

City of Keokuk

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

June 30, 2013

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City of Keokuk

Officials

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



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Independent Auditor's Report

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

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 Keokuk, 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 basic 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

Opinions

The financial statements referred to above include only the primary government of the City, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City, as of June 30, 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.

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 accordance 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 accounting principles generally accepted in the United States of America. 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 basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five 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 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 12 and 31 through 32, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 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 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.

CPA Associates PC

February 20, 2014

City of Keokuk Management's Discussion and Analysis

The City of Keokuk (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which begin on page 13.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 99%, or \$10,879,890, from fiscal 2012 to fiscal 2013. The increase resulted primarily from bond proceeds and operating grants in the current period.
- Disbursements of the City's governmental activities increased 83%, or \$8,591,820, in fiscal 2013 from fiscal 2012 due to increased expenditures for capital projects and debt refinancing.
- The City's total cash basis net assets increased 21%, or \$2,366,407, from fiscal 2012 to fiscal 2013. Of this amount, the assets of the governmental activities increased \$2,774,057 and the assets of business type activities decreased \$407,650.
- In fiscal 2013, the City of Keokuk expended funds for capital projects which included streets, airport, waste water treatment, and storm sewer separation. In the area of street construction, projects completed included the Soap Creek Street project for streets bounded by Timea, Ridge, 7th and 14th. TIF funds in the amount of \$1,900,000 were used to finance work on this project. Construction on the 9th Street let-down structure and the River Road bluff stabilization and street repair projects were started. At the airport, \$3,987,596 was expended for runway construction and engineering fees. The federal reimbursement was 90% of the cost of the runway improvement project or \$3,601,540 during the year. The City has incurred \$483,257 of engineering fees and construction costs in connection with the River Road bluff stabilization project during fiscal 2013. This project is funded 80% with an IDOT grant. The ongoing CSO storm sewer project had capital expenditures of \$717,116, which included new manholes, the 9th Street let-down structure, continued expenditures for the Victory Park planning and design project, and the sewer line televising and cleaning project. These projects are funded by long-term loans provided by the State Revolving Fund and a limited amount of grant funds.
- The City of Keokuk was awarded a Community Development Block Grant through IEDA in the spring of 2012. The City of Keokuk will begin the selection process in early 2013. The \$349,990 grant will assist ten low income citizens to rehabilitate their homes, making them safer and more enjoyable places to live. These funds also greatly assist with stabilization of neighborhoods in the City. Bids for improvements have been completed on three properties; construction of these will begin in early 2014. The entire project is expected to be completed by the end of 2014.
- The City continues to participate in the Great River Housing Trust Fund. Low to moderate income households are eligible for down payment assistance in the amount of \$5,000 to a maximum amount of \$10,000, which is available for repairs such as roofing, electrical, plumbing, energy efficiency and heating. These funds can be in the form of a low/no interest bearing loan or grant.
- The City demolished 8 single family dwellings at a total cost to the City of \$42,572.
- The City mowed 68 abandoned properties, a total of 160 mowings, at a total cost of \$16,950.
- In fiscal 2013, the City continued planning for the reconstruction of residential streets as part of a comprehensive \$13 million ten year project.

City of Keokuk Management's Discussion and Analysis

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 the 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 nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

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

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial 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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

Fund Financial Statements

The City has two kinds of funds:

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

Reconciliations between the government-wide financial statement and each fund financial statement follows the respective fund financial statement.

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

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 \$5,634,367 to \$8,408,424. The analysis below focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities	Year Ended June 30,	
	<u>2013</u>	<u>2012</u>
Receipts:		
Program receipts:		
Charges for services	\$ 417,888	\$ 496,758
Operating grants, contributions and restricted interest	5,569,736	1,559,866
Capital grants, contributions and restricted interest	-	412,813
General receipts:		
Property tax	3,398,905	3,237,094
Local option sales tax	1,139,869	1,296,644
Tax increment financing	1,524,770	1,573,868
Debt service	650,163	696,677
Utility excise tax	746,720	637,729
Riverboat gaming tax	357,916	392,150
Hotel/Motel tax	261,301	276,006
Unrestricted interest on investments	136,393	117,145
Bond proceeds	7,395,000	-
Other general receipts	<u>220,929</u>	<u>242,950</u>
Total receipts	<u>21,819,590</u>	<u>10,939,700</u>
Disbursements:		
Public safety	4,316,348	4,411,559
Public works	1,716,981	1,500,148
Culture and recreation	1,313,822	1,265,031
Community and economic development	352,134	153,328
General government	576,227	594,488
Debt service	3,937,346	1,757,380
Capital projects	<u>6,777,796</u>	<u>716,900</u>
Total disbursements	<u>18,990,654</u>	<u>10,398,834</u>
Change in cash basis net position before transfers	2,828,936	540,866
Transfers, net	<u>(54,879)</u>	<u>72,852</u>
Change in cash basis net position	2,774,057	613,718
Cash basis net position beginning of year	<u>5,634,367</u>	<u>5,020,649</u>
Cash basis net position end of year	<u>\$ 8,408,424</u>	<u>\$ 5,634,367</u>

The City's total receipts for governmental activities increased 99%, or \$10,879,890, from fiscal 2012 to fiscal 2013. The total cost of all programs and services increased by \$8,591,820 or 83% with no new programs added this year. This increase in receipts was primarily due to the receipt of bond proceeds and an increase in operating grants. The increase in expenditures is primarily due to capital expenditures.

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

The cost of all governmental activities this year was \$18,990,654 compared to \$10,398,834 last year. However, as shown in the Statement of Activities and Net Assets on page 13, the amount that our taxpayers ultimately financed for these activities through City taxes was \$13.00 million because some of the cost was paid by those directly benefited from the programs by (\$417,888) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,569,736).

Change in Cash Basis Net Position of Business Type Activities	Year Ended June 30,	
	<u>2013</u>	<u>2012</u>
Receipts:		
Program receipts:		
Sewer charges	\$ 3,867,139	\$ 3,547,985
Bridge charges	279,396	286,065
Solid waste charges	698,193	702,016
General receipts:		
Bond proceeds	194,218	824,888
Miscellaneous receipts	<u>154,258</u>	<u>143,724</u>
Total receipts	<u>5,193,204</u>	<u>5,504,678</u>
Disbursements:		
Sewer	4,553,872	3,790,957
Bridge	378,391	375,131
Solid waste	<u>723,470</u>	<u>693,410</u>
Total disbursements	<u>5,655,733</u>	<u>4,859,498</u>
Change in cash basis net position before transfers	(462,529)	645,180
Transfers, net	<u>54,879</u>	<u>(72,852)</u>
Change in cash basis net position	(407,650)	572,328
Cash basis net position beginning of year	<u>5,863,895</u>	<u>5,291,567</u>
Cash basis net position end of year	<u>\$ 5,456,245</u>	<u>\$ 5,863,895</u>

Total business type activities receipts for the fiscal year were \$5,193,204 compared to \$5,504,678 last year. This decrease was due primarily to the receipt of bond proceeds in 2012. Total disbursements for the fiscal year increased by 16%, to a total of \$5,655,733, due primarily to a construction project at the waste water treatment plant and continuing combined sewer separation projects.

