CITY OF CENTERVILLE

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

JUNE 30, 2008

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

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City of Centerville

Officials

Name	Title	Term Expires
	(Before January, 2008)	
Greg Fenton	Mayor	January, 2008
Robert Greene	Council Member	January, 2008
Louise Kennis	Council Member	January, 2008
Kris Koestner	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
	(After January, 2008)	
Marsha Mitchell	Mayor	January, 2010
Bill McAfee	Council Member	January, 2012
Kris Koestner	Council Member	January, 2010
Rob Lind	Council Member	January, 2012
Mike Zintz	Council Member	January, 2010
Wallace "Moe" Carter	Council Member	January, 2012
Kristen M. May	City Clerk/Treasurer	Indefinite
Debra George	Attorney	Indefinite

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, 2008, which collectively comprise the basic financial statements of the City's primary government as 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, 2008, 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, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 25, 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 five years ended June 30, 2007 (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 though 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-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

November 25, 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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 17.4%, or $752,580, from fiscal 2007 to fiscal 2008. The majority of this increase was the result of sales of assets, operating grants, and capital grants increasing by $158,427, $196,622 and $418,120 respectively. Local option sales tax and unrestricted interest on investments decreased by $105,144 and $23,107, respectively. In addition, no TIF was levied in fiscal 2008.

- Disbursements of the City's governmental activities decreased 2.3%, or $109,469, in fiscal 2008 from fiscal 2007. Public works and capital projects disbursements increased $34,208, and $340,528, respectively. Community and economic development and debt service disbursements decreased $139,565 and $221,763, respectfully.

- The City's total cash basis net assets increased 23.4%, or $657,192, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased $570,598 and the assets of the business type activities increased by $86,594.

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 increased from a year ago, increasing from $1,939,482 to $2,510,080. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

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

	Year Ended June 30, 2008	Year Ended June 30, 2007
Receipts:		
Program receipts:		
Charges for service	$ 288	$ 265
Operating grants, contributions and restricted interest	948	751
Capital grants, contributions and restricted interest	1,083	665
General receipts:		
Property tax	1,942	1,882
Local option sales tax	445	550
Hotel-Motel tax	65	70
Unrestricted investment earnings	66	89
Other general receipts	55	61
Bond proceeds	35	-
Sale of assets	159	1
Total receipts	5,086	4,334
Disbursements:		
Public safety	1,518	1,551
Public works	581	547
Culture and recreation	356	424
Community and economic development	39	178
General government	233	337
Debt service	563	784
Capital projects	1,191	851
Total disbursements	4,481	4,672
Change in cash basis net assets, before transfers	605	(338)
Transfers, net	(35)	24
Change in cash basis net assets	570	(314)
Cash basis net assets beginning of year	1,940	2,254
Cash basis net assets end of year	$2,510	$1,940

The City's total receipts for governmental activities increased by 17.4%, or $752,580. The total cost of all programs and services decreased by 4.1% or $191,042, with no new programs added this year. The significant increase in receipts were due to donations received and grants from the state government. Major capital projects consisted of a waterworks project, a storm water project, and an airport construction project.

The City increased property tax rates for 2008, and the City did not levy any TIF funds in 2008, resulting in an overall increase in property tax receipts by an average of 3.2%. This increase affected the City's property tax receipts, increasing by $60,196 in 2008.

The cost of all governmental activities this year was $4,481,590 compared to $4,672,632 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 $2,162,468 because some of the cost was paid by those who directly benefited from the programs ($288,091) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest ($2,030,851). The City paid for the remaining "public benefit" portion of governmental activities with $2,162,648 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)

	Year Ended June 30, 2008	Year Ended June 30, 2007
Receipts		
Program receipts:		
Charges for service:		
Sewer	$774	$708
Airport	66	63
General receipts:		
Unrestricted interest on investments	29	34
Other general receipts	6	5
Total receipts	875	810
Disbursements:		
Sewer	723	677
Airport	100	105
Total disbursements	823	782
Change in cash basis net assets before transfers	52	28
Transfers, net	35	38
Change in cash basis net assets	87	66
Cash basis net assets beginning of year	864	798
Cash basis net assets end of year	$951	$864

Total business type activities receipts for the fiscal year were $874,882 compared to $809,037 last year. The cash balance increased by $86,594 from the prior year. Total disbursements for the fiscal year increased by 5.3% to a total of $822,973.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Centerville completed the year, its governmental funds reported a combined fund balance of $2,291,706, an increase of $484,835 from last year's total of $1,806,871. 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 $318,161 from the prior year to $432,803. This increase was due to an increase in property taxes, sale of assets and funds from FEMA.

- The Road Use Tax Fund cash balance decreased by $15,109 to $172,121 as of June 30, 2008. An increase in fuel prices, materials and purchase of equipment decreased the cash balance in this fund.

- The Local Option Sales Tax Fund cash balance as of June 30, 2008 was $1,057,088. The balance in this fund 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 increased by $19,481 to $50,141 as of June 30, 2008. This increase was due to a decrease in disbursements from this fund.

