

City of Keokuk

**Independent Auditor's Report
Management's Discussion and Analysis
Financial Statements and Supplementary Information
Independent Auditor's Reports on Internal Control and Compliance
Schedule of Findings and Questioned Costs**

June 30, 2012

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City of Keokuk

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Marion	Mayor	December 31, 2013
Susan Dunek	Mayor Pro-tem	December 31, 2013
Zane Zirkel	Council Member-At Large	December 31, 2013
John Helenthal	Council Member-At Large	December 31, 2015
Michael O'Connor	Council Member-Ward 1	December 31, 2013
Michael Moore	Council Member-Ward 2	December 31, 2015
Ron Payne	Council Member-Ward 3	December 31, 2013
Larry Mortimer	Council Member-Ward 4	December 31, 2015
Sandra Pollitt	Council Member-Ward 5	December 31, 2013
Roger Bryant	Council Member-Ward 6	December 31, 2015
Susan Dunek	Council Member-Ward 7	December 31, 2013
John Russell	Finance Manager	Indefinite
Barb Barnes	City Clerk	Indefinite
Audrey Alexander	Attorney	Indefinite
Thomas Crew	Chief of Police	Indefinite
Gabe Rose	Fire Chief	Indefinite



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Independent Auditor's Report

Honorable Mayor and Members of the City Council
City of Keokuk, Iowa

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 Keokuk, Iowa (City) as of and for the year ended June 30, 2012, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America.

The financial statements referred to above include only the primary government of the City, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America 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 as of June 30, 2012, 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 as of and for the year ended June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's primary government 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, 2011 (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. The financial statements for the five years ended June 30, 2007 (none of which are presented herein) were audited by another auditor who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 11 and 28 through 29 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

CPA Associates PC

February 21, 2013

City of Keokuk Management's Discussion and Analysis

The City of Keokuk (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which begin on page 12.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 28%, or \$4,321,334, from fiscal 2011 to fiscal 2012. The decrease resulted primarily from reduced bond proceeds in the current period.
- Disbursements of the City's governmental activities decreased 43%, or \$7,810,476, in fiscal 2012 from fiscal 2011 due to reduced expenditures for capital projects.
- The City's total cash basis net assets increased 12%, or \$1,186,046, from fiscal 2011 to fiscal 2012. Of this amount, the assets of the governmental activities increased \$613,718 and the assets of business type activities increased \$572,328.
- In fiscal 2012, the City of Keokuk expended funds for capital projects which include streets, airport, waste water treatment, and storm sewer separation. In the area of street construction, projects completed include High Street from 10th to 12th, Blondeau 1st to 5th, 2nd, 3rd, and 4th from Main to Concert. 2009B and 2010 GO Bond funds, in the amount of \$124,716, were used to finance work on these projects. 9th street Let-Down Structure engineering work totaled \$70,700. At the airport, \$368,642 was expended for continuing work on the updated master plan and runway improvement engineering fees. The federal reimbursement was 95% of the cost of the master plan project and 90% of the cost of the runway improvement project. The City has incurred \$110,044 of engineering fees in connection with the River Road Bluff Stabilization project through fiscal 2012. This project is funded 80% with an IDOT grant. The ongoing CSO Storm sewer project capital expenditures were \$867,023, which includes the completion of the Soap Creek project, continued expenditures for the Victory Park planning and design project, and the sewer line televising and cleaning project. These projects are funded by long term loans provided by the State Revolving Fund and a limited amount of grant funds. In addition, the City expended sewer revenue funds on a digester project, a new lift station, and additional new manholes for the televising project.
- The City of Keokuk was awarded a Community Development Block Grant through IEDA in the spring of 2012. The City of Keokuk will begin the selection process in early 2013. The \$349,990 grant will assist ten low income citizens to rehabilitate their homes making them safer and more enjoyable places to live. These funds also greatly assist with stabilization of neighborhoods in our community.
- In July 2012, a property was donated to Habitat for Humanity for the construction of a single family dwelling. The City demolished a fire damaged home from the lot. Project Based Housing funds were obtained for this project in 2011. Construction is set to begin by spring 2013. The City is still working with Keokuk Habitat for Humanity to select a second lot to construct a single family dwelling.
- The City continues to participate in the Great River Housing Trust Fund. Low and moderate income households are eligible for down payment assistance in the amount of \$5,000 and a maximum amount of \$10,000 is available for repairs such as roofing, electrical, plumbing, energy efficiency and heating. These funds can be in the form of a low/no interest bearing loan or grant.

City of Keokuk Management's Discussion and Analysis

- The City hosted an Earth Day 2012 where 450 volunteers collected 1440 lbs of garbage and a city dump truck full of recycling. The City also held two city-wide cleanups issuing 1150 vouchers and collecting 248 ton of trash at a total cost to the city of \$9,697. Lastly, the City held a Recycling/E-Waste Day 2012 where approximately 29 tons of appliances, hazardous waste, paint, cardboard and paper were collected and recycled.
- Heavy rainfall in 2010 damaged sewers, streets and the bluff areas overlooking the Mississippi River. Cost estimates to repair the damages have not been completely finalized. The City is working with Federal and State officials to receive reimbursement for these damages.
- The City continued to close out projects associated with the flood of 2008 and get reimbursed by FEMA.
- In fiscal 2012, the City continued to reconstruct residential streets as part of a comprehensive \$13 million ten year project.
- In fiscal 2012, the City continued to work with promising industrial investors.

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 Statements consist 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 statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- Supplementary Information provides detailed information about the nonmajor governmental funds. 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 accounting principles generally accepted in the United States of America. 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.

City of Keokuk Management's Discussion and Analysis

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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 solid waste, bridge and the sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax, Urban Renewal Tax Increment Financing (TIF) and Employee Benefits, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Other Nonmajor Governmental funds. 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 the Enterprise Funds to provide information for the sewer, bridge, and solid waste funds, considered to be major funds of the City. The Internal Service Fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The Internal Service Fund utilized by the City accounts for retirees, Keokuk Municipal Water Works, and Low Rent Housing group health insurance.

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

**City of Keokuk
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$5,020,649 to \$5,634,367. Our analysis below focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Charges for services	\$ 496,758	\$ 450,842
Operating grants, contributions and restricted interest	1,559,866	1,972,036
Capital grants, contributions and restricted interest	412,813	495,915
General receipts:		
Property tax	3,237,094	3,185,195
Local option sales tax	1,296,644	1,132,992
Tax increment financing	1,573,868	1,466,359
Debt service	696,677	583,321
Utility excise tax	637,729	778,546
Riverboat gaming tax	392,150	359,388
Hotel/Motel tax	276,006	233,230
Unrestricted interest on investments	117,145	141,003
Bond proceeds	-	4,225,000
Other general receipts	<u>242,950</u>	<u>237,207</u>
Total receipts	<u>10,939,700</u>	<u>15,261,034</u>
Disbursements:		
Public safety	4,411,559	4,566,458
Public works	1,500,148	1,720,365
Culture and recreation	1,265,031	1,316,154
Community and economic development	153,328	473,622
General government	594,488	539,993
Debt service	1,757,380	7,418,290
Capital projects	<u>716,900</u>	<u>2,174,428</u>
Total disbursements	<u>10,398,834</u>	<u>18,209,310</u>
Change in cash basis net assets before transfers	540,866	(2,948,276)
Transfers, net	<u>72,852</u>	<u>320,592</u>
Change in cash basis net assets	613,718	(2,627,684)
Cash basis net assets beginning of year	<u>5,020,649</u>	<u>7,648,333</u>
Cash basis net assets end of year	<u>\$ 5,634,367</u>	<u>\$ 5,020,649</u>

The City's total receipts for governmental activities decreased 28%, or \$4,321,334, from fiscal 2011 to fiscal 2012. The total cost of all programs and services decreased by \$7,810,476 or 43% with no new programs added this year. This decrease in receipts was primarily due to a decrease in bond proceeds. The increase in expenditures is primarily due to debt refinancing and repayment and reduced capital expenditures.

