of the City of Centerville 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 Centerville's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Centerville's internal control over compliance.

A control deficiency in the City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

City of Centerville's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the City's responses, we did not audit the City of Centerville's 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 Centerville and other parties to whom the City of Centerville 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.

Peak & Gerdes, LLP
Certified Public Accountants

January 4, 2008

City of Centerville
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program was noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are 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 14.228 – Community Development Block Grants/State's Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Centerville did not qualify as a low-risk auditee.

City of Centerville
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-07 Receipts – Receipts were not always deposited intact. At times, the City physically held checks until a specified date pursuant to the request of the payee. As a result, receipts were not always deposited intact.

Recommendation – The City ensure all receipts are deposited timely and on an intact basis.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-B-07 Disbursement Timing – Two instances were noted where checks totaling \$15,650 were written and dated in June, 2007, even though the related merchandise was not received until September, 2007.

Recommendation – The City implement procedures to ensure disbursements are paid only after the related receipt of the service or merchandise.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-C-07 Debt – In the years 1999 and 2001, a local non-profit development group gave some real estate to the City. As a condition of this gift, the City Council and the local non-profit development group apparently entered into a verbal agreement whereby the City would pay the local non-profit development group \$32,677 for this property at some point in the future. During fiscal year 2007, the City paid \$28,000 to the local non-profit development group for this real estate, leaving a balance due of \$4,677.

There is no written agreement regarding this debt. In addition, the City did not follow Iowa Code Sections, specifically Chapters 364, 384 and 403 in regards to the issuance of debt.

Recommendation – The City consult with their attorney regarding the proper resolution of the above issue. In addition, in the future, the City should ensure compliance with the Code of Iowa regarding the issuance of debt.

Response – We will consult with our attorney in relation to the above.

Conclusion – Response accepted.

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

II-D-07 Bonds – In 2003, the City issued \$700,000 in General Obligation Bonds to pay for the cost of the library renovation. The related documentation associated with this debt states that the proceeds are generally required to be spent within three years of issuance. As of June 30, 2007, it appears the City still has a significant amount of unspent bond proceeds on hand for the library renovation. As a result, it appears the City is not in compliance with the bond requirements.

Recommendation – The City consult with their bond attorney to determine the proper resolution of the above.

Response – We will review this area.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through Agency Number: 06-CF-004
Federal Award Year: 2006
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

III-A-07 Match Requirements – Based on the grant award, 68% of the total cost of the storm water project is to be paid with Community Development Block Grant funds, with the balance, or 32%, to be paid for with local funds. Furthermore, the grant agreement states that the local match is required to be expended ratably over the project term. Based on total cumulative costs incurred on this project through the date of the last claim form filed in fiscal year 2007, approximately 80% of the total costs of this project were paid with Community Development Block Grant funds, with the balance, or approximately 20%, paid for with local funds. As a result, it appears the City has not met the match requirements as required pursuant to the grant award.

City and grant personnel were apparently unaware of this situation until we brought it to their attention.

Recommendation – The City implement procedures to ensure the match requirements are met as required pursuant to the grant award. In addition, the City should work with the Iowa Department of Economic Development to resolve this issue.

Response – We will implement these recommendations.

Conclusion – Response accepted.

III-B-07 Davis-Bacon Act – The Davis Bacon-Act requires that prevailing wages be paid to all employees working on applicable federally funded construction projects. Based on our review of the contractor and subcontractors payroll certifications, it appears there were a significant number of employees who were underpaid based on the prevailing wages that are required to be paid for work on the storm water project.

City and grant personnel were apparently unaware of this situation until we brought it to their attention.

Recommendation – The City implement procedures to ensure the Davis-Bacon Act requirements are followed, and that they work with the Iowa Department of Economic Development to resolve this issue.

Response – We will implement this recommendation.

Conclusion – Response accepted.

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through Agency Number: 05-WS-019-04
Federal Award Year: 2005
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

III-C-07 Cash Management – Federal regulations require that the City have procedures in place to ensure minimal time elapses between receipt of the federal funds and the related disbursement of those funds. Our review noted that more than ten days elapsed between receipt of the federal funds from the Community Development Block Grant program and the related disbursement of those funds.

Recommendation – The City implement procedures to ensure minimal time elapses between receipt of federal funds and the related disbursement of those funds.

Response – We will implement this recommendation.

Conclusion – Response accepted.

SIGNIFICANT DEFICIENCIES:

No material weaknesses in internal control over the major program was noted.

City of Centerville
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-07 Certified Budget - Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.

IV-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-07 Business Transactions – Business transactions between the City and City officials or employees of the primary government are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Robert Greene, Council Member Owner of R&R Sales	Supplies	\$ 169
Kris Koestner, Council Member Owner of J&K Market	Supplies	237
Ron Creagan, Street Commissioner Owner of R&A Auto	Services	355

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Members and the Street Commissioner do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

IV-E-07 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 insure that the coverage is adequate for current operations.

IV-F-07 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not. A City Council meeting minutes, including a list of claims allowed, was not timely published as required by Chapter 372.13 (6) of the Code of Iowa. In addition, the purpose of the claims were not consistently published, as required by the Code of Iowa.

For closed sessions, the vote of each Council member was not consistently documented in the Council minutes as required by Chapter 21.5 of the Code of Iowa.

Recommendation - All City Council meeting minutes, list of claims allowed and purpose of the claims should be timely published as required by the Code of Iowa. The City should also implement procedures to ensure the Code of Iowa requirements are met in relation to closed sessions.