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

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

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

- The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance of the General Fund was \$432,076, an increase of \$19,619.
- The Road Use Tax Fund (RUTF) cash balance decreased by \$8,308 to \$541,991.
- The Local Option Sales Tax cash balance decreased by \$17,231 to \$1,224,737. This was due to a decrease of \$27,108 in local option sales tax collections.
- The Employee Benefits Fund decreased \$49,127 to \$453,527.
- The Urban Renewal TIF Fund decreased \$1,685,199 to \$192,053, due to a transfer of \$1,900,000 for the Soap Creek Street project.
- The Debt Service Fund increased \$65,060 to \$239,588, due primarily to excess funds in refinancing transactions.
- The Capital Projects Fund increased by \$4,628,020 to \$4,819,442, due to new borrowing for the Grand Avenue street project and the City's share of other projects funded primarily with grant monies.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased by \$425,039 to \$1,939,354, due to capital outlay for waste water treatment plant improvements.
- The Bridge Fund cash balance increased by \$20,311 to \$3,355,328 from normal operations.
- The Solid Waste Fund cash balance decreased by \$2,917 to \$128,324.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund-type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, the City amended its operating budget. The amendment was approved on May 16, 2013, and resulted in a decrease in budgeted revenues of \$23,450 and an increase in budgeted operating disbursements of \$11,232,413. Decreases in revenues included use of money and property and intergovernmental and increases in expenditures included public safety, public works, culture and recreation, debt service, general government, community and economic development, and capital projects.

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

DEBT ADMINISTRATION

At year end, the City had \$25,097,303 in bonds and other long-term debt compared to \$21,747,170 last year as shown below.

Outstanding Debt	Year Ended June 30,	
	2013	2012
General obligation bonds	\$ 20,900,000	\$ 12,690,000
Revenue bonds	4,057,183	5,675,965
Capital loan notes	140,120	271,205
Urban renewal TIFs	<u>-</u>	<u>3,110,000</u>
Total	<u>\$ 25,097,303</u>	<u>\$ 21,747,170</u>

Debt increased as a result of issuing general obligation bonds to refinance prior debt and provide funding for the Grand Avenue street project to be completed in fiscal 2014.

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and TIF debt of \$21,040,120 is below the City's \$26 million legal debt limit. The City's general obligation bond rating continues to be A2, which has been assigned by Moody's Investor Services.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2014 fiscal year budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The Lee County unemployment rate now stands at 7.2% versus 7.5% a year ago.

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

EXCLUDED COMPONENT UNITS

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

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

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be directed to the Finance Manager at 415 Blondeau Street, Keokuk, Iowa 52632 or telephone at 319-524-2050.

BASIC FINANCIAL STATEMENTS

City of Keokuk
Cash Basis Statement of Activities and Net Position
As of and for the Year Ended June 30, 2013

Functions / Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
		Charges for Service and Sales	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 4,316,348	\$ 39,800	\$ 168,534	\$ -	\$ (4,108,014)	\$ -	\$ (4,108,014)
Public works	1,716,981	96,037	1,153,193	-	(467,751)	-	(467,751)
Culture and recreation	1,313,822	124,832	101,455	-	(1,087,535)	-	(1,087,535)
Community and economic development	352,134	-	29,713	-	(322,421)	-	(322,421)
General government	576,227	157,219	42,302	-	(376,706)	-	(376,706)
Debt service	3,937,346	-	-	-	(3,937,346)	-	(3,937,346)
Capital projects	<u>6,777,796</u>	<u>-</u>	<u>4,074,539</u>	<u>-</u>	<u>(2,703,257)</u>	<u>-</u>	<u>(2,703,257)</u>
Total government activities	<u>18,990,654</u>	<u>417,888</u>	<u>5,569,736</u>	<u>-</u>	<u>(13,003,030)</u>	<u>-</u>	<u>(13,003,030)</u>
Business type activities:							
Sewer	4,553,872	3,867,139	-	-	-	(686,733)	(686,733)
Bridge	378,391	279,396	-	-	-	(98,995)	(98,995)
Solid waste	<u>723,470</u>	<u>698,193</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,277)</u>	<u>(25,277)</u>
Total business type activities	<u>5,655,733</u>	<u>4,844,728</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(811,005)</u>	<u>(811,005)</u>
Total	<u>\$ 24,646,387</u>	<u>\$ 5,262,616</u>	<u>\$ 5,569,736</u>	<u>\$ -</u>	<u>(13,003,030)</u>	<u>(811,005)</u>	<u>(13,814,035)</u>
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					3,398,905	-	3,398,905
Debt service					650,163	-	650,163
Tax increment financing					1,524,770	-	1,524,770
Local option sales tax					1,139,869	-	1,139,869
Utility excise tax					746,720	-	746,720
Riverboat gaming tax					357,916	-	357,916
Hotel/Motel tax					261,301	-	261,301
Grants and contributions not restricted to specific purposes					200,000	-	200,000
Unrestricted investment earnings					136,393	118,193	254,586
Sale of capital assets					4,739	-	4,739
Bond proceeds					7,395,000	194,218	7,589,218
Transfers					(54,879)	54,879	-
Miscellaneous					<u>16,190</u>	<u>36,065</u>	<u>52,255</u>
Total general receipts and transfers					<u>15,777,087</u>	<u>403,355</u>	<u>16,180,442</u>
Change in cash basis net position					2,774,057	(407,650)	2,366,407
Cash basis net position beginning of year					<u>5,634,367</u>	<u>5,863,895</u>	<u>11,498,262</u>
Cash basis net position end of year					<u>\$ 8,408,424</u>	<u>\$ 5,456,245</u>	<u>\$ 13,864,669</u>
Cash Basis Net Position							
Restricted:							
Nonexpendable					\$ 406,742	\$ -	\$ 406,742
Expendable					7,471,338	76,500	7,547,838
Unrestricted					<u>530,344</u>	<u>5,379,745</u>	<u>5,910,089</u>
Total cash basis net position					<u>\$ 8,408,424</u>	<u>\$ 5,456,245</u>	<u>\$ 13,864,669</u>

See notes to financial statements.