**City of Keokuk
Management's Discussion and Analysis**

The cost of all governmental activities this year was \$10,398,834 compared to \$18,209,310 last year. However, as shown in the Statement of Activities and Net Assets on page 12, the amount that our taxpayers ultimately financed for these activities through City taxes was \$7.93 million because some of the cost was paid by those directly benefited from the programs by (\$496,758) or by other governments and organizations that subsidized certain programs with grants and contributions (\$1,972,679).

Change in Cash Basis of Net Assets Business Type Activities	Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Sewer charges	\$ 3,547,985	\$ 3,126,863
Bridge charges	286,065	276,880
Solid waste charges	702,016	693,193
General receipts:		
Bond proceeds	824,888	2,342,544
Miscellaneous receipts	<u>143,724</u>	<u>261,087</u>
Total receipts	<u>5,504,678</u>	<u>6,700,567</u>
Disbursements:		
Sewer	3,790,957	4,637,256
Bridge	375,131	533,871
Solid waste	<u>693,410</u>	<u>696,872</u>
Total disbursements	<u>4,859,498</u>	<u>5,867,999</u>
Change in cash basis net assets before transfers	645,180	832,568
Transfers, net	<u>(72,852)</u>	<u>(320,592)</u>
Change in cash basis net assets	572,328	511,976
Cash basis net assets beginning of year	<u>5,291,567</u>	<u>4,779,591</u>
Cash basis net assets end of year	<u>\$ 5,863,895</u>	<u>\$ 5,291,567</u>

Total business type activities receipts for the fiscal year were \$5,504,678 compared to \$6,700,567 last year. This decrease was due primarily to the receipt of bond proceeds in 2011 and rate increases to sewer customers. Total disbursements for the fiscal year decreased by 17%, to a total of \$4,859,498 due to the completion of the Soap Creek CSO project in early fiscal year 2012 and a general decrease in total capital expenditures.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's funds is to provide information on near-term inflows, outflows and cash balances of spendable resources. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance of the General Fund was \$412,457, an increase of \$120,033 from the prior year.
- The Road Use Tax Fund (RUTF) cash balance increased by \$168,662 to \$550,299 during the fiscal year.

**City of Keokuk
Management's Discussion and Analysis**

- The Local Option Sales Tax cash balance decreased by \$12,878 to \$1,241,968 during the fiscal year. This was due to increased transfers for employee benefits and infrastructure expenses.
- The Employee Benefits Fund increased \$11,769 to \$502,654 during the fiscal year.
- The Urban Renewal TIF Fund increased \$566,053 to \$1,877,252 during the fiscal year due to an increase in TIF tax receipts.
- The Debt Service Fund decreased \$2,029 to \$174,528 during the fiscal year due to reduced transfers from other funds.
- The Capital Projects Fund decreased by \$274,904 to \$191,422, due to reduced borrowing for capital projects, and repayment of funds previously borrowed primarily for street projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance increased by \$514,734 to \$2,364,393 due to increased fees.
- The Bridge Fund cash balance increased by \$42,411 to \$3,335,017 due to an economic development loan made in the prior fiscal year.
- The Solid Waste Fund cash balance increased by \$14,577 to \$131,242.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, the City amended its operating budget. The amendment was approved on May 17, 2012, and resulted in an increase in budgeted revenues of \$133,778 and an increase in budgeted operating disbursements of \$2,140,326. Increases in revenues included other taxes, miscellaneous, charges for service, and miscellaneous and increases in expenditures included public safety, culture and recreation, debt service, general government, debt service, capital projects, and business type activities.

**City of Keokuk
Management's Discussion and Analysis**

DEBT ADMINISTRATION

At year end, the City had \$21,747,170 in bonds and other long-term debt compared to \$22,035,772 last year as shown below.

Outstanding Debt	Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
General obligation bonds	\$ 12,690,000	\$ 13,395,000
Revenue bonds	5,675,965	5,011,077
Capital loan notes	271,205	399,695
Urban renewal TIFs	<u>3,110,000</u>	<u>3,230,000</u>
Total	<u>\$ 21,747,170</u>	<u>\$ 22,035,772</u>

The Constitution of the State of Iowa limits the amount of general obligation debt that 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 and TIF debt of \$16,071,205 is below the City's \$25.7 million legal debt limit. The City's general obligation bond rating continues to be A2, a rating that has been assigned by Moody's Investor Services.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements. It is important to note that all revenues derived from Keokuk Senior Housing TIF are directed toward debt service payments on the 2005 General Obligation Bonds and bank debt for the industrial development project is being serviced from TIF revenues from that project.

EXCLUDED COMPONENT UNITS

Keokuk Municipal Water Works (Water Works) is a component unit of the City of Keokuk. The Water Works and the City of Keokuk are considered separate legal entities. The Water Works meets the component unit definition because the City Council appoints the Board of Trustees of the Water Works. However, since Water Works operates under the accrual method of accounting and the City of Keokuk operates under the cash method of accounting, this component unit has not been presented in the accompanying financial statements. The financial statements of the Water Works are available at the Water Works office, 20 North 4th Street, Keokuk, Iowa.

Keokuk Public Library Foundation (Foundation) is a component unit of the City of Keokuk. The Foundation, a separate legal entity, exists for the purpose of attracting funds to benefit the Public Library which serves the Keokuk area and to disburse those funds in a manner which will benefit the Library. The Foundation meets the definition of a component unit since it raises funds on behalf of the Library. The financial statements of the Foundation have not been audited, so this component unit has not been presented in the accompanying financial statements.

**City of Keokuk
Management's Discussion and Analysis**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The continued poor economy, high unemployment regionally, the increased cost of public pensions and a potential rollback on commercial property taxable valuation has caused the City to continue to experience cuts in revenues resulting in decreased operating revenues for the City especially in general fund departmental operations. There is also concern regarding future property tax revenues resulting from State legislation which could overhaul the property tax system. Any change would not come into play immediately but could significantly impact the City in future years.

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 demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or to request additional information, contact the Finance Manager's office at 415 Blondeau Street, Keokuk, Iowa 52632 or telephone at 319-524-2050.

BASIC FINANCIAL STATEMENTS

City of Keokuk
Statement of Activities and Net Assets - Cash Basis
As of and for the Year Ended June 30, 2012

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service and Sales	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions	Governmental Activities	Business Type Activities	Total
Functions / Programs:							
Governmental activities:							
Public safety	\$ 4,411,559	\$ 64,624	\$ 266,294	\$ -	\$ (4,080,641)	\$ -	\$ (4,080,641)
Public works	1,500,148	79,055	1,151,815	-	(269,278)	-	(269,278)
Culture and recreation	1,265,031	164,545	68,395	-	(1,032,091)	-	(1,032,091)
Community and economic development	153,328	-	52,713	-	(100,615)	-	(100,615)
General government	594,488	188,534	20,649	-	(385,305)	-	(385,305)
Debt service	1,757,380	-	-	-	(1,757,380)	-	(1,757,380)
Capital projects	716,900	-	-	412,813	(304,087)	-	(304,087)
Total government activities	<u>10,398,834</u>	<u>496,758</u>	<u>1,559,866</u>	<u>412,813</u>	<u>(7,929,397)</u>	<u>-</u>	<u>(7,929,397)</u>
Business type activities:							
Sewer	3,790,957	3,547,985	-	-	-	(242,972)	(242,972)
Bridge	375,131	286,065	-	-	-	(89,066)	(89,066)
Solid waste	693,410	702,016	-	-	-	8,606	8,606
Total business type activities	<u>4,859,498</u>	<u>4,536,066</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(323,432)</u>	<u>(323,432)</u>
Total	<u>\$ 15,258,332</u>	<u>\$ 5,032,824</u>	<u>\$ 1,559,866</u>	<u>\$ 412,813</u>	<u>(7,929,397)</u>	<u>(323,432)</u>	<u>(8,252,829)</u>
General receipts:							
Property tax levied for:							
General purposes					3,237,094	-	3,237,094
Debt service					696,677	-	696,677
Tax increment financing					1,573,868	-	1,573,868
Local option sales tax					1,296,644	-	1,296,644
Utility excise tax					637,729	-	637,729
Riverboat gaming tax					392,150	-	392,150
Hotel/Motel tax					276,006	-	276,006
Grants and contributions not restricted to specific purposes					200,000	-	200,000
Unrestricted investment earnings					117,145	118,588	235,733
Sale of capital assets					42,647	-	42,647
Bond proceeds					-	824,888	824,888
Transfers					72,852	(72,852)	-
Miscellaneous					303	25,136	25,439
Total general receipts and transfers					<u>8,543,115</u>	<u>895,760</u>	<u>9,438,875</u>
Change in cash basis net assets					613,718	572,328	1,186,046
Cash basis net assets beginning of year					<u>5,020,649</u>	<u>5,291,567</u>	<u>10,312,216</u>
Cash basis net assets end of year					<u>\$ 5,634,367</u>	<u>\$ 5,863,895</u>	<u>\$ 11,498,262</u>
Cash Basis Net Assets:							
Restricted:							
Nonexpendable					\$ 401,042	\$ -	\$ 401,042
Expendable					4,538,123	76,500	4,614,623
Unrestricted					<u>695,202</u>	<u>5,787,395</u>	<u>6,482,597</u>
Total cash basis net assets					<u>\$ 5,634,367</u>	<u>\$ 5,863,895</u>	<u>\$ 11,498,262</u>

See notes to financial statements.

