

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

JUNE 30, 2009

Peak & Co., LLP  
Certified Public Accountants  
1370 NW 114<sup>th</sup> St., Suite 205  
Clive, IA 50325

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City of Centerville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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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CLIVE, IA 50325  

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(515) 277-3077

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, 2009, 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, 2009, 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, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 11, 2010 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 29 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Centerville's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the four years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 7, 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 & Co., LLP  
Certified Public Accountants

January 11, 2010

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2009 FINANCIAL HIGHLIGHTS

- ❖ Receipts of the City's governmental activities decreased 19.25%, or \$979,314, from fiscal 2008 to fiscal 2009. The majority of this decrease was the result of a \$676,702 decrease in capital grants, contributions and restricted interest as a result of a community development block grant which was received in fiscal 2008 for storm sewer improvements. In addition, sale of assets decreased by \$146,343 as a result of the sale of the McGraw Edison Building in fiscal 2008.
- ❖ Disbursements of the City's governmental activities decreased by 1.2%, or \$53,291, in fiscal 2009 from fiscal 2008. Public safety, public works and debt service disbursements increased \$164,799, \$97,270, and \$130,947 respectively. Community and economic development and capital projects disbursements decreased \$24,873 and \$544,939, respectively.
- ❖ The City's total cash basis net assets decreased 10.3%, or approximately \$358,000, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased approximately \$360,000 and the assets of the business type activities increased approximately \$2,000.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the 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, storm sewer, 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 storm sewer fund and the airport fund maintain separate accounts which support these business activities, considered to be non-major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.



The City's total receipts for governmental activities decreased by 19.25%, or \$979,314. The total cost of all programs and services decreased by 1.2% or \$53,291, with no new programs added this year. The significant decrease in receipts was due to a reduction in grants received in fiscal 2009.

The City decreased property tax rates for 2009, and the City did not levy any TIF funds in 2009, resulting in an overall decrease in property tax receipts by an average of 1.8%. This decrease in property tax rates affected the City's property tax receipts, decreasing by \$34,463 in 2009.

The cost of all governmental activities this year was \$4,428,299 compared to \$4,481,590 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 \$2,877,668 because some of the cost was paid by those who directly benefited from the programs (\$304,201) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,246,430). The City paid for the remaining "public benefit" portion of governmental activities with \$2,877,668 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

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

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	<u>Year Ended June 30, 2009</u>	<u>Year Ended June 30, 2008</u>
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$802	\$774
Storm Sewer	41	0
Airport	52	66
General receipts:		
Unrestricted interest on investments	11	29
Other general receipts	<u>19</u>	<u>6</u>
Total receipts	<u>925</u>	<u>875</u>
 Disbursements:		
Sewer	865	723
Airport	<u>98</u>	<u>100</u>
Total disbursements	<u>963</u>	<u>823</u>
 Change in cash basis net assets before transfers	(38)	52
Transfers, net	<u>40</u>	<u>35</u>
 Change in cash basis net assets	2	87
 Cash basis net assets beginning of year	<u>951</u>	<u>864</u>
 Cash basis net assets end of year	<u>\$953</u>	<u>\$951</u>

Total business type activities receipts for the fiscal year were \$925,497 compared to \$874,882 last year. The cash balance decreased by \$2,326 from the prior year. Total disbursements for the fiscal year increased by 17.0% to a total of \$962,937.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Centerville completed the year, its governmental funds reported a combined fund balance of \$1,877,636, a decrease of \$414,070 from last year's total of \$2,291,706. 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 decreased \$145,982 from the prior year to \$286,821. This decrease was the result of the significant sale of assets in fiscal 2008, with nothing similar in 2008, and due to the payment to school for Municipal Housing monies in fiscal 2009.
- ❖ The Special Revenue, Road Use Tax Fund cash balance decreased by \$65,347 to \$106,774 as of June 30, 2009. An increase in fuel prices, materials and purchase of equipment decreased the cash balance in this fund.
- ❖ The Special Revenue, Local Option Sales Tax Fund cash balance decreased by \$92,731 to \$964,357 as of June 30, 2009. 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 library renovation bond paid for 2 years of bond payments.
- ❖ The Debt Service Fund cash balance decreased by \$26,897 to \$23,244 as of June 30, 2009. This decrease was due to TIF related debt that was paid from this fund in fiscal 2009.
- ❖ The Special Revenue, Employee Benefits Fund cash balance increased by \$5,070 to \$138,088 as of June 30, 2009. The increase was due to an increase in property tax collections.

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

- ❖ The Sewer Fund cash balance decreased by \$45,568 to \$861,663 as of June 30, 2009, due primarily to projects worked on during the year.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The budget amendments were approved on May 18, 2009 to provide for additional disbursements in certain City departments. Budget amended included: Police \$113,091 for grants and salaries; Fire \$222,979 for Pumper Truck; Animal Control \$15,576 for spay/neuter, increase in pay and benefits; Building Official \$15,000 for wages and benefits; Road Use \$100,000 for purchase of equipment; Street \$125,000 for FEMA disaster projects; Park \$7,162 for donation for shelter house constructed and additional mowings; Recreation each \$5,000 for operating expenses; Youth Center \$2,000 for operating expenses; Airport \$475,000 for airport gas purchased and FAA Grants; Library \$440,000 for additional expense to be paid out of savings and renovation fund; McGraw/TIF \$13,521 for payments and additional expenses; Policy and administration \$77,725 for additional expense; CDBG Water \$450,000 added project; CDBG Storm Sewer \$250,000 for an added project; Local Option Sales Tax Pool \$517; Pool \$52,626; Cemetery \$15,120; Friends of the Cemetery \$12,000; Debt Service \$322,333; Waste Water \$240,911 and Gateway \$15,332 for additional capital expenses.