- The Employee Benefits Fund cash balance increased by $45,963 to $133,018 as of June 30, 2008. The increase was due to an increase in property tax collections.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance increased by $66,054 to $907,231, due primarily to an increase in sewer rates during the fiscal year due to mandates from state legislation.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The budget amendments were approved on May 19, 2008 to provide for additional disbursements in certain City departments. Budget amended included: Police $120,870 for grants and salaries; Animal Control $975 for spay/neuter; Road Use $25,000 for purchase of equipment; Street $100,000 for FEMA disaster projects; Sanitation $4,000 for clean up days; Park $5,000 for donation for shelter house constructed; Recreation each $7,000 for operating expenses; Youth Center $2,000 for operating expenses; Airport $457,900 for airport gas purchased and FAA Grants; Library $440,000 for additional expense to be paid out of savings and renovation fund; McGraw/TIF $33,782 for payments and additional expenses; Policy and administration $15,000 for additional expense; Election $2,048 for special election requested by the taxpayers; CDBG Water $8,250 added project; CDBG Storm Sewer $425,000 for an added project; Local Option Sales Tax Pool $517; Pool $12,627; Friends of the Cemetery $1,500; and Gateway $210,000 for additional capital expenses.

The City's receipts were $9,121 less than budgeted.

Even with the budget amendment, total disbursements were $1,432,190 less than the amended budget. Actual disbursements for capital projects, culture and recreation, and community and economic development functions were $761,727, $416,264 and $176,591, respectively, less than the amended budget.

The City exceeded the amounts budgeted in the business type activities and debt service functions for the year ended June 30, 2008.

DEBT ADMINISTRATION

At June 30, 2008, the City had $2,582,027 in bonds and other long-term debt outstanding, compared to $3,109,800 last year, as shown below.

Outstanding Debt Year-End
(Expressed in Thousands)

	June 30, 2008	June 30, 2007
General obligation bonds	$2,580	$2,960
Revenue bonds	-	110
Notes payable	-	33
Lease-purchase agreements	2	7
Total	$2,582	$3,110

Debt decreased primarily as a result of making $526,773 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 $2,580,000 is significantly below its constitutional debt limit of $8,989,928.

More detailed information about the City's long-term debt is presented in Notes 3 and 4 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 2009 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 2009. Receipts are budgeted to increase by $966,787. Disbursements are budgeted to increase by $94,786. 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 2009 budget. If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately $400,218 by the close of 2009.

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. One of the major manufacturing plants was purchased and now has approximately 50 employees. The resort park in the County is open and ready for the summer of 2009. The City has received numerous

grants to improve the city to include new water lines, cross walks on the square, new trails, improvements at the airport and storm sewer improvement. 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

Exhibit A

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2008

Functions / Programs	Disbursements	Program Receipts: Charges for Service	Program Receipts: Operating Grants, Contributions and Restricted Interest	Program Receipts: Capital Grants, Contributions and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets: Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	$ 1,517,736	150,041	219,792	-	(1,147,903)	-	(1,147,903)
Public works	581,382	22,856	690,555	189,964	321,993	-	321,993
Culture and recreation	355,914	82,949	37,743	-	(235,222)	-	(235,222)
Community and economic development	38,578	-	-	18,775	(19,803)	-	(19,803)
General government	233,763	32,245	-	-	(201,518)	-	(201,518)
Debt service	562,694	-	-	3,840	(558,854)	-	(558,854)
Capital projects	1,191,523	-	-	870,182	(321,341)	-	(321,341)
Total governmental activities	4,481,590	288,091	948,090	1,082,761	(2,162,648)	-	(2,162,648)
Business type activities:							
Airport	99,669	66,264	-	-	-	(33,405)	(33,405)
Sewer	723,304	773,923	-	-	-	50,619	50,619
Total business type activities	822,973	840,187	-	-	-	17,214	17,214
Total	$ 5,304,563	1,128,278	948,090	1,082,761	(2,162,648)	17,214	(2,145,434)
General Receipts:							
Property tax and other city tax levied for:							
General purposes					1,668,985	-	1,668,985
Debt service					273,477	-	273,477
Local option sales tax					444,653	-	444,653
Grants and contributions not restricted to specific purpose					53,400	-	53,400
Hotel-Motel tax					65,057	-	65,057
Unrestricted interest on investments					66,147	28,565	94,712
Loan proceeds					35,000	-	35,000
Miscellaneous					1,785	6,130	7,915
Sale of assets					159,427	-	159,427
Transfers					(34,685)	34,685	-
Total general receipts and transfers					2,733,246	69,380	2,802,626
Change in cash basis net assets					570,598	86,594	657,192
Cash basis net assets beginning of year					1,939,482	864,180	2,803,662
Cash basis net assets end of year					$ 2,510,080	950,774	3,460,854
Cash Basis Net Assets							
Restricted:							
Streets					$ 172,121	-	172,121
Debt service					50,141	-	50,141
Local option sales tax					1,057,088	-	1,057,088
Other purposes					579,553	-	579,553
Unrestricted					651,177	950,774	1,601,951
Total cash basis net assets					$ 2,510,080	950,774	3,460,854

See notes to financial statements.