City of Keokuk
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2012

	Special Revenue							Other Nonmajor Govern- mental	Total
	General	Road Use	Local Option Sales Tax	Employee Benefits	Urban Renewal TIF	Debt Service	Capital Projects		
Receipts:									
Property tax	\$ 2,024,918	\$ -	\$ -	\$ 1,148,624	\$ -	\$ 595,624	\$ -	\$ 63,552	\$ 3,832,718
Tax increment financing collections	-	-	-	-	1,573,868	-	-	-	1,573,868
Other taxes	1,067,026	-	1,296,644	226,336	-	101,053	-	12,523	2,703,582
Use of money and property	117,145	-	-	-	-	-	-	-	117,145
Licenses and permits	138,043	-	-	-	-	-	-	-	138,043
Intergovernmental	613,711	1,022,495	-	-	-	-	412,813	35,386	2,084,405
Charges for services	320,194	-	-	-	-	-	-	-	320,194
Miscellaneous	101,179	-	-	793	-	-	-	25,127	127,099
Total receipts	<u>4,382,216</u>	<u>1,022,495</u>	<u>1,296,644</u>	<u>1,375,753</u>	<u>1,573,868</u>	<u>696,677</u>	<u>412,813</u>	<u>136,588</u>	<u>10,897,054</u>
Disbursements:									
Governmental activities:									
Public safety	4,413,059	-	-	-	-	-	-	-	4,413,059
Public works	646,557	853,833	-	-	-	-	-	-	1,500,390
Culture and recreation	1,265,330	-	-	-	-	-	-	-	1,265,330
Community and economic development	109,548	-	-	-	21,993	-	-	21,833	153,374
General government	594,634	-	-	-	-	-	-	-	594,634
Debt service	-	-	-	-	307,994	1,449,386	-	-	1,757,380
Capital projects	-	-	-	-	-	-	716,900	-	716,900
Total disbursements	<u>7,029,128</u>	<u>853,833</u>	<u>-</u>	<u>-</u>	<u>329,987</u>	<u>1,449,386</u>	<u>716,900</u>	<u>21,833</u>	<u>10,401,067</u>
Excess (deficiency) of receipts over disbursements	(2,646,912)	168,662	1,296,644	1,375,753	1,243,881	(752,709)	(304,087)	114,755	495,987
Other financing sources (uses):									
Sale of capital assets	42,647	-	-	-	-	-	-	-	42,647
Operating transfers in (out)	<u>2,724,298</u>	<u>-</u>	<u>(1,309,522)</u>	<u>(1,363,984)</u>	<u>(677,828)</u>	<u>750,680</u>	<u>29,183</u>	<u>(79,975)</u>	<u>72,852</u>
Net change in cash balances	120,033	168,662	(12,878)	11,769	566,053	(2,029)	(274,904)	34,780	611,486
Cash balances beginning of year	<u>292,424</u>	<u>381,637</u>	<u>1,254,846</u>	<u>490,885</u>	<u>1,311,199</u>	<u>176,557</u>	<u>466,326</u>	<u>682,251</u>	<u>5,056,125</u>
Cash balances end of year	<u>\$ 412,457</u>	<u>\$ 550,299</u>	<u>\$ 1,241,968</u>	<u>\$ 502,654</u>	<u>\$ 1,877,252</u>	<u>\$ 174,528</u>	<u>\$ 191,422</u>	<u>\$ 717,031</u>	<u>\$ 5,667,611</u>
Cash Basis Fund Balances									
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 401,042	\$ 401,042
Restricted	-	550,299	-	502,654	1,877,252	174,528	191,422	-	3,296,155
Committed	-	-	1,241,968	-	-	-	-	-	1,241,968
Assigned	-	-	-	-	-	-	-	315,989	315,989
Unassigned	<u>412,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>412,457</u>
Total cash basis fund balances	<u>\$ 412,457</u>	<u>\$ 550,299</u>	<u>\$ 1,241,968</u>	<u>\$ 502,654</u>	<u>\$ 1,877,252</u>	<u>\$ 174,528</u>	<u>\$ 191,422</u>	<u>\$ 717,031</u>	<u>\$ 5,667,611</u>

See notes to financial statements.

City of Keokuk
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, 2012

Total governmental funds cash balances (page 13) \$ 5,667,611

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

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

(33,244)

Cash basis net assets of governmental activities (page 12) \$ 5,634,367

Net change in cash balances (page 13) \$ 611,486

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

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

2,232

Change in cash balance of governmental activities (page 12) \$ 613,718

See notes to financial statements.

City of Keokuk
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the Year Ended June 30, 2012

	Enterprise Funds				Internal Service Fund
	<u>Sewer</u>	<u>Bridge</u>	<u>Solid Waste</u>	<u>Total</u>	<u>Employee Health</u>
Operating Receipts:					
Charges for service	\$ 3,547,985	\$ 286,065	\$ 702,016	\$ 4,536,066	\$ 457,258
Total operating receipts	<u>3,547,985</u>	<u>286,065</u>	<u>702,016</u>	<u>4,536,066</u>	<u>457,258</u>
Operating Disbursements:					
Public safety	-	-	-	-	240,028
Public works	-	-	-	-	38,749
Culture and recreation	-	-	-	-	47,853
Community and economic development	-	-	-	-	7,417
General government	-	-	-	-	23,297
Business type activities	<u>1,995,844</u>	<u>366,704</u>	<u>604,607</u>	<u>2,967,155</u>	<u>97,075</u>
Total operating disbursements	<u>1,995,844</u>	<u>366,704</u>	<u>604,607</u>	<u>2,967,155</u>	<u>454,419</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>1,552,141</u>	<u>(80,639)</u>	<u>97,409</u>	<u>1,568,911</u>	<u>2,839</u>
Non-operating receipts (disbursements):					
Interest on investments	1,238	117,350	-	118,588	-
Licenses and permits	2,590	-	-	2,590	-
Miscellaneous	2,235	14,200	6,111	22,546	-
Bond proceeds	824,888	-	-	824,888	-
Capital projects	(1,616,780)	(8,500)	-	(1,625,280)	-
Debt service	<u>(178,726)</u>	<u>-</u>	<u>(88,943)</u>	<u>(267,669)</u>	<u>-</u>
Net non-operating receipts (disbursements)	<u>(964,555)</u>	<u>123,050</u>	<u>(82,832)</u>	<u>(924,337)</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>587,586</u>	<u>42,411</u>	<u>14,577</u>	<u>644,574</u>	<u>2,839</u>
Operating transfers in (out)	<u>(72,852)</u>	<u>-</u>	<u>-</u>	<u>(72,852)</u>	<u>-</u>
Net change in cash balances	514,734	42,411	14,577	571,722	2,839
Cash balances beginning of year	<u>1,849,659</u>	<u>3,292,606</u>	<u>116,665</u>	<u>5,258,930</u>	<u>(2,839)</u>
Cash balances end of year	<u>\$ 2,364,393</u>	<u>\$ 3,335,017</u>	<u>\$ 131,242</u>	<u>\$ 5,830,652</u>	<u>\$ -</u>
Cash Basis Fund Balances					
Restricted for debt service	\$ -	\$ -	\$ 76,500	\$ 76,500	\$ -
Unrestricted	<u>2,364,393</u>	<u>3,335,017</u>	<u>54,742</u>	<u>5,754,152</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 2,364,393</u>	<u>\$ 3,335,017</u>	<u>\$ 131,242</u>	<u>\$ 5,830,652</u>	<u>\$ -</u>

See notes to financial statements.