Even with the budget amendment, total disbursements were \$1,573,342 less than the amended budget. Actual disbursements for capital projects, culture and recreation, and community and economic development functions were \$593,748, \$376,388 and \$175,333, respectively, less than the amended budget.

The City did not exceed the amounts budgeted for the year ended June 30, 2009.

## DEBT ADMINISTRATION

At June 30, 2009, the City had \$1,999,963 in bonds and other long-term debt outstanding, compared to \$2,582,027 last year, as shown below.

Outstanding Debt Year-End (Expressed in Thousands)		
	<u>June 30, 2009</u>	<u>June 30, 2008</u>
General obligation bonds	\$1,990	\$2,580
Lease-purchase agreements	<u>10</u>	<u>2</u>
Total	<u>\$2,000</u>	<u>\$2,582</u>

Debt decreased primarily as a result of making \$594,129 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 \$1,990,000 is significantly below its constitutional debt limit of \$8,801,112.

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 2010 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 2010. Receipts are budgeted to increase by \$234,818. Disbursements are budgeted to increase by \$184,861. 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 2010 budget. If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$49,957 by the close of 2010.

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, 2009

Functions / Programs	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Governmental activities:</b>							
Public safety	\$ 1,682,535	175,069	218,923	-	(1,288,543)	-	(1,288,543)
Public works	678,652	37,128	538,187	77,368	(25,969)	-	(25,969)
Culture and recreation	414,779	69,348	82,261	-	(263,170)	-	(263,170)
Community and economic development	13,705	-	-	3,620	(10,085)	-	(10,085)
General government	298,403	22,656	1,000	-	(274,747)	-	(274,747)
Debt service	693,641	-	-	2,656	(690,985)	-	(690,985)
Capital projects	646,584	-	-	322,415	(324,169)	-	(324,169)
Total governmental activities	4,428,299	304,201	840,371	406,059	(2,877,668)	-	(2,877,668)
<b>Business type activities:</b>							
Sewer	864,483	801,994	-	-	-	(62,489)	(62,489)
Storm sewer	-	41,107	-	-	-	41,107	41,107
Airport	98,454	52,038	-	-	-	(46,416)	(46,416)
Total business type activities	962,937	895,139	-	-	-	(67,798)	(67,798)
<b>Total</b>	<b>\$ 5,391,236</b>	<b>1,199,340</b>	<b>840,371</b>	<b>406,059</b>	<b>(2,877,668)</b>	<b>(67,798)</b>	<b>(2,945,466)</b>
<b>General Receipts:</b>							
Property tax and other city tax levied for:							
General purposes					1,530,822	-	1,530,822
Debt service					377,177	-	377,177
Local option sales tax					449,599	-	449,599
Grants and contributions not restricted to specific purpose					72,543	-	72,543
Hotel-Motel tax					72,855	-	72,855
Unrestricted interest on investments					40,738	10,896	51,634
Miscellaneous					110	19,462	19,572
Sale of assets					13,084	-	13,084
Transfers					(39,766)	39,766	-
Total general receipts and transfers					2,517,162	70,124	2,587,286
Change in cash basis net assets					(360,506)	2,326	(358,180)
Cash basis net assets beginning of year					2,510,080	950,774	3,460,854
Cash basis net assets end of year					\$ 2,149,574	953,100	3,102,674
<b>Cash Basis Net Assets</b>							
Restricted:							
Streets					\$ 106,774	-	106,774
Debt service					23,244	-	23,244
Local option sales tax					964,357	-	964,357
Other purposes					496,440	-	496,440
Unrestricted					558,759	953,100	1,511,859
<b>Total cash basis net assets</b>					<b>\$ 2,149,574</b>	<b>953,100</b>	<b>3,102,674</b>

See notes to financial statements.

