

CITY OF PAULLINA, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION AND
SCHEDULE OF FINDINGS

For the Year Ended
June 30, 2013

**CITY OF PAULLINA, IOWA
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CITY OF PAULLINA, IOWA

OFFICIALS

Name	Title	Term Expires
Mike Otto	Mayor	January, 2014
Martin Weber	Mayor Pro-Tem	January, 2014
Justin Stamer	Council Member	January, 2016
John Ihle	Council Member	January, 2016
Charles Harper	Council Member	January, 2016
John Muller	Council Member	January, 2014
Sandy Fritz	City Clerk/Administrator	January, 2014
Johnene Altman	Treasurer	January, 2014
Tisha Halverson	Attorney	January, 2014



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
Paullina, 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 Paullina, 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 as 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; 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 entity'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 entity'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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paullina, Iowa, as of June 30, 2013, and the respective changes in the cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, 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 that matter.

Other Matters

Supplementary and Other Information

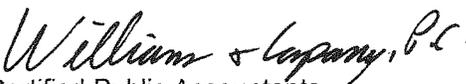
The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 8 and 22 through 23 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we do not express an opinion or provide any assurance on it.

The supplementary information included as Schedule 1 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 U.S. generally accepted auditing standards. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2012 (which are not presented herein) and expressed modified opinions on those financial statements. Information from those financial statements is included in Schedule 2. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

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


Certified Public Accountants

Le Mars, Iowa
November 21, 2013

CITY OF PAULLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

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

2012-2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 17.5%, or approximately \$199,493 from fiscal year 2012 to fiscal 2013. Property tax increased approximately 10.16%. \$21,494 from fiscal year 2012 to fiscal year 2013. Local Option Sales Tax receipts increased \$1,354 from fiscal year 2012 to fiscal year 2013. Intergovernmental receipts increased 36% or \$89,916 from fiscal year 2012 to fiscal year 2013.
- Disbursements of the City's governmental activities decreased 28% or approximately \$386,000 in fiscal 2013 from fiscal 2012. Public Safety decreased \$100,559 with the purchase of a fire truck in fiscal year 2012, Public works disbursements remained the same and capital projects decreased \$222,250 with the completion of Sewer Project and the Housing Project.
- The City's total cash basis net position increased 5% or approximately \$135,008 from June 30, 2012 to June 30, 2013. The City of Paullina's fire department was not included in the general activity in prior years, but is now included. The fire departments beginning cash balance was \$80,908.

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 statement by providing information about the most significant funds.

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

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

accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government –wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position – Cash Basis 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 presents is divided into two kinds of activities:

- Government 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, the sanitary sewer system, the electric system, and the telecommunications 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, and 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. Enterprise Funds are used to report business type activities. The city maintains four Enterprise Funds to provide separate information for the Water Fund, Electric Fund, Sewer Fund and Telecom Fund, 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 serves over time as a useful indicator of financial position. The City's cash balance for governmental activities increased \$30,102. The analysis that follows focuses on the changes in cash balances for governmental activities.

	Changes in Cash Basis Net Position of Governmental Activities	
	Year Ended June 30,	
	2013	2012
Receipts and Transfers		
Program Receipts:		
Charges for Service	\$ 141,770	\$ 153,970
Operating Grants & Contributions	146,335	249,681
Capital Grants & Contributions	185,290	-
General Receipts:		
Property Taxes	236,492	211,538
Tax Increment Financing Collections	7,328	746
Local Option Sales Tax	108,462	107,108
Contributions	43,125	-
Interest	4,088	4,174
Miscellaneous	-	42,302
Proceeds from Debt Financing	66,515	369,135
Sale of Capital Assets	1,256	1,500
Total Receipts	<u>940,661</u>	<u>1,140,154</u>
Disbursements:		
Public Safety	254,980	355,539
Public Works	234,783	234,636
Health and Social Services	4,000	-
Culture and Recreation	81,530	94,287
Community and Economic Development	1,395	2,536
General Government	66,071	54,020
Debt Service	104,069	170,534
Capital Projects	224,325	446,575
Total Disbursements	<u>971,153</u>	<u>1,358,127</u>
Change in Cash Basis Net Position – Before Transfers	(30,492)	(217,973)
Transfers, Net	60,594	191,729
Change in Cash Basis Net Position	<u>30,102</u>	<u>(26,244)</u>
Cash Basis Net Position – Beginning of Year	791,583	817,827
Prior Period Adjustment	80,908	-
Cash Basis Net Position – End of Year	<u>\$ 902,593</u>	<u>\$ 791,583</u>

GOVERNMENTAL ACTIVITY ANALYSIS

The City's property tax rate for fiscal year 2013 was at \$10.05513 versus 2012 at \$9.71897. The Council continues to try to attain a lower tax rate due to several increases in the utility rates.

