

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

JUNE 30, 2013

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-7
Management's Discussion and Analysis	8-14
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Cash Basis Statement of Activities and Net Position	A 16
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 17
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position	C 18
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D 19
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position	E 20
Fiduciary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	F 21
Notes to Financial Statements	22-30
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	32
Notes to Other Information - Budgetary Reporting	33
Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 35
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Enterprise Funds	2 36
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Internal Service Funds	3 37
Schedule of Indebtedness	4 38
Note Maturities	5 39
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	6 40
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 <u>Government Auditing Standards</u>	41-42
Schedule of Findings	43-52

City of Centerville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jim Senior	Mayor	January, 2014
Richard Smith	Council Member	January, 2016
Edwin Brand	Council Member	January, 2016
Rob Lind	Council Member	January, 2016
Darrin Hamilton	Council Member	January, 2014
Randy Marcussen**	Council Member	January, 2016
Jay Dillard***	Council Member	January, 2014
Kim Crego*	City Clerk/Treasurer/ City Administrator	Indefinite
Mike Craver	Attorney	Indefinite

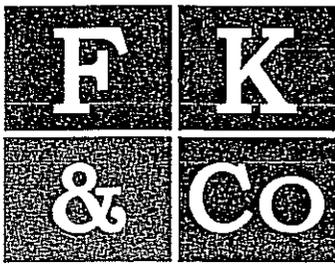
\* - Resigned in December, 2012. Position vacant at June 30, 2013.

Joyce Davis was the interim City Clerk for the period from December, 2012 to June 30, 2013.

\*\* - Resigned on March 4, 2013.

\*\*\* - Appointed on April 1, 2013.

City of Centerville



# FALLER, KINCHELOE & CO, PLC

---

## Certified Public Accountants

### Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Centerville, Iowa, (City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's primary government financial statements listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

-5-

Joel C. Faller, CPA

Alan Kincheloe, CPA

Ryan Roof, CPA

2721 SW 30th Street  
(515) 362-5672

Des Moines, Iowa  
CPA@FKCcpa.com

50321-1409  
Fax (515) 362-5674

### Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. The basis of cash receipts and disbursements require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amount by which this departure would affect the receipts, disbursements and the cash basis balances of the government-wide financial statement for the omitted discretely presented component units has not been determined.

### Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statement referred to above does not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2013, 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.

### Unmodified Opinions

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 June 30, 2013, 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.

### Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Supplementary and Other Information*

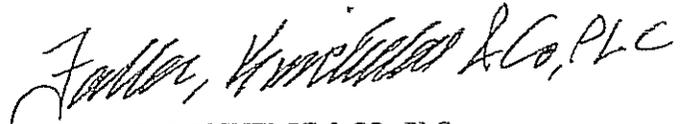
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's primary government financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the primary government financial statements for the eight years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the primary government financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the primary government financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the primary government financial statements or to the primary government financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 8 through 14 and 32 through 33 has not been subjected to the auditing procedures applied in the audit of the primary government financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

  
FALLER, KINCHELOE & CO., PLC

March 31, 2014

---

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

City of Centerville (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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2013 FINANCIAL HIGHLIGHTS

- ❖ Receipts of the City's governmental activities decreased 11.3%, or approximately \$536,000, from fiscal year 2012 to fiscal year 2013. Bond proceeds decreased approximately \$568,000. Operating grants, contributions and restricted interest decreased approximately \$124,000, sale of assets increased approximately \$46,000, and property tax increased approximately \$95,000.
- ❖ Disbursements of the City's governmental activities decreased 8.4%, or approximately \$347,000, in fiscal year 2013 from fiscal year 2012. Public safety, public works and capital projects disbursements decreased approximately \$34,000, \$79,000 and \$439,000, respectively. General government and debt service disbursements increased approximately \$68,000 and \$64,000, respectively.
- ❖ The City's total cash basis net assets increased 23.29%, or approximately \$1,280,000, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased approximately \$377,000 and the cash basis net position of the business type activities increased approximately \$903,000.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

Supplementary Information provides detailed information about the non-major governmental funds and the non-major internal service funds, as well as the City's indebtedness.

### BASIS OF ACCOUNTING

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

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- ❖ Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- ❖ Business Type Activities include the sanitary sewer system, storm sewer, and the airport. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has three kinds of funds:

(1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

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

(3) Fiduciary funds account for resources held for others. The Fiduciary fund consists of the Water Department Clearing Fund.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$3.178 million to approximately \$3.555 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
(Expressed in Thousands)		
	Year Ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service	\$ 318	387
Operating grants, contributions and restricted interest	906	1,030
Capital grants, contributions and restricted interest	20	39
General receipts:		
Property tax	1,857	1,762
Tax increment financing	201	198
Local option sales tax	551	531
Grants and contributions not restricted to specific purposes	52	54
Hotel-Motel tax	83	75
Bond proceeds (net of discount)	90	658
Unrestricted interest on investments	18	4
Other general receipts	64	4
Sale of assets	46	-
Total receipts	<u>4,206</u>	<u>4,742</u>
Disbursements:		
Public safety	1,814	1,848
Public works	495	574
Culture and recreation	361	344
Community and economic development	72	16
General government	413	345
Debt service	276	212
Capital projects	377	816
Total disbursements	<u>3,808</u>	<u>4,155</u>
Change in cash basis net position before transfers	398	587
Transfers, net	<u>(21)</u>	<u>6</u>
Change in cash basis net position	377	593
Cash basis net position beginning of year	<u>3,178</u>	<u>2,585</u>
Cash basis net position end of year	<u>\$ 3,555</u>	<u>3,178</u>

The City's total receipts for governmental activities decreased 11.3%, or approximately \$536,000, from fiscal year 2012 to fiscal year 2013. The total cost of all programs and services decreased approximately \$347,000, or 8.4%, with no new programs added this year. The significant decrease in capital projects disbursements was offset by an increase in general government disbursements.

The City increased property tax receipts for fiscal year 2013 an average of 5.4%. This increased the City's property tax receipts approximately \$95,000 in fiscal year 2013.

The cost of all governmental activities this year was approximately \$3.808 million compared to approximately \$4.155 million last year. However, as shown in the Statement of Activities and Net Position on page 16, the amount taxpayers ultimately financed for these activities was approximately \$2.563 million because some of the cost was paid by those directly benefited from the programs (approximately \$318,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$926,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2012 from approximately \$1,456,000 to approximately \$1,244,000, principally due to the receipt of less grant money.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year Ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 1,563	1,549
Storm sewer	91	83
Airport	127	143
Capital grants, contributions and restricted interest	679	443
General receipts:		
Other general receipts	107	7
Bond proceeds (net of discount)	936	-
Total receipts	<u>3,503</u>	<u>2,225</u>
Disbursements:		
Sewer	2,505	959
Storm sewer	9	738
Airport	107	142
Total disbursements	<u>2,621</u>	<u>1,839</u>
Change in cash basis net position before transfers	882	386
Transfers, net	<u>21</u>	<u>(6)</u>
Change in cash basis net position	903	380
Cash basis net position beginning of year	<u>2,317</u>	<u>1,937</u>
Cash basis net position end of year	<u>\$ 3,220</u>	<u>2,317</u>

Total business type activities receipts for the fiscal year were approximately \$3.503 million compared to approximately \$2.225 million last year. The increase is due in large part to the bond proceeds of \$936,000 as well as the increase in capital grants of \$236,000. The cash balance increased approximately \$903,000 from the prior year, primarily due to bonding through state revolving fund for major sewer improvements. Total disbursements for the fiscal year increased 42.52% to approximately \$2.621 million, primarily due to more sewer repair and construction in fiscal year 2013.