City of Keokuk
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2013

	Special Revenue							Other Nonmajor Govern- mental	Total
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits	Urban Renewal TIF	Debt Service	Capital Projects		
Receipts:									
Property tax	\$ 2,142,264	\$ -	\$ -	\$ 1,189,402	\$ -	\$ 650,163	\$ -	\$ 67,239	\$ 4,049,068
Tax increment financing collections	-	-	-	-	1,524,770	-	-	-	1,524,770
Other city taxes	1,022,506	-	1,139,869	228,843	-	101,926	-	12,661	2,505,805
Use of money and property	120,160	-	-	17,348	-	-	-	-	137,508
Licenses and permits	148,821	-	-	-	-	-	-	-	148,821
Intergovernmental	498,553	1,032,356	-	-	-	-	3,940,046	13,117	5,484,072
Charges for services	230,424	-	-	-	-	-	-	-	230,424
Miscellaneous	162,331	-	-	1,418	-	-	150,685	27,996	342,430
Total receipts	<u>4,325,059</u>	<u>1,032,356</u>	<u>1,139,869</u>	<u>1,437,011</u>	<u>1,524,770</u>	<u>752,089</u>	<u>4,090,731</u>	<u>121,013</u>	<u>14,422,898</u>
Disbursements:									
Governmental activities:									
Public safety	4,316,334	-	-	-	-	-	-	-	4,316,334
Public works	676,314	1,040,664	-	-	-	-	-	-	1,716,978
Culture and recreation	1,313,819	-	-	-	-	-	-	-	1,313,819
Community and economic development	110,321	-	-	-	27,644	-	-	214,169	352,134
General government	576,226	-	-	-	-	-	-	-	576,226
Debt service	-	-	-	-	967,287	2,970,059	-	-	3,937,346
Capital projects	-	-	-	-	-	-	6,777,796	-	6,777,796
Total disbursements	<u>6,993,014</u>	<u>1,040,664</u>	<u>-</u>	<u>-</u>	<u>994,931</u>	<u>2,970,059</u>	<u>6,777,796</u>	<u>214,169</u>	<u>18,990,633</u>
Excess (deficiency) of receipts over disbursements	(2,667,955)	(8,308)	1,139,869	1,437,011	529,839	(2,217,970)	(2,687,065)	(93,156)	(4,567,735)
Other financing sources (uses):									
Sale of capital assets	1,692	-	-	-	-	-	-	-	1,692
Refunding bonds	-	-	-	-	3,330,000	2,410,000	-	-	5,740,000
Payment to refunded bond escrow agent	-	-	-	-	(2,985,000)	(2,310,000)	-	-	(5,295,000)
Bond proceeds	-	-	-	-	-	1,450,000	5,500,000	-	6,950,000
Operating transfers in (out)	<u>2,685,882</u>	<u>-</u>	<u>(1,157,100)</u>	<u>(1,486,138)</u>	<u>(2,560,038)</u>	<u>733,030</u>	<u>1,815,085</u>	<u>(85,600)</u>	<u>(54,879)</u>
Change in cash balances	19,619	(8,308)	(17,231)	(49,127)	(1,685,199)	65,060	4,628,020	(178,756)	2,774,078
Cash balances beginning of year	<u>412,457</u>	<u>550,299</u>	<u>1,241,968</u>	<u>502,654</u>	<u>1,877,252</u>	<u>174,528</u>	<u>191,422</u>	<u>717,031</u>	<u>5,667,611</u>
Cash balances end of year	<u>\$ 432,076</u>	<u>\$ 541,991</u>	<u>\$ 1,224,737</u>	<u>\$ 453,527</u>	<u>\$ 192,053</u>	<u>\$ 239,588</u>	<u>\$ 4,819,442</u>	<u>\$ 538,275</u>	<u>\$ 8,441,689</u>
Cash Basis Fund Balances									
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 406,742	\$ 406,742
Restricted	-	541,991	-	453,527	192,053	239,588	4,819,442	-	6,246,601
Committed	-	-	1,224,737	-	-	-	-	-	1,224,737
Assigned	-	-	-	-	-	-	-	131,533	131,533
Unassigned	<u>432,076</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>432,076</u>
Total cash basis fund balances	<u>\$ 432,076</u>	<u>\$ 541,991</u>	<u>\$ 1,224,737</u>	<u>\$ 453,527</u>	<u>\$ 192,053</u>	<u>\$ 239,588</u>	<u>\$ 4,819,442</u>	<u>\$ 538,275</u>	<u>\$ 8,441,689</u>

See notes to financial statements.

City of Keokuk
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 14) \$ 8,441,689

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

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

(33,265)

Cash basis net position of governmental activities (page 13) \$ 8,408,424

Change in cash balances (page 14) \$ 2,774,078

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

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

(21)

Change in cash basis net position of governmental activities (page 13) \$ 2,774,057

See notes to financial statements.

City of Keokuk
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the Year Ended June 30, 2013

	Enterprise Funds				Internal Service Fund
	Sewer	Bridge	Solid Waste	Total	Employee Health
Operating Receipts:					
Charges for service	\$ 3,864,549	\$ 279,396	\$ 698,193	\$ 4,842,138	\$ 477,051
Total operating receipts	<u>3,864,549</u>	<u>279,396</u>	<u>698,193</u>	<u>4,842,138</u>	<u>477,051</u>
Operating Disbursements:					
Governmental activities:					
Public safety	-	-	-	-	248,715
Public works	-	-	-	-	48,361
Culture and recreation	-	-	-	-	49,855
Community and economic development	-	-	-	-	7,842
General government	-	-	-	-	24,461
Business type activities	<u>2,273,234</u>	<u>369,890</u>	<u>606,040</u>	<u>3,249,164</u>	<u>97,843</u>
Total operating disbursements	<u>2,273,234</u>	<u>369,890</u>	<u>606,040</u>	<u>3,249,164</u>	<u>477,077</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>1,591,315</u>	<u>(90,494)</u>	<u>92,153</u>	<u>1,592,974</u>	<u>(26)</u>
Nonoperating receipts (disbursements):					
Interest on investments	730	117,463	-	118,193	-
Licenses and permits	2,590	-	-	2,590	-
Miscellaneous	11,864	1,842	22,359	36,065	-
Bond proceeds	194,218	-	-	194,218	-
Capital projects	(2,100,767)	(8,500)	(31,047)	(2,140,314)	-
Debt service	<u>(179,868)</u>	<u>-</u>	<u>(86,382)</u>	<u>(266,250)</u>	<u>-</u>
Net nonoperating receipts (disbursements)	<u>(2,071,233)</u>	<u>110,805</u>	<u>(95,070)</u>	<u>(2,055,498)</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(479,918)</u>	<u>20,311</u>	<u>(2,917)</u>	<u>(462,524)</u>	<u>(26)</u>
Transfers in (out)	<u>54,879</u>	<u>-</u>	<u>-</u>	<u>54,879</u>	<u>-</u>
Change in cash balances	(425,039)	20,311	(2,917)	(407,645)	(26)
Cash balances beginning of year	<u>2,364,393</u>	<u>3,335,017</u>	<u>131,241</u>	<u>5,830,651</u>	<u>-</u>
Cash balances end of year	<u>\$ 1,939,354</u>	<u>\$ 3,355,328</u>	<u>\$ 128,324</u>	<u>\$ 5,423,006</u>	<u>\$ (26)</u>
Cash Basis Fund Balances					
Restricted for debt service	\$ -	\$ -	\$ 76,500	\$ 76,500	\$ -
Unrestricted	<u>1,939,354</u>	<u>3,355,328</u>	<u>51,824</u>	<u>5,346,506</u>	<u>(26)</u>
Total cash basis fund balances	<u>\$ 1,939,354</u>	<u>\$ 3,355,328</u>	<u>\$ 128,324</u>	<u>\$ 5,423,006</u>	<u>\$ (26)</u>

See notes to financial statements.

City of Keokuk
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 16) \$ 5,423,006

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

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

33,239

Cash basis net position of business type activities (page 13) \$ 5,456,245

Change in cash balances (page 16) \$ (407,645)

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

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

(5)

Change in cash basis net position of business type activities (page 13) \$ (407,650)

See notes to financial statements.

City of Keokuk
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The City of Keokuk (City) is a political subdivision of the State of Iowa located in Lee County. It was incorporated in 1847 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides solid waste removal and sewer utilities for its citizens.

Reporting Entity

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

Excluded Component Units

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

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Keokuk Economic Development Corporation and Great River Regional Waste Authority. See Note 14.

City of Keokuk
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation

Government-wide Financial Statements - 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 business type activities, which rely to a significant extent on fees and charges for services.

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 has 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 funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency 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.

City of Keokuk
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

The City also reports the following additional proprietary fund:

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

Measurement Focus and Basis of Accounting

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

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

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

City of Keokuk
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Proprietary funds distinguish operating receipts and disbursements from nonoperating 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 nonoperating receipts and disbursements.

Governmental Cash Basis Fund Balances

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

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

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

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

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

Unassigned - All amounts not included in the preceding classifications.

