

NEWS RELEASE

FOR RELEASE: January 6, 2013

Lou Ann Murphy & Company, P.L.L.C., of Osage today released an audit report on the City of Traer, Iowa.

The City's receipts totaled \$2,945,627 for the year ended June 30, 2013, a 110.6 percent increase from 2012. The receipts included \$758,570 in property tax, \$290,089 from charges for service, \$385,832 from operating grants and contributions, \$79,833 from capital grants and contributions, \$120,732 from local option sales tax, \$649 from unrestricted interest on investments, \$1,000 from grants and contributions not restricted to specific purposes, \$820,339 from bond proceeds net of fees, and \$488,583 from other general receipts. Also, receipts for Traer Municipal Utilities and the City Sewer Fund totaled \$ 2,859,975. Traer Ambulance Service receipts were \$58,633.

City disbursements for the year totaled \$2,390,172, a 57.7 percent increase from the prior year, and included \$423,777 for public works, \$314,309 for public safety and \$886,618 for debt service. Disbursements for Traer Municipal Utilities and the City Sewer Fund totaled \$3,004,933. Traer Ambulance Service disbursements equaled \$43,360.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/index.html>.

**CITY OF TRAER**

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

**JUNE 30, 2013**



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**City of Traer**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Pete Holden	Mayor	Jan 2014
Lou Rausch	Mayor Pro tem	Jan 2014
Raymond Mundt	Council Member	Jan 2014
Lee Wiges	Council Member	Jan 2014
Dahn Kennedy	Council Member	Jan 2016
Carri Holst	Council Member	Jan 2016
Jon Panfil	Clerk/Treasurer	Appointed
Bruce Reinders	Attorney	Appointed
Joe Morris	TMU Trustee/Chairman	Jan 2015
Nick Podhajsky	TMU Trustee	Jan 2014
Sandra Whannel	TMU Trustee	Jan 2016
Suzanne Earley	TMU Trustee	Jan 2017
Dann Larmore	TMU Trustee	Jan 2018
Pat Stief	General Manager	Indefinite
Jon Panfil	Office Manager	Indefinite

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**City of Traer**

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component unit and the aggregate remaining fund information of the City of Traer, 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

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

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

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

## 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, the aggregate discretely presented component unit and the aggregate remaining fund information of the City of Traer as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

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

## Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Traer's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4, 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 our 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with the U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and 26 through 27 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 19, 2013, on our consideration of the City of Traer'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 Traer's internal control over financial reporting and compliance.



Lou Ann Murphy & Company, P.L.L.C.  
Certified Public Accountants  
Osage, Iowa  
December 19, 2013

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **2013 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 52.0%, or approximately \$728,000 from fiscal year 2012 to fiscal year 2013. Operating grants and contributions and property tax increased approximately \$566,000 and \$17,000, respectively. Charges for services increased approximately \$6,000.
- Disbursements of the City's governmental activities increased 57.7%, or approximately \$875,000, in fiscal year 2013 from fiscal year 2012. Public safety, public works and debt service disbursements increased approximately \$25,000, \$65,000 and \$602,000, respectively.
- The City's total cash basis net position increased 16.0%, or approximately \$376,000, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased approximately \$683,000 and the cash basis net position of the business type activities decreased approximately \$307,000.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds 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 electric service, waterworks and 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, 3) the Debt Service Fund and 4) the Capital Projects 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 five Enterprise Funds to provide separate information for the Traer Municipal Utilities Electric, Water, Sewer and Telecom Funds and the City Sewer Fund, considered to be major funds of the City.