The cost of all governmental activities decreased this year by 28% to \$971,153 compared to \$1,358,127 last year. The decrease is due to the City not purchasing any capital equipment in fiscal year 2013.

Changes in Cash Basis Net Position of Business Type Activities

	Year Ended June 30,	
	2013	2012
Receipts:		
Operating Receipts:		
Water	\$ 211,068	\$ 187,953
Electric	1,158,346	1,109,112
Sewer	147,058	143,529
Telecom	84,745	87,433
Interest	10,821	13,730
Proceeds from Debt	485,000	-
Total Receipts	2,097,038	1,541,757
Disbursements:		
Operating Disbursements:		
Water	206,154	171,402
Electric	933,430	923,516
Sewer	178,378	178,671
Telecom	613,576	85,617
Total Disbursements	1,931,538	1,359,206
Change in Cash Basis Net Position, Before Transfers	165,500	182,551
Transfers, Net	(60,594)	(191,729)
Change in Cash Basis Net Position	104,906	(9,178)
Cash Basis Net Assets – Beginning of Year	1,774,261	1,783,439
Cash Basis Net Assets – End of Year	\$ 1,879,167	\$ 1,774,261

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$7,834 to \$257,656.
- The Electric Fund cash balance increased by \$163,174 to \$1,160,420. No major transfer outs were made and the Power Cost Adjustment is still in place.
- The Sewer Fund cash balance decreased to \$9,951 due to a decrease in the amount of transfers into the fund.
- The Telecom Fund cash balance decreased by \$41,000 to \$451,140 and continues to be stable. The City refinanced the telecom bonds to a lower interest rate and a shorter pay off.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. This amendment was approved on May 20, 2013 and resulted in an increase in budgeted receipts of \$601,162 and an increase in budgeted disbursements of \$632,012. The City had sufficient cash balances to absorb these additional costs. The telecom refinancing was \$485,000 of the budget amendment.

DEBT ADMINISTRATION

A comparison of the City's debt at June 30, 2013 to June 30, 2012 follows:

	Year Ended June 30,	
	2013	2012
General Obligation (Sewer Project)	\$ 335,000	\$ 370,000
Business Park	230,000	280,000
Telecom	410,000	510,000
Electric	230,000	340,000
Sewer Relining	409,000	432,000
Total	<u>\$1,614,000</u>	<u>\$ 1,932,000</u>

Additional information on the City's long-term debt can be found in Note 3.

ECONOMIC FACTORS

The City continues with the replacement of aging equipment which will need to be replaced in the coming years. The City also faces the rising cost of health insurance causing an increase in employee benefits expenses.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Sandy Fritz, City Clerk, 127 S. Main St. Paullina, Iowa 51046, (712) 949-3428.

BASIC FINANCIAL STATEMENTS

CITY OF PAULLINA, IOWA
STATEMENT OF ACTIVITIES AND NET POSITION - CASH BASIS
As of and For the Year Ended June 30, 2013

Functions/Programs	Disbursements	Program Receipts		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 254,980	\$ 78,043	\$ 12,800	\$ -
Public Works	234,783	74,291	101,129	-
Health and Social Services	4,000	-	-	-
Culture and Recreation	81,530	3,490	-	-
Community and Economic Development	1,395	-	-	-
General Government	66,071	29,071	32,406	185,290
Capital Outlay	224,325	-	-	-
Principal	85,000	-	-	-
Debt Service	19,069	-	-	-
Total governmental activities	<u>971,153</u>	<u>184,895</u>	<u>146,335</u>	<u>185,290</u>
Business-Type Activities:				
Water Utility	206,154	211,068	-	-
Sewer Utility	178,378	147,058	-	-
Electric Utility	933,430	1,158,346	-	-
Telecom	613,576	84,745	-	-
Total Business-Type Activities:	<u>1,931,538</u>	<u>1,601,217</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 2,902,691</u>	<u>\$ 1,786,112</u>	<u>\$ 146,335</u>	<u>\$ 185,290</u>

General Receipts:
Property taxes
Tax Increment Financing
Local Option Sales Tax
Interest
Sale of Assets
Miscellaneous
Proceeds from Financing
Interfund Transfers
Total general receipts and transfers
Change in cash basis net position
Cash basis net position - beginning
Prior period adjustment
Cash basis net position - beginning, as restated
Cash basis net position - ending