Budgets and Budgetary Accounting

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

Subsequent Events

The City performed an evaluation of subsequent events through November 1, 2013, which is the date the financial statements were issued. There are no subsequent events that require disclosure or recognition in the financial statements as of June 30, 2013.

Note 2. Cash and Pooled Investments

The City's deposits 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.

City of Keokuk
Notes to Financial Statements

Note 2. Cash and Pooled Investments (continued)

At June 30, 2013, the City held the following investments :

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
Certificates of deposit	\$ 1,024,760	\$ 1,024,760	Various
United States Treasury Note	498,125	520,664	2/29/2016
United States Treasury Note	503,828	555,664	2/15/2021
United States Treasury Note	<u>1,016,875</u>	<u>1,242,031</u>	2/15/2041
Total	<u>\$ 3,043,588</u>	<u>\$ 3,343,119</u>	

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$5,880,074 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

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

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

Note 3. Bonds and Notes Payable

A summary of the City's June 30, 2013 general obligation, revenue bond and urban renewal indebtedness is as follows:

<u>Year Ended June 30,</u>	<u>General Obligation and Capital Loan Notes</u>		<u>Revenue Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,345,000	\$ 627,631	\$ 781,000	\$ 90,951	\$ 2,126,000	\$ 718,582
2015	1,425,120	610,116	740,183	85,163	2,165,303	695,279
2016	1,105,000	486,946	183,000	79,088	1,288,000	566,034
2017	1,105,000	471,744	191,000	72,893	1,296,000	544,637
2018	1,210,000	455,149	195,000	66,411	1,405,000	521,560
2019-2023	6,535,000	2,083,432	719,000	248,809	7,254,000	2,332,241
2024-2028	6,030,000	971,849	742,000	144,090	6,772,000	1,115,939
2029-2033	<u>2,285,000</u>	<u>162,725</u>	<u>506,000</u>	<u>30,690</u>	<u>2,791,000</u>	<u>193,415</u>
	<u>\$21,040,120</u>	<u>\$ 5,869,592</u>	<u>\$ 4,057,183</u>	<u>\$ 818,095</u>	<u>\$25,097,303</u>	<u>\$ 6,687,687</u>

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

City of Keokuk
Notes to Financial Statements

Note 3. Bonds and Notes Payable (continued)

Refunding Notes

During the year ended June 30, 2013, the City refunded the 2006 capital loan notes for the 2013B GO refunding capital loan notes (refunding A) and the 2008A urban renewal tax increment financing (TIF) capital loan note for the 2013C GO urban renewal bonds (refunding B). The City is required to make two additional payments totaling \$110,000 on the 2006 capital loan notes in the years ending June 30, 2014 and 2015.

	Refunding A			Refunding B		
	2006 Capital Loan Notes	2013B GO Refunding Capital Loan Notes	Difference in Debt Service/ Economic Gain	2008A Urban Renewal TIF Capital Loan Note	2013C GO Urban Renewal Bonds	Difference in Debt Service/ Economic Gain
Debt service cash flow	\$3,020,934	\$2,653,888	\$ 367,046	\$4,596,088	\$3,905,513	\$ 690,575
Present value cash flow	2,122,066	2,336,353	(214,287)	2,992,702	3,532,324	(539,622)
Defeased debt	2,310,000			2,985,000		

Revenue Notes

The City has pledged future solid waste customer receipts, net of specified operating disbursements, to repay \$765,000 in solid waste revenue notes issued in April 2008. The notes are payable solely from solid waste customer net receipts and are payable through 2019. The total principal and interest remaining to be paid on the notes is \$530,995. For the current year, principal and interest paid and total customer net receipts were \$85,882 and \$92,153, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$6,929,000 in sewer revenue notes issued between December 2009 and September 2011. The notes are payable solely from sewer customer net receipts and are payable through 2031. Sewer user charges must be established at a level which produces and maintains net revenues at a level not less than 110% of principal and interest requirements upon completion of the project. The total principal and interest remaining to be paid on the notes is \$4,344,283. For the current year, principal and interest paid and total customer net receipts were \$1,823,570 and \$1,591,315, respectively.

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

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

City of Keokuk
Notes to Financial Statements

Note 3. Bonds and Notes Payable (continued)

- (d) Sewer Net Revenues must be sufficient to produce and maintain net revenues at a level not less than 110% of the principal and interest requirements of the fiscal year. During the year ended June 30, 2013, the City was not in compliance with the net revenue requirement for the sewer revenue bonds as required by the bond resolution.
- (e) Sufficient monthly transfers shall be made to separate solid waste revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.

On January 20, 2010, the City entered into a Forgivable Loan and Disbursement Agreement for \$1,650,000 of Sewer Revenue Capital Loan Notes through Iowa Finance Authority. During the year ended June 30, 2013, the City received the certificate of completion and the loan was forgiven.

At June 30, 2013, the City had an outstanding contract between the Iowa Department of Economic Development (IDED) and a city business for a Community Economic Betterment Account (CEBA) loan. Although the note bears the name of the City, the City has no obligation for such debt beyond the resources provided by the business entity upon whose behalf it is issued. Accordingly, the loan is not reported as a liability in the accompanying financial statements.

Note 4. Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.78% 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 contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were \$220,010, \$204,542, and \$185,392, respectively, equal to the required contributions for each year.

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th Street, Urbandale, Iowa 50322.

City of Keokuk
Notes to Financial Statements

Note 4. Pension and Retirement Benefits (continued)

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate may not be less than 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 was \$522,247, \$494,446, and \$397,069, respectively, equal to the required contributions for each year.

Note 5. Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical, prescription drug, dental, and vision benefits for retirees and their spouses. There are 133 active and 18 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$438 for single coverage, \$1,026 for employee/spouse coverage, \$996 for employee/child coverage and \$1,244 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City contributed \$1,188,433 and plan members eligible for benefits contributed \$119,319 to the plan.

Note 6. Compensated Absences

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

Accumulated sick leave and vacation are not recognized as expenditures by the City until used or paid. The City's maximum liability for unrecognized accrued employee benefits as of June 30, 2013, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 433,311
Sick leave	<u>117,042</u>
	<u>\$ 550,353</u>

This liability has been computed based on rates of pay as of June 30, 2013.

City of Keokuk
Notes to Financial Statements

Note 7. Self-Insured Health Benefits

The City of Keokuk has agreed to provide certain health benefits to its employees. The City pays 100% of the premium for health insurance for all full-time employees selecting single coverage. For full-time employees selecting family coverage, the City pays 90% of the premium for health insurance. The total maximum reimbursement liability to be paid by the City is \$560,000. The City's cost related to this reimbursement for the year ended June 30, 2013 was approximately \$194,804.

Note 8. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special revenue	\$ 2,680,182
Debt service	Special revenue	660,038
Debt service	Enterprise funds	72,992
Capital projects	Special revenue	1,942,956
General	Permanent	5,700
Enterprise funds	Capital projects	127,871

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

Note 9. Revolving Loan Fund

The City has entered into an agreement with Southeast Iowa Regional Planning Commission (SEIRPC) to establish a revolving loan fund for commercial business growth and to assist in new business development. The City received a matching grant of \$99,000 from the United States Department of Agriculture - Rural Business Enterprise Grant. The City transferred \$100,000 in fiscal year 2007 to SEIRPC, which administers and manages the revolving loan fund. At June 30, 2013, these loans to businesses had outstanding balances totaling \$43,172. At June 30, 2013, SEIRPC held cash of \$122,217 for the City, which represents loan repayments received from participating businesses that is available to fund future commercial business growth loans.