City of Centerville

Exhibit B

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

As of and for the year ended June 30, 2009

	Special Revenue						Total
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits	Debt Service	Nonmajor	
<b>Receipts:</b>							
Property tax	\$ 1,013,601	-	-	502,026	377,177	15,196	1,908,000
Other city tax	145,399	-	449,600	-	-	-	594,999
Licenses and permits	29,484	-	-	-	-	-	29,484
Use of money and property	14,525	-	26,212	-	463	10,650	51,850
Intergovernmental	595,812	491,513	-	-	-	72,176	1,159,501
Charges for service	162,465	-	-	-	-	-	162,465
Special assessments	-	-	-	-	-	14,161	14,161
Miscellaneous	151,007	-	-	110	2,194	20,706	174,017
Total receipts	<u>2,112,293</u>	<u>491,513</u>	<u>475,812</u>	<u>502,136</u>	<u>379,834</u>	<u>132,889</u>	<u>4,094,477</u>
<b>Disbursements:</b>							
<b>Operating:</b>							
Public safety	1,314,377	-	-	404,101	-	6,310	1,724,788
Public works	131,940	554,174	-	314	-	-	686,428
Culture and recreation	373,824	-	2,739	18,848	-	21,582	416,993
Community and economic development	5,000	-	-	-	-	8,705	13,705
General government	264,744	-	-	34,983	-	-	299,727
Debt service	-	-	-	-	693,641	-	693,641
Capital projects	387,111	-	89,920	-	-	169,553	646,584
Total disbursements	<u>2,476,996</u>	<u>554,174</u>	<u>92,659</u>	<u>458,246</u>	<u>693,641</u>	<u>206,150</u>	<u>4,481,866</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(364,703)</u>	<u>(62,661)</u>	<u>383,153</u>	<u>43,890</u>	<u>(313,807)</u>	<u>(73,261)</u>	<u>(387,389)</u>
<b>Other financing sources (uses):</b>							
Sale of capital assets	10,760	-	-	-	-	2,325	13,085
Operating transfers in	247,929	-	-	-	295,288	48,489	591,706
Operating transfers out	(39,968)	(2,686)	(475,884)	(38,820)	(8,378)	(65,736)	(631,472)
Total other financing sources (uses)	<u>218,721</u>	<u>(2,686)</u>	<u>(475,884)</u>	<u>(38,820)</u>	<u>286,910</u>	<u>(14,922)</u>	<u>(26,681)</u>
Net change in cash balances	<u>(145,982)</u>	<u>(65,347)</u>	<u>(92,731)</u>	<u>5,070</u>	<u>(26,897)</u>	<u>(88,183)</u>	<u>(414,070)</u>
Cash balances beginning of year	<u>432,803</u>	<u>172,121</u>	<u>1,057,088</u>	<u>133,018</u>	<u>50,141</u>	<u>446,535</u>	<u>2,291,706</u>
Cash balances end of year	<u>\$ 286,821</u>	<u>106,774</u>	<u>964,357</u>	<u>138,088</u>	<u>23,244</u>	<u>358,352</u>	<u>1,877,636</u>
<b>Cash Basis Fund Balances</b>							
<b>Reserved:</b>							
Debt service	\$ -	-	-	-	23,244	-	23,244
<b>Unreserved:</b>							
General fund	286,821	-	-	-	-	-	286,821
Special revenue funds	-	106,774	964,357	138,088	-	40,916	1,250,135
Capital projects funds	-	-	-	-	-	167,944	167,944
Permanent fund	-	-	-	-	-	149,492	149,492
Total cash basis fund balances	<u>\$ 286,821</u>	<u>106,774</u>	<u>964,357</u>	<u>138,088</u>	<u>23,244</u>	<u>358,352</u>	<u>1,877,636</u>

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, 2009

**Total governmental funds cash balances (page 16)** \$ 1,877,636

*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.

271,938

**Cash basis net assets of governmental activities (page 15)** \$ 2,149,574

**Net change in cash balances (page 16)** \$ (414,070)

*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.

53,564

**Change in cash balance of governmental activities (page 15)** \$ (360,506)

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, 2009

	Enterprise			Internal
	Sewer	Nonmajor	Total	Service
Operating receipts:				
Use of money and property	\$ -	23,681	23,681	-
Charges for service	801,994	69,464	871,458	415,446
Miscellaneous	-	-	-	320,362
Total operating receipts	<u>801,994</u>	<u>93,145</u>	<u>895,139</u>	<u>735,808</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	225,869
Public works	-	-	-	41,584
Culture and recreation	-	-	-	11,826
General government	-	-	-	336,603
Business type activities	474,198	98,454	572,652	54,244
Total operating disbursements	<u>474,198</u>	<u>98,454</u>	<u>572,652</u>	<u>670,126</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>327,796</u>	<u>(5,309)</u>	<u>322,487</u>	<u>65,682</u>
Non-operating receipts (disbursements):				
Interest on investments	10,896	-	10,896	-
Miscellaneous	19,462	-	19,462	-
Debt service	(109,521)	-	(109,521)	-
Capital projects	(292,882)	-	(292,882)	-
Net non-operating receipts (disbursements)	<u>(372,045)</u>	<u>-</u>	<u>(372,045)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(44,249)</u>	<u>(5,309)</u>	<u>(49,558)</u>	<u>65,682</u>
Other financing sources (uses):				
Operating transfers in	-	42,530	42,530	-
Operating transfers out	(1,319)	(1,445)	(2,764)	-
Total other financing sources (uses)	<u>(1,319)</u>	<u>41,085</u>	<u>39,766</u>	<u>-</u>
Net change in cash balances	(45,568)	35,776	(9,792)	65,682
Cash balances beginning of year	<u>907,231</u>	<u>5,970</u>	<u>913,201</u>	<u>255,947</u>
Cash balances end of year	<u>\$ 861,663</u>	<u>41,746</u>	<u>903,409</u>	<u>321,629</u>
<b>Cash Basis Fund Balances</b>				
Unreserved	<u>\$ 861,663</u>	<u>41,746</u>	<u>903,409</u>	<u>321,629</u>
Total cash basis fund balances	<u>\$ 861,663</u>	<u>41,746</u>	<u>903,409</u>	<u>321,629</u>

See notes to financial statements.