Cash Basis Net Position
Restricted:
Streets
Debt Service
Employee Benefits
Unrestricted
Total Cash Basis Net Position

Exhibit A

Net (Disbursements) Receipts and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (164,137)		\$ (164,137)
(59,363)		(59,363)
(4,000)		(4,000)
(78,040)		(78,040)
(1,395)		(1,395)
180,696		180,696
(224,325)		(224,325)
(85,000)		(85,000)
(19,069)		(19,069)
<u>(454,633)</u>		<u>(454,633)</u>
	\$ 4,914	4,914
	(31,320)	(31,320)
	224,916	224,916
	<u>(528,831)</u>	<u>(528,831)</u>
	<u>(330,321)</u>	<u>(330,321)</u>
<u>(454,633)</u>	<u>(330,321)</u>	<u>(784,954)</u>
236,492	-	236,492
7,328	-	7,328
108,462	-	108,462
4,088	10,821	14,909
1,256	-	1,256
66,515	-	66,515
-	485,000	485,000
60,594	(60,594)	-
<u>484,735</u>	<u>435,227</u>	<u>919,962</u>
30,102	104,906	135,008
791,583	1,774,261	2,565,844
80,908	-	80,908
872,491	1,774,261	2,646,752
<u>\$ 902,593</u>	<u>\$ 1,879,167</u>	<u>\$ 2,781,760</u>
\$ 173,647	\$ -	\$ 173,647
140,097	292,715	432,812
67,353	-	67,353
521,496	1,586,452	2,107,948
<u>\$ 902,593</u>	<u>\$ 1,879,167</u>	<u>\$ 2,781,760</u>

See Accompanying Notes to Financial Statements

CITY OF PAULLINA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
Governmental Funds
As of and For the Year Ended June 30, 2013

	General	Special Revenue		Capital Project	
		Road Use Tax	Business Park	Sewer Rehab	
Receipts:					
Property Taxes	\$ 210,837	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-	-
Licenses and Permits	2,622	-	-	-	-
Intergovernmental	20,772	101,129	-	185,290	-
Charges for Services	112,172	-	-	-	-
Contributions	45,625	-	-	-	-
Tax Increment Financing	-	-	-	-	-
Local Option Sales Tax	-	-	-	-	-
Rental of City Property	21,099	-	-	-	-
Interest on Investments	1,623	-	847	207	-
Miscellaneous	27,681	-	34,240	-	-
Total Receipts	442,431	101,129	35,087	185,497	
Disbursements:					
Public Safety	226,137	-	-	-	-
Public Works	156,311	78,319	-	-	-
Health and Social Services	4,000	-	-	-	-
Culture and Recreation	76,702	-	-	-	-
Community and Economic Development	1,395	-	-	-	-
General Government	64,862	-	-	-	-
Capital Projects	-	-	48,239	143,680	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
Total Disbursements	529,407	78,319	48,239	143,680	
Excess (Deficiency) of Receipts to Disbursements	(86,976)	22,810	(13,152)	41,817	
Other financing sources (uses):					
Sale of Assets	1,256	-	-	-	-
Transfers In	106,234	-	-	-	-
Transfers Out	(16,525)	-	-	-	-
Total other financing sources	90,965				
Change in Cash Balances	3,989	22,810	(13,152)	41,817	
Cash Balances Beginning of Year	207,006	150,837	177,336	3,203	
Prior Period Adjustment	80,908	-	-	-	-
Fund Balances Beginning of Year, Restated	287,914	150,837	177,336	3,203	
Cash Balances End of Year	\$ 291,903	\$ 173,647	\$ 164,184	\$ 45,020	
Cash Basis Fund Balances					
Restricted for:					
Debt Service	\$ -	\$ -	\$ -	\$ -	
Streets	-	173,647	-	-	
Employee Benefits	-	-	-	-	
Assigned to:					
Capital Improvements	-	-	164,184	45,020	
Library	51,800	-	-	-	
Fire Department	59,398	-	-	-	
Unassigned	180,705	-	-	-	
Total Cash Basis Fund Balances	\$ 291,903	\$ 173,647	\$ 164,184	\$ 45,020	