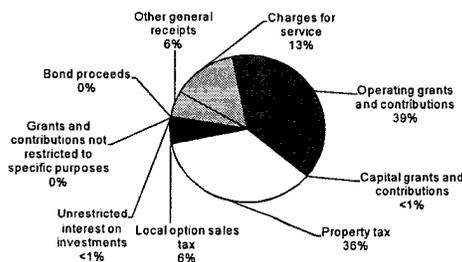
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

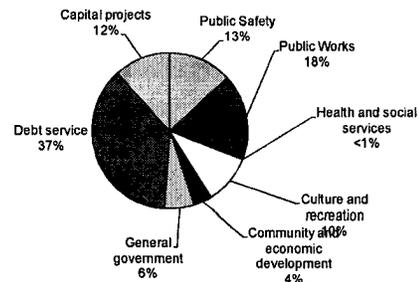
Net position may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities increased from a year ago, increasing from approximately \$696 thousand to approximately \$1,379 thousand. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
<b>Receipts:</b>		
<b>Program receipts:</b>		
Charges for service	\$ 290	\$ 280
Operating grants and contributions	386	269
Capital grants and contributions	80	-
<b>General receipts:</b>		
Property tax	758	742
Local option sales tax	121	88
Grants and contributions not restricted to specific purposes	1	4
Bond proceeds	820	-
Unrestricted interest on investments	1	1
Other general receipts	489	15
<b>Total receipts</b>	<b>2,946</b>	<b>1,399</b>
<b>Disbursements:</b>		
Public safety	314	289
Public works	424	359
Health and social services	2	6
Culture and recreation	240	194
Community and economic development	95	95
General government	146	143
Debt service	886	283
Capital projects	283	147
<b>Total disbursements</b>	<b>2,390</b>	<b>1,516</b>
Change in cash basis net position before transfers	556	(117)
Transfers, net	127	111
Change in cash basis net position	683	(6)
Cash basis net position beginning of year	696	702
Cash basis net position end of year	<b>\$ 1,379</b>	<b>\$ 696</b>

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities increased 52.0%, or approximately \$1,547,000. The total cost of all programs and services increased approximately \$874,000, or 57.7%. The significant increase in receipts was primarily the result of an estate donation and cash received from a real estate acquisition.

The cost of all governmental activities this year was approximately \$2.391 million compared to approximately \$1.516 million last year. However, as shown in the Statement of Activities and Net Position on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$1.270 million because some of the cost was paid by those directly benefited from the programs (approximately \$290,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$466,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2013 from approximately \$549,000 to approximately \$1,121,000, principally due to debt paid off early due to refinancing and the start of the Mill Street Bridge Project.

Changes in Cash Basis Net position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Electric	2,173	2,256
Water	393	375
Sewer	170	149
Telecom	123	122
General receipts:		
Unrestricted interest on investments	1	1
Bond proceeds	-	965
Total receipts	2,860	3,868
Disbursements:		
Electric	2,315	3,122
Water	429	339
Sewer	147	147
Telecom	114	147
Total disbursements	3,005	3,755
Change in cash basis net position before transfers	(145)	113
Transfers, net	(128)	(111)
Change in cash basis net position	(273)	2
Cash basis net position beginning of year	1,650	1,648
Cash basis net position end of year	\$ 1,377	\$ 1,650

Total business type activities receipts and other financing sources for the fiscal year were approximately \$2.860 million compared to approximately \$3.868 million last year. This significant decrease was due primarily to the Electric Utility completing a \$900,000 bond refinancing in fiscal year 2012. The cash balance decreased approximately \$307,000 from the prior year. Total disbursements for the fiscal year decreased 19.97% to approximately \$3.005 million.

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

As the City of Traer completed the year, its governmental funds reported a combined fund balance of \$1,379,449, an increase of \$683,144 above last year's total of \$696,305. 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 increased \$702,933 from the prior year to \$1,331,770. This increase was due primarily to receiving from an estate donation, cash from bonding for the Mill Street Bridge Project and cash received from the Industrial Building acquisition.
- The Debt Service Fund cash balance increased \$2,249 to \$4,091. This increase was due to minor differences between actual payments and budgeted payments.
- The Capital Projects Fund cash balance decreased \$39,464 to \$10,031. This decrease was due to spending reserves on current year projects.

