CITY OF PRAIRIE CITY, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY AND OTHER INFORMATION
AND FINDINGS

JUNE 30, 2013

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City of Prairie City, Iowa

Officials

Name	Title	Term Expires
Paul Bolles	Mayor	December, 2013
Gary Johnson	Mayor Pro Tem	December , 2013
Dan Kuecker	Council Member	December, 2013
Terri Rosonke	Council Member	December, 2015
Larry Wenthe	Council Member	December, 2015
Larry Ross	Council Member	December, 2013
Emmanuel Toribio	City Administrator	Indefinite
Nancy Earles	City Clerk	Indefinite
Diane Southwick	Utility Billing Clerk	Indefinite
Caldwell, Brierly, Chalupa and Nuzum PLLC	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

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CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Prairie City

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Prairie City, Iowa 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted the audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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 and each major fund of the City of Prairie City as of June 30, 2013, and the respective changes in cash 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 U.S. generally accepted accounting principles. My opinion is not modified with respect to this matter.

Other Matters- Supplementary Information and Other Information

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's 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 U.S. generally accepted auditing standards. In my 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 Discussion and Analysis and the Budgetary Comparison information has not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* I have also included my report on my consideration of the City's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

March 4, 2014

Pollard and Company P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities were $5,072,990. Bond proceeds were $2,604,934.
- Disbursements of the City's governmental activities were $5,309,136.
- The City's total cash basis net position increased $16,676 from July 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities decreased $182,228.
- The City's debt service levy was $32,460.
- The City is constructing a Wastewater Treatment Facility and has spent $3,623,039 through capital projects. This is financed through the State Revolving Loan Fund and an I-JOBs grant.
- The Recreational Complex TIF note was paid in full in June 2013.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements 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 statements 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 to the City's budget for the year.

Supplementary Information provides detailed information about the combined general fund and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

The 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, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and sanitary 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 and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The Governmental Fund Financial Statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2. Proprietary funds account for the City's Enterprise Funds and Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve overtime as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately $1,249,000 to approximately $1,067,000. The analysis that follows focuses on the changes in cash basis net position of government activities.

Changes in Cash Basis Net Position of Governmental Activities
Year Ended June 30, 2013
(Expressed in Thousands)

	2013
Receipts and transfers:	
Program receipts:	
Charges for services and sales	$ 153
Operating grants, contributions and restricted interest	17
Capital grants, contributions and restricted interest	1,206
General receipts:	
Property tax	728
Local option sales tax	121
Unrestricted investment earnings	4
Other general receipts	239
Bond proceeds	2,605
Total receipts	5,073
Disbursements:	
Public safety	314
Public works	406
Culture and recreations	153
Community and economic development	85
General government	160
Debt service	567
Capital projects	3,623
Total disbursements	5,309
Change in cash basis net position before transfers	(236)
Transfers, net	54
Change in cash basis net position	(182)
Cash basis net position beginning of year	1,249
Cash basis net position end of year	$ 1,067

Business Type Activities

Changes in Cash Basis Net Position of Business Type Activities
Year Ended June 30, 2013
(Expressed in Thousands)

	2013
Receipts:	
Program receipts	
Charges for service and sales:	
Water	$ 310
Sewer	350
Total receipts	660
Disbursements:	
Water	241
Sewer	167
Total disbursements	408
Change in cash basis net position before transfers	252
Transfers, net	(54)
Change in cash basis net position	198
Cash basis net position beginning of year	199
Cash basis net position end of year	397

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Prairie City complete the year, its governmental funds reported a combined fund balance of $1,066,872, a decrease of more than $182,228 above last year's total of $1,249,100. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General fund cash balance increase $344,035 from the prior year to $393,513 due to cutting expenses.

- The Road Use Tax Fund cash balance increased by $27,356 to $90,780 during the fiscal year. This increase was attributable to no seal coating projects during the 2012-2013 FY. All projects paid in FY 2013-2014.

- The Tax Increment Financing Fund decreased by $359,979 to $208,338 during the fiscal year. This was due to the pay off of the Recreational Complex note in the amount of $449,456.