Response – We will implement these recommendations.

Conclusion - Response accepted.

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

IV-G-07 Deposits and Investments – No instances of noncompliance 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-07 Revenue Bonds – The City has complied with revenue bond and note resolutions.

IV-I-07 Payroll - City employees have vacation and compensatory time balances in excess of the maximums allowed by the union agreement and the City personnel policies. Based on a review of the ordinances, it appears the salary paid to the Mayor was less than the ordinance amount. Based on a review of the requirements of the Fair Labor Standards Act, the City may not be properly compensating for overtime to certain employees.

Recommendation - The City consult with legal counsel in relation to how to resolve the vacation and compensatory time issue as well as the overtime issue as discussed above. Also, the Mayor should be paid pursuant to the ordinance.

Response - We do have a resolution in place which addresses the vacation and compensatory time issue. We will also consult with our legal counsel regarding the other issues.

Conclusion - Response accepted.

IV-J-07 Fuel Log – The City street department has a bulk fuel tank which is used by city departments. No fuel log is maintained at the tanks. As a result, the City is unable to analyze the propriety of fuel usage.

Recommendation – A fuel log should be maintained at the fuel tanks and in the individual vehicles. These fuel logs should then be analyzed to ensure all fuel purchased is accounted for properly and that analysis is performed of the fuel usage for reasonableness.

Response – We will review this and take action as necessary.

Conclusion – Response accepted.

IV-K-07 Airport – Invoices were not marked paid, dated and canceled to prevent reuse. In addition, dual signatures are not required on checks. Also, there was no written authorization for the airport manager’s rate of pay. The airport does not appear to properly follow the City’s employment manual regarding the payment of leave time. One Job Service report appears to be understated.

On federally funded construction projects, federal regulations require that engineering services be procured and evaluated based on qualifications. Our review of the Commission minutes noted that the minutes did not document the engineering firms who submitted their qualifications. Also, no documentation could be found as to a formal analysis or scoring system as to why a particular engineer was chosen.

The airport cash balance on their books does not reconcile to the bank. In addition, there are several posting errors on the airport’s accounting system.

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Recommendation – Invoices should be maintained for all bills paid and should be marked paid, initialed and dated to cancel. Dual signatures should be required on all checks. Also, written authorization for the airport manager’s rate of pay should be documented in the minutes. The airport should follow the City’s employment manual, and that all Job Service reports should be reviewed to ensure they are properly completed. In addition, the Commission minutes should document, and support should be retained in relation to the procurement of engineering services. Also, the airport’s cash balance should reconcile to the bank, and that procedures are implemented to ensure transactions are properly recorded on the accounting system.

Response – Invoices are now marked paid and cancelled. We also now require dual signatures on checks, and in the future we will document the rate of pay in the minutes. We will also review the payroll/personnel issues as discussed above. In addition, in the future we will ensure adequate documentation exists in relation to the procurement of engineering services. We will also review the accounting system and make adjustments as necessary.

Conclusion - Response accepted.

IV-L-07 Financial Condition – The Capital Projects, Airport Construction Fund had a deficit balance at June 30, 2007 of \$6,867. The Enterprise, Airport Fund had a deficit balance of \$33 at June 30, 2007.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The deficits were due to excess spending. We will continue to monitor this to ensure these funds are in a sound financial position in the future.

Conclusion – Response accepted.

IV-M-07 Tax Increment Financing (TIF) – Several years ago the City established an urban renewal area and plan in accordance with Chapter 403 of the Code of Iowa.

Chapter 403.19(5) of the Code of Iowa states, in part, “A municipality shall certify to the county auditor on or before December 1 the amount of loans, advances, indebtedness, or bonds which qualify for payment...”.

We reviewed the City’s tax increment debt certificate filed with the County Auditor for 2008. The following documents the comparison of certified debt to available resources at June 30, 2007.

Certified debt to the County Auditor for fiscal year 2008		\$1,595,418
Actual TIF related debt principal and interest outstanding as of June 30, 2007	\$1,319,077	
Cash balance in the TIF Fund at June 30, 2007	<u>(135,991)</u>	
Amount needed to pay off TIF related debt and interest		<u>\$1,183,086</u>
Difference between certified debt to the County Auditor and amount needed to pay off the TIF related debt and interest as of June 30, 2007		<u>\$412,332</u>

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Since the balance needed to pay off the TIF debt and interest is less than the amount of TIF related debt and interest certified to the County Auditor, in future years it appears the City will receive \$412,332 more TIF monies than allowed pursuant to Chapter 403 of the Code of Iowa.

Recommendation – The City should consult with TIF legal counsel regarding the propriety of the City's TIF debt certificates and determine the appropriate course of action.

Response – We will review this with the Attorney.

Conclusion – Response accepted.

IV-N-07 Library – For memorial and donation monies, an immediate record of receipt is not generated at the time of collection.

Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and required retention in this manner to include an image of both the front and back of each check. The City Library retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Our review of the Library timesheets noted one instance in which an employee earned compensatory time even though they worked less than 40 hours one week, and in another instance an employee did not earn compensatory time even though they worked more than 40 hours one week.

Recommendation – The Library record receipts immediately upon receipt, and obtain and retain an image of both the front and back of each cancelled check. In addition, the Library should review its procedures to ensure only compensatory time is given for hours worked in excess of 40 hours in a week.

Response – We will implement these recommendations.

Conclusion – Response accepted.