Exhibit B

Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 22,195	\$ 233,032
-	3,459	3,459
-	-	2,622
-	32,406	339,597
-	-	112,172
-	-	45,625
-	7,328	7,328
-	108,462	108,462
-	-	21,099
983	428	4,088
-	-	61,921
<u>983</u>	<u>174,278</u>	<u>939,405</u>
-	28,843	254,980
-	153	234,783
-	-	4,000
-	4,828	81,530
-	-	1,395
-	1,209	66,071
-	32,406	224,325
85,000	-	85,000
19,069	-	19,069
<u>104,069</u>	<u>67,439</u>	<u>971,153</u>
<u>(103,086)</u>	<u>106,839</u>	<u>(31,748)</u>
-	-	1,256
86,540	32,540	225,314
<u>(12,000)</u>	<u>(136,195)</u>	<u>(164,720)</u>
<u>74,540</u>	<u>(103,655)</u>	<u>61,850</u>
<u>(28,546)</u>	<u>3,184</u>	<u>30,102</u>
168,643	84,558	791,583
-	-	80,908
<u>168,643</u>	<u>84,558</u>	<u>872,491</u>
<u>\$ 140,097</u>	<u>\$ 87,742</u>	<u>\$ 902,593</u>
\$ 140,097	\$ -	\$ 140,097
-	-	173,647
-	67,353	67,353
-	20,389	229,593
-	-	51,800
-	-	59,398
-	-	180,705
<u>\$ 140,097</u>	<u>\$ 87,742</u>	<u>\$ 902,593</u>

CITY OF PAULLINA, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES
 Proprietary Funds
 As of and For the Year Ended June 30, 2013

	Business Type Activities	
	Water Utility	Electric Utility
Operating Receipts:		
Charges for Services	\$ 211,068	\$ 1,158,346
Total Operating Receipts	<u>211,068</u>	<u>1,158,346</u>
Operating Disbursements:		
Purchased Power	-	510,466
Employee Services	98,347	187,214
Distribution / Collection	14,107	8,462
Supplies	28,861	51,155
Repairs	38,268	5,638
Administrative and General	26,571	54,195
Total Operating Disbursements	<u>206,154</u>	<u>817,130</u>
Excess (Deficiency) of Receipts Over Disbursements	4,914	341,216
Non-Operating Receipts (Disbursements):		
Interest Income	2,002	5,862
Proceeds from Debt Financing	-	-
Interest Expense	-	(6,300)
Principal Payments	-	(110,000)
Total Non-Operating Receipts (Disbursements)	<u>2,002</u>	<u>(110,438)</u>
Excess (Deficiency) of Receipts Over Disbursements	6,916	230,778
Transfers In	-	16,525
Transfers Out	(14,750)	(84,129)
Change in Cash Balances	(7,834)	163,174
Cash Balances Beginning of Year	265,490	997,246
Cash Balances End of Year	<u>257,656</u>	<u>1,160,420</u>
Cash Basis Fund Balances		
Restricted for Debt Service	-	119,370
Unrestricted	257,656	1,041,050
Total Cash Basis Fund Balances	<u>\$ 257,656</u>	<u>\$ 1,160,420</u>

See Accompanying Notes to Financial Statements

Exhibit C

Business Type Activities		
Sewer Utility	Telecom	Total
\$ 147,058	\$ 84,745	\$ 1,601,217
<u>147,058</u>	<u>84,745</u>	<u>1,601,217</u>
-	-	510,466
109,282	-	394,843
22,101	-	44,670
5,877	-	85,893
1,539	-	45,445
2,539	10,523	93,828
<u>141,338</u>	<u>10,523</u>	<u>1,175,145</u>
5,720	74,222	426,072
126	2,831	10,821
-	485,000	485,000
(14,040)	(18,053)	(38,393)
<u>(23,000)</u>	<u>(585,000)</u>	<u>(718,000)</u>
<u>(36,914)</u>	<u>(115,222)</u>	<u>(260,572)</u>
(31,194)	(41,000)	165,500
22,760	-	39,285
<u>(1,000)</u>	<u>-</u>	<u>(99,879)</u>
(9,434)	(41,000)	104,906
19,385	492,140	1,774,261
<u>9,951</u>	<u>451,140</u>	<u>1,879,167</u>
-	173,345	292,715
9,951	277,795	1,586,452
<u>\$ 9,951</u>	<u>\$ 451,140</u>	<u>\$ 1,879,167</u>

See Accompanying Notes to Financial Statements

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Paullina is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1883 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, recreation, public improvements and general administrative services. The City also provides water, sewer, electrical, and cable TV, for its citizens.

A. Reporting Entity

For Financial reporting purposes, the City of Paullina 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 of Paullina has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizens 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: County Emergency Management Commission, County Landfill Board, and County Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statements – The Cash Basis Statement of Activities and Net Position – cash basis 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 three categories:

Nonexpendable restricted net position is subject to externally imposed stipulations which require them to be maintained permanently by the City.

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

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources 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 that are not paid from other funds.

Special Revenue:

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 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.