- The Debt Service Fund cash balance ended with a negative balance of $867 for the fiscal year. This will be corrected in FY 2013-2014 with the collection of taxes.

- The Capital Project Fund began the year with a negative balance of $76,000 but was corrected with a loan advance in FY 2012-2013.

INDIVIDUAL MAJOR BUSINESS FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased by $55,299 to $157,435, due primarily decrease in expenses.

- The Enterprise, Sewer Fund cash balance increased by $143,605 to $240,875, due to the requirement to build a cash reserve for the State Revolving Loan.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its operating budget once. The amendment was approved on May 8, 2013 and resulted in the decision to pay off the Recreational Complex note before the maturity date and the purchase of a road grader. The City had sufficient cash balance to absorb the additional cost of pay off of the Recreational Complex note through the TIF fund but had to borrow funds for the purchase of the road grader.

The receipts were $319,599 more than budgeted. This was primarily due to the City requesting $310,326 loan advance for the wastewater treatment plant than was anticipated. The City also received more in sewer and water charges for services than anticipated, even after the amendments.

DEBT ADMINISTRATION

On June 30, 2013, the City had approximately $3,847,000 in bonds and other long term debt compared to approximately $1,858,000 last year.

Outstanding Debt at Year-End

	2013
General obligation bonds	$ 445
Urban renewal tax increment financing agreements	$ 459
Project Note	$ 261
Revenue notes	$2,682
Total	$3,847

Debt increased as a result of issuing revenue bonds for a wastewater treatment plant.

The Constitution of the State of Iowa limits the amount of general obligation debt that the city 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 $903,937 is significantly below its constitutional debt limit of approximately $3.772 million. Additional information about the City's long-term debt is presented in notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials 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. Unemployment in the county now stands 5.0% versus 5.6% a year ago. This compares with the State's unemployment rate of 6.5%.

These indicators were taken into account when adopting the budget for fiscal year 2014. Amounts available for appropriation in the operating budget are approximately $2,533,000, a decrease of 19% over the final fiscal year 2013 budget. The City will use these receipts to finance programs we currently offer. Budgeted disbursements are to decrease approximately $2,662,000. Both the decrease in revenues and disbursements are due to the completion of the wastewater treatment plant capital project. Increased healthcare costs, increases in street construction and park maintenance. The City has added no major new programs or initiatives to the fiscal year 2014.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately $39,000 by the close of fiscal year 2014.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide out citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it received. If you have questions about this report or need additional financial information, contact Nancy Earles, City Clerk, 203 E. Jefferson, P.O. Box 607, Prairie City IA 50228.

City of Prairie City
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2013

Functions/Programs	Disbursements	Program Receipts: Charges for Services	Program Receipts: Operating Grants, Contributions, and Restricted Interest	Program Receipts: Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position: Governmental Activities	Net (Disbursements) Receipts and Changes in Cash Basis Net Position: Business Type Activities	Net (Disbursements) Receipts and Changes in Cash Basis Net Position: Total
Governmental Activities							
Public safety	$ 314,401	$ 55,985	$ 2,742		$ (255,674)	$	$ (255,674)
Public works	405,523	95,163	160,887		(149,473)		(149,473)
Culture and recreation	153,346	1,980	4,687		(146,679)		(146,679)
Community and economic development	85,062				(85,062)		(85,062)
General government	160,474				(160,474)		(160,474)
Debt Service	567,291				(567,291)		(567,291)
Capital projects	3,623,039			1,206,000	(2,417,039)		(2,417,039)
Total governmental activities	5,309,136	153,128	168,316	1,206,000	(3,781,692)		(3,781,692)
Business type activities							
Water	241,035	310,399				69,364	69,364
Sewer	166,728	350,051				183,323	183,323
Total business type activities	407,763	660,450				252,687	252,687
Total	$ 5,716,899	$ 813,578	$ 168,316	$ 1,206,000	$ (3,781,692)	$ 252,687	$ (3,529,005)
General Receipts							
Property tax levied for							
General purposes					$ 446,370	$	$ 446,370
Debt service					32,460		32,460
Tax increment financing					249,055		249,055
Local option sales tax					120,791		120,791
Unrestricted interest on investments					2,336	135	2,471
Bond proceeds					2,604,934		2,604,934
Miscellaneous					89,600		89,600
Transfers					53,918	(53,918)	
Total general receipts and transfers					3,599,464	(53,783)	3,545,681
Change in cash basis net position					(182,228)	198,904	16,676
Cash basis net position beginning of year					1,249,100	199,406	1,448,506
Cash basis net position end of year					$ 1,066,872	$ 398,310	$ 1,465,182
Cash basis net position							
Restricted-							
Nonexpendable- Cemetery perpetual care					$ 161,254	$	$ 161,254
Expendable-							
Urban Renewal purposes					208,338		208,338
Streets					90,780		90,780
Debt service						3,391	3,391
Other Purposes					213,854		213,854
Unrestricted					392,646	394,919	787,565
Total cash basis net position					$ 1,066,872	$ 398,310	$ 1,465,182