During the year ended June 30, 2013, the City determined that a revolving loan fund loan balance was unrecoverable and passed a resolution to writeoff \$18,205 due from a commercial business that is no longer in operation.

City of Keokuk
Notes to Financial Statements

Note 10. Risk Management

The City is a member of 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 sufficient, 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 contributions to the Pool for the year ended June 30, 2013 were \$107,250.

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 for 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 contract 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 company coverage since the Pool's inception.

City of Keokuk
Notes to Financial Statements

Note 10. Risk Management (continued)

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 casualty 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 the 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 workmen's compensation and various types of liability insurance. 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.

Note 11. Related Party Transactions

The City had business transactions between the City and City officials totaling \$11,380 during the year ended June 30, 2013. Keokuk Municipal Waterworks pays the City on an annual basis. This amounted to \$200,000 for the year ended June 30, 2013 and is included as revenue in the general fund.

Note 12. Industrial Development Revenue Bonds

The City issued \$8,745,000 of industrial revenue bonds of which \$4,370,000 is outstanding at June 30, 2013, for the purpose of constructing privately owned manufacturing and other related facilities within the City. The bonds are not direct or contingent liabilities of the City, as the revenue from lease agreements and property purchased with the bond proceeds are pledged for the total payment of principal and interest on the bonds and the bondholders can only look to these sources for repayment.

City of Keokuk
Notes to Financial Statements

Note 13. Operating Leases - Lessor

The City leases land to Crown Castle in Tolmie Park. The original lease had a term of five years, expiring December 2010, with the option to renew for three additional five-year periods. During the year ended June 30, 2011, Crown Castle renewed the lease through December 2015. Rental income for the year ended June 30, 2013 totaled \$15,870. Future minimum lease payments until the end of the lease term are:

Year Ended June 30,	Amount
2014	\$ 15,870
2015	7,935
	\$ 23,805

The City leases hangar space to individuals on a month-to-month basis. Rental income for the year ended June 30, 2013 totaled \$21,095.

Note 14. Jointly Governed Organization

The City is a participant in Great River Regional Waste Authority, a political subdivision pursuant to the Code of Iowa Chapter 28E. The purpose of the agreement is to provide area governments with solid waste disposal sources. The City currently provides one member of the five member board. The City paid \$168,908 in fees in fiscal year 2013. Great River Regional Waste Authority's audited financial statements are available at City Hall.

Note 15. Commitments

In the normal course of business, the City has various outstanding commitments that are not reflected in the accompanying financial statements. The principal commitments of the City at June 30, 2013 are as follows:

	Amount
Street projects	\$ 4,424,792
Airport runway improvement	225,079
Park improvements	29,701
Sewer projects	1,133,810
Total	\$ 5,813,382

City of Keokuk
Notes to Financial Statements

Note 16. Cash Basis Fund Balances

The detail of the governmental fund cash basis fund balances for the year ended June 30, 2013 is as follows:

	<u>General</u>	<u>Road Use</u>	<u>Sales Tax</u>	<u>Employee Benefits</u>	<u>Urban Renewal TIF</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Nonmajor</u>	<u>Total</u>
Nonspendable for cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 406,742	\$ 406,742
Restricted for:									
Road use purposes	-	541,991	-	-	-	-	-	-	541,991
Employee benefits	-	-	-	453,527	-	-	-	-	453,527
Urban renewal projects	-	-	-	-	192,053	-	-	-	192,053
Debt service	-	-	-	-	-	239,588	-	-	239,588
Other capital projects	-	-	-	-	-	-	4,819,442	-	4,819,442
Committed to:									
Local option sales tax	-	-	1,224,737	-	-	-	-	-	1,224,737
Assigned to:									
Community & economic development	-	-	-	-	-	-	-	131,533	131,533
Unassigned	<u>432,076</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>432,076</u>
Total	<u>\$ 432,076</u>	<u>\$ 541,991</u>	<u>\$ 1,224,737</u>	<u>\$ 453,527</u>	<u>\$ 192,053</u>	<u>\$ 239,588</u>	<u>\$ 4,819,442</u>	<u>\$ 538,275</u>	<u>\$ 8,441,689</u>

OTHER INFORMATION

City of Keokuk
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Other Information
Year Ended June 30, 2013

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not Required to be <u>Budgeted</u>	<u>Net</u>	Budget <u>Original</u>	Budget <u>Final</u>	Final to Actual Variance Favorable (Unfavorable)
Receipts:							
Property tax	\$ 4,049,068	\$ -	\$ -	\$ 4,049,068	\$ 4,079,799	\$ 4,079,799	\$ (30,731)
Tax increment financing collections	1,524,770	-	-	1,524,770	1,596,832	1,596,832	(72,062)
Other city taxes	2,505,805	-	-	2,505,805	2,672,733	2,504,486	1,319
Use of money and property	137,508	118,193	-	255,701	229,117	226,407	29,294
Licenses and permits	148,821	-	-	148,821	145,715	147,032	1,789
Intergovernmental	5,484,072	-	-	5,484,072	6,615,998	6,535,798	(1,051,726)
Charges for services	230,424	5,319,189	477,051	5,072,562	4,828,404	4,967,909	104,653
Miscellaneous	342,430	38,655	-	381,085	131,500	218,385	162,700
Total receipts	<u>14,422,898</u>	<u>5,476,037</u>	<u>477,051</u>	<u>19,421,884</u>	<u>20,300,098</u>	<u>20,276,648</u>	<u>(854,764)</u>
Disbursements:							
Public safety	4,316,334	-	248,715	4,067,619	4,487,592	4,496,581	428,962
Public works	1,716,978	-	48,361	1,668,617	1,744,402	1,844,427	175,810
Culture and recreation	1,313,819	-	49,855	1,263,964	1,284,987	1,330,545	66,581
Community and economic development	352,134	-	7,842	344,292	153,817	332,913	(11,379)
General government	576,226	-	24,461	551,765	564,655	588,098	36,333
Debt service	3,937,346	-	-	3,937,346	1,736,513	9,210,132	5,272,786
Capital projects	6,777,796	-	-	6,777,796	7,060,674	11,210,805	4,433,009
Business type	-	6,132,805	97,843	6,034,962	7,791,847	7,043,399	1,008,437
Non-program	-	-	-	-	-	-	-
Total disbursements	<u>18,990,633</u>	<u>6,132,805</u>	<u>477,077</u>	<u>24,646,361</u>	<u>24,824,487</u>	<u>36,056,900</u>	<u>11,410,539</u>
Excess (deficiency) of receipts over disbursements	(4,567,735)	(656,768)	(26)	(5,224,477)	(4,524,389)	(15,780,252)	10,555,775
Other financing sources, net	<u>7,341,813</u>	<u>249,097</u>	<u>-</u>	<u>7,590,910</u>	<u>4,271,924</u>	<u>12,690,000</u>	<u>(5,099,090)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	2,774,078	(407,671)	(26)	2,366,433	(252,465)	(3,090,252)	5,456,685
Cash balances beginning of year	<u>5,667,611</u>	<u>5,830,651</u>	<u>-</u>	<u>11,498,262</u>	<u>9,640,148</u>	<u>11,498,261</u>	<u>1</u>
Cash balances end of year	<u>\$ 8,441,689</u>	<u>\$ 5,422,980</u>	<u>\$ (26)</u>	<u>\$ 13,864,695</u>	<u>\$ 9,387,683</u>	<u>\$ 8,408,009</u>	<u>\$ 5,456,686</u>

See accompanying independent auditor's report.