City of Centerville

Exhibit E

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

As of and for the year ended June 30, 2009

**Total enterprise funds cash balances (page 18)** \$ 903,409

*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.

49,691

**Cash basis net assets of business type activities (page 15)** \$ 953,100

**Net change in cash balances (page 18)** \$ (9,792)

*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.

12,118

**Change in cash balance of business type activities (page 15)** \$ 2,326

See notes to financial statements.

City of Centerville

Notes to Financial Statements

June 30, 2009

(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, 2009, disbursements did not exceed the amounts budgeted.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2009 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, 2009, 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
2010	\$ 300,000	78,510
2011	425,000	66,796
2012	290,000	50,557
2013	230,000	40,792
2014	235,000	31,634
2015	185,000	22,915
2016	195,000	14,680
2017	65,000	5,785
2018	65,000	2,925
	<u>\$ 1,990,000</u>	<u>314,594</u>

**(4) Lease Purchase Obligation**

The City Library is purchasing office equipment under a capital lease contract. Future payments in relation to this capital lease are as follows:

Year Ended June 30,	Principal	Interest	Total Payment
2010	\$ 2,241	582	2,823
2011	2,391	432	2,823
2012	2,551	272	2,823
2013	2,780	43	2,823
Total	\$ 9,963	1,329	11,292

**(5) 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 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$54,426, \$50,225, and \$46,910 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, 2009, 2008 and 2007 were \$97,269, 144,354, and \$155,621 respectively, which met the required contribution rate for each year.

(6) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 64
	Local Option Sales Tax	200,000
	Employee Benefits	22,542
	Canine	287
	Emergency	15,196
	Permanent:	
	Cemetery Perpetual Care	9,840
		<u>247,929</u>
Debt Service	Special Revenue:	
	Road Use Tax	2,622
	Local Option Sales Tax	275,741
	Special Assessment	14,161
	Enterprise:	
	Sewer	1,319
	Airport	1,445
		<u>295,288</u>
Special Revenue:	Special Revenue:	
Urban Renewal Tax Increment	Local Option Sales Tax	143
	Debt Service	8,378
		<u>8,521</u>
Special Revenue:		
Library Memorial	General	<u>2,393</u>
Capital Projects:		
Library Construction	General	<u>11,323</u>
Capital Projects:		
Airport Construction	General	<u>26,252</u>
Enterprise:	Special Revenue:	
Airport	Employee Benefits	16,278
	Capital Projects:	
	Airport Construction	26,252
		<u>42,530</u>
		<u>\$ 634,236</u>

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

**(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, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Personal time	\$ 928
Compensatory time	29,126
Vacation	<u>83,176</u>
Total	<u>\$113,230</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

**(8) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$606 during the year ended June 30, 2009.

**(9) 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.

**(10) 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, with a \$2,000,000 maximum per covered person over a lifetime. The City records the plan receipts and disbursements of the City of Centerville Health Insurance Fund as an Internal Service Fund.

**(11) 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 577 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, 2009 were \$79,792.

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 by The Travelers Insurance Company.

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, 2009, 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 in the amount of \$1,000,000 each accident, \$1,000,000 memorandum limit, and \$1,000,000 each employee; and airport owners liability for various coverage limits. 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.

**(12) 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, 2009, the loan was paid off. Total principal and interest paid by the City from the Sewer Utility Fund to Appanoose County for this loan in fiscal year 2009 was \$109,521. For the current year, total customer net receipts related to this project were \$21,494. The City's liability was limited to the amount of fees collected from the users of this system.

**(13) 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
2010	\$ 7,455	923	8,378
2011	7,865	513	8,378
2012	1,464	81	1,545
Total	\$ 16,784	1,517	18,301

During the year ended June 30, 2009, the City rebated \$7,066 of incremental taxes and \$1,312 in related interest to the developer. The cumulative amount rebated to the developer from March 2004 through June 30, 2009 was \$33,512.

**(14) 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. During the year ended June 30, 2009, the City paid the School District a total of \$50,000 in exchange for the School District releasing its claim to the payment in lieu of tax amount. The City is still working with the other local political subdivisions in relation to this issue. 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 is 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.

**(15) Subsequent Events**

In fiscal year 2010, the City is completing a water main replacement project. This project will be entirely funded by a grant, with about \$50,000 left to complete as of June 30, 2009. It is anticipated that this project will be completed in fiscal year 2010.