Capital Projects:

The Business Park fund is utilized by the City to work with its developers to attract new businesses to the Paullina area and to continue to develop the City's Business Park.

The Sewer Rehab fund is utilized to account for the rehabilitation of the City Sewer.

The City reports the following major proprietary funds:

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

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

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Telecom Fund accounts for the operations of the cable television system.

C. Measurement Focus and Basis of Accounting

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

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 fund balances.

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

D. Governmental Cash Basis Fund Balances:

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

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 other spendable classifications.

E. Budgets and Budgetary Accounting

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

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
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.

The City had no investments at June 30, 2013; however the City's time deposits were as follows:

	Maturities	
Certificates of Deposit	07/15/13 – 06/25/14	<u>\$380,417</u>

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.

NOTE 3 – BONDS AND NOTES PAYABLE

The City's computed legal debt limit as of June 30, 2013, is \$1,958,086 of which \$565,000 is committed for outstanding general obligation debt.

The following is a summary of bond transactions of the City for the year ended June 30, 2013:

	Governmental Activities	Business-Type Activities
	Bonds and Notes Payable by Debt Service Fund	Bonds and Notes Paid by Enterprise Funds
Primary Government		
Bonds and notes payable July 1, 2012	\$ 650,000	\$ 1,282,000
Plus: bonds and notes issued	-	485,000
Less: payments	(85,000)	(695,000)
Bonds and notes payable June 30, 2013	<u>\$ 565,000</u>	<u>\$ 1,049,000</u>
Due within one year	<u>\$ 90,000</u>	<u>\$ 219,000</u>

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 – BONDS AND NOTES PAYABLE (CONTINUED)

The City of Paullina had the following outstanding bonds as of June 30, 2013:

Bond	Date of Issue	Interest Rate	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2013
General Obligation	04/04/12	.75% - 2.10%	2022	\$35,000 - \$40,000	\$ 370,000	\$ 335,000
Business Park	09/14/06	3.80 - 4.25%	2017	\$45,000 - \$60,000	515,000	230,000
Telecom	10/04/12	2%	2018	\$75,000 - \$85,000	485,000	410,000
Electric	06/15/11	1.00% - 2.10%	2016	\$105,000 - \$120,000	445,000	230,000
Sewer Relining	12/01/07	3.00%	2027	\$21,000 - \$35,000	520,000	409,000
Total Bonds Due					\$ 3,285,000	\$ 1,614,000

Annual debt service requirements to maturity of General Obligation Bonds and Notes, revolving loan fund loans, special assessment notes and Revenue Capital Loan Notes are as follows:

Year Ending June 30	General Obligation Bonds and Notes		Business Park Capital Loan Note		Total Governmental	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 35,000	\$ 5,303	\$ 55,000	\$ 9,523	\$ 90,000	\$ 14,826
2015	35,000	5,040	55,000	7,295	90,000	12,335
2016	35,000	4,778	60,000	5,040	95,000	9,818
2017	35,000	4,305	60,000	2,550	95,000	6,855
2018	35,000	3,833	-	-	35,000	3,833
2019 – 2023	160,000	8,400	-	-	160,000	8,400
Total	\$335,000	\$ 31,659	\$ 230,000	\$ 24,408	\$565,000	\$ 56,067

Year Ending June 30	Electric Revenue Revenue Capital Loan Issued 6-15-11		Sewer Relining Project Revenue Capital Loan Issued 8-30-07		Telecommunications Revenue Refunding Capital Loan Notes Issued 10-4-12		Total Business Type	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$115,000	\$4,370	\$ 24,000	\$12,270	\$ 80,000	\$ 8,200	\$ 219,000	\$ 24,840
2015	115,000	2,415	25,000	11,550	80,000	6,600	220,000	20,565
2016	-	-	25,000	10,800	80,000	5,000	105,000	15,800
2017	-	-	26,000	10,050	85,000	3,400	111,000	13,450
2018	-	-	27,000	9,270	85,000	1,700	112,000	10,970
2019 – 2023	-	-	148,000	33,630	-	-	148,000	33,630
2024 – 2028	-	-	134,000	10,200	-	-	134,000	10,200
Total	\$230,000	\$6,785	\$409,000	\$97,770	\$410,000	\$24,900	\$1,049,000	\$129,455

In September 2006, the City issued \$515,000 of bond anticipation notes to finance the development of the Business Park. The notes mature June 1, 2017 and accrue interest at up to 4.25%. Payments for these bonds will come from the Debt Service Fund and the Business Park Fund.