City of Keokuk
Other Information
Notes to Other Information - Budgetary Reporting
Year Ended 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 blended component units, internal service, non-expendable trust, and agency funds (when they exist). The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, 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, budget amendments increased budgeted disbursements by \$11,232,413. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the community and economic development function.

SUPPLEMENTARY INFORMATION

City of Keokuk
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2013

	<u>Special Revenue</u>		<u>Permanent</u>	<u>Total</u>
	<u>Economic</u> <u>Development</u>	<u>Emergency</u> <u>Tax Levy</u>	<u>Cemetery</u> <u>Perpetual</u> <u>Care</u>	
Receipts:				
Property tax	\$ -	\$ 67,239	\$ -	\$ 67,239
Other city taxes	-	12,661	-	12,661
Intergovernmental	13,117	-	-	13,117
Miscellaneous	<u>16,596</u>	<u>-</u>	<u>11,400</u>	<u>27,996</u>
Total receipts	<u>29,713</u>	<u>79,900</u>	<u>11,400</u>	<u>121,013</u>
Disbursements:				
Community and economic development	<u>214,169</u>	<u>-</u>	<u>-</u>	<u>214,169</u>
Total disbursements	<u>214,169</u>	<u>-</u>	<u>-</u>	<u>214,169</u>
Excess (deficiency) of receipts over disbursements	<u>(184,456)</u>	<u>79,900</u>	<u>11,400</u>	<u>(93,156)</u>
Other financing sources (uses):				
Operating transfer in (out)	<u>-</u>	<u>(79,900)</u>	<u>(5,700)</u>	<u>(85,600)</u>
Total other financing sources (uses)	<u>-</u>	<u>(79,900)</u>	<u>(5,700)</u>	<u>(85,600)</u>
Change in cash balances	(184,456)	-	5,700	(178,756)
Cash balances beginning of year	<u>315,989</u>	<u>-</u>	<u>401,042</u>	<u>717,031</u>
Cash balances end of year	<u>\$ 131,533</u>	<u>\$ -</u>	<u>\$ 406,742</u>	<u>\$ 538,275</u>
Cash Basis Fund Balances				
Nonspendable	\$ -	\$ -	\$ 406,742	\$ 406,742
Assigned	<u>131,533</u>	<u>-</u>	<u>-</u>	<u>131,533</u>
Total cash basis fund balances	<u>\$ 131,533</u>	<u>\$ -</u>	<u>\$ 406,742</u>	<u>\$ 538,275</u>

See accompanying independent auditor's report.

City of Keokuk
Statement of Indebtedness
Year Ended June 30, 2013

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation bonds:									
Refunding capital notes	11/01/05	3.55-4.00%	\$ 2,440,000	\$ 795,000	\$ -	\$ 795,000	\$ -	\$ 14,585	\$ -
Capital loan notes	8/01/06	4.20-6.00%	3,000,000	2,455,000	-	2,345,000	110,000	106,876	-
Capital loan notes	5/01/07	4.00-4.25%	1,300,000	720,000	-	720,000	-	29,580	-
Capital loan notes	5/01/09	4.25-5.25%	3,000,000	2,700,000	-	105,000	2,595,000	132,620	-
Capital loan notes	10/01/09	2.00-4.70%	2,565,000	1,970,000	-	-	1,970,000	86,021	-
Capital loan notes	12/01/10	1.20-4.40%	4,225,000	4,050,000	-	225,000	3,825,000	123,750	-
Capital loan notes	11/19/12	0.30-2.50%	2,300,000	-	2,300,000	290,000	2,010,000	13,193	-
Refunding capital loan notes	5/01/13	0.30-0.60%	600,000	-	600,000	-	600,000	-	-
Refunding capital loan notes	5/01/13	0.50-2.00%	2,410,000	-	2,410,000	-	2,410,000	-	-
Urban renewal bonds	5/01/13	0.30-2.00%	3,330,000	-	3,330,000	-	3,330,000	-	-
Urban renewal bonds	5/01/13	1.00-2.80%	4,050,000	-	4,050,000	-	4,050,000	-	-
Total				<u>12,690,000</u>	<u>12,690,000</u>	<u>4,480,000</u>	<u>20,900,000</u>	<u>506,625</u>	<u>-</u>
Revenue bonds:									
Solid waste capital loan note	4/24/08	3.94%	765,000	530,000	-	65,000	465,000	20,882	-
Sewer revenue capital loan note	12/16/09	0.00%	440,000	396,628	21,843	-	418,471	-	-
Sewer revenue capital loan note	1/20/10	3.00%	1,650,000	1,650,000	-	1,650,000	-	-	-
Sewer revenue capital loan note	1/20/10	3.00%	3,889,000	2,519,000	-	98,000	2,421,000	75,570	-
Sewer revenue capital loan note	3/16/11	0.00%	610,000	580,337	29,663	-	610,000	-	-
Sewer revenue capital loan note	9/21/11	0.00%	340,000	-	142,712	-	142,712	-	-
Total				<u>5,675,965</u>	<u>194,218</u>	<u>1,813,000</u>	<u>4,057,183</u>	<u>96,452</u>	<u>-</u>
Capital loan notes:									
Capital loan - Industrial development project	11/03/06	4.78%	470,120	200,120	-	60,000	140,120	9,725	-
Capital loan note	6/15/09	3.50%	270,000	71,085	-	71,085	-	1,890	-
Total				<u>271,205</u>	<u>-</u>	<u>131,085</u>	<u>140,120</u>	<u>11,615</u>	<u>-</u>
Urban renewal tax increment revenue capital loan note									
Urban renewal tax increment revenue capital loan note	9/01/08	4.50-6.00%	3,455,000	<u>3,110,000</u>	<u>-</u>	<u>3,110,000</u>	<u>-</u>	<u>181,844</u>	<u>-</u>
Total of all debt				<u>\$ 21,747,170</u>	<u>\$ 12,884,218</u>	<u>\$ 9,534,085</u>	<u>\$ 25,097,303</u>	<u>\$ 796,536</u>	<u>\$ -</u>

See accompanying independent auditor's report.