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

City of Prairie City
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2013

	General	Road Use Tax	Employee Benefits	Local Option Sales Tax	Tax Increment Financing	Debt Service	Capital Projects	Perpetual Care	Total
Receipts									
Property Taxes	$ 336,242	$	$ 110,128	$	$	$ 32,460	$	$	$ 478,830
Tax Increment Financing					249,055				249,055
Other City Tax- Local Option Sales Tax				120,791					120,791
Licenses and Permits	15,382								15,382
Use of Money and Property	16,756				33				16,789
Intergovernmental	7,429	160,887					1,206,000		1,374,316
Charges for Services	153,128								153,128
Miscellaneous	59,165							600	59,765
Total Receipts	588,102	160,887	110,128	120,791	249,088	32,460	1,206,000	600	2,468,056
Disbursements									
Operating									
Public Safety	265,697		48,704						314,401
Public Works	261,683	125,631	18,209						405,523
Culture and Recreation	142,104		11,242						153,346
Community and Economic Development	9,555				75,507				85,062
General Government	144,418		16,056						160,474
Debt Service					488,610	78,681			567,291
Capital Projects							3,623,039		3,623,039
Total Disbursements	823,457	125,631	94,211		564,117	78,681	3,623,039		5,309,136
Excess (deficiency) of receipts over (under) disbursements	(235,355)	35,256	15,917	120,791	(315,029)	(46,221)	(2,417,039)	600	(2,841,080)
Other financing sources (uses)									
Bond proceeds	153,000						2,451,934		2,604,934
Operating transfers in	231,343					44,950	41,105		317,398
Operating transfers out	(99,510)	(7,900)		(111,120)	(44,950)				(263,480)
Total other financing sources (uses)	284,833	(7,900)		(111,120)	(44,950)	44,950	2,493,039		2,658,852
Net change in cash balances	49,478	27,356	15,917	9,671	(359,979)	(1,271)	76,000	600	(182,228)
Cash balance - beginning of year	344,035	63,424	23,626	164,640	568,317	404	(76,000)	160,654	1,249,100
Cash balance - end of year	$ 393,513	$ 90,780	$ 39,543	$ 174,311	$ 208,338	$ (867)	$	$ 161,254	$ 1,066,872
Cash basis fund balances									
Nonspendable- Cemetery perpetual care	$	$	$	$	$	$	$	$ 161,254	$ 161,254
Restricted for:									
Urban renewal purposes					208,338				208,338
Streets		90,780							90,780
Other purposes			39,543	174,311					213,854
Unassigned	393,513					(867)			392,646
Total cash basis fund balances	$ 393,513	$ 90,780	$ 39,543	$ 174,311	$ 208,338	$ (867)	$	$ 161,254	$ 1,066,872