City of Centerville

Exhil

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

As of and for the year ended June 30, 2008

	General	Special Revenue: Road Use Tax	Special Revenue: Local Option Sales Tax	Special Revenue: Employee Benefits	Debt Service	Nonmajor
Receipts:						
Property tax	$ 1,089,809	-	-	579,177	273,476	-
Other city tax	118,456	-	444,653	-	-	-
Licenses and permits	28,114	-	-	-	-	-
Use of money and property	48,412	-	16,267	-	1,467	4,789
Intergovernmental	621,030	507,525	-	-	-	628,072
Charges for service	148,129	-	-	-	-	-
Special assessments	-	-	-	-	-	12,991
Miscellaneous	107,652	65	-	1,785	3,840	256,735
Total receipts	2,161,602	507,590	460,920	580,962	278,783	902,587
Disbursements:						
Operating:						
Public safety	1,145,220	-	-	433,297	-	702
Public works	81,154	513,552	-	1,847	-	-
Culture and recreation	335,122	-	517	20,955	-	2,664
Community and economic development	-	-	-	-	-	38,578
General government	202,061	-	-	37,465	-	-
Debt service	-	-	-	-	562,694	-
Capital projects	199,295	-	88,931	-	-	903,297
Total disbursements	1,962,852	513,552	89,448	493,564	562,694	945,241
Excess (deficiency) of receipts over (under) disbursements	198,750	(5,962)	371,472	87,398	(283,911)	(42,654)
Other financing sources (uses):						
Loan proceeds	-	-	-	-	-	35,000
Sale of capital assets	159,427	-	-	-	-	-
Operating transfers in	28,954	-	-	-	303,392	34,231
Operating transfers out	(68,970)	(9,147)	(138,781)	(41,435)	-	(142,929)
Total other financing sources (uses)	119,411	(9,147)	(138,781)	(41,435)	303,392	(73,698)
Net change in cash balances	318,161	(15,109)	232,691	45,963	19,481	(116,352)
Cash balances beginning of year	114,642	187,230	824,397	87,055	30,660	562,887
Cash balances end of year	$ 432,803	172,121	1,057,088	133,018	50,141	446,535
Cash Basis Fund Balances						
Reserved:						
Debt service	$ -	-	-	-	50,141	-
Unreserved:						
General fund	432,803	-	-	-	-	-
Special revenue funds	-	172,121	1,057,088	133,018	-	50,858
Capital projects funds	-	-	-	-	-	248,990
Permanent fund	-	-	-	-	-	146,687
Total cash basis fund balances	$ 432,803	172,121	1,057,088	133,018	50,141	446,535

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, 2008

Total governmental funds cash balances (page 16)	$ 2,291,706
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
The Internal Service Funds are used by management to charge the costs of self funding of the City's health insurance benefit plan and the costs of the flex plan to individual funds. A portion of the assets of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.	218,374
Cash basis net assets of governmental activities (page 15)	$ 2,510,080
Net change in cash balances (page 16)	$ 484,835
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
The Internal Service Funds are used by management to charge the costs of self funding of the City's health insurance benefit plan and the costs of the flex plan to individual funds. A portion of the change in net assets of the Internal Service Funds are reported with governmental activities.	85,763
Change in cash balance of governmental activities (page 15)	$ 570,598

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, 2008

	Enterprise			Internal Service
	Sewer	Other Nonmajor Proprietary Fund - Airport	Total	
Operating receipts:				
Use of money and property	$ -	21,440	21,440	-
Charges for service	773,923	44,824	818,747	442,091
Miscellaneous	-	-	-	158,262
Total operating receipts	773,923	66,264	840,187	600,353
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	217,390
Public works	-	-	-	53,640
Culture and recreation	-	-	-	11,826
General government	-	-	-	165,057
Business type activities	405,295	99,669	504,964	52,140
Total operating disbursements	405,295	99,669	504,964	500,053
Excess (deficiency) of operating receipts over (under) operating disbursements	368,628	(33,405)	335,223	100,300
Non-operating receipts (disbursements):				
Interest on investments	28,565	-	28,565	-
Miscellaneous	6,130	-	6,130	-
Debt service	(119,490)	-	(119,490)	-
Capital projects	(213,056)	-	(213,056)	-
Total non-operating receipts (disbursements)	(297,851)	-	(297,851)	-
Excess (deficiency) of receipts over (under) disbursements	70,777	(33,405)	37,372	100,300
Other financing sources (uses):				
Operating transfers in	-	42,306	42,306	-
Operating transfers out	(4,723)	(2,898)	(7,621)	-
Total other financing sources (uses)	(4,723)	39,408	34,685	-
Net change in cash balances	66,054	6,003	72,057	100,300
Cash balances beginning of year	841,177	(33)	841,144	155,647
Cash balances end of year	$ 907,231	5,970	913,201	255,947
Cash Basis Fund Balances				
Unreserved	907,231	5,970	913,201	255,947
Total cash basis fund balances	$ 907,231	5,970	913,201	255,947

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, 2008

Total enterprise funds cash balances (page 18)	$ 913,201
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
The Internal Service Funds are used by management to charge the costs of self funding of the City's health insurance benefit plan and the costs of the flex plan to individual funds. A portion of the assets of the Internal Service Funds are included in business type activities in the Statement of Net Assets.	37,573
Cash basis net assets of business type activities (page 15)	$ 950,774
Net change in cash balances (page 18)	$ 72,057
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
The Internal Service Funds are used by management to charge the costs of self funding of the City's health insurance benefit plan and the costs of the flex plan to individual funds. A portion of the change in net assets of the Internal Service Funds are reported with business type activities.	14,537
Change in cash balance of business type activities (page 15)	$ 86,594

See notes to financial statements.