City of Keokuk
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, 2012

Total enterprise funds cash balances (page 15) \$ 5,830,652

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

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

33,243

Cash basis net assets of business type activities (page 12) \$ 5,863,895

Net change in cash balances (page 15) \$ 571,722

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

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

606

Change in cash balance of business type activities (page 12) \$ 572,328

See notes to financial statements.

City of Keokuk
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The City of Keokuk (City) is a political subdivision of the State of Iowa located in Lee County. It was incorporated in 1847 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 solid waste removal and sewer utilities for its citizens.

Reporting Entity

For financial reporting purposes, the City 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 Keokuk (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although their operational or financial relationship with the City is significant.

Excluded Component Units

Keokuk Municipal Water Works (Water Works) is a component unit of the City of Keokuk. The Water Works and the City of Keokuk are considered separate legal entities. The Water Works meets the component unit definition because the City Council appoints the Board of Trustees of the Water Works. However, since Water Works operates under the accrual method of accounting and the City of Keokuk operates under the cash method of accounting, this component unit has not been presented in the accompanying financial statements. The financial statements of the Water Works are available at the Water Works' office, 20 North 4th Street, Keokuk, Iowa.

Keokuk Public Library Foundation (Foundation) is a component unit of the City of Keokuk. The Foundation, a separate legal entity, exists for the purpose of attracting funds to benefit the Public Library, which serves the Keokuk area and to disburse those funds in a manner that will benefit the Library. The Foundation meets the definition of a component unit since it raises funds on behalf of the Library. The financial statements of the Foundation have not been audited, so this component unit has not been presented in the accompanying financial statements.

Jointly Governed Organizations

The City 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: Keokuk Economic Development Corporation and Great River Regional Waste Authority. See Note 15.

City of Keokuk
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services. The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable 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 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 Urban Renewal Tax Increment Fund (TIF) is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

City of Keokuk
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and is used for property tax relief, infrastructure, parks and recreation services.

The Employee Benefits Fund is used to account for the employee benefits paid.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

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

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

The Bridge Fund accounts for the operation and maintenance of the City's bridge.

The City also reports the following additional proprietary fund:

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

Measurement Focus and Basis of Accounting

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

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

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned.

City of Keokuk
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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.

Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Council.

Assigned - Amounts the Council intends to use for a specific purpose.

Unassigned - All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 2. Cash and Pooled Investments

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

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; 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.

City of Keokuk
Notes to Financial Statements

Note 2. Cash and Pooled Investments (continued)

At June 30, 2012, the City held the following investments :

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
Certificates of deposit	\$ 1,048,548	\$ 1,048,548	various
United States Treasury Note	498,125	528,711	2/29/2016
United States Treasury Note	503,828	590,352	2/15/2021
United States Treasury Note	<u>1,016,875</u>	<u>1,412,422</u>	2/15/2041
Total	<u>\$ 3,067,376</u>	<u>\$ 3,580,033</u>	

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,816,537 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

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) to 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.

Credit risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

Note 3. Bonds and Notes Payable

A summary of the City's June 30, 2012 general obligation, revenue bond and urban renewal indebtedness is as follows:

Year Ended June 30,	General Obligation and Capital Loan Notes		Revenue Bonds		Urban Renewal		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 906,085	\$ 519,288	\$ 671,627	\$ 182,792	\$ 125,000	\$ 181,843	\$ 1,702,712	\$ 883,923
2014	850,000	489,603	866,338	173,931	130,000	175,281	1,846,338	838,815
2015	880,120	460,573	298,000	164,653	140,000	168,294	1,318,120	793,520
2016	550,000	428,900	306,000	155,048	145,000	160,769	1,001,000	744,717
2017	560,000	410,388	319,000	145,163	155,000	152,793	1,034,000	708,344
2017-2021	3,695,000	1,682,163	1,479,000	575,230	905,000	621,250	6,079,000	2,878,643
2022-2026	4,005,000	873,955	1,300,000	318,600	1,220,000	315,300	6,525,000	1,507,855
2027-2031	<u>1,515,000</u>	<u>121,715</u>	<u>436,000</u>	<u>33,120</u>	<u>290,000</u>	<u>17,400</u>	<u>2,241,000</u>	<u>172,235</u>
	<u>\$ 12,961,205</u>	<u>\$ 4,986,585</u>	<u>\$ 5,675,965</u>	<u>\$ 1,748,537</u>	<u>\$ 3,110,000</u>	<u>\$ 1,792,930</u>	<u>\$ 21,747,170</u>	<u>\$ 8,528,052</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

City of Keokuk
Notes to Financial Statements

Note 3. Bonds and Notes Payable (continued)

The City issued \$3,455,000 of urban renewal tax increment financing (TIF) revenue bonds in September 2008 for the purpose of defraying a portion of the costs of carrying out urban renewal projects of the City. The bonds are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100% of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining to be paid on the notes is \$4,902,930. For the current year, principal and interest paid and total TIF receipts were \$307,994 and \$1,573,868, respectively.

Revenue Bonds

The City has pledged future solid waste customer receipts, net of specified operating disbursements, to repay \$765,000 in solid waste revenue notes issued in April 2008. The notes are payable solely from solid waste customer net receipts and are payable through 2019. The total principal and interest remaining to be paid on the notes is \$616,877. For the current year, principal and interest paid and total customer net receipts were \$88,443 and \$97,409, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$6,589,000 in sewer revenue notes issued between December 2009 and March 2011. The notes are payable solely from sewer customer net receipts and are payable through 2031. Sewer user charges must be established at a level which produces and maintains net revenues at a level not less than 110% of principal and interest requirements upon completion of the project. The total principal and interest remaining to be paid on the notes is \$6,807,625. For the current year, principal and interest paid and total customer net receipts were \$172,191 and \$1,552,141, respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) A Solid Waste Enterprise Revenue Debt Service Reserve Fund of \$76,500 shall be maintained and used solely for the purpose of paying principal of and interest on the Note and Parity Obligations as the same shall become due and payable.
- (c) Solid Waste Net Revenues must be sufficient to produce and maintain net revenues at a level not less than 130% of the principal and interest requirements of the fiscal year.
- (d) Sewer Net Revenues must be sufficient to produce and maintain net revenues at a level not less than 110% of the principal and interest requirements of the fiscal year.
- (e) Sufficient monthly transfers shall be made to separate solid waste revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.

City of Keokuk
Notes to Financial Statements

Note 3. Bonds and Notes Payable (continued)

On January 20, 2010, the City issued \$1,650,000 in Forgivable Loan Sewer Revenue Capital Loan Notes. The proceeds are to be used to fund the sewer improvement construction project. This bond matures semi-annually beginning June 1, 2012 through June 1, 2031, with a 3.00% interest rate. As of June 30, 2012, the City has drawn down \$1,650,000. The bond will be forgiven and no payments of interest, principal, or fees shall be due under the bond following completion of the sewer improvement project and receipt by the State of Iowa of a certificate of completion from the City. As of June 30, 2012, no principal or interest payments have been made.

The City had an outstanding contract between the Iowa Department of Economic Development (IDED) and a city business for a Community Economic Betterment Account (CEBA) loan at June 30, 2012. Although the note bears the name of the City, the City has no obligation for such debt beyond the resources provided by the business entity upon whose behalf it is issued. Accordingly, the loan is not reported as a liability in the accompanying financial statements.

Note 4. Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010, was \$204,542, \$185,392, and \$182,675, respectively, equal to the required contributions for each year.

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, 2836 104th Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate may not be less than 24.76% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2012, 2011, and 2010 was \$494,446, \$397,069, and \$345,559, respectively, equal to the required contributions for each year.

City of Keokuk
Notes to Financial Statements

Note 5. Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical, prescription drug, dental, and vision benefits for retirees and their spouses. There are 134 active and 19 retired members in the plan. Participants must be age 55 or older at retirement.