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

- The Enterprise, TMU Electric Fund cash balance decreased \$256,578 to \$1,163,866, due primarily to minor differences between sales and costs and payments on the Wind Turbine lease.
- The Enterprise, TMU Water Fund cash balance increased \$35,507 to \$138,005, due primarily to rate increases and cost containment, along with lower debt service as a result of refinancing completed in 2011.
- The Enterprise, TMU Sewer Fund cash balance increased \$26,861 to \$44,552, due primarily to rate increases and cost containment.
- The Enterprise, City Sewer Fund cash balance decreased \$16,057 to \$57,118, due primarily to using the sewer reserve to help pay SRF debt and some larger sewer repairs.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 6, 2013 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$85,239 more than budgeted. This was primarily due to an estate donation and cash received from the acquisition of the Industrial Building.

Total disbursements were \$750,707 less than the amended budget. This was primarily due to less progress than expected on the Mill Street Bridge and less spent on the Industrial Building than was budgeted.

## DEBT ADMINISTRATION

At June 30, 2013, the City had \$2,957,000 in bonds and other long-term debt outstanding, compared to \$3,175,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2013	2012
General obligation bonds and notes	\$ 1,765	\$ 1,805
Revenue bonds	715	850
State revolving loans	477	520
Total	\$ 2,957	3,175

Debt decreased as a result of scheduled payments made during the fiscal year. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue up to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,765,000 is less than half of its constitutional debt limit of approximately \$3.996 million. Additional information about the City's long-term debt is presented in Note 4 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Traer's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees charged for various City activities. The City Council was facing continued state funding cutbacks and only a small increase in taxable value.

Taxable value in the City of Traer increased 4.3%, from \$46.1 million to \$48.1 million. The tax rate for FY14 decreased slightly from \$16.47 per thousand to \$16.36 per thousand. Tax revenues were budgeted to increase approximately \$28,000 in FY14, and total revenues were projected to increase approximately \$530,000. Expenditures were projected to increase by about \$600,000. Overall, cash balances were expected to decrease by about \$120,000.

The Traer Municipal Utilities Board approved a budget with overall revenues projected to increase by approximately \$18,000 (less than 1%) between FY13 and FY14.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jon Panfil, City Clerk, 649 Second Street, Traer, Iowa 50675.

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**Basic Financial Statements**

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City of Traer

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
Governmental activities:				
Public safety	\$ 314,309	137,977	186,938	-
Public works	423,777	135,578	182,016	79,833
Health and social services	1,802	937	-	-
Culture and recreation	239,617	13,030	16,878	-
Community and economic development	95,314	-	-	-
General government	145,636	2,567	-	-
Debt service	886,618	-	-	-
Capital projects	283,099	-	-	-
Total governmental activities	2,390,172	290,089	385,832	79,833
Business type activities				
Electric	2,314,778	2,173,266	-	-
Water	428,908	393,336	-	-
Sewer	147,059	169,924	-	-
Telecom	114,188	122,820	-	-
Total business type activities	3,004,933	2,859,346	-	-
Total primary government	\$ 5,395,105	3,149,435	385,832	79,833
<b>Component Unit</b>				
Traer Ambulance Service	\$ 43,360	-	58,033	-
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Bond Proceeds, net of fees, etc.				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Expendable:				
Streets				
Debt service				
Other purposes				
Unrestricted:				
<b>Total cash basis net position</b>				

See notes to financial statements.