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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts:							
Property tax	\$ 1,908,000	-	-	1,908,000	1,705,044	1,705,044	202,956
Other city tax	594,999	-	-	594,999	744,368	744,368	(149,369)
Licenses and permits	29,484	-	-	29,484	68,050	84,296	(54,812)
Use of money and property	51,850	34,577	-	86,427	64,513	66,513	19,914
Intergovernmental	1,159,501	-	-	1,159,501	937,008	2,755,023	(1,595,522)
Charges for service	162,465	1,286,904	415,446	1,033,923	859,685	959,685	74,238
Special assessments	14,161	-	-	14,161	14,289	14,289	(128)
Miscellaneous	174,017	339,824	320,362	193,479	66,631	96,931	96,548
Total receipts	4,094,477	1,661,305	735,808	5,019,974	4,459,588	6,426,149	(1,406,175)
Disbursements:							
Public safety	1,724,788	225,869	-	1,724,788	1,441,785	1,808,431	83,643
Public works	686,428	41,584	-	686,428	526,295	751,295	64,867
Culture and recreation	416,993	11,826	-	416,993	259,473	793,381	376,388
Community and economic development	13,705	-	-	13,705	175,000	189,038	175,333
General government	299,727	336,603	-	299,727	224,633	302,358	2,631
Debt service	693,641	-	-	693,641	530,865	853,198	159,557
Capital projects	646,584	-	-	646,584	150,000	1,240,332	593,748
Business type activities	-	1,029,299	54,244	975,055	751,319	1,092,230	117,175
Total disbursements	4,481,866	1,645,181	670,126	5,456,921	4,059,370	7,030,263	1,573,342
Excess (deficiency) of receipts over (under) disbursements	(387,389)	16,124	65,682	(436,947)	400,218	(604,114)	167,167
Other financing sources, net	(26,681)	39,766	-	13,085	-	-	13,085
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(414,070)	55,890	65,682	(423,862)	400,218	(604,114)	180,252
Balances beginning of year	2,291,706	1,169,148	255,947	3,204,907	3,055,023	3,055,023	149,884
Balances end of year	\$ 1,877,636	1,225,038	321,629	2,781,045	3,455,241	2,450,909	330,136

See accompanying independent auditor's report.

City of Centerville

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2009

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 \$2,970,893. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted.

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, 2009

	Special				
	Urban Renewal Tax Increment	Friends of Oakland Cemetery	Crime Stoppers	Canine	Special Law Enforcement
Receipts:					
Property tax	\$ -	-	-	-	-
Use of money and property	-	810	-	-	-
Intergovernmental	-	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	-	790	-	-	75
Total receipts	-	1,600	-	-	75
Disbursements:					
Operating:					
Public safety	-	-	673	2,128	3,509
Culture and recreation	-	9,283	-	-	-
Community and economic development	8,521	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	8,521	9,283	673	2,128	3,509
Excess (deficiency) of receipts over (under) disbursements	(8,521)	(7,683)	(673)	(2,128)	(3,434)
Other financing sources (uses):					
Sale of capital assets	-	-	-	-	2,325
Operating transfers in	8,521	-	-	-	-
Operating transfers out	-	-	-	(287)	-
Total other financing sources (uses)	8,521	-	-	(287)	2,325
Net change in cash balances	-	(7,683)	(673)	(2,415)	(1,109)
Cash balances beginning of year	-	29,569	1,897	2,415	2,885
Cash balances end of year	\$ -	21,886	1,224	-	1,776
<b>Cash Basis Fund Balances</b>					
Unreserved:					
Special revenue funds	\$ -	21,886	1,224	-	1,776
Capital project funds	-	-	-	-	-
Permanent fund	-	-	-	-	-
Total cash basis fund balances	\$ -	21,886	1,224	-	1,776

See accompanying independent auditor's report.

Revenue			Capital Projects			Permanent	
Emergency	Library Memorial	Special Assessment	Library Construction	Tax Increment Financing	Airport Construction	Cemetery Perpetual Care	Total
15,196	-	-	-	-	-	-	15,196
-	-	-	-	-	-	9,840	10,650
-	-	-	-	-	72,176	-	72,176
-	-	14,161	-	-	-	-	14,161
-	11,844	-	-	1,645	3,547	2,805	20,706
15,196	11,844	14,161	-	1,645	75,723	12,645	132,889
-	-	-	-	-	-	-	6,310
-	12,299	-	-	-	-	-	21,582
-	-	-	-	184	-	-	8,705
-	-	-	90,350	-	79,203	-	169,553
-	12,299	-	90,350	184	79,203	-	206,150
15,196	(455)	14,161	(90,350)	1,461	(3,480)	12,645	(73,261)
-	-	-	-	-	-	-	2,325
-	2,393	-	11,323	-	26,252	-	48,489
(15,196)	-	(14,161)	-	-	(26,252)	(9,840)	(65,736)
(15,196)	2,393	(14,161)	11,323	-	-	(9,840)	(14,922)
-	1,938	-	(79,027)	1,461	(3,480)	2,805	(88,183)
-	14,092	-	192,239	44,427	12,324	146,687	446,535
-	16,030	-	113,212	45,888	8,844	149,492	358,352
-	16,030	-	-	-	-	-	40,916
-	-	-	113,212	45,888	8,844	-	167,944
-	-	-	-	-	-	149,492	149,492
-	16,030	-	113,212	45,888	8,844	149,492	358,352

City of Centerville

Schedule 2

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

As of and for the year ended June 30, 2009

	Enterprise		
	Storm Sewer	Airport	Total
Operating receipts:			
Use of money and property	\$ -	23,681	23,681
Charges for service	41,107	28,357	69,464
Total operating receipts	41,107	52,038	93,145
Operating disbursements:			
Business type activities	-	98,454	98,454
Total operating disbursements	-	98,454	98,454
Excess (deficiency) of receipts over (under) disbursements	41,107	(46,416)	(5,309)
Other financing sources (uses):			
Operating transfers in	-	42,530	42,530
Operating transfers out	-	(1,445)	(1,445)
Total other financing sources (uses)	-	41,085	41,085
Net change in cash balances	41,107	(5,331)	35,776
Cash balances beginning of year	-	5,970	5,970
Cash balances end of year	\$ 41,107	639	41,746
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 41,107	639	41,746
Total cash basis fund balances	\$ 41,107	639	41,746

See accompanying independent auditor's report.