(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, 2008, disbursements exceeded the amounts budgeted in the debt service and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 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, 2008, 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 notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes	
	Principal	Interest
2009	$ 303,101	89,849
2010	418,019	86,931
2011	428,143	72,456
2012	293,273	57,086
2013	303,408	45,855
2014	308,549	33,827
2015	188,695	23,563
2016	198,847	15,175
2017	69,006	6,121
2018	68,959	3,097
	$ 2,580,000	433,960

Revenue Notes -

In fiscal year 2003 the City issued $615,000 in sewer revenue notes to provide financing for the construction and improvements to the sewer treatment plant. The notes were payable solely from sewer customer net receipts and were fully paid off in fiscal year 2008. For the current year, principal and interest paid and total customer net receipts were $112,750 and $368,628, respectively.

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.

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 revenue notes were fully paid off in fiscal year 2008.

Notes Payable – US Bank -

The City was indebted to US Bank. The note was 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 was paid in fiscal year 2008, leaving a balance of $0 as June 30, 2008.

(4) 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
2009	$ 2,027	33	2,060

(5) Operating Lease Agreements

The City Library is leasing computer equipment and a copy machine. Future required payments are:

Year Ended June 30,	Amount
2009	$ 1,755
2010	1,215
	$ 2,970

Total rent expense during the fiscal year on these agreements was $3,057.

(6) 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 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were $50,225, $46,910, and $44,280 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, Suite 201, West Des Moines, IA 50266.

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, 2008, 2007 and 2006 were $144,354, $155,621, and $145,994 respectively, which met the required contribution rate for each year.

(7) 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, 2008, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Personal time	$ 347
Compensatory time	37,432
Vacation	98,657
Total	$136,436

This liability has been computed based on rates of pay in effect at June 30, 2008.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	$ 25,381
	Permanent:	
	Cemetery Perpetual Care	3,573
		28,954
Debt Service	General	34,739
	Special Revenue:	
	Special Assessment	12,991
	Local Option Sales Tax	138,781
	Road Use Tax	9,147
	Urban Renewal Tax Increment	100,113
	Enterprise:	
	Sewer	4,723
	Airport	2,898
		303,392
Enterprise:	Special Revenue:	
Airport	Employee Benefits	16,054
	Capital Projects:	
	Airport Construction	26,252
		42,306
Capital Projects:		
Library Construction	General	5,981
Capital Projects:		
Tax Increment Financing	General	27
Capital Projects:		
Airport Construction	General	28,223
		$ 408,883

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

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling $3,402 during the year ended June 30, 2008.

(10) 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.

(11) 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.

(12) 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 563 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 200 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, 2008 were $90,591.

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 $10,000,000 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, 2008, 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.

(13) Agreement with Appanoose County

The City entered into an agreement with Appanoose County to provide sewer services to a group of Appanoose County 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, 2008, the total principal and interest remaining to be paid on the loan is $108,066. Total principal and interest paid by the City from the Sewer Utility Fund to Appanoose County for this loan in fiscal year 2008 was $6,440. Annual principal and interest payments on the loan is expected to require less than 100% of net receipts. For the current year, total customer net receipts were $21,199. The City's liability is limited to the amount of fees collected from the users of this system.

(14) 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
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	$ 23,850	2,829	26,679

During the year ended June 30, 2008, the City rebated $6,693 of incremental taxes and $1,685 in related interest to the developer. The cumulative amount rebated to the developer from March 2004 through June 30, 2008 was $25,134.

(15) Deficit Balance

The Internal Service – Flex Fund had a deficit balance of $1,234 at June 30, 2008. This deficit will be eliminated through subsequent employee contributions.

(16) 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.

(17) Commitments/Subsequent Events

In fiscal year 2008 and 2009, 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, totaling approximately $1,000,000 for an airport, water, and sewer project. It is anticipated that most of these projects will be completed in fiscal year 2009.

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

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Variance
Receipts:							
Property tax	$ 1,942,462	-	-	1,942,462	1,737,875	1,737,875	204,587
Other city tax	563,109	-	-	563,109	739,059	739,059	(175,950)
Licenses and permits	28,114	-	-	28,114	65,850	65,850	(37,736)
Use of money and property	70,935	50,005	-	120,940	50,175	50,175	70,765
Intergovernmental	1,756,627		-	1,756,627	931,826	2,179,636	(423,009)
Charges for service	148,129	1,260,838	442,091	966,876	858,785	858,785	108,091
Special assessments	12,991	-	-	12,991	15,600	15,600	(2,609)
Miscellaneous	370,077	164,392	158,262	376,207	94,631	129,467	246,740
Total receipts	4,892,444	1,475,235	600,353	5,767,326	4,493,801	5,776,447	(9,121)
Disbursements:							
Public safety	1,579,219	217,390	217,390	1,579,219	1,528,415	1,650,260	71,041
Public works	596,553	53,640	53,640	596,553	509,745	638,745	42,192
Culture and recreation	359,258	11,826	11,826	359,258	307,396	775,522	416,264
Community and economic development	38,578	-	-	38,578	180,870	215,169	176,591
General government	239,526	165,057	165,057	239,526	234,800	251,847	12,321
Debt service	562,694	-	-	562,694	540,136	540,136	(22,558)
Capital projects	1,191,523	-	-	1,191,523	935,000	1,953,250	761,727
Business type activities	-	889,650	52,140	837,510	729,222	812,122	(25,388)
Total disbursements	4,567,351	1,337,563	500,053	5,404,861	4,965,584	6,837,051	1,432,190
Excess (deficiency) of receipts over (under) disbursements	325,093	137,672	100,300	362,465	(471,783)	(1,060,604)	1,423,069
Other financing sources, net	159,742	34,685	-	194,427	-	-	194,427
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	484,835	172,357	100,300	556,892	(471,783)	(1,060,604)	1,617,496
Balances beginning of year	1,806,871	996,791	155,647	2,648,015	3,348,019	3,348,019	(700,004)
Balances end of year	$ 2,291,706	1,169,148	255,947	3,204,907	2,876,236	2,287,415	917,492

See accompanying independent auditor's report.