**Exhibit A**

Net (Disbursements) Receipts and Changes in Cash Basis Net Position				
Primary Government				
Governmental Activities	Business Type Activities	Total	Component Unit	
10,606	-	10,606	-	-
(26,350)	-	(26,350)	-	-
(865)	-	(865)	-	-
(209,709)	-	(209,709)	-	-
(95,314)	-	(95,314)	-	-
(143,069)	-	(143,069)	-	-
(886,618)	-	(886,618)	-	-
(283,099)	-	(283,099)	-	-
(1,634,418)	-	(1,634,418)	-	-
-	(141,512)	(141,512)	-	-
-	(35,572)	(35,572)	-	-
-	22,865	22,865	-	-
-	8,632	8,632	-	-
-	(145,587)	(145,587)	-	-
(1,634,418)	(145,587)	(1,780,005)	-	-
-	-	-	14,673	-
576,041	-	576,041	-	-
182,529	-	182,529	-	-
120,732	-	120,732	-	-
1,000	-	1,000	-	-
820,339	-	820,339	-	-
649	629	1,278	600	-
488,583	-	488,583	-	-
127,690	(127,690)	-	-	-
2,317,563	(127,061)	2,190,502	600	-
683,145	(272,648)	410,497	15,273	-
696,305	1,650,169	2,346,474	77,969	-
\$ 1,379,450	1,377,521	2,756,971	93,242	-
\$ 4,091	-	4,091	-	-
1,331,770	196,445	1,528,215	-	-
33,557	-	33,557	93,242	-
10,032	1,181,076	1,191,108	-	-
\$ 1,379,450	1,377,521	2,756,971	93,242	-

City of Traer

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	
		Road Use Tax	Debt Service
<b>Receipts:</b>			
Property tax	\$ 429,124	-	182,529
Other city tax	6,830	-	-
Licenses and permits	890	-	-
Use of money and property	7,319	-	-
Intergovernmental	288,102	164,572	-
Charges for service	286,311	-	-
Miscellaneous	498,792	-	-
Total receipts	<u>1,517,368</u>	<u>164,572</u>	<u>182,529</u>
<b>Disbursements:</b>			
Operating:			
Public safety	314,309	-	-
Public works	161,117	262,660	-
Health and social services	1,802	-	-
Culture and recreation	239,617	-	-
Community and economic development	56,009	-	-
General government	145,636	-	-
Debt service	-	-	886,618
Capital projects	-	-	-
Total disbursements	<u>918,490</u>	<u>262,660</u>	<u>886,618</u>
Excess (deficiency) of receipts over (under) disbursements	<u>598,878</u>	<u>(98,088)</u>	<u>(704,089)</u>
<b>Other financing sources (uses):</b>			
Operating transfers in	319,707	98,088	706,338
Operating transfers out	(1,035,991)	-	-
Bond proceeds, net of fees, etc.	820,339	-	-
Total other financing sources (uses)	<u>104,055</u>	<u>98,088</u>	<u>706,338</u>
Net change in cash balances	702,933	-	2,249
Cash balances beginning of year	628,837	1,000	1,842
Cash balances end of year	<u>\$ 1,331,770</u>	<u>1,000</u>	<u>4,091</u>
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service	\$ -	-	4,091
Unreserved:			
General fund	1,331,770	-	-
Special revenue funds	-	1,000	-
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 1,331,770</u>	<u>1,000</u>	<u>4,091</u>

See notes to financial statements.

**Exhibit B**

Capital Projects	Nonmajor	Total
-	140,087	751,740
-	120,732	127,562
-	-	890
-	-	7,319
-	-	452,674
-	-	286,311
-	-	498,792
-	260,819	2,125,288
-	-	314,309
-	-	423,777
-	-	1,802
-	-	239,617
-	39,305	95,314
-	-	145,636
-	-	886,618
283,099	-	283,099
283,099	39,305	2,390,172
(283,099)	221,514	(264,884)
243,635	-	1,367,768
-	(204,087)	(1,240,078)
-	-	820,339
243,635	(204,087)	948,029
(39,464)	17,427	683,145
49,495	15,131	696,305
10,031	32,558	1,379,450
-	-	4,091
-	-	1,331,770
-	32,558	33,558
10,031	-	10,031
10,031	32,558	1,379,450