In January 2011, the City was authorized to issue bond anticipation notes to finance the planning and repairs and maintenance to the City's sewer system. The sewer system update began in April 2012 and was completed in August 2012 with bonds originally issued in the amount of \$520,000 to mature in 2022.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 – BONDS AND NOTES PAYABLE (CONTINUED)

In April 2012, the City issued \$370,000 of General Obligation bonds to fund sewer system repair and maintenance. The new bond has an outstanding balance of \$335,000 as of June 30, 2013. The 2012 bond carries an average interest rate of 1.77% over ten years and matures in 2022.

In October 2012, the City issued \$410,000 Telecommunications Revenue Refunding Capital Loan Notes to refund the 2004 Telecommunications Revenue Capital Loan Notes dated April 1, 2004. The 2012 bond carries an interest rate of 2% over five years and matures in 2018.

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.

The City's payroll for employees covered by the System for the year ended June 30, 2013 was \$369,887. The total City payroll for the fiscal year was \$387,174. All full-time City employees are eligible to participate in IPERS. Benefits vest after 4 years (or 16 quarters) of service or when the employee attains the age of 55, whichever comes first. Employees are eligible to retire at or after age 55 and are entitled to an annual retirement benefit, payable monthly for life, in an amount calculated on an average of their highest 3 year average salary. IPERS also provides death and disability benefits.

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. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011, were \$32,907, \$32,640 and \$28,048, respectively, equal to the required contributions for each year.

NOTE 5 – RISK MANAGEMENT

The City of Paullina 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 – TELECOMMUNICATIONS PROJECT

On May 2, 1999 the City of Paullina entered into a Joint Public Improvement agreement with other communities in O'Brien County, under Chapter 28E of the Code of Iowa, to acquire property and construct facilities to provide telecommunication services to the cities. Each party is responsible for retiring its portion of the debt incurred. The Community Cable Television Agency of O'Brien County is controlled by a jointly appointed Board of Directors and is operated apart from the City's operations. The financial information for the Community Cable Television Agency is not included in the City's financial statements.

CITY OF PAULLINA, IOWA
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 7 – INTERFUND TRANSFERS

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

Fund	Transfers In	Transfers Out
General	\$ 106,234	\$ 16,525
Debt Service	86,540	12,000
Emergency	-	6,268
Employee Benefits	32,540	-
Urban Renewal – TIF	-	21,461
Local Option Sales Tax	-	108,466
Water	-	14,750
Electric	16,525	84,129
Sewer	22,760	1,000
	\$ 264,599	\$ 264,599

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. Move revenues restricted to debt service from the fund collecting the revenues to the debt service fund as debt service payments become due.

NOTE 8 – PRIOR PERIOD ADJUSTMENT

The City of Paullina's fire department was not included in the general fund activity in the prior year, but is now included. Therefore, cash balances at the beginning of the year for the general fund have been changed to include the fire department's beginning cash balance of \$80,908. General fund beginning cash of \$207,006 has been increased to \$287,914 to reflect the fire department's beginning cash. Total governmental funds beginning cash of \$791,583 has been increased to \$872,491 to reflect this change.

OTHER INFORMATION

CITY OF PAULLINA, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES BUDGET AND ACTUAL
(CASH BASIS)- ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Budgeted Amount		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts:				
Taxes	\$ 231,023	\$ 231,023	\$ 233,032	\$ 2,009
Special Assessments	10,000	10,000	3,459	(6,541)
Licenses and Permits	2,920	2,920	2,622	(298)
Intergovernmental	267,795	300,201	339,597	39,396
Charges for Services	1,744,469	2,243,309	1,713,389	(529,920)
Contributions		-	45,625	45,625
TIF Revenue	7,428	7,428	7,328	(100)
Local Option Sales Tax	101,640	101,640	108,462	6,822
Rental of City Property	29,440	29,440	21,099	(8,341)
Interest	20,000	20,000	4,088	(15,912)
Miscellaneous	45,200	90,200	61,921	(28,279)
Total Receipts	<u>2,459,915</u>	<u>3,036,161</u>	<u>2,540,622</u>	<u>(495,539)</u>
Disbursements				
Public Safety	272,926	307,166	254,980	52,186
Public Works	295,909	308,909	234,783	74,126
Health and Social Services	4,000	4,000	4,000	-
Culture and Recreation	95,540	95,540	81,530	14,010
Community and Economic Development	20,500	51,173	1,395	49,778
General Government	65,680	66,850	66,071	779
Capital Projects	281,843	314,249	224,325	89,924
Debt Service				
Principal Retirement	85,000	85,000	85,000	-
Interest	38,303	38,303	19,069	19,234
Business Type / Enterprises	1,709,973	2,230,496	1,435,717	794,779
Total Disbursements	<u>2,869,674</u>	<u>3,501,686</u>	<u>2,406,870</u>	<u>1,094,816</u>
Excess (deficiency) of receipts over disbursements	<u>(409,759)</u>	<u>(465,525)</u>	<u>133,752</u>	<u>599,277</u>
Other financing sources (uses):				
Proceeds from Refunding Debt Financing	161,000	161,000	485,000	324,000
Payments on Refunded Bonds	(485,000)	(485,000)	(485,000)	-
Sale of Assets	4,000	4,000	1,256	(2,744)
Transfers In	246,893	271,809	264,599	(7,210)
Transfers (Out)	(246,893)	(271,809)	(264,599)	7,210
Total other financing sources (uses)	<u>(320,000)</u>	<u>(320,000)</u>	<u>1,256</u>	<u>321,256</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(729,759)</u>	<u>(785,525)</u>	<u>135,008</u>	<u>920,533</u>
Balances Beginning of Year	<u>2,646,752</u>	<u>2,646,752</u>	<u>2,646,752</u>	<u>-</u>
Balances End of Year	<u>\$ 1,916,993</u>	<u>\$ 1,861,227</u>	<u>\$ 2,781,760</u>	<u>\$ 920,533</u>