City of Centerville

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2008

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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by $1,871,467. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the debt service and business type activities functions.

Other Supplementary Information

City of Centerville

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

As of and for the year ended June 30, 2008

	Special				
	Urban Renewal Tax Increment	Friends of Oakland Cemetery	Crime Stoppers	Canine	Special Law Enforcement
Receipts:					
Use of money and property	$ -	1,216	-	-	-
Intergovernmental	-	-	-	-	590
Special assessments	-	-	-	-	-
Miscellaneous	-	75	-	-	-
Total receipts	-	1,291	-	-	590
Disbursements:					
Operating:					
Public safety	-	-	702	-	-
Culture and recreation	-	535	-	-	-
Community and economic development	35,878	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	35,878	535	702	-	-
Excess (deficiency) of receipts over (under) disbursements	(35,878)	756	(702)	-	590
Other financing sources (uses):					
Loan proceeds	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	(100,113)	-	-	-	-
Total other financing sources (uses)	(100,113)	-	-	-	-
Net change in cash balances	(135,991)	756	(702)	-	590
Cash balances beginning of year	135,991	28,813	2,599	2,415	2,295
Cash balances end of year	-	29,569	1,897	2,415	2,885
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	-	29,569	1,897	2,415	2,885
Capital project fund	-	-	-	-	-
Permanent fund	-	-	-	-	-
Total cash basis fund balances	$ -	29,569	1,897	2,415	2,885

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
-	-	-	-	-	3,573	4,789
-	-	-	409,436	218,046	-	628,072
-	12,991	-	-	-	-	12,991
9,608	-	226,287	10,229	6,184	4,352	256,735
9,608	12,991	226,287	419,665	224,230	7,925	902,587
-	-	-	-	-	-	702
2,129	-	-	-	-	-	2,664
-	-	-	2,700	-	-	38,578
-	-	269,719	391,568	242,010	-	903,297
2,129	-	269,719	394,268	242,010	-	945,241
7,479	12,991	(43,432)	25,397	(17,780)	7,925	(42,654)
-	-	-	-	35,000	-	35,000
-	-	5,981	27	28,223	-	34,231
-	(12,991)	-	-	(26,252)	(3,573)	(142,929)
-	(12,991)	5,981	27	36,971	(3,573)	(73,698)
7,479	-	(37,451)	25,424	19,191	4,352	(116,352)
6,613	-	229,690	19,003	(6,867)	142,335	562,887
14,092	-	192,239	44,427	12,324	146,687	446,535
14,092	-	-	-	-	-	50,858
-	-	192,239	44,427	12,324	-	248,990
-	-	-	-	-	146,687	146,687
14,092	-	192,239	44,427	12,324	146,687	446,535

City of Centerville

Schedule 2

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Internal Service Funds

As of and for the year ended June 30, 2008

	Employee Health	Flex Plan	Total
Operating receipts:			
Charges for service:			
Personal service costs from operating funds	$ 442,091	-	442,091
Miscellaneaus:			
Employee contributions and refunds	149,962	8,300	158,262
Total operating receipts	592,053	8,300	600,353
Operating disbursements:			
Governmental activities:			
Public safety	217,390	-	217,390
Public works	53,640	-	53,640
Culture and recreation	11,826	-	11,826
General government	155,523	9,534	165,057
Business type activities	52,140	-	52,140
Total operating disbursements	490,519	9,534	500,053
Excess (deficiency) of operating receipts over (under) operating disbursements	101,534	(1,234)	100,300
Balance beginning of year	155,647	-	155,647
Balance end of year	$ 257,181	(1,234)	255,947

See accompanying independent auditor's report.

City of Centerville

Schedule 3

Schedule of Indebtedness

Year ended June 30, 2008

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 and Notes:									
Corporate Purpose	September 1, 2001	3.40-4.70%	$ 1,400,000	1,040,000	-	100,000	940,000	45,000	-
Capital Loan	May 1, 2003	1.25-4.50%	1,195,000	590,000	-	45,000	545,000	22,773	-
Capital Loan	July 1, 2003	1.20-3.20%	500,000	315,000	-	50,000	265,000	8,810	-
Capital Loan	September 1, 2003	3.00-4.00%	700,000	405,000	-	65,000	340,000	14,371	-
Refunding Capital Loan	April 1, 2005	3.00-3.375%	910,000	610,000	-	155,000	455,000	20,400	-
Capital Loan	November 19, 2007	4.125%	35,000	-	35,000	-	35,000	-	-
				$ 2,960,000	35,000	415,000	2,580,000	111,354	-
Revenue Notes:									
Refunding Capital Loan Notes	April 1, 2003	1.20-2.50%	$ 615,000	110,000	-	110,000	-	2,750	-
Notes Payable:									
Vehicle Loan	April 15, 2005	4.05%	$ 53,064	33,127	-	33,127	-	1,382	-
Lease Purchase Agreements:									
Equipment	August 20, 2003	6.50%	$ 21,054	6,673	-	4,646	2,027	297	-

See accompanying independent auditor's report.