**City of Keokuk
Bond and Note Maturities
June 30, 2013**

General Obligation Bonds																			
Year Ending June 30,	<u>Capital Loan Notes</u> Issued August 1, 2006		<u>Capital Loan Notes</u> Issued May 1, 2009		<u>Capital Loan Notes</u> Issued October 1, 2009		<u>Capital Loan Notes</u> Issued December 1, 2010		<u>Capital Loan Notes</u> Issued November 19, 2012		<u>Refunding Capital Loan Notes</u> Issued May 1, 2013		<u>Refunding Capital Loan Notes</u> Issued May 1, 2013		<u>Urban Renewal Bonds</u> Issued May 1, 2013		<u>Urban Renewal Bonds</u> Issued May 1, 2013		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2014	4.25%	\$ 25,000	5.00%	\$ 110,000	-	\$ -	1.50%	\$ 225,000	0.40%	\$ 285,000	0.30%	\$ 135,000	-	\$ -	0.30%	\$ 275,000	1.00%	\$ 230,000	\$ 1,285,000
2015	4.30%	85,000	5.00%	120,000	-	-	1.75%	225,000	0.45%	290,000	0.40%	160,000	-	-	0.40%	265,000	1.00%	200,000	1,345,000
2016	-	-	5.00%	125,000	-	-	1.75%	225,000	0.45%	70,000	0.50%	150,000	0.50%	100,000	0.50%	215,000	1.00%	220,000	1,105,000
2017	-	-	5.00%	130,000	-	-	2.10%	225,000	0.70%	70,000	0.60%	155,000	0.60%	100,000	0.60%	225,000	1.00%	200,000	1,105,000
2018	-	-	5.00%	135,000	4.00%	125,000	2.40%	225,000	0.70%	75,000	-	-	0.80%	200,000	0.80%	250,000	1.00%	200,000	1,210,000
2019	-	-	4.25%	145,000	4.00%	135,000	2.60%	225,000	1.10%	75,000	-	-	0.95%	220,000	0.95%	250,000	1.00%	200,000	1,250,000
2020	-	-	4.35%	150,000	4.00%	140,000	2.90%	225,000	1.10%	75,000	-	-	1.10%	250,000	1.10%	250,000	1.50%	200,000	1,290,000
2021	-	-	4.50%	155,000	4.15%	145,000	3.20%	225,000	1.35%	75,000	-	-	1.30%	265,000	1.30%	250,000	1.50%	200,000	1,315,000
2022	-	-	4.70%	165,000	4.15%	150,000	3.40%	225,000	1.35%	80,000	-	-	1.50%	250,000	1.50%	275,000	2.00%	200,000	1,345,000
2023	-	-	4.80%	170,000	4.38%	160,000	3.50%	225,000	1.70%	80,000	-	-	1.70%	275,000	1.70%	225,000	2.00%	200,000	1,335,000
2024	-	-	4.90%	180,000	4.38%	165,000	3.70%	225,000	1.70%	80,000	-	-	1.85%	250,000	1.85%	300,000	2.00%	200,000	1,400,000
2025	-	-	5.00%	185,000	4.50%	175,000	4.00%	225,000	1.20%	85,000	-	-	2.00%	250,000	2.00%	275,000	2.00%	200,000	1,395,000
2026	-	-	5.10%	190,000	4.50%	180,000	4.00%	225,000	1.20%	85,000	-	-	2.00%	250,000	2.00%	275,000	2.20%	200,000	1,405,000
2027	-	-	5.15%	200,000	4.50%	190,000	4.10%	225,000	2.10%	90,000	-	-	-	-	-	-	2.35%	200,000	905,000
2028	-	-	5.20%	200,000	4.70%	200,000	4.20%	225,000	2.10%	90,000	-	-	-	-	-	-	2.45%	200,000	925,000
2029	-	-	5.25%	225,000	4.70%	205,000	4.30%	225,000	2.30%	95,000	-	-	-	-	-	-	2.55%	200,000	950,000
2030	-	-	-	-	-	-	4.40%	225,000	2.35%	100,000	-	-	-	-	-	-	2.70%	200,000	525,000
2031	-	-	-	-	-	-	-	-	2.45%	105,000	-	-	-	-	-	-	2.80%	200,000	305,000
2032	-	-	-	-	-	-	-	-	2.50%	105,000	-	-	-	-	-	-	3.00%	200,000	305,000
2033	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.00%	200,000	200,000
		<u>\$110,000</u>		<u>\$2,595,000</u>		<u>\$1,970,000</u>		<u>\$3,825,000</u>		<u>\$2,010,000</u>		<u>\$ 600,000</u>		<u>\$2,410,000</u>		<u>\$3,330,000</u>		<u>\$4,050,000</u>	<u>\$20,900,000</u>

See accompanying independent auditor's report.

**City of Keokuk
Bond and Note Maturities
June 30, 2013**

Revenue Bonds												Capital Loan Notes	
Solid Waste Capital Loan Note		Sewer Revenue Capital Loan Notes										Capital Loan - Industrial Development Project Issued November 3, 2006	
Issued April 24, 2008		Issued December 16, 2009		Issued January 20, 2010		Issued March 16, 2011		Issued September 21, 2011		Total			
Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Total	Interest Rate	Amount
2014	3.94%	\$ 70,000	0.00%	\$ -	3.00%	\$ 101,000	0.00%	\$ 610,000	0.00%	\$ -	\$ 781,000	4.78%	\$ 60,000
2015	3.94%	75,000	0.00%	418,471	3.00%	104,000		-	0.00%	142,712	740,183	4.78%	80,120
2016	3.94%	75,000		-	3.00%	108,000		-		-	183,000		-
2017	3.94%	80,000		-	3.00%	111,000		-		-	191,000		-
2018	3.94%	80,000		-	3.00%	115,000		-		-	195,000		-
2019	3.94%	85,000		-	3.00%	119,000		-		-	204,000		-
2020		-		-	3.00%	123,000		-		-	123,000		-
2021		-		-	3.00%	126,000		-		-	126,000		-
2022		-		-	3.00%	131,000		-		-	131,000		-
2023		-		-	3.00%	135,000		-		-	135,000		-
2024		-		-	3.00%	139,000		-		-	139,000		-
2025		-		-	3.00%	144,000		-		-	144,000		-
2026		-		-	3.00%	148,000		-		-	148,000		-
2027		-		-	3.00%	153,000		-		-	153,000		-
2028		-		-	3.00%	158,000		-		-	158,000		-
2029		-		-	3.00%	163,000		-		-	163,000		-
2030		-		-	3.00%	169,000		-		-	169,000		-
2031		-		-	3.00%	174,000		-		-	174,000		-
		<u>\$ 465,000</u>		<u>\$ 418,471</u>		<u>\$ 2,421,000</u>		<u>\$ 610,000</u>		<u>\$ 142,712</u>	<u>\$ 4,057,183</u>		<u>\$ 140,120</u>

See accompanying independent auditor's report.

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

	Year Ended June 30.									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Receipts:										
Property tax	\$ 4,049,068	\$ 3,832,718	\$ 3,768,516	\$ 3,533,012	\$ 3,401,013	\$ 3,383,054	\$ 5,686,286	\$ 5,233,320	\$ 5,151,427	\$ 5,467,107
Tax increment financing	1,524,770	1,573,868	1,466,359	1,384,357	1,064,215	1,036,347	428,735	281,426	394,507	339,849
Other city tax	2,505,805	2,703,582	2,504,157	2,502,081	2,625,428	2,487,089	-	-	-	-
Use of money and property	137,508	117,145	141,003	154,553	263,587	481,309	456,053	238,818	187,059	216,807
Licenses and permits	148,821	138,043	193,719	139,211	156,705	161,416	153,330	150,293	163,742	63,685
Intergovernmental	5,484,072	2,084,405	2,584,132	2,400,299	4,821,069	2,494,575	1,733,506	2,325,377	2,161,785	1,867,060
Charges for service	230,424	320,194	220,583	210,197	221,190	164,847	194,165	212,194	241,114	254,060
Miscellaneous	<u>342,430</u>	<u>127,099</u>	<u>122,979</u>	<u>186,685</u>	<u>291,241</u>	<u>165,213</u>	<u>146,134</u>	<u>835,057</u>	<u>269,090</u>	<u>266,688</u>
Total	<u>\$14,422,898</u>	<u>\$10,897,054</u>	<u>\$11,001,448</u>	<u>\$10,510,395</u>	<u>\$12,844,448</u>	<u>\$10,373,850</u>	<u>\$ 8,798,209</u>	<u>\$ 9,276,485</u>	<u>\$ 8,568,724</u>	<u>\$ 8,475,256</u>
Disbursements:										
Public safety	\$ 4,316,334	\$ 4,413,059	\$ 4,565,371	\$ 4,611,053	\$ 3,971,172	\$ 4,054,327	\$ 4,978,881	\$ 3,858,498	\$ 3,856,541	\$ 3,674,279
Public works	1,716,978	1,500,390	1,720,183	1,858,150	3,827,983	1,418,235	1,370,077	1,367,974	1,326,854	1,317,452
Culture and recreation	1,313,819	1,265,330	1,315,959	1,382,831	1,171,850	1,059,749	1,068,664	1,560,772	1,132,176	1,206,421
Community and economic development	352,134	153,374	473,589	445,286	1,485,349	370,196	369,678	155,496	114,447	193,298
General government	576,226	594,634	539,907	560,719	523,056	584,972	493,239	524,259	512,685	536,495
Debt service	3,937,346	1,757,380	7,418,290	2,148,587	4,536,373	1,523,847	916,686	788,247	993,122	986,215
Capital projects	<u>6,777,796</u>	<u>716,900</u>	<u>2,174,428</u>	<u>3,189,899</u>	<u>4,556,521</u>	<u>2,437,932</u>	<u>1,332,133</u>	<u>1,250,768</u>	<u>895,264</u>	<u>575,254</u>
Total	<u>\$18,990,633</u>	<u>\$10,401,067</u>	<u>\$18,207,727</u>	<u>\$14,196,525</u>	<u>\$20,072,304</u>	<u>\$11,449,258</u>	<u>\$10,529,358</u>	<u>\$ 9,506,014</u>	<u>\$ 8,831,089</u>	<u>\$ 8,489,414</u>