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

As the City completed the year, its governmental funds reported a combined fund balance of \$3,493,392, an increase of \$382,670 from last year's total of \$3,110,722. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- ❖ The General Fund cash balance decreased \$76,843 from the prior year to \$367,570. This decrease is primarily due to the City spending more money from the General Fund than what it receives in the General Fund.
- ❖ The Special Revenue, Road Use Tax Fund cash balance increased by \$137,885 to \$470,444 as of June 30, 2013. A decrease in materials and purchase of equipment increased the cash balance in this fund. The City intends to use this money to upgrade the condition of the City's streets.
- ❖ The Special Revenue, Local Option Sales Tax Fund cash balance increased by \$194,432 to \$1,855,070 as of June 30, 2013. The balance in this fund will be used for various projects such as the payment of debt related to the purchase of a new fire truck, public library renovation, payments to Centerville Schools for a school project, and payments to the Appanoose County Railroad which is to be used for capital projects for the railroad. The City currently has outstanding debt for a fire truck, which is paid out of this fund. This fund is also accumulating resources for a pool project.
- ❖ The Special Revenue, Employee Benefits Fund cash balance decreased by \$34,141 to \$(8,747) as of June 30, 2013. The decrease was due to rising employee benefits, such as an increase in the required IPERS and MFPSI contributions and health insurance costs.

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

- ❖ The Enterprise, Sewer Fund cash balance increased by \$625,670 to \$3,135,231 as of June 30, 2013, due primarily to an increase in sewer charges for service receipts. This money will be used to fund major sewer upgrades in the future.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The budget amendment was approved on May 20, 2013. The budget amendment increased receipts by \$465,740 and disbursements by \$589,067. The increase in disbursements was to provide for additional disbursements in certain City departments.

Even with the budget amendments, actual disbursements for the public safety, culture and recreation, general government and the capital projects functions were \$2,084, \$104,691, \$27,035 and \$38,052, respectively, more than the amended budget. City personnel were unable to explain why the budget amendment was not amended in sufficient amounts to ensure the actual disbursement amounts incurred did not exceed the disbursement amounts budgeted.

**DEBT ADMINISTRATION**

At June 30, 2013, the City had \$2,380,812 in bonds and other long-term debt outstanding, compared to \$1,647,780 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2013	2012
General obligation bonds	\$ 1,495	1,645
Lease-purchase agreements	-	3
Revenue note	886	-
Total	<u>\$ 2,381</u>	<u>1,648</u>

Debt increased primarily as a result of newly issued debt necessary for sewer improvements.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$1,495,000 is significantly below its constitutional debt limit of \$9,302,838.

More detailed information about the City’s long-term debt is presented in Note 3 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The City’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates, and fees that will be charged for various City activities. These indicators were taken into account when adopting the budget for fiscal year 2014. Receipts are budgeted to decrease by \$520,687. Disbursements are budgeted to decrease by \$37,193. The City’s future plans are to undertake several large street projects in the coming years; expenses are likely to occur in both fiscal year 2014 and 2015. An increase in taxable valuation will be realized in the near future due to a major commercial property coming onto the tax rolls.

The City has taken significant steps to enhance the appearance and function of the City through street, storm water, sanitary sewer and other major infrastructure initiatives. These and future improvements, while necessary, require the City to identify additional sources of funding other than cash reserves and general obligation debt to maintain consistency of future tax levies. Like nearly all other municipalities the rising cost of employee benefits has created a significant burden for the City. The City’s required participation in the Municipal Fire and Police Retirement System (MFPRSI) continues to put significant financial burden on the City which is unlikely to change without major state legislative action.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Patrick Antonen, City Administrator, 312 East Maple, P.O. Box 578, Centerville, Iowa 52544.

Primary Government Financial Statements

## Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions / Programs:</b>							
<b>Governmental activities:</b>							
Public safety	\$ 1,813,832	206,680	141,494	15,000	(1,450,658)	-	(1,450,658)
Public works	495,007	6,408	536,692	-	48,093	-	48,093
Culture and recreation	361,121	37,802	225,108	1,625	(96,586)	-	(96,586)
Community and economic development	72,196	-	-	3,470	(68,726)	-	(68,726)
General government	412,876	67,068	2,843	-	(342,965)	-	(342,965)
Debt service	275,703	-	-	-	(275,703)	-	(275,703)
Capital projects	376,873	-	-	-	(376,873)	-	(376,873)
<b>Total governmental activities</b>	<b>3,807,608</b>	<b>317,958</b>	<b>906,137</b>	<b>20,095</b>	<b>(2,563,418)</b>	<b>-</b>	<b>(2,563,418)</b>
<b>Business type activities:</b>							
Sewer	2,505,326	1,563,349	-	550,000	-	(391,977)	(391,977)
Storm sewer	8,557	90,808	-	129,387	-	211,638	211,638
Airport	106,800	126,677	-	-	-	19,877	19,877
<b>Total business type activities</b>	<b>2,620,683</b>	<b>1,780,834</b>	<b>-</b>	<b>679,387</b>	<b>-</b>	<b>(160,462)</b>	<b>(160,462)</b>
<b>Total</b>	<b>\$ 6,428,291</b>	<b>2,098,792</b>	<b>906,137</b>	<b>699,482</b>	<b>(2,563,418)</b>	<b>(160,462)</b>	<b>(2,723,880)</b>
<b>General Receipts and Transfers:</b>							
Property tax and other city tax levied for:							
General purposes					1,669,791	-	1,669,791
Debt service					187,419	-	187,419
Tax increment financing					200,916	-	200,916
Local option sales tax					550,702	-	550,702
Grants and contributions not restricted to specific purposes					51,538	-	51,538
Hotel-Motel tax					82,446	-	82,446
Bond proceeds (net of \$6,910 discount)					90,000	935,902	1,025,902
Unrestricted interest on investments					17,856	-	17,856
Miscellaneous					64,322	102,607	166,929
Sale of capital assets					46,363	4,099	50,462
Transfers					(21,285)	21,285	-
<b>Total general receipts and transfers</b>					<b>2,940,068</b>	<b>1,063,893</b>	<b>4,003,961</b>
<b>Change in cash basis net position</b>					<b>376,650</b>	<b>903,431</b>	<b>1,280,081</b>
<b>Cash basis net position beginning of year</b>					<b>3,178,342</b>	<b>2,316,862</b>	<b>5,495,204</b>
<b>Cash basis net position end of year</b>					<b>\$ 3,554,992</b>	<b>3,220,293</b>	<b>6,775,285</b>
<b>Cash Basis Net Position</b>							
<b>Restricted:</b>							
<b>Nonexpendable:</b>							
Cemetery perpetual care					\$ 169,477	-	169,477
<b>Expendable:</b>							
Streets					470,444	-	470,444
Urban renewal purposes					288,019	-	288,019
Local option sales tax					1,855,070	-	1,855,070
Debt service					232,746	-	232,746
Other purposes					197,653	-	197,653
<b>Unrestricted</b>					<b>341,583</b>	<b>3,220,293</b>	<b>3,561,876</b>
<b>Total cash basis net position</b>					<b>\$ 3,554,992</b>	<b>3,220,293</b>	<b>6,775,285</b>

See notes to financial statements.