City of Traer

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

As of and for the year ended June 30, 2013

	Enterprise Funds			
	Traer Municipal Utilities			
	Electric	Water	Sewer	Telecom
Operating receipts:				
Charges for service	\$ 2,173,266	393,336	169,924	122,820
Operating disbursements:				
Business type activities	2,163,161	380,484	88,073	114,188
Excess (deficiency) of operating receipts over (under) operating disbursements	10,105	12,852	81,851	8,632
Non-operating receipts (disbursements):				
Interest on investments	553	65	10	1
Debt service	(151,617)	(48,424)	-	-
Net non-operating receipts (disbursements)	(151,064)	(48,359)	10	1
Excess (deficiency) of receipts over (under) disbursements	(140,959)	(35,507)	81,861	8,633
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(115,619)	-	(55,000)	-
Total other financings sources (uses)	(115,619)	-	(55,000)	-
Change in cash balances	(256,578)	(35,507)	26,861	8,633
Cash balances beginning of year	1,420,444	173,512	17,691	(34,653)
Cash balances end of year	\$ 1,163,866	138,005	44,552	(26,020)
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ 175,000	-	-	-
Unrestricted	988,866	138,005	44,552	(26,020)
Total cash basis fund balances	\$ 1,163,866	138,005	44,552	(26,020)

See notes to financial statements.

**Exhibit C**

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<u>TMU</u>	<u>City</u>	
<u>Sub-Total</u>	<u>Sewer</u>	<u>Total</u>
\$ 2,859,346	-	\$ 2,859,346
<u>2,745,906</u>	<u>-</u>	<u>2,745,906</u>
<u>113,440</u>	<u>-</u>	<u>113,440</u>
629	-	629
<u>(200,041)</u>	<u>(58,986)</u>	<u>(259,027)</u>
<u>(199,412)</u>	<u>(58,986)</u>	<u>(258,398)</u>
<u>(85,972)</u>	<u>(58,986)</u>	<u>(144,958)</u>
-	42,929	42,929
<u>(170,619)</u>	<u>-</u>	<u>(170,619)</u>
<u>(170,619)</u>	<u>42,929</u>	<u>(127,690)</u>
(256,591)	(16,057)	(272,648)
<u>1,576,994</u>	<u>73,175</u>	<u>1,650,169</u>
<u>\$ 1,320,403</u>	<u>57,118</u>	<u>\$ 1,377,521</u>
175,000	21,445	196,445
<u>1,145,403</u>	<u>35,673</u>	<u>1,181,076</u>
<u>1,320,403</u>	<u>57,118</u>	<u>1,377,521</u>

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**City of Traer**

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City of Traer

Notes to Financial Statements

June 30, 2013

**(1) Summary of Significant Accounting Policies**

The City of Traer is a political subdivision of the State of Iowa located in Tama County. It was first incorporated in 1873 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 electric, water, sewer and telecom utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Traer 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.

Based on the foregoing criteria, Traer Municipal Utilities (TMU) is considered to be part of the primary government and, therefore, the financial information for TMU is included in the City's financial statements. The financial activities of TMU are reported as Enterprise Funds.

These government financial statements present the City of Traer (the primary government) and the Traer Ambulance Service (component unit). The component unit, discussed below, is included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Unit

Traer Ambulance Service is presented in a separate column to emphasize it is legally separate from the City, but is financially accountable to the City or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Traer Ambulance Service is organized as a non-profit corporation. The Ambulance Service collects donations which are to be used to purchase items not included in the City's budget and to help finance new ambulance equipment.

### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture. City officials are members of the following boards and commissions: Tama County Assessor's Conference Board, City Assessor's Conference Board, Tama County Emergency Management Commission, Tama County Landfill Commission, Code Red, and Tama County Joint E911 Service Board.

### B. Basis of Presentation

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

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

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

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

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on 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 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.

The Capital Projects Fund is used to account for the new development of various capital projects.

The City reports the following major proprietary funds:

The Enterprise, TMU Electric Fund accounts for the operation and maintenance of the City's electrical system.

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

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

The Enterprise, TMU Telecom Fund accounts for the operation and maintenance of the City's telecommunications system.