## City of Centerville

Schedule 3

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

As of and for the year ended June 30, 2009

	Employee Health	Flex Plan	Total
Operating receipts:			
Charges for service:			
Personal service costs from operating funds	\$ 415,446	-	415,446
Miscellaneous:			
Employee contributions and refunds	310,372	9,990	320,362
Total operating receipts	<u>725,818</u>	<u>9,990</u>	<u>735,808</u>
Operating disbursements:			
Governmental activities:			
Public safety	225,869	-	225,869
Public works	41,584	-	41,584
Culture and recreation	11,826	-	11,826
General government	328,406	8,197	336,603
Business type activities	54,244	-	54,244
Total operating disbursements	<u>661,929</u>	<u>8,197</u>	<u>670,126</u>
Net change in cash balances	63,889	1,793	65,682
Cash balances beginning of year	<u>257,181</u>	<u>(1,234)</u>	<u>255,947</u>
Cash balances end of year	<u>\$ 321,070</u>	<u>559</u>	<u>321,629</u>

See accompanying independent auditor's report.

City of Centerville

Schedule 4

Schedule of Indebtedness

Year ended June 30, 2009

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
<b>General Obligation Bonds and Notes:</b>									
Corporate Purpose	September 1, 2001	3.40-4.70%	\$ 1,400,000	940,000	-	100,000	840,000	41,100	-
Capital Loan	May 1, 2003	1.25-4.50%	1,195,000	545,000	-	45,000	500,000	21,513	-
Capital Loan	July 1, 2003	1.20-3.20%	500,000	265,000	-	50,000	215,000	7,710	-
Capital Loan	September 1, 2003	3.00-4.00%	700,000	340,000	-	205,000	135,000	12,356	-
Refunding Capital Loan	April 1, 2005	3.00-3.375%	910,000	455,000	-	155,000	300,000	15,769	-
Capital Loan	November 19, 2007	4.125%	35,000	35,000	-	35,000	-	925	-
				<u>\$ 2,580,000</u>		<u>590,000</u>	<u>1,990,000</u>	<u>99,373</u>	
<b>Lease Purchase Agreements:</b>									
Equipment	August 20, 2003	6.50%	\$ 21,054	2,027	-	2,027	-	33	-
Equipment	April 14, 2008	6.50%	12,065	-	12,065	2,102	9,963	721	-
				<u>\$ 2,027</u>	<u>12,065</u>	<u>4,129</u>	<u>9,963</u>	<u>754</u>	

See accompanying independent auditor's report.

City of Centerville

Schedule 5

Bond and Note Maturities

June 30, 2009

Year Ending June 30,	General Obligation Bonds and Notes														
	Corporate Purpose			Capital Loan			Capital Loan			Refunding Capital Loan					
	Issued September 1, 2001	Interest Rates	Amount	Issued May 1, 2003	Interest Rates	Amount	Issued July 1, 2003	Interest Rates	Amount	Issued September 1, 2003	Interest Rates	Amount	Issued April 1, 2005	Interest Rates	Amount
2010	4.10%	\$ 105,000		3.35%	\$ 45,000		-	\$ -		-			3.375%	\$ 150,000	\$ 300,000
2011	4.20%	110,000		3.60%	50,000		2.80%	50,000		3.500%	65,000		3.250%	150,000	425,000
2012	4.30%	115,000		3.75%	50,000		2.95%	55,000		3.700%	70,000		-	-	290,000
2013	4.40%	120,000		3.90%	55,000		3.05%	55,000		-	-		-	-	230,000
2014	4.50%	125,000		4.00%	55,000		3.20%	55,000		-	-		-	-	235,000
2015	4.60%	130,000		4.10%	55,000		-	-		-	-		-	-	185,000
2016	4.70%	135,000		4.25%	60,000		-	-		-	-		-	-	195,000
2017	-	-		4.40%	65,000		-	-		-	-		-	-	65,000
2018	-	-		4.50%	65,000		-	-		-	-		-	-	65,000
		<u>\$ 840,000</u>			<u>\$ 500,000</u>			<u>\$ 215,000</u>			<u>\$ 135,000</u>			<u>\$ 300,000</u>	<u>\$ 1,990,000</u>

See accompanying independent auditor's report.