## City of Centerville

Exhibit B

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

As of and for the year ended June 30, 2013

	Special Revenue					Total
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits	Nonmajor	
<b>Receipts:</b>						
Property tax	\$ 918,538	-	-	588,684	169,939	1,677,161
Tax increment financing	-	-	-	-	200,916	200,916
Other city tax	232,837	-	550,702	63,716	17,480	864,735
Licenses and permits	28,148	-	-	-	-	28,148
Use of money and property	16,257	-	3,719	-	175	20,151
Intergovernmental	208,244	529,394	15,000	-	-	752,638
Charges for service	182,808	-	-	-	-	182,808
Miscellaneous	271,500	-	61,410	475	9,238	342,623
Total receipts	<u>1,858,332</u>	<u>529,394</u>	<u>630,831</u>	<u>652,875</u>	<u>397,748</u>	<u>4,069,180</u>
<b>Disbursements:</b>						
<b>Operating:</b>						
Public safety	1,257,918	-	32,461	511,921	7,619	1,809,919
Public works	32,630	383,204	-	77,947	-	493,781
Culture and recreation	355,294	-	3,163	2,394	61	360,912
Community and economic development	71,545	-	-	-	651	72,196
General government	353,288	-	-	58,916	-	412,204
Debt service	-	-	-	-	275,703	275,703
Capital projects	-	-	279,718	-	97,155	376,873
Total disbursements	<u>2,070,675</u>	<u>383,204</u>	<u>315,342</u>	<u>651,178</u>	<u>381,189</u>	<u>3,801,588</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(212,343)</u>	<u>146,190</u>	<u>315,489</u>	<u>1,697</u>	<u>16,559</u>	<u>267,592</u>
<b>Other financing sources (uses):</b>						
Bond proceeds	90,000	-	-	-	-	90,000
Sale of capital assets	42,356	-	-	-	4,007	46,363
Operating transfers in	35,838	-	-	-	427,804	463,642
Operating transfers out	(32,694)	(8,305)	(121,057)	(35,838)	(287,033)	(484,927)
Total other financing sources (uses)	<u>135,500</u>	<u>(8,305)</u>	<u>(121,057)</u>	<u>(35,838)</u>	<u>144,778</u>	<u>115,078</u>
Change in cash balances	<u>(76,843)</u>	<u>137,885</u>	<u>194,432</u>	<u>(34,141)</u>	<u>161,337</u>	<u>382,670</u>
Cash balances beginning of year	<u>444,413</u>	<u>332,559</u>	<u>1,660,638</u>	<u>25,394</u>	<u>647,718</u>	<u>3,110,722</u>
Cash balances end of year	<u>\$ 367,570</u>	<u>470,444</u>	<u>1,855,070</u>	<u>(8,747)</u>	<u>809,055</u>	<u>3,493,392</u>
<b>Cash Basis Fund Balances</b>						
Nonspendable - Cemetery perpetual care	\$ -	-	-	-	169,477	169,477
Restricted for:						
Streets	-	470,444	-	-	-	470,444
Urban renewal purposes	-	-	-	-	288,019	288,019
Capital projects	-	-	-	-	142,659	142,659
Local option sales tax	-	-	1,855,070	-	-	1,855,070
Debt service	-	-	-	-	232,746	232,746
Other purposes	14,538	-	-	-	40,456	54,994
Unassigned	353,032	-	-	(8,747)	(64,302)	279,983
Total cash basis fund balances	<u>\$ 367,570</u>	<u>470,444</u>	<u>1,855,070</u>	<u>(8,747)</u>	<u>809,055</u>	<u>3,493,392</u>

See notes to financial statements.

City of Centerville

Exhibit C

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

As of and for the year ended June 30, 2013

Total governmental funds cash balances (page 17) \$ 3,493,392

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

The Internal Service Funds are used by management to charge the costs of self funding of the City's health insurance benefit plan to individual funds and the cost of the flex plan. A portion of the cash balances of the Internal Service Funds are included in governmental activities in the Cash Basis Statement of Activities and Net Position.

61,600

Cash basis net position of governmental activities (page 16) \$ 3,554,992

Change in cash balances (page 17) \$ 382,670

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

The Internal Service Funds are used by management to charge the costs of self funding of the City's health insurance benefit plan to individual funds and the cost of the flex plan. A portion of the change in cash balances of the Internal Service Funds are reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

(6,020)

Change in cash basis net position of governmental activities (page 16) \$ 376,650

See notes to financial statements.

## City of Centerville

Exhibit D

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

As of and for the year ended June 30, 2013

	Enterprise			Internal
	Sewer	Nonmajor	Total	Service
Operating receipts:				
Use of money and property	\$ -	30,250	30,250	-
Charges for service	1,563,349	187,235	1,750,584	433,056
Miscellaneous	-	-	-	303,506
Total operating receipts	<u>1,563,349</u>	<u>217,485</u>	<u>1,780,834</u>	<u>736,562</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	250,149
Public works	-	-	-	78,364
Culture and recreation	-	-	-	13,353
General government	-	-	-	332,737
Business type activities	617,901	115,357	733,258	68,697
Total operating disbursements	<u>617,901</u>	<u>115,357</u>	<u>733,258</u>	<u>743,300</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>945,448</u>	<u>102,128</u>	<u>1,047,576</u>	<u>(6,738)</u>
Non-operating receipts (disbursements):				
Intergovernmental	550,000	129,387	679,387	-
Sale of capital assets	1,574	2,525	4,099	-
Miscellaneous	80,862	21,745	102,607	-
Bond proceeds (net of \$6,910 discount)	935,902	-	935,902	-
Debt service	(60,983)	-	(60,983)	-
Capital projects	(1,825,724)	-	(1,825,724)	-
Net non-operating receipts (disbursements)	<u>(318,369)</u>	<u>153,657</u>	<u>(164,712)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>627,079</u>	<u>255,785</u>	<u>882,864</u>	<u>(6,738)</u>
Other financing sources (uses):				
Operating transfers in	-	32,694	32,694	-
Operating transfers out	(1,409)	(10,000)	(11,409)	-
Total other financing sources (uses)	<u>(1,409)</u>	<u>22,694</u>	<u>21,285</u>	<u>-</u>
Change in cash balances	625,670	278,479	904,149	(6,738)
Cash balances beginning of year	<u>2,509,561</u>	<u>(205,150)</u>	<u>2,304,411</u>	<u>80,071</u>
Cash balances end of year	<u>\$ 3,135,231</u>	<u>73,329</u>	<u>3,208,560</u>	<u>73,333</u>
<b>Cash Basis Fund Balances</b>				
Unrestricted	<u>\$ 3,135,231</u>	<u>73,329</u>	<u>3,208,560</u>	<u>73,333</u>
Total cash basis fund balances	<u>\$ 3,135,231</u>	<u>73,329</u>	<u>3,208,560</u>	<u>73,333</u>

See notes to financial statements.

City of Centerville

Exhibit E

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

As of and for the year ended June 30, 2013

Total enterprise funds cash balances (page 19) \$ 3,208,560

*Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of self funding of the City's health insurance benefit plan to individual funds and the cost of the flex plan. A portion of the cash balances of the Internal Service Funds are included in business type activities in the Cash Basis Statement of Activities and Net Position.

11,733

Cash basis net position of business type activities (page 16) \$ 3,220,293

Change in cash balances (page 19) \$ 904,149

*Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of self funding of the City's health insurance benefit plan to individual funds and the cost of the flex plan. A portion of the change in the cash balances of the Internal Service Funds are reported with business type activities in the Cash Basis Statement of Activities and Net Position.

(718)

Change in cash basis net position of business type activities (page 16) \$ 903,431

See notes to financial statements.

City of Centerville

Exhibit F

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Fiduciary Fund

As of and for the year ended June 30, 2013

	<u>Agency</u> <u>Water</u> <u>Department</u> <u>Clearing</u>
Additions:	
Reimbursement from Water Department	\$ 207,975
Total additions	<u>207,975</u>
Deductions:	
Payments made on behalf of Water Department	<u>207,975</u>
Total deductions	<u>207,975</u>
Change in cash balances	-
Cash balances beginning of year	<u>-</u>
Cash balances end of year	<u><u>\$ -</u></u>

See notes to financial statements.