See notes to financial statements

City of Prairie City, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2013

	Water	Sewer	Total
Operating receipts			
Charges for service	$ 310,399	$ 350,051	$ 660,450
Total operating receipts	310,399	350,051	660,450
Operating disbursements			
Business type activities	206,525	147,680	354,205
Excess of operating receipts over operating disbursements	103,874	202,371	306,245
Non-operating receipts (disbursements)			
Debt Service	(34,510)	(19,048)	(53,558)
Interest on investments	135		135
Total other financing sources (uses)	(34,375)	(19,048)	(53,423)
Excess of Receipts over disbursements	69,499	183,323	252,822
Transfers in		2,487	2,487
Transfers out	(14,200)	(42,205)	(56,405)
Change in cash balances	55,299	143,605	198,904
Cash balances - beginning of year	102,136	97,270	199,406
Cash balances - end of year	$ 157,435	$ 240,875	$ 398,310
Cash basis fund balances			
Restricted for debt service	$ 3,391	$	$ 3,391
Unrestricted	154,044	240,875	394,919
Total cash basis fund balances	$ 157,435	$ 240,875	$ 398,310

See notes to financial statements.

1/ Summary of Significant Accounting Policies

The City of Prairie City is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1852 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, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Prairie 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide 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 Jasper County Board of Supervisors, Safety Coalition of Central Iowa Communities, Jasper County Library Board, Jasper County Selective Enforcement Response Team, Jasper Economic Development Corporation, and the Emergency Communications Services (911) Board.

The City has mutual fire protection agreements with the cities of Baxter, Mingo, Colfax, Monroe, Runnells, Reasnor, Lynnville, Sully, Kellogg and Newton and the benefited fire districts of West Malaka, Walnut Creek and Newton, and Des Moines Township Trustees. It also has a mutual law enforcement agreement with the City of Monroe.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position 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 assets. 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.

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

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which 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 Fund Financial Statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns.

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 that are not paid from other funds.

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

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

The Urban Renewal Tax Increment Fund is utilized to account for all tax increment financing collections and the repayment of tax increment financing including the low to moderate income family housing program.

The City reports the following major proprietary (enterprise) funds:

The Water Fund accounts for the operation, maintenance and capital projects of the City's water system.

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

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost- reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net 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 fund balances.

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

D. Governmental Cash Basis Fund Balances

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

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

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

Assigned- Amounts the Council intends to use for specific purposes.

Unassigned- All amounts not included in the preceding classifications.

E Budgets and Budgetary Accounting

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

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.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of $651,570 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and is unrated.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds 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 instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3/ Tax Increment Financing

The Urban Renewal Tax Increment fund contains the division of tax receipts as provided for in Chapter 403.19 of the Code of Iowa for the purpose of providing or aiding public improvements and residential development. That Chapter and Chapter 403.22 provides that the City must include assistance to low and moderate income family housing.

In 2002, the City and Rolling Prairie Estate Plat I entered into an agreement which required the developer to provide street and utility improvements in a residential urban renewal area. The agreement requires the City to rebate the incremental increase in property taxes collected from the project over a ten year period but not to exceed $367,000. During the year ended June 30, 2013, $29,345 of tax increment taxes were rebated.

In 2004, the City and Rolling Prairie Estate Plat II entered into an agreement which required the developer to provide street and utility improvements in a residential urban renewal area. The agreement requires the City to rebate the incremental increase in property taxes collected from the project over a ten year period but not to exceed $194,275. During the year ended June 30, 2013, $21,738 of tax increment taxes were rebated.

In 2010, the City and Farmers Boy LLC entered into an agreement which required the developer to provide street and utility improvements in a residential urban renewal area. The agreement requires the City to rebate the incremental increase in property taxes collected from the project over a ten year period but not to exceed $300,000. During the year ended June 30, 2013, $6,908 of tax increment taxes were rebated.