The medical, prescription drug, dental and vision coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$463 for single coverage, \$1,096 for employee/spouse coverage, \$1,066 for employee/child coverage and \$1,314 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$1,156,415 and plan members eligible for benefits contributed \$117,425 to the plan.

Note 6. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death, or normal retirement. Upon retirement each employee is entitled to 100% of his accumulated sick leave up to a maximum of 71 days or 568 hours. City management employees may accumulate a maximum of 90 days or 720 hours. The fire department employees are entitled to 900 hours of accumulated sick leave due to their longer average work week. Fire and police administration employees are entitled to 720 hours of accumulated sick leave.

Accumulated sick leave and vacation are not recognized as expenditures by the City until used or paid. The City's maximum liability for unrecognized accrued employee benefits as of June 30, 2012, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 390,723
Sick leave	<u>121,741</u>
	<u>\$ 512,464</u>

This liability has been computed based on rates of pay as of June 30, 2012.

Note 7. Related Party Transactions

The City had business transactions between the City and City employees totaling \$8,107 during the year ended June 30, 2012. The Keokuk Municipal Water Works pays the City on an annual basis. This amounted to \$200,000 for the year ended June 30, 2012 and is included as revenue in the general fund.

City of Keokuk
Notes to Financial Statements

Note 8. Self-Insured Health Benefits

The City of Keokuk has agreed to provide certain health benefits to its employees. The City pays 100% of the premium for health insurance for all full-time employees selecting single coverage. For full-time employees selecting family coverage, the City pays 90% of the premium for health insurance. The total maximum reimbursement liability to be paid by the City is \$306,000. The City's cost related to this reimbursement for the year ended June 30, 2012 was approximately \$281,157.

Note 9. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special revenue	\$ 2,720,398
Debt service	Special revenue	677,828
Debt service	Enterprise funds	72,852
Capital projects	Special revenue	29,183
General	Permanent	3,900

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

Note 10. Revolving Loan Fund

The City has entered into an agreement with Southeast Iowa Regional Planning Commission (SEIRPC) to establish a revolving loan fund for commercial business growth and to assist in new business development. The City received a matching grant of \$99,000 from the United States Department of Agriculture - Rural Business Enterprise Grant. The City transferred \$100,000 in fiscal year 2007 to SEIRPC, which administers and manages the revolving loan fund. At June 30, 2012, these loans to businesses had outstanding balances totaling \$70,179. At June 30, 2012, SEIRPC held cash of \$113,576 for the City which represents loan repayments received from participating businesses that is available to fund future commercial business growth loans.

During the year ended June 30, 2012, the City determined that a revolving loan fund loan balance was unrecoverable and passed a resolution to write-off \$21,064 due from a commercial business that is no longer in operation.

Note 11. Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of Keokuk
Notes to Financial Statements

Note 12. Industrial Development Revenue Bonds

The City issued \$8,745,000 of industrial revenue bonds of which \$4,745,000 is outstanding at June 30, 2012, for the purposes of constructing privately owned manufacturing and other related facilities within the City. The bonds are not direct or contingent liabilities of the City, as the revenue from lease agreements and property purchased with the bond proceeds are pledged for the total payment of principal and interest on the bonds and the bondholders can only look to these sources for repayment.

Note 13. Operating Leases - Lessor

The City leases land to Crown Castle in Tolmie Park. The original lease had a term of five years, expiring December 2010, with the option to renew for three additional five-year periods. During the year ended June 30, 2012, Crown Castle renewed the lease through December 2015. Rental income for the year ended June 30, 2012 totaled \$15,870. Future minimum lease payments until the end of the lease term are:

2013	\$ 15,870
2014	15,870
2015	<u>7,935</u>
	<u>\$ 39,675</u>

The City leases hangar space to individuals on a month-to-month basis. Rental income for the year ended June 30, 2012 totaled \$23,045.

Note 14. Subsequent Event

The City performed an evaluation of subsequent events through February 21, 2013, which is the date the financial statements were issued. Subsequent to year end, the City purchased a street sweeper for \$171,249. The Forgivable Loan Sewer Revenue Capital Loan Notes for \$1,650,000 was forgiven subsequent to year end.

Note 15. Jointly Governed Organization

The City is a participant in the Great River Regional Waste Authority, a political subdivision pursuant to the Code of Iowa Chapter 28E. The purpose of the agreement is to provide area governments with solid waste disposal sources. The City currently provides one member of the five member board. The City paid \$192,415 in fees in fiscal year 2012. Great River Regional Waste Authority's audited financial statements are available at City Hall.

City of Keokuk
Notes to Financial Statements

Note 16. Commitments

In the normal course of business, the City has various outstanding commitments that are not reflected in the accompanying financial statements. The principal commitments of the City at June 30, 2012 are as follows:

Street projects	\$ 3,451,707
River museum roof project	200,541
Airport runway improvement	5,698,499
Wastewater treatment	849,570
Sewer - digester improvement and overflow project	<u>1,262,011</u>
Total	<u>\$ 11,462,328</u>

Note 17. Cash Basis Fund Balances

The detail of the governmental fund cash basis fund balances for the year ended June 30, 2012 are as follows:

	General	Road Use	Sales Tax	Employee Benefits	Urban Renewal TIF	Debt Service	Capital Projects	Other Nonmajor	Total
Nonspendable for cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 401,042	\$ 401,042
Restricted for:									
Road use purposes	-	550,299	-	-	-	-	-	-	550,299
Employee benefits	-	-	-	502,654	-	-	-	-	502,654
Urban renewal projects	-	-	-	-	1,877,252	-	-	-	1,877,252
Debt service	-	-	-	-	-	174,528	-	-	174,528
Other capital projects	-	-	-	-	-	-	191,422	-	191,422
Committed to:									
Local option sales tax	-	-	1,241,968	-	-	-	-	-	1,241,968
Assigned to:									
Community & economic development	-	-	-	-	-	-	-	315,989	315,989
Unassigned	<u>412,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>412,457</u>
Total	<u>\$ 412,457</u>	<u>\$ 550,299</u>	<u>\$ 1,241,968</u>	<u>\$ 502,654</u>	<u>\$ 1,877,252</u>	<u>\$ 174,528</u>	<u>\$ 191,422</u>	<u>\$ 717,031</u>	<u>\$ 5,667,611</u>

OTHER INFORMATION

City of Keokuk
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Other Information
Year Ended June 30, 2012

	Governmental Fund Types <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	Less Funds Not Required to be <u>Budgeted</u>	<u>Net</u>	Budget <u>Original</u>	Budget <u>Final</u>	Final to Actual Variance Favorable (Unfavorable)
Receipts:							
Property tax	\$ 3,832,718	\$ -	\$ -	\$ 3,832,718	\$ 3,829,496	\$ 3,829,496	\$ 3,222
Tax increment financing collections	1,573,868	-	-	1,573,868	1,582,598	1,582,598	(8,730)
Other taxes	2,703,582	-	-	2,703,582	2,468,110	2,959,249	(255,667)
Use of money and property	117,145	118,588	-	235,733	159,400	224,221	11,512
Licenses and permits	138,043	-	-	138,043	158,000	134,795	3,248
Intergovernmental	2,084,405	-	-	2,084,405	2,348,342	1,798,901	285,504
Charges for services	320,194	4,993,324	457,258	4,856,260	4,781,615	4,931,268	(75,008)
Miscellaneous	127,099	25,136	-	152,235	95,600	96,411	55,824
Total receipts	<u>10,897,054</u>	<u>5,137,048</u>	<u>457,258</u>	<u>15,576,844</u>	<u>15,423,161</u>	<u>15,556,939</u>	<u>19,905</u>
Disbursements:							
Public safety	4,413,059	-	-	4,413,059	4,342,905	4,438,659	25,600
Public works	1,500,390	-	-	1,500,390	1,594,645	1,553,987	53,597
Culture and recreation	1,265,330	-	-	1,265,330	1,229,506	1,329,378	64,048
Community and economic development	153,374	-	-	153,374	154,294	260,520	107,146
General government	594,634	-	-	594,634	577,452	602,772	8,138
Debt service	1,757,380	-	-	1,757,380	1,757,188	1,758,880	1,500
Capital projects	716,900	-	-	716,900	826,993	876,363	159,463
Business type	-	5,314,523	454,419	5,314,523	4,675,413	6,478,163	1,163,640
Non-program	-	-	-	-	-	-	-
Total disbursements	<u>10,401,067</u>	<u>5,314,523</u>	<u>454,419</u>	<u>15,715,590</u>	<u>15,158,396</u>	<u>17,298,722</u>	<u>1,583,132</u>
Excess (deficiency) of receipts over disbursements	495,987	(177,475)	2,839	(138,746)	264,765	(1,741,783)	1,603,037
Other financing sources, net	<u>115,499</u>	<u>752,036</u>	<u>-</u>	<u>867,535</u>	<u>1,505,000</u>	<u>1,183,442</u>	<u>(315,907)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	611,486	574,561	2,839	728,789	1,769,765	(558,341)	1,287,130
Cash balances beginning of year	<u>5,056,125</u>	<u>5,256,091</u>	<u>(2,839)</u>	<u>10,315,055</u>	<u>9,352,111</u>	<u>10,312,216</u>	<u>2,839</u>
Cash balances end of year	<u>\$ 5,667,611</u>	<u>\$ 5,830,652</u>	<u>\$ -</u>	<u>\$ 11,043,844</u>	<u>\$ 11,121,876</u>	<u>\$ 9,753,875</u>	<u>\$ 1,289,969</u>

