

SUMMARY AUDIT REPORT

CITY OF CENTRALIA

MARCH 31, 2018

November 13, 2018

To the Honorable Mayor and
Board of Aldermen
City of Centralia, Missouri

We appreciate the opportunity to assist the Honorable Mayor and the Board of Aldermen of the City of Centralia (the City) in its governance and oversight function by providing annual audit services. Our audit reports for the year ended March 31, 2018, have been provided to management and include the following:

Basic Financial Statements

This document contains the City's annual financial statements for the fiscal year ended March 31, 2018 (FY18), along with our report on those financial statements. Highlights are as follows:

- We issued an “unmodified” or “clean” opinion on the financial statements. In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of March 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles (GAAP).
- This means that third party users can rely on these financial statements. Third party users can include citizens and the general public, bond underwriters, bond rating agencies, and grantor agencies.
- Management is responsible for the preparation and fair presentation of the financial statements, including the design and implementation of internal control. We prepared the financial statements, which were reviewed and approved by management.
- We use our judgment in determining how to audit the City. That judgment is based on our assessment of risk based on balances, transactions, processes, and controls. We focus our attention on areas we believe areas where the financial statements might potentially be misstated.
- We evaluate the appropriateness of accounting policies, the reasonableness of significant accounting estimates, and the overall financial statement presentation.
- The financial statements include 2 different sets of financial statements:
 - Government-wide financial statements, which are full accrual and include all funds as well as capital assets and long-term debt and other liabilities, and
 - Fund financial statements, which are separated into governmental funds (revenue from taxes and other general sources and use modified accrual) and proprietary funds (revenue from user charges and full accrual).

- The following summarizes the highlights from the financial statements as of and for the years ended March 31, 2018 and 2017.

	Governmental Activities		Business-type Activities		Total	
	2017	2018	2017	2018	2017	2018
Current and other assets	\$ 3,028,073	\$ 3,540,718	\$ 3,110,959	\$ 3,520,694	\$ 6,139,032	\$ 7,061,412
Capital assets	8,937,493	9,206,126	5,377,021	5,143,441	14,314,514	14,349,567
Total assets	11,965,566	12,746,844	8,487,980	8,664,135	20,453,546	21,410,979
Deferred outflows of resources	407,544	218,298	156,520	64,189	564,064	282,487
Current liabilities	107,812	125,909	319,573	288,976	427,385	414,885
Long-term liabilities	2,445,477	2,239,540	1,056,186	946,642	3,501,663	3,186,182
Total liabilities	2,553,289	2,365,449	1,375,759	1,235,618	3,929,048	3,601,067
Deferred inflows of resources	118,511	86,991	45,514	25,572	164,025	112,563
Net position						
Net investment in capital assets	6,551,145	7,031,173	4,444,802	4,319,222	10,995,947	11,350,395
Restricted	1,844,889	2,318,329	165,676	218,171	2,010,565	2,536,500
Unrestricted	1,305,276	1,163,200	2,612,749	2,929,741	3,918,025	4,092,941
Total net position	\$ 9,701,310	\$ 10,512,702	\$ 7,223,227	\$ 7,467,134	\$ 16,924,537	\$ 17,979,836

- Current and other assets increased by \$922,380, primarily as a result of an increase in cash and cash equivalents of \$528,751 and an increase in the City's net pension asset of \$363,545 (which is not available to the City to spend and will be recognized as pension expense in the future) during FYE18. The increase in cash and cash equivalents is primarily related to the increase in the net position for the fiscal year (offset by changes in operating receivables and payables).
- Capital assets only increased by \$35,053. The change is composed of capital asset additions totaling \$920,515 offset by depreciation expense of \$863,504 and disposals of \$21,958.
- Deferred outflows of resources are related to the City's participation in LAGERS and will be recognized as pension expense in the future. The decrease of \$281,577 is related to differences between expected and actual experience, differences between projected and actual earnings on investments, changes in assumptions, and contributions subsequent to the measurement date during FY18.
- Total liabilities decreased by \$327,981, primarily as a result of the City making scheduled debt service payments on capital leases during FY18.
- Deferred inflows of resources are also related to the City's participation in LAGERS and will reduce pension expense in the future. The decrease of \$51,462 is related to differences between expected and actual experience during FY18.