4/ Bonds and Notes Payable

The annual debt service requirement to maturity for interest bearing general obligation and drinking water revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Drinking Water Revenue Bond		Total Annual Debt Retirement	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	75,000	11,778	28,000	4,428	103,000	16,206
2015	77,000	10,347	29,000	3,938	106,000	14,285
2016	78,000	8,642	30,000	3,430	108,000	12,072
2017	40,000	6,938	31,000	2,905	71,000	9,843
2018	41,000	4,687	32,000	2,363	73,000	7,050
2019	43,000	2,437	33,000	1,802	76,000	4,239
2020	45,000	1,592	34,000	1,225	79,000	2,817
2021	46,000	805	36,000	630	82,000	1,435
Totals	$ 445,000	$ 47,226	$ 253,000	$ 20,721	$ 698,000	$ 67,947

Sewer Anticipation Project Note

On May 27, 2011, the City issued an anticipation project note to the Iowa Finance Authority to fund sewer construction costs. As of June 30, 2013, the principal balance was $260,700. The note is due on May 27, 2014 and carries no interest rate. The note may also be paid from the proceeds of the Sewer Revenue Bond described below.

Sewer Revenue Bonds

On September 28, 2012 the City issued a sewer revenue bond for $ 3,504,000. The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the note. Proceeds from the bond will provide financing for the repayment of the above anticipation project note and sewer system construction and improvement costs. The bonds are payable solely from future sewer customer net receipts and are payable through 2033. Annual principal and interest, at 2 %, on the bond begins June 1, 2014. At June 30, 2013 the amount advanced on the loan was $2,428,915. When the full amount has been received the annual principal and interest will be determined.

5/ 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 annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2013 was $36,921 equal to the required contributions for the year.

6/ Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 8 active and no retired members in the plan. The medical/prescription drug 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 employee, in that same age category.

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 premiums under the plan are age based on the employee or retiree's age. For the year ended June 30, 2013, the City contributed $48,287 and plan members eligible for benefits contributed $ 21,097 to the plan.

7/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences for vacation hours payable to employees at June 30, 2013, primarily relating to the General Fund, is $40,000. The liability has been computed based on rates of pay in effect at June 30, 2013.

8/ Risk Management

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

The City is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdictions. The City has executed a Worker's Compensation coverage agreement with the Association which extends through June 30, 2013 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2013, the City paid worker's compensation insurance premiums of $14,340 to the Association.

9/ Commitments

The City entered into contracts for sewer improvements. At June 30, 2013, the remaining commitments on these contracts approximated $658,000.

10/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosure of liabilities, contingent liabilities, and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

11/ Interfund Transfers

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

	Transfer To	Amount
Transfer from		
Road Use Tax	General	$ 7,900
Water Fund	General	14,200
Sewer Fund	General	1,100
General	Sewer Fund	2,487
Local Option Sales Tax	General	111,120
Tax Increment Financing	Debt Service	44,950
Sewer Fund	Capital Project	41,105

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

12/ Deficit Balance

The Debt Service Fund had a deficit balance of $867 at June 30, 2013. The deficit will be eliminated by property tax levy to be received in the subsequent year.

City of Prairie City, Iowa
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2013

	Governmental Funds Actual	Enterprise Funds Actual	Net
Receipts			
Property Taxes	$ 478,830	$	$ 478,830
Tax increment financing	249,055		249,055
Other city tax	120,791		120,791
Licenses and permits	15,382		15,382
Use of money and property	16,789	135	16,924
Intergovernmental	1,374,316		1,374,316
Charges for service	153,128	660,450	813,578
Miscellaneous	59,765		59,765
Total Receipts	2,468,056	660,585	3,128,641
Disbursements			
Public safety	314,401		314,401
Public works	405,523		405,523
Health and social services			
Culture and recreation	153,346		153,346
Community and economic development	85,062		85,062
General government	160,474		160,474
Debt service	567,291		567,291
Capital projects	3,623,039		3,623,039
Business type activities		407,763	407,763
Total Disbursements	5,309,136	407,763	5,716,899
Excess (deficit) of receipts over disbursements	(2,841,080)	252,822	(2,588,258)
Other financing sources -net	2,658,852	(53,918)	2,604,934
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(182,228)	198,904	16,676
Balance - beginning of year	1,249,100	199,406	1,448,506
Balance - end of year	$ 1,066,872	$ 398,310	$ 1,465,182