City of Centerville

Schedule 4

Bond and Note Maturities

June 30, 2008

	General Obligation Bonds and Notes												
	Corporate Purpose Issued September 1, 2001		Capital Loan Issued May 1, 2003		Capital Loan Issued July 1, 2003		Capital Loan Issued September 1, 2003		Refunding Capital Loan Issued April 1, 2005		Capital Loan Issued November 19, 2007		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2009	4.00%	$ 100,000	3.10%	$ 45,000	-	$ -	-	$ -	3.375%	$ 155,000	4.125%	$ 3,101	$ 303,101
2010	4.10%	105,000	3.35%	45,000	2.50%	50,000	3.125%	65,000	3.375%	150,000	4.125%	3,019	418,019
2011	4.20%	110,000	3.60%	50,000	2.80%	50,000	3.500%	65,000	3.250%	150,000	4.125%	3,143	428,143
2012	4.30%	115,000	3.75%	50,000	2.95%	55,000	3.700%	70,000	-	-	4.125%	3,273	293,273
2013	4.40%	120,000	3.90%	55,000	3.05%	55,000	3.800%	70,000	-	-	4.125%	3,408	303,408
2014	4.50%	125,000	4.00%	55,000	3.20%	55,000	4.000%	70,000	-	-	4.125%	3,549	308,549
2015	4.60%	130,000	4.10%	55,000	-	-	-	-	-	-	4.125%	3,695	188,695
2016	4.70%	135,000	4.25%	60,000	-	-	-	-	-	-	4.125%	3,847	198,847
2017	-	-	4.40%	65,000	-	-	-	-	-	-	4.125%	4,006	69,006
2018	-	-	4.50%	65,000	-	-	-	-	-	-	4.125%	3,959	68,959
		$ 940,000		$ 545,000		$ 265,000		$ 340,000		$ 455,000		$ 35,000	$ 2,580,000

See accompanying independent auditor's report.

City of Centerville

Schedule 5

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

For the Last Six Years

	2008	2007	2006	2005	2004	2003
Receipts:						
Property tax	$ 1,942,462	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	563,109	620,114	502,078	401,423	443,487	-
Licenses and permits	28,114	67,657	66,598	71,047	22,613	18,727
Use of money and property	70,935	120,407	59,455	40,907	27,520	36,951
Intergovernmental	1,756,627	1,332,878	915,365	889,884	700,127	1,039,512
Charges for service	148,129	133,100	161,539	130,839	199,013	194,348
Special assessments	12,991	30,103	17,965	35,863	44,222	48,777
Miscellaneous	370,077	146,766	342,640	194,059	292,803	268,235
Total	$ 4,892,444	4,333,291	4,026,371	3,879,787	3,607,925	3,579,767
Disbursements:						
Operating:						
Public safety	$ 1,579,219	1,554,102	1,435,742	1,294,664	1,682,274	1,378,363
Public works	596,553	547,899	487,234	582,726	581,046	923,440
Culture and recreation	359,258	424,317	426,005	363,190	305,340	323,633
Community and economic development	38,578	178,143	366,224	259,328	37,797	206,258
General government	239,526	336,907	237,911	214,897	213,895	302,050
Debt service	562,694	784,457	772,593	820,223	652,947	849,128
Capital projects	1,191,523	850,995	279,500	769,504	98,068	1,096,109
Non-program	-	-	-	-	49,923	25
Total	$ 4,567,351	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 6

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

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	$ 35,000
Office of Justice Programs:			
Bureau of Justice Assistance:			
Department of Justice:			
Bullet proof Vest Partnership Program	16.607	N/A	636
U.S. Department of Transportation:			
Federal Aviation Administration Airports Division:			
Airport Improvement Program	20.106	3-19-0013-06	14,530
		3-19-0013-02	17,265
		3-19-0013-03	174,857
		3-19-0013-04	11,035
			217,687
Subtotal - Direct			253,323
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	05-WS-019-04	4,500
		07-WS-019	3,750
		06-CF-004	216,930
			225,180
U.S. Office of Justice Programs:			
Bureau of Justice Assistance:			
Department of Justice:			
State of Iowa - Governor's Office of Drug Control Policy:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	198,384
Federal Highway Administration:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-E-1210(606)-8V-04	151,521

City of Centerville

Schedule 6

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

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	$ 607
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and			
Emergency Management Division:			
Disaster Grants - Public Assistance			
(Presidentially Declared Disasters)	97.036	1727	41,056
		1737	141,908
			182,964
Subtotal - Indirect			758,656
Total			$ 1,011,979

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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 25, 2008. Our report expressed unqualified opinions on the primary government financial statements which were 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, including 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 items II-A-08, II-C-08, and II-D-08 are material weaknesses.

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, 2008 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

November 25, 2008

PEAK & GERDES, LLP
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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 programs for the year ended June 30, 2008. The City of Centerville's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs are 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 major federal programs 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 programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements which are 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-08, III-B-08 and III-C-08.

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.

Our consideration of internal control over compliance was for the limited purpose described in the proceeding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be material weaknesses.