See accompanying independent auditor's report.

City of Keokuk
Schedule of Expenditures of Federal Awards
June 30, 2013

<u>Federal Agency/Pass-Through Agency Program - Grant Title</u>	<u>CFDA Number</u>	<u>Grantor Program Number</u>	<u>Program Disbursements</u>
U.S. Department of Justice:			
Byrne Memorial Justice Assistance Grant	16.738	2012-DJ-BX-0219	\$ 17,004 *
ARRA - Byrne Memorial Justice Assistance Grant	16.804	2009SBB92187	7,637 *
Bulletproof Vest Partnership Program	16.607	None	5,095
Community Oriented Policing Services - Technology Program	16.710	2008UMWX0036	<u>10,274</u>
Subtotal U.S. Department of Justice programs			<u>40,010</u>
Pass-through Iowa Governor's Office of Drug Control Policy and Lee County, Iowa:			
Byrne/Iowa - Justice Assistance Grant (JAG)	16.738	#10JAG-43293	22,352 *
Byrne/Iowa - Justice Assistance Grant (JAG)	16.738	#2012-DJ-BX-0219	<u>1,403</u> *
Subtotal U.S. Department of Justice pass-through programs			<u>23,755</u>
Total U.S. Department of Justice			<u>63,765</u>
U.S. Department of Homeland Security:			
Pass-through from Iowa Department of Public Defense Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	DR-1763-IA	<u>50,119</u>
U.S. Department of Transportation:			
Federal Aviation Administration Airport Improvement Program	20.106	3-19-0050-19-2012	<u>3,588,837</u>
Subtotal U.S. Department of Transportation			<u>3,588,837</u>
Pass-through from Iowa Department of Transportation:			
Safe Routes to School	20.205	SRTS-U-3942(615)--8U-56	105,641
National Scenic Byways Program	20.205	SB-IA-3942(612)--2T-56	132,270
Emergency Relief	20.205	ER-3942(614)--8R-56	490,533
Pass-through from Iowa Governor's Traffic Safety Bureau:			
Public Traffic Services - NHTSA	20.601	PAP 12-410, Task 43	1,292
Public Traffic Services - NHTSA	20.601	PAP 13-410, Task 32	<u>13,188</u>
Subtotal U.S. Department of Transportation pass-through programs			<u>742,924</u>
Total U.S. Department of Transportation			<u>4,331,761</u>
			<u>\$ 4,445,645</u>

* Total for Justice Assistance Grant (JAG) Cluster is \$48,396.

See accompanying independent auditor's report.

City of Keokuk
Schedule of Expenditures of Federal Awards
June 30, 2013

Note A - Basis of Presentation

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

See accompanying independent auditor's report.



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

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

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

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the primary government of the City of Keokuk, 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 basic financial statements, and have issued our report thereon dated February 20, 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 accounting principles generally accepted in the United States of America.

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 and Questioned Costs, we identified a deficiency in internal control we consider to be a significant deficiency.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-13 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 and Questioned Costs. 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.

CPA Associates PC

February 20, 2014



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

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

**Independent Auditor's Report on Compliance
for Each Major Federal Program, on Internal Control Over Compliance
and on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Keokuk, Iowa's (City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal programs in order to determine the auditing procedures appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-13 to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the City as of and for the year ended June 30, 2013, and have issued our report dated November 1, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

CPA Associates PC

February 20, 2014

City of Keokuk
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Part I: Summary of the Independent Auditor's Results

- (a) An unmodified opinion was issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs are as follows:
 - CFDA Number 20.106 - Department of Transportation - Federal Aviation Administration Airport Improvement Program
 - CFDA Number 20.205 - Department of Transportation - Highway Planning and Construction (Federal-Aid Highway Program)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Keokuk qualified as a low-risk auditee.

City of Keokuk
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCY

II-A-13 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

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

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

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards

SIGNIFICANT DEFICIENCY

III-A-13 Segregation of Duties over Federal Receipts - The City did not properly segregate collection, deposit and recordkeeping for receipts, including those related to federal programs. See item II-A-13.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

City of Keokuk
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-13 Certified Budget - Disbursements during the year ended June 30, 2013, exceeded the amounts budgeted in the community and economic development and debt service functions. Chapter 384.20 of the Code of Iowa states in part that monies may not be expended or encumbered except under an annual or continuing appropriation.

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.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

IV-B-13 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

IV-C-13 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transactions</u>	<u>Amount</u>
Gabe Rose, Firefighter Spouse is owner of PC Technologies	Computer purchases and repairs	\$11,380

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

IV-D-13 Revenue Bonds - The provisions of the sewer revenue bonds require sewer user rates be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest payments on the bonds falling due in the same year.

During the year ended June 30, 2013, the City was not in compliance with the net revenue requirement for the sewer revenue bonds as required by the bond resolution.

Recommendation - The City should ensure sewer user rates are established at a level which produces net revenues of 110% of the annual principal and interest payments on the bonds.

Response - We will consider increasing the sewer rates to cover this requirement.

Conclusion - Response accepted.

IV-E-13 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy.

IV-F-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

City of Keokuk
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

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

IV-G-13 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-13 Questionable Disbursements - A disbursement we believe 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. This disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Angelini's Pizza	Pizza for fire department	\$200

Recommendation - The City should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - The City will comply with this recommendation.

Conclusion - Response accepted.

IV-I-13 Official Depository - A resolution naming the official depository was adopted by the City Council in the fiscal year ended June 30, 2010. However, the City exceeded the maximum amount for a depository in October and November 2012.

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

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

Conclusion - Response accepted.

IV-J-13 Unclaimed Property - Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks outstanding for more than two years, to the State Treasurer's office annually. The City did not remit these obligations as required.

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

Response - The City will comply.

Conclusion - Response accepted.

City of Keokuk
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013

Prior Audit Findings for Federal Awards

SIGNIFICANT DEFICIENCY

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

Recommendation - It was recommended that the City review its control procedures to obtain the maximum internal control possible under the circumstances, segregate duties to the extent possible with existing personnel, and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Current Status - Due to the limited number of office employees, segregation of duties over federal receipts continues to be a significant deficiency. See III-A-13 in the current year findings.