Budgeted Amounts		
Original	Final	Final to Net Variance
$ 471,581	$ 471,581	$ 7,249
261,249	261,249	(12,194)
119,501	119,501	1,290
10,360	10,360	5,022
19,270	30,290	(13,366)
1,061,490	1,063,990	310,326
846,971	846,971	(33,393)
5,100	5,100	54,665
2,795,522	2,809,042	319,599
422,662	425,062	110,661
284,151	442,036	36,513
1,500	1,500	1,500
217,537	244,502	91,156
140,400	147,085	62,023
155,236	182,844	22,370
78,150	605,413	38,122
		(3,623,039)
4,733,560	4,736,560	4,328,797
6,033,196	6,785,002	1,068,103
(3,237,674)	(3,975,960)	1,387,702
3,401,000	3,656,500	(1,051,566)
163,326	(319,460)	336,136
1,448,506	1,448,506	
$ 1,611,832	$ 1,129,046	$ 336,136

City of Prairie City, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant 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 Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Permanent Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by $1,331,379. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements for capital projects exceeded the amount budgeted because the expenditures were classified as business type activities in the budget whereas they were classified as capital projects in the financial statements.

City of Prairie City, Iowa
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances
General Funds
As of and for the year ended June 30 ,2013

	General	Economic Development	Fire	Library	Ambulance	Parks and Recreation	Cemetery	Police	Equipment	Total General Funds
Receipts										
Property Taxes	$ 336,242	$	$	$	$	$	$	$	$	$ 336,242
Licenses and Permits	15,382									15,382
Use of Money and Property	15,928	2	2	2		2			820	16,756
Intergovernmental	7,429									7,429
Charges for Services	153,128									153,128
Miscellaneous	41,927		4,104	1,374	1,555	10,085		120		59,165
Total Receipts	570,036	2	4,106	1,376	1,555	10,087		120	820	588,102
Disbursements										
Operating										
Public Safety	265,697									265,697
Public Works	261,683									261,683
Culture and Recreation	142,104									142,104
Community and Economic Development	9,555									9,555
General Government	144,418									144,418
Total Disbursements	823,457									823,457
Excess (deficiency) of receipts over (under) disbursements	(253,421)	2	4,106	1,376	1,555	10,087		120	820	(235,355)
Other financing sources (uses)										
Bond proceeds	153,000									153,000
Operating transfers in	176,311								55,032	231,343
Operating transfers out	(44,361)		(644)	(179)	(5,733)	(18,053)			(30,540)	(99,510)
Total other financing sources (uses)	284,950		(644)	(179)	(5,733)	(18,053)			24,492	284,833
Net change in cash balances	31,529	2	3,462	1,197	(4,178)	(7,966)		120	25,312	49,478
Cash balance (deficit) - beginning of year	(114,183)	15,191	17,752	21,594	7,870	24,491	150	101	371,069	344,035
Cash balance (deficit) - end of year	$ (82,654)	$ 15,193	$ 21,214	$ 22,791	$ 3,692	$ 16,525	$ 150	$ 221	$ 396,381	$ 393,513
Cash basis fund balances										
Unassigned	$ (82,654)	$ 15,193	$ 21,214	$ 22,791	$ 3,692	$ 16,525	$ 150	$ 221	$ 396,381	$ 393,513

See notes to financial statements

City of Prairie City
Schedule of Indebtedness
For the year ended June 30, 2013

	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year
General Obligation Bonds and Notes				
Drinking Water Bond	February 9, 2001	1.75%	$ 660,000	$ 359,000
General Corporate Purpose Note Series 2013	March 21, 2013	3.00%	120,000	
Recreation Complex	December 21, 2007	4.70%	533,000	465,000
General Corporate Purpose	August 22, 2012	2.84%	33,000	
Totals				$ 824,000
Revenue Bonds				
Sewer Revenue Bonds	September 28, 2012	2.00%	3,504,000	$
Drinking Water Revenue Bond	February 9, 2001	1.75%	515,000	279,000
Totals				$ 279,000
IFA Sewer Anticipation Project Note	May 27, 2011	0.00%	260,700	$ 237,682
TIF Development Agreements				
Rolling Prairie Estates Plat I	April 4, 2002	0.00%	367,000	180,127
Rolling Prairie Estates Plat II	December 8, 2004	0.00%	194,275	54,553
Farmer Boy Homes LLC	September 6,2007	0.00%	300,000	282,248

See accompanying independent auditor's report.