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 City'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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Items III-D-08 and III-E-08 to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-D-08 and III-E-08 to be material weaknesses.

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

November 25, 2008

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

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 material weaknesses.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

(d) Significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements, which are considered to be material weaknesses.

(e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.

(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 programs were as follows
- CFDA Number 14.228 – Community Development Block Grants Program/State's Program
- CFDA Number 20.106 – Airport Improvement Program
- CFDA Number 20.205 – Highway Planning and Construction

(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.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-08 Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response – The elected officials will attempt to read relevant accounting literature and attend professional education courses to improve ability to apply accounting principles.

Conclusion – Response accepted.

II-B-08 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.

II-C-08 Segregation of Duties-Airport – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person. In addition, all aspects of the payroll preparation and reporting are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Airport should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The Airport should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-D-08 Advance Payment – The City Library paid $314,085 to a construction management company on March 31, 2008. Over the next several months the construction management company used these proceeds to pay the various vendors who were working on the City Library construction projects.

It appears that it would not be prudent to prepay a vendor $314,085. In addition, these pre-payments were made to the construction management company based on an estimate of future costs on the project.

Recommendation – The City Library should review its policies and procedures related to prepayments. Payments should only be made from original invoices and payments should not be made without adequate supporting documentation. In addition, the City Library should consult with legal counsel to determine the proper disposition of this matter.

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

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

CFDA Number 20.106: Airport Improvement Program
Pass-through Agency Numbers: 3-19-0013-06, 3-19-0013-02
Federal Award Year: 2006
U.S. Department of Transportation

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-A-08 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 Airport Improvement Program and 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.

CFDA Number 20.106: Airport Improvement Program
Pass-through Agency Number: 3-19-0013-02
Federal Award Year: 2006
U.S. Department of Transportation

III-B-08 Match Requirements – Based on the grant award, 95% of the total cost of the Airport AWOS project is to be paid with Airport Improvement Program funds, with the balance, or 5%, 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, it appears the City received more than 95% reimbursement from the Airport Improvement Program for this project. As a result, it appears the City has not met the match requirements as required pursuant to the grant award.

City and airport 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 U.S. Department of Transportation to resolve this issue.

Response – We will implement these recommendations.

Conclusion – Response accepted.

III-C-08 Contracts – The amount of compensation paid to the engineer in relation to the Airport AWOS project exceeded the contract amount. There was no contract amendment increasing the compensation amount to the engineer. In addition, no change order was prepared when the amount paid to the contractor differed from the actual contract amount.

Recommendation – The City work with the U.S. Department of Transportation to resolve these issues. In addition, in the future, contact amendments and/or change orders should be used when the amount paid differs from the actual contract amounts.

Response – We will implement these recommendation.

Conclusion – Response accepted.

SIGNIFICANT DEFICIENCIES:

CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through Agency Numbers: 05-WS-019-04, 07-WS-019, 06-CF-004
Federal Award Years: 2005, 2006, 2007
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

III-D-08 Subrecipient Monitoring – For the water projects and the storm water project, the City entered into agreements with a Council of Governments and a Regional Planning Commission (administrative entity) to administer the programs. When the City enters into such agreements, the City effectively passes down all federal requirements of the program to the administrative entity, except for approving final reports and requesting funds. The agreement does not identify the administrative entity as a subrecipient when, in fact, the administrative entity becomes a subrecipient and must comply with CDBG program and OMB Circular A-133 requirements upon entering into the agreement. In addition, upon entering into the agreement, the City is responsible for monitoring the administrative entity for compliance with CDBG and OMB Circular A-133 requirements.

The City has not advised the administrative entities that they become subrecipients upon execution of an agreement in which the administrative entity agrees to administer the program. In addition, the City has not performed any subrecipient monitoring requirements under OMB Circular A-133.

Recommendation – The City should develop and implement policies and procedures to ensure the administrative entities are aware of the subrecipient relationship created when they enter into a subrecipeient agreement to administer the program. The policies and procedures should include the subrecipient monitoring procedures required under OMB Circular A-133.

Response – We will contact the Iowa Department of Economic Development for guidance in relation to this.

Conclusion – Response accepted.

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

III-E-08 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 not even aware of this problem until after the contractor completed the project. In our prior audit, we identified this problem, and informed the City and grant personnel about this in November, 2007. However, the corrective action taken by the grant personnel still have not adequately addressed these issues.

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.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-08 Certified Budget - Disbursements during the year ended June 30, 2008 exceed the amounts budgeted in the debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. On the budget amendment, the City Council did not formally approve of this amendment until June 2, 2008, even though Chapter 24.9 of the Code of Iowa states that the budget shall be amended by May 31 of the current fiscal year.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, procedures should be implemented to ensure Chapter 24.9 of the Code of Iowa is followed in relation to budget amendments.

Response – The budget will be amended in the future, if applicable. Also, procedures will be implemented to ensure the City Council approves of all future budget amendments as required by Chapter 24.9 of the Code of Iowa.

Conclusion – Response accepted.

IV-B-08 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-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-08 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	$ 24
Kris Koestner, Council Member Owner of J&K Market	Supplies	195
Rob Lind, Council Member Owner of Centerville Greenhouse	Flowers and Supplies	535
Ron Creagan, Street Commissioner Owner of R&A Auto	Services and Construction Work	2,648

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

Recommendation – To determine the proper disposition of this matter, the City should consult with their Attorney regarding the above potential conflict of interest issue.