City of Centerville

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

The City of Centerville (City) is a political subdivision of the State of Iowa located in Appanoose County. It was first incorporated in 1855 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides sewer and storm sewer utilities for its citizens.

A. Reporting Entity

Except as discussed below, 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 (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 its operational or financial relationships with the City are significant.

Excluded Component Units

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

The Centerville Friends of Library has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable purposes for the enhancement and improvement of the Centerville Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Centerville Friends of Library meets the definition of a component unit. Based on these criteria, the economic resources received or held by the Centerville Friends of Library are substantially for the direct benefit of the City of Centerville Public Library.

The Centerville Friends of Parks has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable purposes for the enhancement and improvement of the Centerville park system. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Centerville Friends of Parks meets the definition of a component unit. Based on these criteria, the economic resources received or held by the Centerville Friends of Parks are substantially for the direct benefit of the City's park system.

## Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Appanoose County Assessor's Conference Board, Appanoose County Emergency Management Commission, Appanoose County Joint E911 Service Board and the Rathbun Area Solid Waste Management Commission.

## B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from the business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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, proprietary and the fiduciary fund, even though the latter are excluded from the government-wide financial statement. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and proprietary funds are aggregated and reported as nonmajor governmental funds, nonmajor enterprise funds and internal service funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

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

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

The City reports the following major proprietary fund:

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

The City also reports the following additional proprietary funds:

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

Additionally, the City reports a fiduciary fund which acts as a clearing account for payments made by the City on behalf of the Waterworks and the related reimbursements from the Waterworks.

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government and capital projects functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2013, the City had no investments meeting the disclosure requirements of Government Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

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

(3) Notes Payable

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

Year Ending June 30,	General Obligation Notes		
	Principal	Interest	Total
2014	\$ 990,000	24,913	1,014,913
2015	185,000	15,400	200,400
2016	190,000	10,935	200,935
2017	65,000	5,785	70,785
2018	65,000	2,925	67,925
	<u>\$1,495,000</u>	<u>59,958</u>	<u>1,554,958</u>

Sewer Revenue Capital Loan Notes

On March 8, 2013, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of sewer revenue capital loan notes of up to \$1,382,000 with interest of 1.75% per annum. The agreement also requires the City to annually pay .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the sewage treatment facilities. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred. At June 30, 2013, the City had drawn down \$942,812 of the authorized amount, including an initiation fee of \$6,910 (1% of the authorized borrowing for the sewer capital loan notes) charged by the Iowa Finance Authority which was withheld from the first proceeds of the capital loan notes. A final repayment schedule has not been adopted. However, the City paid principal of \$57,000 and interest of \$3,983 during fiscal year 2013 under a preliminary repayment schedule.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue capital loan notes. The percentage of net receipts required to pay annual principal and interest on the sewer capital loan notes and the total amount of principal and interest remaining to be paid on the sewer capital loan notes at June 30, 2013 are not available since the final repayment schedule has not been adopted for the sewer capital loan notes. For the current year, principal and interest paid and total customer net receipts were \$90,983 and \$945,448, respectively.

The resolution providing for the issuance of the sewer revenue capital loan notes issued under a loan agreement between the City, the Iowa Finance Authority and the Iowa Department of Natural Resources includes the following provisions:

- (a) The sewer revenue capital loan notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) User rates shall be established at a level which produces and maintains net revenues equal to at least 110% of the amount of principal and interest on the notes falling due in the same year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a sewer note sinking account for the purpose of making the note principal and interest payments when due.

The City has not made the required transfers to the sewer note sinking account.

**(4) Interfund Loan**

The General Fund loaned money to the Enterprise, Airport Fund. At June, 30, 2013, \$57,718 was due from the Enterprise, Airport Fund to the General Fund. The interest rate on this loan is 1.7%, with no set repayment terms.

**(5) Pension and Retirement Benefits**

Iowa Public Employees Retirement System

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

Plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% 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, 2013, 2012 and 2011 were \$83,706, \$81,050 and \$64,485, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, IA 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, is 26.12% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2013, 2012 and 2011 were \$159,051, \$164,755 and \$125,914, respectively, which met the required contribution for each year.

(6) **Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and their families, former employees, and retirees and their families. There are 34 active, no retired members and 8 former employees in the plan. Retired participants must be age 55 or older at retirement. Former employees must have been employed by the City on a full-time basis for over twenty years to qualify for the benefits.

The medical/prescription drug benefits are provided through a self-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees. However, for former employees that have been employed by the City on a full-time basis for over twenty years, the City will pay for 50% of the cost of the single health insurance premium to age 65.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$628.90 for single coverage and \$1,478.39 for family coverage. The same monthly premiums apply to retirees and former employees. For the year ended June 30, 2013, the City contributed \$433,056 and plan members eligible for benefits contributed \$90,350 to the plan.

(7) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, compensatory, and personal hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory and personal hours payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Personal time	\$ 614
Compensatory time	36,813
Vacation	82,527
Total	<u>\$ 119,954</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

(8) **Related Party Transactions**

The City had business transactions between the City and City officials totaling \$47 during the year ended June 30, 2013.

(9) **Self-Insured Medical Plan**

The City has a self-insured medical plan for City employees. A fixed monthly fee per participating employee is paid to an insurance administrative company to administer the plan and evaluate claims. The plan is funded by both employee and City contributions, and is administered through a service agreement with TriStar Benefit Administrators.

The City escrows funds each month to be used to pay medical claims incurred. Except in one instance, the maximum exposure by the City for one individual in a twelve-month period is \$25,000. For one individual, the maximum exposure by the City in a twelve-month period is \$150,000. Claims in excess of these amounts are paid by the insurance administrative company through the purchase of stop loss insurance. The maximum aggregate benefit to be paid by the insurance company in a contract year is \$1,000,000, with a \$2,000,000 maximum per covered person over a lifetime. The City records the plan receipts and disbursements in the Employee Health Fund as an Internal Service Fund. Monthly payments to the fund are recorded as disbursements from the operating funds.

(10) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Employee Benefits	<u>\$ 35,838</u>
Debt Service	Special Revenue: Road Use Tax Local Option Sales Tax Urban Renewal Tax Increment Enterprise: Sewer	<u>8,305</u> <u>121,057</u> <u>287,033</u> <u>1,409</u> <u>417,804</u>
Capital Projects: Airport Construction	Enterprise: Airport	<u>10,000</u>
Enterprise: Storm Sewer	General	<u>32,694</u>
		<u>\$ 496,336</u>

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

(11) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2013 were \$96,980.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contracts with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000 each accident, \$1,000,000 memorandum limit, and \$1,000,000 each employee; and airport owners liability for various coverage limits. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(12) Deficit Balances**

The Special Revenue, Employee Benefit Fund had a deficit balance of \$8,747 at June 30, 2013. This deficit was the result of not levying enough property taxes. This deficit will be eliminated through an increase in property taxes.

The Capital Projects, Airport Construction Fund had a deficit balance of \$64,302 at June 30, 2013. This deficit balance was a result of project costs incurred prior to a receipt of a grant. This deficit will be eliminated from a transfer from the General Fund, and receipts from a grant.

**(13) Contingencies**

The City receives payments in lieu of taxes from the local housing agency. The City is in the process of determining whether some of these funds received in prior years from the local housing agency should have been distributed to political subdivisions in the County. During the year ended June 30, 2009, the City paid the Centerville Community School District a total of \$50,000 as partial settlement of the payment in lieu of tax amount. The City is still working with the Centerville Community School District and Appanoose County in relation to this issue. The amount of funds the City received from the local housing agency which would be distributed to the political subdivisions, if any, is undeterminable.

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

**(14) Commitments**

The City awarded a contract for approximately \$1.439 million for sewer cleaning and lining during the fiscal year. The contract for this work was signed in fiscal year 2013. However, this project did not begin until fiscal year 2014. The City intends to pay for this project with existing cash reserves.