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
$	$ 34,000	$ 325,000	$ 10,950
120,000		120,000	
	465,000		23,610
33,000	33,000		731
$ 153,000	$ 532,000	$ 445,000	$ 35,291
$ 2,428,915	$	$ 2,428,915	$ 19,048
	26,000	253,000	8,509
$ 2,428,915	$ 26,000	$ 2,681,915	$ 27,557
$ 23,018		$ 260,700	
	29,345	150,782	
	21,738	32,815	
	6,908	275,340	

City of Prairie City, Iowa
Bond Maturities
For the year ended June 30, 2013

Year Ending June 30,	General Obligation Bonds - Drinking Water Bond Issued February 9, 2001 Interest Rates (%)	Amount	General Obligation Corporate Purpose Note March 21, 2013 Interest Rates (%)	Amount	Total
2014	1.75	$ 35,000	3.00	$ 40,000	$ 75,000
2015	1.75	37,000	3.00	40,000	77,000
2016	1.75	38,000	3.00	40,000	78,000
2017	1.75	40,000			40,000
2018	1.75	41,000			41,000
2019	1.75	43,000			43,000
2020	1.75	45,000			45,000
2020	1.75	46,000			46,000
Totals		$ 325,000		$ 120,000	$ 445,000

	Drinking Water Revenue Bond Issued February 9, 2001	
	Interest	Amount
2014	1.75	28,000
2015	1.75	29,000
2016	1.75	30,000
2017	1.75	31,000
2018	1.75	32,000
2019	1.75	33,000
2020	1.75	34,000
2021	1.75	36,000
Total		$ 253,000

See accompanying independent auditor's report.

POLLARD AND COMPANY P.C.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and
Members of the City Council

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, and each major fund of the City of Prairie City, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon as dated below. My report expressed unqualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Prairie City's internal control over financial reporting as a basis for designing my auditing procedures to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

My 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, I have identified a deficiency in internal control, described in Part I of the accompanying Schedule of Findings that I consider to be a material weakness.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Prairie City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

March 4, 2014

Rolland and Company P.C.

City of Prairie City, Iowa
Schedule of Findings
Year Ended June 30, 2013

PART I -Findings Related to the Financial Statements

Internal Control Deficiencies

I-A-13 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted the City Clerk had control over each of the following areas:
(1) Cash receipts, journalizing and posting.
(2) Disbursements, check writing, journalizing and posting.
(3) general ledger posting, reconciliations and securities control and custody.

Recommendation

I realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned

With the hiring of the new city manager, we began reviewing the internal control procedures and segregation of duties and have begun to implement procedures to further segregate duties to the extent possible.

Conclusion

Response accepted. The City should segregate duties to the extent possible. Administrative personnel should provide additional control through review of financial transactions and reports.

PART II- Other Findings Related to Statutory Reporting

II-A-13 Questionable Disbursements

I noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-B-13 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-C-13 Business Transactions

There were no business transactions between the City and City officials or employees during the year.

II-D-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 insure that the coverage is adequate for current operations.

II-E-13 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

II-F-13 Deposits and Investments

Deposits and investments were in compliance with Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-G-13 Urban Renewal Annual Report

The urban renewal annual report was properly approved and certified to the Iowa Department of Management and no exceptions were noted.

II-H-13 Financial Condition

The Debt Service had a deficit balance of $867 at June 30, 2013.

Recommendation

The City should eliminate the deficit.

Response

Note 12 of the financial statements indicates the City's plan to eliminate the deficit.

Conclusion

Response accepted.