City of Centerville

Schedule 6

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

For the Last Five Years

	2009	2008	2007	2006	2005
<b>Receipts:</b>					
Property tax	\$1,908,000	1,942,462	1,882,266	1,955,748	1,724,719
Tax increment financing	-	-	-	4,983	391,046
Other city tax	594,999	563,109	620,114	502,078	401,423
Licenses and permits	29,484	28,114	67,657	66,598	71,047
Use of money and property	51,850	70,935	120,407	59,455	40,907
Intergovernmental	1,159,501	1,756,627	1,332,878	915,365	889,884
Charges for service	162,465	148,129	133,100	161,539	130,839
Special assessments	14,161	12,991	30,103	17,965	35,863
Miscellaneous	174,017	370,077	146,766	342,640	194,059
<b>Total</b>	<b>\$4,094,477</b>	<b>4,892,444</b>	<b>4,333,291</b>	<b>4,026,371</b>	<b>3,879,787</b>
<b>Disbursements:</b>					
<b>Operating:</b>					
Public safety	\$1,724,788	1,579,219	1,554,102	1,435,742	1,294,664
Public works	686,428	596,553	547,899	487,234	582,726
Culture and recreation	416,993	359,258	424,317	426,005	363,190
Community and economic development	13,705	38,578	178,143	366,224	259,328
General government	299,727	239,526	336,907	237,911	214,897
Debt service	693,641	562,694	784,457	772,593	820,223
Capital projects	646,584	1,191,523	850,995	279,500	769,504
<b>Total</b>	<b>\$4,481,866</b>	<b>4,567,351</b>	<b>4,676,820</b>	<b>4,005,209</b>	<b>4,304,532</b>

See accompanying independent auditor's report.

## City of Centerville

Schedule 7

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration Airports Division:			
Airport Improvement Program	20.106	3-19-0013-03	\$ 12,406
		3-19-0013-04	61,557
			73,963
Subtotal - Direct			73,963
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	07-WS-019	371,748
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	08JAG/C06-A08	139,243
U.S. Department of Transportation:			
State of Iowa - Governor's Traffic Safety Bureau:			
Safety Incentive Grants for Use of Seatbelts	20.604	08-157-Task 27	4,415
		09-406-Task 27	1,635
			6,050
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	FEMA-1763-DRIA	97,268
Subtotal - Indirect			614,309
Total			\$ 688,272

**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 & CO., LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1370 NW 114<sup>TH</sup> ST., SUITE 205  
CLIVE, IA 50325

(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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 11, 2010. 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-09, II-C-09, and II-D-09 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, 2009 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 & Co., LLP  
Certified Public Accountants

January 11, 2010

PEAK & CO., LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1370 NW 114<sup>TH</sup> ST., SUITE 205  
CLIVE, IA 50325  
(515) 277-3077

Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Centerville, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2009. The City of Centerville's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Centerville's management. Our responsibility is to express an opinion on the City of Centerville's compliance based on our audit.

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

In our opinion, the City of Centerville complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

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 preceding 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 a deficiency in internal control over compliance that we consider to be a material weakness.

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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-09 to be a significant deficiency.

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 significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-09 to be a material weakness.

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 & Co., LLP  
Certified Public Accountants

January 11, 2010

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

**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) A significant deficiency in internal control over the major program was disclosed by the audit of the financial statements, which was considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Centerville did not qualify as a low-risk auditee.

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

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

**SIGNIFICANT DEFICIENCIES:**

II-A-09 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. Due to the technical nature of these requirements, management does not prepare this information, which is a 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 in the ability to apply accounting principles.

Conclusion – Response accepted.

II-B-09 Debt – In the years 1999 and 2001, a local non-profit development group gave some real estate to the City. As a condition of this gift, the City Council and the local non-profit development group apparently entered into a verbal agreement whereby the City would pay the local non-profit development group \$32,677 for this property at some point in the future. During fiscal year 2007, the City paid \$28,000 to the local non-profit development group for this real estate, leaving a balance due of \$4,677.

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

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

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

Conclusion – Response accepted.

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

II-C-09 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-09 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.

During the year ended June 30, 2009, a portion of these funds were used by the construction management company to pay the vendors who were working on the construction projects, with the unspent balance returned to the Library.

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.

Response – The construction is now complete and the monies in question were all spent by June 30, 2009.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

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

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCY:**

**CFDA Number 14.228: Community Development Block Grants/State's Program  
Pass-through Agency Number: 07-WS-019  
Federal Award Year: 2007  
U.S. Department of Housing and Urban Development  
Passed through the Iowa Department of Economic Development**

III-A-09 Subrecipient Monitoring – For a water project, the City entered into an agreement with a Regional Planning Commission (administrative entity) to administer the program. 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 procedures as required under OMB Circular A-133 in relation to the administrative entity.

In addition, the City had entered into a subrecipient agreement with the Centerville Municipal Waterworks (CMWW) for this same project. The CMWW is the entity that will ultimately benefit from this project, as the CMWW provides water service to the City. The agreement between the City and the CMWW requires that the CMWW be responsible for all aspects of the project. While the City hired an administrative entity to administer the program, the administrative entity does not perform subrecipient monitoring procedures as required under OMB Circular A-133 in relation to the CMWW.

Recommendation – The City should develop and implement policies and procedures to ensure the administrative entity is aware of the subrecipient relationship created when they enter into a subrecipient agreement to administer the program. In addition, the City should implement procedures to ensure that all subrecipients are monitored as required by OMB Circular A-133.