See accompanying independent auditor's report

CITY OF PAULLINA, IOWA
NOTES TO OTHER INFORMATION – BUDGETARY REPORTING
JUNE 30, 2013

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. 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 and Proprietary 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, a budget amendment increased budget disbursements by \$632,012. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements did not exceed amounts budgeted for any function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF PAULLINA, IOWA
 COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 Governmental Nonmajor Funds
 As of and For the Year Ended June 30, 2013

	Special Revenue Funds			
	Emergency	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property Taxes	\$ 6,254	\$ 15,941	\$ -	\$ -
Special Assessments	-	-	-	-
Intergovernmental	-	-	-	-
Tax Increment Financing	-	-	-	7,328
Local Option Sales Tax	-	-	108,462	-
Interest on Investments	14	280	4	41
Total Receipts	6,268	16,221	108,466	7,369
Disbursements:				
Public Safety	-	28,843	-	-
Public Works	-	153	-	-
Culture and Recreation	-	4,828	-	-
General Government	-	1,209	-	-
Capital Projects	-	-	-	-
Total Disbursements	-	35,033	-	-
Excess (Deficiency) of Receipts over Disbursements	6,268	(18,812)	108,466	7,369
Other financing sources (uses):				
Transfers In	-	32,540	-	-
Transfers Out	(6,268)	-	(108,466)	(21,461)
Total other financing sources	(6,268)	32,540	(108,466)	(21,461)
Change in Cash Balances	-	13,728	-	(14,092)
Cash Balances Beginning of Year	-	53,625	-	14,092
Cash Balances End of Year	\$ -	\$ 67,353	\$ -	\$ -
Cash Basis Fund Balances				
Restricted For:				
Employee Benefits	\$ -	\$ 67,353	\$ -	\$ -
Assigned To:				
Capital Improvements	-	-	-	-
Total Cash Basis Fund Balances	\$ -	\$ 67,353	\$ -	\$ -

Schedule 1

Capital Project Funds		Total Governmental Nonmajor Funds
North Mickley Street	CDBG Housing Rehab	
\$ -	\$ -	\$ 22,195
3,459	-	3,459
-	32,406	32,406
-	-	7,328
-	-	108,462
89	-	428
<u>3,548</u>	<u>32,406</u>	<u>174,278</u>
-	-	28,843
-	-	153
-	-	4,828
-	-	1,209
-	32,406	32,406
-	32,406	67,439
<u>3,548</u>	<u>-</u>	<u>106,839</u>
-	-	32,540
-	-	(136,195)
-	-	(103,655)
<u>3,548</u>	<u>-</u>	<u>3,184</u>
<u>16,744</u>	<u>97</u>	<u>84,558</u>
<u>\$ 20,292</u>	<u>\$ 97</u>	<u>\$ 87,742</u>
\$ -	\$ -	\$ 67,353
20,292	97	20,389
<u>\$ 20,292</u>	<u>\$ 97</u>	<u>\$ 87,742</u>

CITY OF PAULLINA, IOWA
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
 ALL GOVERNMENTAL FUNDS
 For the Four Years Ended
 June 30, 2013