See accompanying independent auditor's report.

City of Keokuk
Other Information
Notes to Other Information - Budgetary Reporting
Year Ended June 30, 2012

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units, internal service, non-expendable trust, and agency funds (when they exist). 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 or fund type. 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. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Permanent Fund. 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, budget amendments increased budgeted disbursements by \$2,140,326. The budget amendments are reflected in the final budgeted amounts.

SUPPLEMENTARY INFORMATION

City of Keokuk
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2012

	<u>Special Revenue</u>		<u>Permanent</u>	<u>Total</u>
	<u>Economic Development</u>	<u>Emergency Tax Levy</u>	<u>Cemetery PC</u>	
Receipts:				
Property tax	\$ -	\$ 63,552	\$ -	\$ 63,552
Other taxes	-	12,523	-	12,523
Intergovernmental	35,386	-	-	35,386
Miscellaneous	<u>17,327</u>	<u>-</u>	<u>7,800</u>	<u>25,127</u>
Total receipts	<u>52,713</u>	<u>76,075</u>	<u>7,800</u>	<u>136,588</u>
Disbursements:				
Community and economic development	<u>21,833</u>	<u>-</u>	<u>-</u>	<u>21,833</u>
Total disbursements	<u>21,833</u>	<u>-</u>	<u>-</u>	<u>21,833</u>
Excess (deficiency) of receipts over disbursements	<u>30,880</u>	<u>76,075</u>	<u>7,800</u>	<u>114,755</u>
Other financing sources (uses):				
Operating transfer in (out)	<u>-</u>	<u>(76,075)</u>	<u>(3,900)</u>	<u>(79,975)</u>
Total other financing sources (uses)	<u>-</u>	<u>(76,075)</u>	<u>(3,900)</u>	<u>(79,975)</u>
Net change in cash balances	30,880	-	3,900	34,780
Cash balances beginning of year	<u>285,109</u>	<u>-</u>	<u>397,142</u>	<u>682,251</u>
Cash balances end of year	<u>\$ 315,989</u>	<u>\$ -</u>	<u>\$ 401,042</u>	<u>\$ 717,031</u>
Cash Basis Fund Balances				
Nonspendable	\$ -	\$ -	\$ 401,042	\$ 401,042
Assigned	<u>315,989</u>	<u>-</u>	<u>-</u>	<u>315,989</u>
Total cash basis fund balances	<u>\$ 315,989</u>	<u>\$ -</u>	<u>\$ 401,042</u>	<u>\$ 717,031</u>

See accompanying independent auditor's report.

City of Keokuk
Statement of Indebtedness
Year Ended June 30, 2012

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation bonds:									
Refunding capital notes	11/01/05	3.55-4.00%	\$ 2,440,000	\$ 1,065,000	\$ -	\$ 270,000	\$ 795,000	\$ 39,650	\$ -
Capital loan notes	8/01/06	4.20-6.00%	3,000,000	2,490,000	-	35,000	2,455,000	108,976	-
Capital loan notes	5/01/07	4.00-4.25%	1,300,000	845,000	-	125,000	720,000	34,893	-
Capital loan notes	5/01/09	4.25-5.25%	3,000,000	2,800,000	-	100,000	2,700,000	137,620	-
Capital loan notes	10/01/09	2.00-4.70%	2,565,000	1,970,000	-	-	1,970,000	86,021	-
Capital loan notes	12/1/10	1.20-4.40%	4,225,000	<u>4,225,000</u>	<u>-</u>	<u>175,000</u>	<u>4,050,000</u>	<u>188,775</u>	<u>-</u>
Total				<u>13,395,000</u>	<u>-</u>	<u>705,000</u>	<u>12,690,000</u>	<u>595,935</u>	<u>-</u>
Revenue bonds:									
Solid waste capital loan note	4/24/08	3.94%	765,000	595,000	-	65,000	530,000	23,443	-
Sewer revenue capital loan note	12/16/09	0.00%	440,000	296,654	99,974	-	396,628	-	-
Sewer revenue capital loan note	1/20/10	3.00%	1,650,000	1,650,000	-	-	1,650,000	-	-
Sewer revenue capital loan note	1/20/10	3.00%	3,889,000	2,451,971	162,029	95,000	2,519,000	77,191	-
Sewer revenue capital loan note	3/16/11	0.00%	610,000	<u>17,452</u>	<u>562,885</u>	<u>-</u>	<u>580,337</u>	<u>-</u>	<u>-</u>
Total				<u>5,011,077</u>	<u>824,888</u>	<u>160,000</u>	<u>5,675,965</u>	<u>100,634</u>	<u>-</u>
Capital loan notes:									
Capital loan-Industrial development project	11/03/06	4.78%	470,120	260,120	-	60,000	200,120	12,598	-
Capital loan note	6/15/09	3.50%	270,000	<u>139,575</u>	<u>-</u>	<u>68,490</u>	<u>71,085</u>	<u>4,363</u>	<u>-</u>
Total				<u>399,695</u>	<u>-</u>	<u>128,490</u>	<u>271,205</u>	<u>16,961</u>	<u>-</u>
Urban renewal tax increment revenue capital loan note									
	9/01/08	4.50-6.00%	3,455,000	<u>3,230,000</u>	<u>-</u>	<u>120,000</u>	<u>3,110,000</u>	<u>187,994</u>	<u>-</u>
Total of all debt				<u>\$ 22,035,772</u>	<u>\$ 824,888</u>	<u>\$ 1,113,490</u>	<u>\$ 21,747,170</u>	<u>\$ 901,524</u>	<u>\$ -</u>

See accompanying independent auditor's report.