The City entered into a contract for sewer repair. Approximately \$150,000 remains to be paid on this project. It is anticipated that this project will be completed in fiscal year 2014. The City intends to pay for this project from existing cash reserves.

The City can borrow an additional \$439,188 in relation to its Sewer Revenue Capital Loan Notes.

**(15) Fund Balances**

The City's restricted fund balance of \$14,538 in the General Fund as of June 30, 2013 consists of hotel/motel tax monies.

The City has assigned fund balances in the general fund of \$425,899, which exceeds the \$353,032 available to be assigned. At June 30, 2013 this balance consists of funds assigned for the fire department, cemetery, crime stoppers and the library. The City is unable to determine how much of the \$353,032 available assigned fund balance should be allocated to the various programs. The Governmental Accounting Standards Board indicates that a government should not report assigned fund balances if the assignment would result in a deficit in the unassigned fund balance in the general fund; therefore, all general funds not restricted are considered to be unassigned.

**(16) Litigation**

The City is subject to pending litigation seeking damages of an unknown amount. The probability of loss, if any, is undeterminable.

**(17) Subsequent Events**

In fiscal year 2014, the City refinanced some of its debt, and issued \$975,000 general obligation capital loan notes.

In fiscal year 2014, the City entered into a lease to purchase police vehicles. The total amount of the lease was \$65,459.

In fiscal year 2014, the City purchased land adjoining the airport for a total cost of approximately \$472,000. This land will be paid for from existing cash reserves and from a grant from the Federal Aviation Administration.

The City has evaluated subsequent events through March 31, 2014, which is the date that the financial statements were available to be issued.

Other Information

City of Centerville

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

Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts:							
Property tax	\$ 1,677,161	-	-	1,677,161	1,662,565	1,662,565	14,596
Tax increment financing	200,916	-	-	200,916	120,000	200,000	916
Other city tax	864,735	-	-	864,735	727,048	829,376	35,359
Licenses and permits	28,148	-	-	28,148	83,250	28,850	(702)
Use of money and property	20,151	30,250	-	50,401	31,960	38,000	12,401
Intergovernmental	752,638	679,387	-	1,432,025	956,216	921,892	510,133
Charges for service	182,808	2,183,640	433,056	1,933,392	2,472,040	1,685,300	248,092
Miscellaneous	342,623	406,113	303,506	445,230	-	1,152,836	(707,606)
Total receipts	4,069,180	3,299,390	736,562	6,632,008	6,063,079	6,518,819	113,189
Disbursements:							
Public safety	1,809,919	250,149	250,149	1,809,919	1,745,073	1,807,835	(2,084)
Public works	493,781	78,364	78,364	493,781	636,599	660,700	166,919
Culture and recreation	360,912	13,353	13,353	360,912	236,221	256,221	(104,691)
Community and economic development	72,196	-	-	72,196	3,500	103,200	31,004
General government	412,204	332,737	332,737	412,204	305,333	385,169	(27,035)
Debt service	275,703	-	-	275,703	-	276,067	364
Capital projects	376,873	-	-	376,873	-	338,821	(38,052)
Business type activities	-	2,688,662	68,697	2,619,965	4,013,991	3,701,771	1,081,806
Total disbursements	3,801,588	3,363,265	743,300	6,421,553	6,940,717	7,529,784	1,108,231
Excess (deficiency) of receipts over (under) disbursements	267,592	(63,875)	(6,738)	210,455	(887,638)	(1,010,965)	1,221,420
Other financing sources, net	115,078	961,286	-	1,076,364	1,200,000	1,300,000	(223,636)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	382,670	897,411	(6,738)	1,286,819	312,362	289,035	997,784
Balances beginning of year	3,110,722	2,384,482	80,071	5,415,133	5,114,108	6,350,000	(934,867)
Balances end of year	\$ 3,493,392	3,281,893	73,333	6,701,952	5,426,470	6,639,035	62,917

See accompanying independent auditor's report.

City of Centerville

Notes to Other Information - Budgetary Reporting

June 30, 2013

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 for the Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$589,067. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government and capital projects functions.

Supplementary Information

City of Centerville

Schedule I

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

As of and for the year ended June 30, 2013

	Special Revenue										Capital Projects				Permanent Cemetery Perpetual Care
	Friends of Oakland Cemetery		Special Assessment	Law Enforcement	Urban Renewal Tax Increment	Library Memorial	Safety	Animal Rescue	Debt Service	Street Construction	Increment Financing	Airport Construction	Total		
Receipts:															
Property tax	-	-	-	-	-	-	-	-	-	-	-	-	-	169,939	
Tax increment financing	-	-	-	-	200,916	-	-	-	-	-	-	-	-	200,916	
Other city tax	-	-	-	-	-	-	-	-	-	-	-	-	-	17,480	
Use of money and property	-	175	-	-	-	-	-	-	-	-	-	-	-	175	
Miscellaneous	-	75	300	2,404	-	-	2,555	-	-	-	2,353	-	1,551	9,238	
Total receipts	-	250	300	2,404	200,916	-	2,555	187,419	-	-	2,353	-	1,551	397,748	
Disbursements:															
Operating:															
Public safety	-	-	939	3,865	-	-	2,815	-	-	-	-	-	-	7,619	
Culture and recreation	-	47	-	-	14	-	-	-	-	-	-	-	-	61	
Community and economic development	-	-	-	-	651	-	-	-	-	-	-	-	-	651	
Debt service	-	-	-	-	-	-	-	275,703	-	-	-	-	-	275,703	
Capital projects	-	-	-	-	-	-	-	-	32,978	-	-	-	-	32,978	
Total disbursements	-	47	939	3,865	651	14	2,815	275,703	32,978	-	64,177	-	-	381,189	
Excess (deficiency) of receipts over (under) disbursements	-	203	(639)	(1,461)	200,265	(14)	(260)	(88,284)	(32,978)	-	(61,824)	-	1,551	16,559	
Other financing sources (uses):															
Sale of capital assets	-	-	-	1,483	-	-	-	-	-	-	2,524	-	-	4,007	
Operating transfers in	-	-	-	-	-	-	-	417,804	-	-	10,000	-	-	427,804	
Operating transfers out	-	-	-	-	(287,033)	-	-	-	-	-	-	-	-	(287,033)	
Total other financing sources (uses)	-	-	-	1,483	(287,033)	-	-	417,804	-	-	12,524	-	-	144,778	
Change in cash balances	-	203	(639)	22	(86,768)	(14)	(260)	329,520	(32,978)	-	(49,300)	-	1,551	161,337	
Cash balances beginning of year	6,772	21,179	1,292	10,278	374,787	14	225	1,384	132,891	42,746	(15,002)	-	167,926	647,718	
Cash balances end of year	6,772	21,382	653	10,300	288,019	-	225	232,746	99,913	42,746	(64,302)	-	169,477	809,055	
Cash Basis Fund Balances															
Nonspendable - Cemetery perpetual care	\$	-	-	-	-	-	-	-	-	-	-	-	169,477	169,477	
Restricted for:															
Urban renewal purposes	-	-	-	-	288,019	-	-	-	-	-	-	-	-	288,019	
Capital projects	-	-	-	-	-	-	-	-	99,913	42,746	-	-	-	142,659	
Debt service	-	-	-	-	-	-	-	232,746	-	-	-	-	-	232,746	
Other purposes	6,772	21,382	653	10,300	-	-	225	1,124	-	-	-	-	-	40,456	
Unassigned	-	-	-	-	-	-	-	-	-	-	(64,302)	-	-	(64,302)	
Total cash basis fund balances	\$	6,772	21,382	653	10,300	288,019	225	1,124	99,913	42,746	(64,302)	-	169,477	809,055	

See accompanying independent auditor's report.