	Governmental Activities		Business-type Activities		Total	
	2017	2018	2017	2018	2017	2018
Revenues:						
Program revenues:						
Charges for services	\$ 854,054	\$ 838,392	\$ 4,646,916	\$ 4,918,436	\$ 5,500,970	\$ 5,756,828
Capital grants	207,986	79,726	39,470	-	247,456	79,726
Operating grants	4,378	169,322	1,712	2,861	6,090	172,183
General revenues:						
Property taxes	543,086	558,086	-	-	543,086	558,086
Sales taxes	892,367	889,892	-	-	892,367	889,892
Gross receipts	436,061	495,131	-	-	436,061	495,131
Surcharge	129,103	130,066	-	-	129,103	130,066
Gas and motor fuel tax	108,725	109,141	-	-	108,725	109,141
Miscellaneous	21,222	144,178	16,069	16,949	37,291	161,127
County payments	62,860	64,408	-	-	62,860	64,408
Contributed capital	-	350,337	-	-	-	350,337
Gain on sale of capital assets	-	-	94,057	-	94,057	-
Interest income	15,772	27,863	11,853	23,910	27,625	51,773
Net transfers in (out)	185,450	139,575	(185,450)	(139,575)	-	-
Total revenues	3,461,064	3,996,117	4,624,627	4,822,581	8,085,691	8,818,698
Expenses:						
General government	753,296	508,206	-	-	753,296	508,206
Public safety	1,108,029	1,153,378	-	-	1,108,029	1,153,378
Public works	735,296	602,156	-	-	735,296	602,156
Community planning and economic development	30,194	42,102	-	-	30,194	42,102
Culture and recreation	700,205	750,296	-	-	700,205	750,296
Cemetery	51,983	43,984	-	-	51,983	43,984
Interest expense	91,145	84,603	-	-	91,145	84,603
Electric	-	-	3,218,844	3,068,142	3,218,844	3,068,142
Water	-	-	653,235	652,008	653,235	652,008
Wastewater	-	-	283,615	342,011	283,615	342,011
Sanitation	-	-	439,828	516,513	439,828	516,513
Total expenses	3,470,148	3,184,725	4,595,522	4,578,674	8,065,670	7,763,399
Increase in net position	(9,084)	811,392	29,105	243,907	20,021	1,055,299
Net position, beginning	9,710,394	9,701,310	7,194,122	7,223,227	16,904,516	16,924,537
Net position, ending	\$ 9,701,310	\$ 10,512,702	\$ 7,223,227	\$ 7,467,134	\$ 16,924,537	\$ 17,979,836

- Total revenues increased by \$733,077, primarily as a result of an increase in charges for services of \$255,858, an increase in operating grants of \$166,093, and capital contributions totaling \$350,337.
- Total expenses decreased by \$302,271, primarily as a result of decreases in general government, public works, and electric spending.

Auditors' Communications Letter

This letter consists of comments about the audit process and its results that are required under our professional standards to be communicated to an audit or similar committee of the governing board of an organization or entity.

Highlights from the letter are as follows:

- We noted no transactions that we considered both unusual and significant, and there was no change in accounting policies during the year.
- We evaluated the estimates affecting the financial statements and found them reasonable in relation to the financial statements as a whole.

- We evaluated the disclosures in the financial statements and found them to be neutral, consistent and clear. All required disclosures are included.
- We provided assistance in adjusting the City's general ledger to convert the City's books from its cash basis of accounting to the modified accrual basis for governmental funds and to the accrual basis for proprietary funds. In addition, we provided assistance in recording adjustments to convert the fund financial statements to the full accrual basis for the GASB 34 government-wide presentation. Management reviewed and approved all proposed entries.
- We had no disagreements with management on accounting or auditing issues and we had no significant difficulties in performing our audit.

Management Letter

This letter is used to communicate any findings we may have about the City's internal controls and certain other matters that are, in our opinion, significant enough to warrant your attention. Highlights are as follows:

- Although the scope of our engagement is not directed towards an opinion on the adequacy of internal control, we consider internal control as a basis for designing our audit procedures. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Therefore, there could be weaknesses that were not identified during the audit.
- A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any material weaknesses.
- A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified preparation of GAAP financial statements (including posting adjustments to convert to GAAP basis and completion of financial statements, including all required disclosures) and the utility billing network access by City employees to be significant deficiencies.
- We also made other recommendations to help strengthen internal control and improve operating deficiency for the City to consider: Summit general ledger-fund accounting issues (recurring comment and recommendation), and interfund balances (recurring comment and recommendation).

We wish to thank the City and its personnel for their cooperation and assistance during our audit. We will be pleased to discuss the audit process and our audit reports at your convenience. This information in this audit report is intended solely for the use of the members and management of the City.

Sincerely,

Williams Keepers LLC

WILLIAMS-KEEPERS LLC