City of Keokuk
Bond and Note Maturities
June 30, 2012

Year Ending June 30.	<u>Refunding Capital Notes</u> Issued November 1, 2005		<u>Capital Loan Notes</u> Issued August 1, 2006		<u>Capital Loan Notes</u> Issued May 1, 2007		<u>Capital Loan Notes</u> Issued May 1, 2009		<u>Capital Loan Notes</u> Issued October 1, 2009		<u>Capital Loan Notes</u> Issued December 1, 2010		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2013	3.55%	\$ 280,000	4.20%	\$ 35,000	4.25%	\$ 130,000	5.00%	\$ 105,000		\$ -	1.20%	\$ 225,000	\$ 775,000
2014	3.65%	290,000	4.25%	25,000	4.00%	140,000	5.00%	110,000		-	1.50%	225,000	790,000
2015	3.70%	225,000	4.30%	85,000	4.05%	145,000	5.00%	120,000		-	1.75%	225,000	800,000
2016	-	-	4.35%	50,000	4.10%	150,000	5.00%	125,000		-	1.75%	225,000	550,000
2017	-	-	4.40%	50,000	4.15%	155,000	5.00%	130,000		-	2.10%	225,000	560,000
2018	-	-	4.25%	205,000	-	-	5.00%	135,000	4.00%	125,000	2.40%	225,000	690,000
2019	-	-	4.30%	215,000	-	-	4.25%	145,000	4.00%	135,000	2.60%	225,000	720,000
2020	-	-	4.30%	225,000	-	-	4.35%	150,000	4.00%	140,000	2.90%	225,000	740,000
2021	-	-	4.35%	235,000	-	-	4.50%	155,000	4.15%	145,000	3.20%	225,000	760,000
2022	-	-	4.38%	245,000	-	-	4.70%	165,000	4.15%	150,000	3.40%	225,000	785,000
2023	-	-	4.40%	255,000	-	-	4.80%	170,000	4.38%	160,000	3.50%	225,000	810,000
2024	-	-	4.40%	265,000	-	-	4.90%	180,000	4.38%	165,000	3.70%	225,000	835,000
2025	-	-	4.40%	265,000	-	-	5.00%	185,000	4.50%	175,000	4.00%	225,000	850,000
2026	-	-	4.40%	300,000	-	-	5.10%	190,000	4.50%	180,000	4.00%	225,000	895,000
2027	-	-	-	-	-	-	5.15%	200,000	4.50%	190,000	4.10%	225,000	615,000
2028	-	-	-	-	-	-	5.20%	210,000	4.70%	200,000	4.20%	225,000	635,000
2029	-	-	-	-	-	-	5.25%	225,000	4.70%	205,000	4.30%	225,000	655,000
2030	-	-	-	-	-	-	-	-	-	-	4.40%	225,000	225,000
		<u>\$ 795,000</u>		<u>\$2,455,000</u>		<u>\$ 720,000</u>		<u>\$2,700,000</u>		<u>\$1,970,000</u>		<u>\$4,050,000</u>	<u>\$12,690,000</u>

See accompanying independent auditor's report.

**City of Keokuk
Bond and Note Maturities
June 30, 2012**

Year Ending June 30,	Revenue Bonds										Total
	<u>Solid Waste Revenue</u>		<u>Sewer Revenue</u>								
	<u>Issued April 24, 2008</u>		<u>Issued December 16, 2009</u>		<u>Issued January 20, 2010</u>		<u>Issued January 20, 2010</u>		<u>Issued March 16, 2011</u>		
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2013	3.94%	\$ 65,000	0.00%	\$ 396,628	3.00%	\$ 64,000	3.00%	\$ 146,000	-	\$ -	\$ 671,628
2014	3.94%	70,000		-	3.00%	66,000	3.00%	150,000	0.00%	580,337	866,337
2015	3.94%	75,000		-	3.00%	68,000	3.00%	155,000		-	298,000
2016	3.94%	75,000		-	3.00%	71,000	3.00%	160,000		-	306,000
2017	3.94%	80,000		-	3.00%	73,000	3.00%	166,000		-	319,000
2018	3.94%	80,000		-	3.00%	75,000	3.00%	171,000		-	326,000
2019	3.94%	85,000		-	3.00%	78,000	3.00%	177,000		-	340,000
2020		-		-	3.00%	80,000	3.00%	182,000		-	262,000
2021		-		-	3.00%	83,000	3.00%	188,000		-	271,000
2022		-		-	3.00%	86,000	3.00%	194,000		-	280,000
2023		-		-	3.00%	88,000	3.00%	201,000		-	289,000
2024		-		-	3.00%	91,000	3.00%	207,000		-	298,000
2025		-		-	3.00%	94,000	3.00%	214,000		-	308,000
2026		-		-	3.00%	97,000	3.00%	208,000		-	305,000
2027		-		-	3.00%	100,000		-		-	100,000
2028		-		-	3.00%	104,000		-		-	104,000
2029		-		-	3.00%	107,000		-		-	107,000
2030		-		-	3.00%	110,000		-		-	110,000
2031		-		-	3.00%	115,000		-		-	115,000
		<u>\$ 530,000</u>		<u>\$ 396,628</u>		<u>\$ 1,650,000</u>		<u>\$ 2,519,000</u>		<u>\$ 580,337</u>	<u>\$ 5,675,965</u>

See accompanying independent auditor's report.

**City of Keokuk
Bond and Note Maturities
June 30, 2012**

Year Ending June 30,	Capital Loan Notes					Urban Renewal Tax Increment Revenue Capital Loan Note	
	<u>Issued November 3, 2006</u>		<u>Issued June 15, 2009</u>		<u>Total</u>	<u>Issued September 1, 2008</u>	
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>		<u>Interest Rate</u>	<u>Amount</u>
2013	4.78%	\$ 60,000	3.50%	\$ 71,085	\$ 131,085	5.25%	\$ 125,000
2014	4.78%	60,000		-	60,000	5.38%	130,000
2015	4.78%	80,120		-	80,120	5.38%	140,000
2016		-		-	-	5.50%	145,000
2017		-		-	-	5.63%	155,000
2018		-		-	-	5.75%	160,000
2019		-		-	-	5.75%	170,000
2020		-		-	-	6.00%	180,000
2021		-		-	-	6.00%	190,000
2022		-		-	-	6.00%	205,000
2023		-		-	-	6.00%	215,000
2024		-		-	-	6.00%	230,000
2025		-		-	-	6.00%	245,000
2026		-		-	-	6.00%	255,000
2027		-		-	-	6.00%	275,000
2028		-		-	-	6.00%	290,000
		<u>\$ 200,120</u>		<u>\$ 71,085</u>	<u>\$ 271,205</u>		<u>\$ 3,110,000</u>

See accompanying independent auditor's report.

City of Keokuk
Schedule of Receipts by Source and Disbursements by Function
All Governmental Fund Types

	Year Ended June 30,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Receipts:										
Property tax	\$ 3,832,718	\$ 3,768,516	\$ 3,533,012	\$ 3,401,013	\$ 3,383,054	\$ 5,686,286	\$ 5,233,320	\$ 5,151,427	\$ 5,467,107	\$ 5,715,165
Tax increment financing	1,573,868	1,466,359	1,384,357	1,064,215	1,036,347	428,735	281,426	394,507	339,849	318,243
Other city tax	2,703,582	2,504,157	2,502,081	2,625,428	2,487,089	-	-	-	-	-
Use of money and property	117,145	141,003	154,553	263,587	481,309	456,053	238,818	187,059	216,807	217,866
Licenses and permits	138,043	193,719	139,211	156,705	161,416	153,330	150,293	163,742	63,685	74,946
Intergovernmental	2,084,405	2,584,132	2,400,299	4,821,069	2,494,575	1,733,506	2,325,377	2,161,785	1,867,060	2,385,411
Charges for services	320,194	220,583	210,197	221,190	164,847	194,165	212,194	241,114	254,060	184,625
Miscellaneous	<u>127,099</u>	<u>122,979</u>	<u>186,685</u>	<u>291,241</u>	<u>165,213</u>	<u>146,134</u>	<u>835,057</u>	<u>269,090</u>	<u>266,688</u>	<u>264,657</u>
Total	<u>\$10,897,054</u>	<u>\$11,001,448</u>	<u>\$10,510,395</u>	<u>\$12,844,448</u>	<u>\$10,373,850</u>	<u>\$ 8,798,209</u>	<u>\$ 9,276,485</u>	<u>\$ 8,568,724</u>	<u>\$ 8,475,256</u>	<u>\$ 9,160,913</u>
Disbursements:										
Public safety	\$ 4,413,059	\$ 4,565,371	\$ 4,611,053	\$ 3,971,172	\$ 4,054,327	\$ 4,978,881	\$ 3,858,498	\$ 3,856,541	\$ 3,674,279	\$ 3,682,830
Public works	1,500,390	1,720,183	1,858,150	3,827,983	1,418,235	1,370,077	1,367,974	1,326,854	1,317,452	1,452,305
Culture and recreation	1,265,330	1,315,959	1,382,831	1,171,850	1,059,749	1,068,664	1,560,772	1,132,176	1,206,421	1,210,640
Community and economic development	153,374	473,589	445,286	1,485,349	370,196	369,678	155,496	114,447	193,298	389,689
General government	594,634	539,907	560,719	523,056	584,972	493,239	524,259	512,685	536,495	598,778
Debt service	1,757,380	7,418,290	2,148,587	4,536,373	1,523,847	916,686	788,247	993,122	986,215	990,835
Capital projects	<u>716,900</u>	<u>2,174,428</u>	<u>3,189,899</u>	<u>4,556,521</u>	<u>2,437,932</u>	<u>1,332,133</u>	<u>1,250,768</u>	<u>895,264</u>	<u>575,254</u>	<u>1,272,339</u>
Total	<u>\$10,401,067</u>	<u>\$18,207,727</u>	<u>\$14,196,525</u>	<u>\$20,072,304</u>	<u>\$11,449,258</u>	<u>\$10,529,358</u>	<u>\$ 9,506,014</u>	<u>\$ 8,831,089</u>	<u>\$ 8,489,414</u>	<u>\$ 9,597,416</u>

See accompanying independent auditor's report.