## City of Centerville

Schedule 2

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

As of and for the year ended June 30, 2013

	Enterprise		
	Storm Sewer	Airport	Total
Operating receipts:			
Use of money and property	\$ -	30,250	30,250
Charges for service	90,808	96,427	187,235
Total operating receipts	<u>90,808</u>	<u>126,677</u>	<u>217,485</u>
Operating disbursements:			
Business type activities	8,557	106,800	115,357
Total operating disbursements	<u>8,557</u>	<u>106,800</u>	<u>115,357</u>
Excess of operating receipts over operating disbursements	<u>82,251</u>	<u>19,877</u>	<u>102,128</u>
Non-operating receipts (disbursements):			
Intergovernmental	129,387	-	129,387
Sale of capital assets	-	2,525	2,525
Miscellaneous	6,745	15,000	21,745
Net non-operating receipts (disbursements)	<u>136,132</u>	<u>17,525</u>	<u>153,657</u>
Excess of receipts over disbursements	<u>218,383</u>	<u>37,402</u>	<u>255,785</u>
Other financing sources (uses):			
Operating transfers in	32,694	-	32,694
Operating transfers out	-	(10,000)	(10,000)
Total other financing sources (uses)	<u>32,694</u>	<u>(10,000)</u>	<u>22,694</u>
Change in cash balances	251,077	27,402	278,479
Cash balances beginning of year	(220,171)	15,021	(205,150)
Cash balances end of year	<u>\$ 30,906</u>	<u>42,423</u>	<u>73,329</u>
<b>Cash Basis Fund Balances</b>			
Unrestricted	<u>\$ 30,906</u>	<u>42,423</u>	<u>73,329</u>
Total cash basis fund balances	<u>\$ 30,906</u>	<u>42,423</u>	<u>73,329</u>

See accompanying independent auditor's report.

## City of Centerville

Schedule 3

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

As of and for the year ended June 30, 2013

	Employee Health	Flex Plan	Total
Operating receipts:			
Charges for service:			
Personal service costs from operating funds	\$ 433,056	-	433,056
Miscellaneous:			
Employee contributions and refunds	286,109	17,397	303,506
Total operating receipts	<u>719,165</u>	<u>17,397</u>	<u>736,562</u>
Operating disbursements:			
Governmental activities:			
Public safety	250,149	-	250,149
Public works	78,364	-	78,364
Culture and recreation	13,353	-	13,353
General government	318,424	14,313	332,737
Business type activities	68,697	-	68,697
Total operating disbursements	<u>728,987</u>	<u>14,313</u>	<u>743,300</u>
Change in cash balances	(9,822)	3,084	(6,738)
Cash balances beginning of year	<u>82,670</u>	<u>(2,599)</u>	<u>80,071</u>
Cash balances end of year	<u>\$ 72,848</u>	<u>485</u>	<u>73,333</u>
<b>Cash Basis Fund Balances</b>			
Unrestricted	<u>\$ 72,848</u>	<u>485</u>	<u>73,333</u>
Total cash basis fund balances	<u>\$ 72,848</u>	<u>485</u>	<u>73,333</u>

See accompanying independent auditor's report.

City of Centerville

Schedule 4

Schedule of Indebtedness

Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
<b>General Obligation Notes:</b>									
Capital Loan Notes	May 1, 2003	1.25-4.50%	\$1,195,000	355,000	-	55,000	300,000	14,935	-
Refunding Capital Loan Notes	April 19, 2011	0.75-2.00%	755,000	625,000	-	185,000	440,000	9,098	-
Capital Loan Notes	September 14, 2011	0.75%	665,000	665,000	-	-	665,000	4,988	-
Capital Loan Notes	December 20, 2012	2.75%	90,000	-	90,000	-	90,000	-	-
<b>Total</b>				<b>\$ 1,645,000</b>	<b>90,000</b>	<b>240,000</b>	<b>1,495,000</b>	<b>29,021</b>	<b>-</b>
<b>Revenue Note:</b>									
Sewer Revenue Capital Loan Notes	March 18, 2013	1.75%	\$1,382,000	-	942,812	57,000	885,812	3,983	-
<b>Lease Purchase Agreement:</b>									
Equipment	April 14, 2008	6.50%	\$ 12,065	2,780	-	2,780	-	43	-

See accompanying independent auditor's report.

Note Maturities

June 30, 2013

General Obligation Notes									
Year Ending June 30,	Capital Loan Notes Issued May 1, 2003		Refunding Capital Loan Notes Issued April 19, 2011		Capital Loan Notes Issued September 14, 2011		Capital Loan Notes Issued December 20, 2012		Total
	Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2014	4.00%	\$ 55,000	1.20%	\$ 180,000	0.75%	\$ 665,000	2.75%	\$ 90,000	990,000
2015	4.10%	55,000	1.70%	130,000	-	-	-	-	185,000
2016	4.25%	60,000	2.00%	130,000	-	-	-	-	190,000
2017	4.40%	65,000	-	-	-	-	-	-	65,000
2018	4.50%	65,000	-	-	-	-	-	-	65,000
		<u>\$ 300,000</u>		<u>\$ 440,000</u>		<u>\$ 665,000</u>		<u>\$ 90,000</u>	<u>\$ 1,495,000</u>

See accompanying independent auditor's report.

City of Centerville

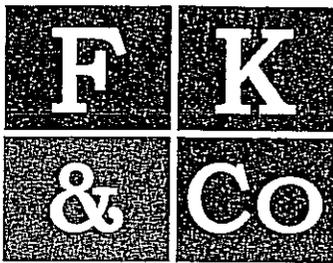
Schedule 6

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

For the Last Nine Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Receipts:</b>									
Property tax	\$1,677,161	1,762,218	1,847,624	1,776,026	1,908,000	1,942,462	1,882,266	1,955,748	1,724,719
Tax increment financing	200,916	198,567	202,070	302,720	-	-	-	4,983	391,046
Other city tax	864,735	660,113	602,174	645,421	594,999	563,109	620,114	502,078	401,423
Licenses and permits	28,148	46,883	25,782	29,773	29,484	28,114	67,657	66,598	71,047
Use of money and property	20,151	9,027	15,215	11,777	51,850	70,935	120,407	59,455	40,907
Intergovernmental	752,638	1,066,706	1,129,631	993,471	1,159,501	1,756,627	1,332,878	915,365	889,884
Charges for service	182,808	160,691	148,134	160,954	162,465	148,129	133,100	161,539	130,839
Special assessments	-	-	6,772	11,515	14,161	12,991	30,103	17,965	35,863
Miscellaneous	342,623	180,572	337,974	151,464	174,017	370,077	146,766	342,640	194,059
<b>Total</b>	<b>\$4,069,180</b>	<b>4,084,777</b>	<b>4,315,376</b>	<b>4,083,121</b>	<b>4,094,477</b>	<b>4,892,444</b>	<b>4,333,291</b>	<b>4,026,371</b>	<b>3,879,787</b>
<b>Disbursements:</b>									
<b>Operating:</b>									
Public safety	\$1,809,919	1,777,186	1,681,900	1,561,055	1,724,788	1,579,219	1,554,102	1,435,742	1,294,664
Public works	493,781	552,119	935,351	611,693	686,428	596,553	547,899	487,234	582,726
Culture and recreation	360,912	340,130	397,665	381,209	416,993	359,258	424,317	426,005	363,190
Community and economic development	72,196	16,235	53,003	13,710	13,705	38,578	178,143	366,224	259,328
General government	412,204	341,302	277,194	257,997	299,727	239,526	336,907	237,911	214,897
Debt service	275,703	211,821	502,502	495,480	693,641	562,694	784,457	772,593	820,223
Capital projects	376,873	816,458	414,431	300,675	646,584	1,191,523	850,995	279,500	769,504
<b>Total</b>	<b>\$3,801,588</b>	<b>4,055,251</b>	<b>4,262,046</b>	<b>3,621,819</b>	<b>4,481,866</b>	<b>4,567,351</b>	<b>4,676,820</b>	<b>4,005,209</b>	<b>4,304,532</b>

See accompanying independent auditor's report.