Schedule 2

	2013	2012	2011	2010
Receipts:				
Property tax	\$ 233,032	\$ 219,116	\$ 200,685	\$ 183,904
Tax increment financing revenue	7,328	746	15,301	19,298
Local Option Sales Tax	108,462	107,108	108,309	78,061
Licenses and permits	2,622	2,616	2,873	2,915
Use of money and property	25,187	33,186	25,718	51,543
Intergovernmental	339,597	249,681	216,357	222,704
Charges for service	112,172	108,804	94,379	104,812
Special Assessments	3,459	960	10,110	20,143
Miscellaneous	107,546	47,302	43,712	40,299
Proceeds from Debt Financing	-	369,135	55,264	-
Sale of Capital Assets	1,256	1,500	4,835	9,000
Total	940,661	1,140,154	777,543	732,679
Disbursements:				
Operating:				
Public safety	254,980	355,539	249,313	223,141
Public works	234,783	234,636	153,713	425,123
Health and Social Services	4,000	-	4,370	8,570
Culture and recreation	81,530	94,287	80,889	84,601
Community and economic development	1,395	2,536	-	113
General government	66,071	54,020	51,074	66,382
Debt service	104,069	170,534	95,148	135,345
Capital projects	224,325	446,575	155,754	71,458
Total	\$971,153	\$1,358,127	\$ 790,261	\$1,014,733

See accompanying independent auditor's report



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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
City of Paullina
Paullina, Iowa

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paullina, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Paullina, Iowa's basic financial statements, and have issued our report thereon dated November 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Paullina, Iowa's internal control over financial reporting (internal control) to determine the audit procedures that are 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 of Paullina, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Paullina, Iowa's internal control.

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

A deficiency in internal control exists when the design or operation of the 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 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 consider the deficiencies described in the accompanying Schedule of Findings as items II-A-13 and II-B-13 to be a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Paullina, Iowa's financial statements are free from 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 non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had

an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Paullina, Iowa's Responses to Finding

The City of Paullina's responses to findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the City of Paullina, Iowa's responses 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity'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 the personnel of the City of Paullina during the course of our audit. If you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

William & Lapman, P.C.
Certified Public Accountants

Le Mars, Iowa
November 21, 2013

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Part II – Findings Related to the Financial Statements (Continued):

Response – The City will double check disbursements and receipts in the future to ensure that they are properly recorded in the financial statements.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

Part III – Other Findings Related to Statutory Reporting

- III-A-13 Certified Budget** – Disbursements did not exceed amounts budgeted for any function.
- III-B-13 Questionable Disbursement** – We noted no disbursements that did not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.
- III-C-13 Travel Expense** – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-13 Business Transactions** – There were no business transactions between the City and City officials or employees noted.
- III-E-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.
- III-E-13 Council Minutes** – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-F-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 policies.
- III-G-13 Revenue Bonds and Notes** – No instances of non-compliance with the revenue bond and note resolutions were noted.
- III-H-13 Telecommunication Services** – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Part I – Summary of the Independent Auditor’s Results:

- (a) Modified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II – Findings Related to the Financial Statements:

MATERIAL WEAKNESSES:

II-A-13 Financial Accounting – Segregation of Duties

Observation – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The City Clerk is involved in almost all phases of the finance operations, including cash receipts listing, bank deposits, check preparation, preparation of journal entries, as well as financial reporting and statements.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – The City feels that additional personnel would not be cost effective. However, management will monitor transactions on a regular basis.

Conclusion – Response accepted.

II-B-13 Financial Reporting

Observation – During the audit, we identified one transfer for miscellaneous revenue in the Sewer Fund recorded as a transfer in and one transaction in the Electric Fund for refunds received recorded as a transfer in. There was also one instance in both the Employee Benefit and Emergency Funds where property tax receipts were recorded as interest income. There were two instances in the Water and Electric Funds where interest income was not recorded and one instance in both the Emergency and Employee Benefit Funds where property tax receipts were posted as interest income.

Recommendation – With limited personnel, the City should implement procedures to ensure that all cash disbursements and receipts are properly identified and recorded in the financial statements.

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Part III – Other Findings Related to Statutory Reporting – (Continued)

III-I-13 Debt Service Fund Balance – The City's Debt Service Fund has accumulated a fund balance of \$140,097, an amount in excess of the amount needed.

Recommendation – The City should consider using the amount in the Debt Service Fund to pay debt rather than continuing to levy taxes at the current rates.

Response – The City will use what has been accumulated in the Debt Service Fund and not levy as much for future debt service payments.

Conclusion – Response accepted.

III-J-13 Urban Renewal Annual Report – The urban renewal annual report was approved and certified to the Iowa Department of Management on or before December 1.