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

Conclusion – Response accepted.

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

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

IV-A-09 Certified Budget - Disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted.

IV-B-09 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-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-09 Business Transactions – Business transactions between the City and City officials or employees of the primary government are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Kris Koestner, Council Member Owner of J&K Market	Supplies	\$21
Rob Lind, Council Member Owner of Centerville Greenhouse	Supplies	550
Ron Creagan, Street Commissioner Owner of R&A Auto	Services	35

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

IV-E-09 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-09 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not. The Council went into closed session during the year. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Although the Council minutes were published, they were not always published within fifteen days as required by Chapter 372.13 (6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa, and should publish the minutes as required.

Response – We will implement this recommendation.

Conclusion - Response accepted.

IV-G-09 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.

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

IV-H-09 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-I-09 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-J-09 Airport – Dual signatures are not required on checks.

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.

It appears that some Job Service and Federal Form 941 reports are inaccurate.

Recommendation – Dual signatures should be required on all checks. 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 – We now require dual signatures on checks. 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.

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

IV-K-09 Library – For memorial and donation monies, an immediate record of receipt is not generated at the time of collection. Some quarterly payroll reports appeared to be inaccurate.

Recommendation – The Library record receipts immediately upon receipt and review the payroll reports to ensure they are accurate.

Response – We will implement this recommendation.

Conclusion – Response accepted.

IV-L-09 Airport Fuel – For the airport fuel facility, there is an inadequate reconciliation of the number of gallons of fuel inventory, purchases and sales. Due to the lack of records and reconciliations which are not adequately performed, it is inconclusive as to whether all airport fuel has been accounted for properly.

Recommendation – The airport implement procedures to provide reasonable assurance that all fuel is accounted for properly. One way to do this would be to reconcile the gallons of fuel purchases, sales and inventory with the accounting records.

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

Conclusion – Response accepted.

IV-M-09 Compliance Issues – The City has credit cards which are used by the various City departments. We noted that the City does not have a credit card policy which documents who can use the credit cards, as well as the types of purchases that can be charged to the credit cards.

We noted that in some cases the City is unable to obtain the information needed in order to bill the appropriate party for fire department related service calls.

Recommendation – The City implement a credit card policy which addresses all relevant issues. In addition, the City needs to revise its procedures to ensure all information is obtained in order to bill all fire department related service calls.

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

Conclusion – Response accepted.

IV-N-09 Federal Grants – As noted in the prior audit, for a grant from the U.S. Department of Transportation, Federal Aviation Administration, it did not appear that the match requirements were met. There was no contract amendment for amounts paid to the engineer in excess of the contract amount. No change order was prepared when the amount paid to the contractor differed from the actual contract amount.

For a grant from the Federal Emergency Management Agency passed through the State of Iowa, it appears that the City may have incurred more costs than what they claimed from the federal government.

As noted in a prior audit, for a grant from the U.S. Department of Housing and Urban Development passed through the Iowa Department of Economic Development, it appears there were a significant number of employees who were underpaid based on prevailing wages that were required to be paid on the project.

City of Centerville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

Recommendation – The City work with the U.S Department of Transportation in relation to the issues associated with the grant from the Federal Aviation Administration.

The City work with the Federal Emergency Management Agency to ensure all costs incurred by the City are claimed for reimbursement.

The City work with the Iowa Department of Economic Development to resolve the prevailing wage issue.

Response – We are working with these agencies to resolve these issues.

Conclusion – Response accepted.

IV-O-09 City Street Department – The City street department performed facility repair work for private individuals and businesses. The City did charge for the work they did for the private individuals and businesses. However, the City has no policies and procedures in relation to this. In addition, there could be legal issues as to whether the City can perform work for private individuals and businesses.

Recommendation – The City consult with their Attorney regarding the legality of work performed for private individuals and businesses. If the City does proceed with this type of work, the City needs to develop policies and procedures which addresses the issues associated with providing these services.

Response – We have discontinued providing repair work for private individuals and businesses, and will not do this in the future.

Conclusion – Response accepted.

City of Centerville

Corrective Action Plan for Federal Audit Findings

Year Ended June 30, 2009

<u>Comment Number</u>	<u>Comment Title</u>	<u>Corrective Action Plan</u>	<u>Contact Person, Title, Phone Number</u>	<u>Anticipated Date of Completion</u>
III-A-09	Subrecipient Monitoring	This will be implemented on future contracts with subrecipients. We will also implement monitoring procedures of our subrecipients.	Kris May City Clerk (641) 437-4339	Immediately

City of Centerville

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2009

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action or other explanation
III-A-08	Cash Management	Corrective action taken	
III-B-08	Match Requirements	Not Corrected	We will investigate this and file a corrected claim form, if necessary.
III-C-08	Contracts	Not Corrected	We will discuss this with the Federal Aviation Administration to determine what needs to be done.
III-D-08	Subrecipient Monitoring	Not Corrected	We will discuss this with the Iowa Department of Economic Development to determine what needs to be done.
III-E-08	Davis-Bacon Act	Not Corrected	The Iowa Department of Economic Development is in the process of resolving this issue.