Response – We will discuss this issue with the City Attorney.

Conclusion – Response accepted.

IV-E-08 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-08 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 published as required by Chapter 372.13 (6) of the Code of Iowa.

Recommendation - All City Council meeting minutes, list of claims allowed and purpose of the claims should be published as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion - Response accepted.

IV-G-08 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. However, the interest rate on one certificate of deposit was less than the minimum as required by the State of Iowa.

Recommendation – The City implement procedures to ensure the interest rate on certificates of deposit meet or exceed the minimum interest rate as required by the State of Iowa.

Response – We will implement this recommendation.

Conclusion – Response accepted.

IV-H-08 Revenue Notes – No instances of non-compliance with the revenue note resolutions were noted.

IV-I-08 Payroll - City employees have vacation and compensatory time balances in excess of the maximums allowed by the union agreement and the City personnel policies. One employee does not document hours worked on his timesheet. Payroll costs of non-road related activities are charged to the Road Use Tax Fund. Chapter 312.6 of the Code of Iowa states that funds received from the Road Use Tax Fund shall be used for any purpose relating to the construction, maintenance, and supervision of the public streets.

Recommendation - The City consult with legal counsel in relation to how to resolve the vacation and compensatory time issue. In addition, all employees should document hours worked on their timesheet. Also, the City should review its procedures regarding payroll cost allocations to ensure compliance with the Code of Iowa.

Response - We do have a resolution in place which addresses the vacation and compensatory time issue. We will also review and implement the other recommendations.

Conclusion - Response accepted.

IV-J-08 Fuel Log – The City street department has a bulk fuel tank which is used by city departments. Even though a fuel log is maintained at the tanks, the City does not analyze the propriety of fuel usage.

Recommendation – Fuel logs should 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-08 Airport – Invoices were not consistently marked paid, dated and canceled to prevent reuse. In addition, dual signatures are not required on checks. It appears the airport employee was paid $.25 more per hour than authorized by the airport commission.

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 Airport retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

One Job Service and one IPERS report appears to be inaccurate.

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, the airport commission should review the property of the Airport employee's rate of pay. The Airport should obtain and retain an image of both the front and back of each cancelled check. In addition, all payroll reports should be reviewed to ensure they are properly completed.

Response – Invoices are now marked paid and cancelled. We also now require dual signatures on checks. We will also review the payroll issue as discussed above. In addition, in the future we will obtain an image of both the front and back of each cancelled check. We will also review the payroll reports and make adjustments as necessary.

Conclusion - Response accepted.

IV-L-08 Financial Condition – The Internal Service, Flex Plan Fund had a deficit balance at June 30, 2008 of $1,234.

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

Response – The deficit was due to employees using their flex plan dollars prior to their contributions to the fund.

Conclusion – Response accepted.

IV-M-08 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.

We reviewed the City's tax increment debt certificate filed with the County Auditor for 2009. Based on this review, the amount certified on the City's tax increment debt certificate was insufficient.

Recommendation – The City should review this issue and take action as necessary.

Response – We will review this with the Attorney.

Conclusion – Response accepted.

IV-N-08 Library – For memorial and donation monies, an immediate record of receipt is not generated at the time of collection. Some quarterly and yearly payroll reports appeared to be inaccurate.

It does not appear the City advertised for bids for a Library construction project, as required by Chapter 26.3 of the Code of Iowa.

Recommendation – The Library record receipts immediately upon receipt and review the payroll reports to ensure they are accurate. The City should also ensure advertisement for bids for construction projects are followed in accordance with the Code of Iowa, when applicable.

Response – We will implement these recommendations.

Conclusion – Response accepted.

IV-O-08 Miscellaneous – It does not appear the City received all money due to them in relation to sales tax refunds on completed construction projects, which could amount to several thousand dollars. It appears the City overpaid a contractor by approximately $1,600.

Neither of these issues were known by the City until we brought them to their attention.

Recommendation – The City should apply for sales tax refunds on all construction projects and follow up on potential overpayments.

Response – We will implement these recommendations.

Conclusion – Response accepted.

City of Centerville

Corrective Action Plan for Federal Audit Findings

Year Ended June 30, 2008

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
III-A-08	Cash Management	We have modified our procedures to ensure the checks to the vendors are mailed out the same day as funds are received from this program. This procedure should resolve this problem.	Kris May City Clerk (641) 437-4339	Immediately
III-B-08	Match Requirements	This has been corrected through subsequent drawdown claim forms.	Kris May City Clerk (641) 437-4339	Immediately
III-C-08	Contracts	This will be corrected through contract amendments and change orders.	Kris May City Clerk (641) 437-4339	Immediately
III-D-08	Subrecipient Monitoring	This will be implemented on future contracts with subrecipients.	Kris May City Clerk (641) 437-4339	Immediately
III-E-08	Davis-Bacon Act	We are working with our grant administrator and contractors to resolve this issue.	Kris May City Clerk (641) 437-4339	Immediately

City of Centerville

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2008

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action or other explanation
III-A-07	Match Requirements	Not Corrected	This has been corrected through subsequent draw down claim forms
III-B-07	Davis-Bacon Act	Not Corrected	We are working with our grant administrator and contractors to resolve this issue
III-C-07	Cash Management	Not Corrected	We have modified our procedures to resolve this problem.