# FALLER, KINCHELOE & CO, PLC

---

## Certified Public Accountants

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Centerville, Iowa, (City) as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's primary government financial statements, and have issued our report thereon dated March 31, 2014. Our report expressed unmodified opinions on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (C) to be a significant deficiency.

-41-

Joel C. Faller, CPA

Alan Kincheloe, CPA

Ryan Roof, CPA

2721 SW 30th Street  
(515) 362-5672

Des Moines, Iowa  
CPA@FKCcpa.com

50321-1409  
Fax (515) 362-5674

## 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 no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

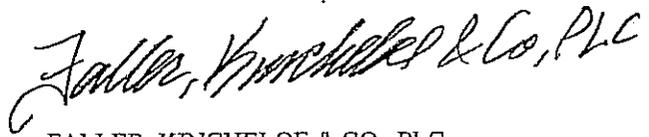
## City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

  
FALLER, KINCHELOE & CO., PLC

March 31, 2014

City of Centerville

Schedule of Findings

Year Ended June 30, 2013

Findings Related to the Financial Statements:

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although one to three individuals are involved in the accounting duties of the City of Centerville (City), the Centerville Public Library (Library) and the Centerville Municipal Airport (Airport), there is insufficient segregation of duties to prevent one individual from having control over each of the following areas:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City, the Library and the Airport should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response – The City, the Library and the Airport will review their control procedures to obtain the maximum internal control possible with the limited staff they have.

Conclusion – Response acknowledged.

(B) Financial Reporting – Internal controls over financial reporting include actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The City does not have the internal resources to prepare the full-disclosure financial statements required by an other comprehensive basis of accounting for external reporting purposes. While this circumstance is not uncommon for most small governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – With a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, we recommend the City continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles. However, it is not fiscally responsible to add additional staff at this time.

Conclusion – Response accepted.

City of Centerville

Schedule of Findings

Year Ended June 30, 2013

- (C) Airport Procedures – No evidence could be located that the Airport performed monthly bank reconciliations during the fiscal year. In addition, it appears the Airport accounting records for fiscal year 2013 were inaccurate and incomplete.

The Airport buys fuel in bulk and resells the fuel to its customers. However, it does not appear the Airport has procedures in place to provide assurance that all fuel bought for resale is either on hand, sold to customers, or used by the Airport on airport equipment.

The Airport collects most of its monies from the rental of its facilities and from fuel sales. Documentation supporting these collections was inadequate to determine the amount of monies which should have been collected and deposited to the Airport bank account.

Recommendation – The Airport should perform monthly bank reconciliations and ensure the accounting records are accurate and complete. In addition, the Airport should implement procedures to provide assurance that all fuel is accounted for properly, and that all monies received by the Airport from rent and fuel sales are properly collected and deposited to the Airport bank account.

Response – We will review these issues.

Conclusion – Response accepted.

- (D) Receipts – Instances were noted where the Library did not always deposit receipts on a timely basis. In addition, an immediate record of receipt was not made for some library receipts.

Procedures do not appear to be adequate in the collection of delinquent fire department related service calls.

Recommendation – The Library should implement procedures to ensure all receipts are deposited on a timely basis, and that an immediate record of receipt is made for all Library receipts. The City should also implement procedures to ensure all monies are collected for fire department related service calls.

Response – We will attempt to implement these recommendations.

Conclusion – Response accepted.

- (E) Material Adjustments/Bank Reconciliations – We proposed several adjusting journal entries that were material to the City's financial statements. Some transactions made by the City appeared to be made in error, and other transactions were either improperly recorded, or were not recorded at all on the City's accounting records.

The City wrote and held two checks at fiscal year-end. The checks held at year end were material to the City, and were held until the vendor provided the merchandise to the City in August, 2013. For the cash basis of accounting, these two checks would not be considered disbursements until August, 2013.

Adjustments were subsequently made by the City to properly record all of the above transactions on the City's financial statements.

The City's reconciled bank balance did not materially agree to its book balance during the fiscal year, nor at June 30, 2013. It appears management of the City was aware of the problem, but it does not appear the City took any action to correct this problem.

City of Centerville

Schedule of Findings

Year Ended June 30, 2013

Recommendation – We recommend the City implement procedures to ensure all receipts and disbursements are properly recorded on the City's accounting records. In addition, management of the City should ensure the reconciled bank balance agrees to the book balance at each month end, and at year end.

Response – We will attempt to implement these recommendations.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Centerville

Schedule of Findings

Year Ended June 30, 2013

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety, culture and recreation, general government and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

The City’s budget was adopted by motion of the Council. Chapter 384.16 of the Code of Iowa states, in part, “... the Council shall adopt by resolution a budget ...”

The cash balances on the original budget did not agree to the beginning cash balances on the amended budget. The beginning numbers on the budget amendment should always agree to the ending numbers on the original budget.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also, the budget should be adopted by resolution of the Council in accordance with the Code of Iowa requirements. In addition, the beginning numbers on the budget amendment should agree to the ending numbers on the original budget.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- (2) Questionable Disbursements - Certain disbursements which may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements made by the Centerville Municipal Airport (Airport) are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Walmart and Fareway	Snacks, pop and candy	\$ 55

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Airport should determine and document the public purpose served by these disbursements before authorizing any further payments. If these disbursements are continued, the Airport should establish written policies and procedures, including the requirement for proper documentation.

Response – We will review this issue.

Conclusion – Response accepted.

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Centerville

Schedule of Findings

Year Ended June 30, 2013

- (4) Business Transactions – Business transactions between the City and City officials or employees of the primary government are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Rob Lind, Council Member Owner of Centerville Greenhouses	Supplies	\$ 47

In accordance with Chapter 362.5 (3) (j) of the Code of Iowa, the transactions with the Council Member do not appear to represent a conflict of interest since total transactions with the individual were less than \$1,500 during the fiscal year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

Instances were noted where City Council minutes, and related claims, were not timely published as required by Chapter 372.13 (6) of the Code of Iowa. In addition, Airport claims were not approved by the City Council or published in the newspaper as required by Chapter 372.13 (6) of the Code of Iowa.

The City Council went into closed sessions during fiscal year 2013. However, instances were noted where the minute records did not document the specific information regarding the closed sessions as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

The City has established an airport commission by ordinance. During the year, one airport commission minutes could not be located.

Recommendation – The City should ensure that all City Council minutes and related claims are timely published as required per the Code of Iowa. Airport claims should be approved by the City Council and published in the newspaper, as required by the Code of Iowa. The City should also comply with Chapter 21 of the Code of Iowa in relation to closed sessions. In addition, all airport commission minutes should be retained.

Response – We will implement these recommendations.

Conclusion - Response accepted.

- (7) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted. The Special Revenue, Local Option Sales Tax Fund, the Special Revenue, Urban Renewal Tax Increment Fund, the Capital Projects, Street Construction Fund and the Enterprise, Sewer Fund did not receive any bank interest, even though this is required by Chapter 12C.9 of the Code of Iowa.

Recommendation – The Special Revenue, Local Option Sales Tax Fund, the Special Revenue, Urban Renewal Tax Increment Fund, the Capital Projects, Street Construction Fund and the Enterprise, Sewer Fund should receive bank interest as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response accepted.