City of Keokuk
Schedule of Expenditures of Federal Awards
June 30, 2012

<u>Federal Agency/Pass-Through Agency Program - Grant Title</u>	<u>CFDA Number</u>	<u>Grantor Program Number</u>	<u>Program Disbursements</u>
U.S. Department of Justice:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-1108	\$ 25,216
ARRA - Byrne Memorial Justice Assistance Grant	16.804	2009SBB92187	30,652
Community Oriented Policing Services - Technology Program	16.710	2009CKWX0082	2,326
Community Oriented Policing Services - Technology Program	16.710	2008UMWX0036	<u>48,459</u>
Subtotal U.S. Department of Justice programs			<u>106,653</u>
Pass-through Iowa Governor's Office of Drug Control Policy:			
ARRA - Byrne Memorial State and Local Law Enforcement Assistance Grant Program	16.803	09-JAG-16938 - Lee County Narcotics Task Force - 2011	<u>90,000</u>
Total U.S. Department of Justice			<u>196,653</u>
U.S. Department of Homeland Security:			
Pass-through from Iowa Department of Public Defense Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	DR-1763-IA	<u>133,120</u>
U.S. Department of Housing and Urban Development:			
Pass-through from Iowa Department of Economic Development:			
Community Block Grant Program	14.228	07-HSG-023	<u>27,487</u>
U.S. Department of Transportation:			
Federal Aviation Administration Airport Improvement Program	20.106	3-19-0050-18-2011	318,865
Federal Aviation Administration Airport Improvement Program	20.106	3-19-0050-19-2012	<u>29,693</u>
Subtotal U.S. Department of Transportation			<u>348,558</u>
Pass-through from Iowa Department of Transportation:			
Safe Routes to School	20.205	SRTS-U-3942(615)--8U- 56	10,844
Highway Planning and Construction	20.205	SB-IA-3942(612)--2T-56	17,327
Pass-through from Iowa Governor's Traffic Safety Bureau:			
Public Traffic Services - NHTSA	20.601	PAP 11-410, Task 42	703
Public Traffic Services - NHTSA	20.601	PAP 12-410, Task 43	<u>2,618</u>
Subtotal U.S. Department of Transportation pass-through programs			<u>31,492</u>
Total U.S. Department of Transportation			<u>380,050</u>
U.S. Environmental Protection Agency pass-through from Iowa Department of Economic Development:			
ARRA - Capitalization Grants for Clean Water State Revolving Loan Funds	66.458	CS0202R	<u>161,787</u>
			<u>\$ 899,097</u>

(continued)

See accompanying independent auditor's report.

City of Keokuk
Schedule of Expenditures of Federal Awards
June 30, 2012

Note A - Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Keokuk 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.

Note B - Subrecipients

City of Keokuk provided federal awards to subrecipients under United States Department of Justice as follows:

	CFDA Number
	<u>16.803</u>
Lee County	\$ 30,000
City of Fort Madison	<u>30,000</u>
	<u>\$ 60,000</u>

See accompanying independent auditor's report.



C P A A S S O C I A T E S P C
C E R T I F I E D P U B L I C A C C O U N T A N T S

401 South Roosevelt Avenue - Suite 2A, PO Box 547, Burlington, IA 52601 / 319 752 6348 / fax: 319 752 8644 / info@cpaapc.com

**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***

Honorable Mayor and Members of the City Council
City of Keokuk, Iowa

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 Keokuk, Iowa (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 21, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City'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 an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City'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 the City'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, and other parties to whom the City may report, including federal awarding agencies and pass-through entities and 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 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.

CPA Associates PC

February 21, 2013



C P A A S S O C I A T E S P C
C E R T I F I E D P U B L I C A C C O U N T A N T S

401 South Roosevelt Avenue - Suite 2A, PO Box 547, Burlington, IA 52601 / 319 752 6348 / fax: 319 752 8644 / info@cpaapc.com

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

Honorable Mayor and Members of the City Council
City of Keokuk, Iowa

Compliance

We have audited the City of Keokuk, Iowa (City), compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, and 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 noncompliance 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 the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the City 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's internal control over compliance with requirements that could have a direct and material effect on a major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a significant deficiency.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City'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 and other parties to whom the City 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.

CPA Associates PC

February 21, 2013

City of Keokuk
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs are as follows:
 - CFDA Number 20.106 - Department of Transportation - Federal Aviation Administration
Airport Improvement Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Keokuk qualified as a low-risk auditee.

City of Keokuk
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCY

II-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent one individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City Council and management should continue to provide oversight and direction based upon their direct knowledge of the City's operations and day-to-day contact with employees to control and safeguard assets.

Response - The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCY

III-A-12 Segregation of Duties over Federal Receipts - The City did not properly segregate collection, deposit and recordkeeping for receipts, including those related to federal programs. See item II-A-12.

City of Keokuk
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted in any program. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation".

The City published a notice of public hearing on the budget including a summary of the proposed budget as required by Chapter 384.16 of the Code of Iowa.

IV-B-12 Travel Expense - A City official was reimbursed for travel expenditures for a conference attended out-of-town in which the spouse accompanied the official. Meal receipts did not include details of the items purchased and the airfare reimbursement included charges for two checked bags.

Recommendation - The City should require detailed receipts of items purchased to be submitted prior to reimbursement.

Response - The City will require travel expenses to have detailed receipts upon reimbursement.

Conclusion - Response accepted.

IV-C-12 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transactions</u>	<u>Amount</u>
Gabe Rose, Firefighter Spouse is owner of PC Technologies	Computer purchases and repairs	\$ 8,108

The computer purchases and repairs appear to represent a conflict of interest since they were not entered into through competitive bidding in accordance with Chapter 362.5(3)(e) of the Code of Iowa.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - The City will proceed with a competitive bidding process.

Conclusion - Response accepted.

IV-D-12 Revenue Bond and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.

IV-E-12 Deposits and Investments - We noted 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.

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

City of Keokuk
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting (continued)

IV-G-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-12 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-I-12 Separately Maintained Records - The Keokuk Historic Preservation Commission and Emergency Corp maintain separate checking accounts. These accounts are separate from the City's accounts, allowing transactions to go unrecorded. Accordingly, certain donations and expenditures from these accounts are not being appropriately included on the City's financial statements. The expenditures may not meet the requirements of public purpose and may not be appropriately included within the budget as required by the Code of Iowa.

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

Response - We will meet with the Commissions and establish appropriate procedures.

Conclusion - Response accepted.

IV-J-12 Official Depository - A resolution naming the official depository was adopted by the City Council in the fiscal year ended June 30, 2010. However, the City exceeded the maximum amount for a depository in May 2012.

Recommendation - A new depository resolution in amounts sufficient to cover anticipated balances should be approved by the City Council.

Response - The City will move the money to avoid exceeding the limit. The City Treasurer had all of the excess funds secured for the time period involved.

Conclusion - Response accepted.

IV-K-12 Unclaimed Property - Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks outstanding for more than two years, to the State Treasurer's office annually. The City did not remit these obligations as required.

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

Response - The City will comply.

Conclusion - Response accepted.

City of Keokuk
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

Prior Audit Findings for Federal Awards

SIGNIFICANT DEFICIENCY

III-A-11 Segregation of Duties over Federal Receipts - The City of Keokuk did not properly segregate collection, deposit and recordkeeping for receipts, including those related to federal programs.

Recommendation - It was recommended that the City review its control procedures to obtain the maximum internal control possible under the circumstances, and 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.

Current Status - Due to the limited number of office employees, segregation of duties over federal receipts continues to be a significant deficiency. See III-A-12 in the current year findings.