City of Centerville

Schedule of Findings

Year Ended June 30, 2013

- (8) Revenue Notes – The City did not timely make the required transfers to the sewer note sinking account as required by the sewer revenue note resolutions.

Recommendation – The City should make the necessary transfers as required by the sewer revenue note resolutions.

Response – We are now making the required monthly transfers.

Conclusion – Response accepted.

- (9) Donation – During fiscal year 2013, the City gave \$20,000 to the YMCA for the replacement of a boiler.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III Section 31 of the Iowa Constitution states, "... no public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly."

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

Response – We will implement this recommendation.

Conclusion – Response accepted.

- (10) Compliance Issues – The City paid for approximately \$8,000 in costs from the Special Revenue, Employee Benefits Fund which were not related to employee benefits. The Code of Iowa requires that only employee benefit costs be paid for from the Special Revenue, Employee Benefits Fund.

It does not appear that the City's firemen are receiving overtime or compensatory time, as required by the Fair Labor Standards Act.

Recommendation – The City should implement procedures to ensure all costs charged to the Special Revenue, Employee Benefits Fund are for employee benefits. In addition, the City should implement procedures to ensure all employees are compensated in accordance with the Fair Labor Standards Act.

Response – We will implement the above recommendations.

Conclusion – Response accepted.

- (11) Financial Condition – As documented in Note 12 in the Notes to the Financial Statements, the Special Revenue, Employee Benefits Fund and the Capital Projects, Airport Construction Fund both had deficit balances at June 30, 2013.

The City borrowed approximately \$900,000 to help fund the construction costs of sewer improvement projects. However, at June 30, 2013, the City had over \$3,000,000 in cash in the Enterprise, Sewer Fund. The City is paying several thousand dollars of interest on this debt, and the City is only receiving an approximate .25% interest rate on the funds in the bank.

Recommendation – The City should monitor the above funds in order to eliminate these deficits. In addition, the City should review its financing procedures to ensure that it is in the best interests of the City.

City of Centerville

Schedule of Findings

Year Ended June 30, 2013

Response – We will monitor these funds and attempt to implement this recommendation.

Conclusion – Response accepted.

- (12) Release of Claim – The City has not obtained release of claim forms from the Centerville Community School District and Appanoose County in relation to disputed payment in lieu of tax monies. It appears that over four years ago the City met the terms of the agreements with the Centerville Community School District and Appanoose County in relation to the disputed payment in lieu of tax monies. However, the City has not obtained release of claim forms from these entities in relation to this issue.

Recommendation – The City should implement procedures to ensure release of claim forms are obtained from the Centerville Community School District and Appanoose County in relation to the disputed payment in lieu of tax monies.

Response – We are in the process of implementing this recommendation.

Conclusion – Response accepted.

- (13) Public Hearing – The City did not properly publish a notice of public hearing on a sewer construction project as required by Chapters 26.12 and 362.3 of the Code of Iowa. Specifically, the City did not publish this notice between four and twenty days prior to the hearing as required by Chapter 26.12 of the Code of Iowa.

Recommendation – The City should implement procedures to ensure that the Code of Iowa requirements are met in relation to holding a public hearing on applicable construction projects.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- (14) Purchasing Policy – The City's revised purchasing policy dated June 7, 2010, implies that a purchase of products and materials in excess of \$10,000 can be purchased by the department heads without the City Council's prior approval if the department has the funds in its budget in order to cover the related cost. In addition, it appears that the City's department heads have always had the authority to purchase products and materials which cost less than \$10,000 without the City Council's prior approval.

Recommendation – The City Council should establish an appropriate maximum dollar amount that a department head could spend without the City Council's prior approval, regardless if the purchase was in the City budget. In addition, the City should implement procedures to ensure department heads follow this policy.

Response – We will review this area in detail to come up with a workable solution.

Conclusion – Response accepted.

- (15) Sewer User Charge – The City did not increase its sewer user charge on July 1, 2011 or on July 1, 2012, as required by City ordinance number 1292. In addition, the sewer user charge assessed to customers outside the City limits were not always properly charged as required by City ordinance number 1292.

Recommendation – The City should implement procedures to ensure its ordinance is complied with in regards to the sewer user charge. The City should also consult with legal counsel in relation to this issue.

City of Centerville  
Schedule of Findings  
Year Ended June 30, 2013

Response - We will implement this recommendation.

Conclusion - Response accepted.

- (16) Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Centerville Public Library (Library) does not receive an image of the back of each cancelled check for one bank account.

Recommendation - The Library should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Response - We will implement this recommendation.

Conclusion - Response accepted.

- (17) Separately Maintained Records - The Library and the Airport maintain separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

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

Response - We will attempt to implement this recommendation.

Conclusion - Response acknowledged.

- (18) Chart of Accounts - The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee (CFC) on September 25, 2002.

Recommendation - To provide better financial information and control, the CFC chart of accounts, or equivalent, should be followed.

Response - We will implement this recommendation to the best of our ability.

Conclusion - Response accepted.

- (19) Miscellaneous - During our review, it appears that \$30,411 is due from the Centerville Municipal Waterworks to the City.

The City paid sales tax on some purchases. As a governmental entity, the City is exempt from paying sales tax to the State of Iowa.

A former employee is still on a bank account signature card at the bank.

City of Centerville

Schedule of Findings

Year Ended June 30, 2013

Recommendation – The City should request monies due to them from the Centerville Municipal Waterworks. In addition, the City should implement procedures to ensure sales tax is not paid on purchases. Also, former employees should be removed from the signature cards at the bank.

Response – We will request this money from the Centerville Municipal Waterworks. In addition, we will ensure that sales tax is not paid on additional purchases, and that all former employees are removed from the signature cards at the bank.

Conclusion – Response accepted.

(20) Urban Renewal Annual Report – The urban renewal report was approved but was not certified to the Iowa Department of Management on or before December 1. The report was filed on January 21, 2013.

Recommendation – The City should file the urban renewal report timely.

Response – This form will be filed timely in next year's report.

Conclusion – Response accepted.

(21) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from the fund as provided in Chapter 403.19 of the Code of Iowa. Such certification makes it the duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such, the County Auditor shall provide available TIF incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19 (5 ) (b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or for any other reason to the County Auditor.

We noted the following related to the City's TIF:

- a) The City refinanced a general obligation bond in fiscal year 2011 in order to reduce the City's interest costs. In prior years, the City used the TIF receipts to pay the principal and interest on this bond since the proceeds of this bond were used on TIF projects. However, the City has not certified to the County Auditor the amount of reductions resulting from a reduction in interest charges on this bond.
- b) The City paid \$651 of legal fees from the Special Revenue, Urban Renewal Tax Increment Fund. These costs do not represent TIF debt and, accordingly, are not allowable uses of the tax increment financing receipts in accordance with Chapter 403.19 of the Code of Iowa.

Recommendation – The City should work with TIF legal counsel to determine the proper disposition of these matters.

Response – We will implement this recommendation.

Conclusion – Response accepted.

City of Centerville

Schedule of Findings

Year Ended June 30, 2013

(22) Sale of Property – The City sold lots which were paid for from the General Fund; however, the costs to develop these lots were paid for from the Special Revenue, Urban Renewal Tax Increment Fund. When these lots were sold, the proceeds from the sale of these lots were credited to the General Fund. Chapter 403.19 of the Code of Iowa states that proceeds of the sale of real estate paid for with Tax Increment Financing Funds should be credited to the Special Revenue, Urban Renewal Tax Increment Financing Fund. As a result of the above, it is unclear if the City has met the requirements of Chapter 403.19 of the Code of Iowa in relation to the sale of these lots.

Recommendation – The City should work with its attorney in relation to proper disposition of the above issues.

Response – We will consult our Attorney in relation to this.

Conclusion – Response accepted.