The Enterprise, City Sewer Fund accounts for principal and interest payments of the Sewer Revenue Bonds.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net 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 disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursements toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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

#### D. Governmental Cash Basis Fund Balances

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

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

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

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

Unassigned – All amounts not included in the preceding classifications.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public works function.

### **(2) Cash and Pooled Investments**

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

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

At June 30, 2013, the City and Traer Municipal Utilities had investments in the Iowa Public Agency Investment Trust which are valued at an amortized amount of \$814,950 and \$998,801, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940. Also, the City has invested \$15,000 in U.S. Treasury Series HH Savings Bonds.

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.

**(3) Note Receivable**

The City entered into a 28E agreement with Traer Municipal Utilities, the Traer Development Corporation and the Traer Chamber of Commerce, Inc. The purpose of this agreement is to acquire, finance and develop real estate (“Prairie West Fourth and Fifth Additions”) and to then market the developed lots to the general public in order to promote the economic development of the City of Traer, Iowa. The City paid for the construction of streets, storm sewers, sanitary sewers and other related improvements in and around “Prairie West Fourth and Fifth Additions” in the amount of approximately \$1,700,000. The City has received a non-interest bearing mortgage note from the Traer Chamber of Commerce, Inc. for \$1,700,000. During the year the City took possession of the lots, and there is no longer a balance for the Note Receivable.

**(4) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds, revenue bonds and state revolving loans are as follows:

Year Ending June 30,	General Obligation		Revenue		State Revolving		Total	
	Bonds		Bonds		Loans			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	275,000	42,961	135,000	13,654	44,000	19,757	454,000	76,372
2015	280,000	36,791	140,000	11,415	46,000	17,930	466,000	66,136
2016	270,000	30,646	140,000	8,790	48,000	16,017	458,000	55,453
2017	220,000	24,585	150,000	5,700	50,000	14,018	420,000	44,303
2018	230,000	18,453	150,000	1,988	52,000	11,946	432,000	32,387
2019-2023	490,000	20,369	-	-	237,000	25,511	727,000	45,880
Total	\$ 1,765,000	173,805	715,000	41,547	477,000	105,179	2,957,000	320,531

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

Revenue Bonds

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$980,000 of Electric Revenue Capital Loan Notes, Series 2011 issued in July 2011. Proceeds from the notes provided financing for the purpose of refinancing the outstanding Electric Revenue Capital Loan Notes, Series 2003. The notes are payable solely from electric customer net receipts and are payable through 2018. The total principal and interest remaining to be paid on the notes is \$756,546. For the current year, principal and interest paid and total customer net receipts were \$151,118 and \$10,105, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$757,000 of sewer revenue notes issued in August 2001 and \$101,000 of sewer revenue notes issued in August 2003. Proceeds from the notes provided financing for the construction of improvements to and conversion of the discharge lagoon treatment system. The notes are payable solely from sewer customer net receipts and are payable through 2023. The total principal and interest remaining to be paid on the notes is \$582,179. For the current year, principal and interest paid and total customer net receipts were \$58,600 and \$81,851, respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate electric and sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the amount required in the sewer sinking fund to a revenue reserve account and \$1,000 to the improvement fund account within the Enterprise funds shall be made until specific minimum balances have been accumulated. Additional monthly transfers shall also be made to the electric and sewer reserve accounts to accumulate amounts equal to the maximum principal and interest due in any succeeding fiscal year. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

**(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 covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$59,666, \$55,774 and \$48,178, respectively, equal to the required contributions for each year.

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

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 8 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

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 employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$561 for single coverage and \$1,722 for family coverage. For the year ended June 30, 2013, the City contributed \$102,539 and plan members eligible for benefits contributed \$17,026 to the plan.

**(7) Compensated Absences**

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

Type of Benefit	Amount
<b>City</b>	
Vacation	\$ 11,306
Sick leave	1,274
<b>TMU</b>	
Vacation	25,763
Sick leave	<u>6,608</u>
Total	<u>\$ 44,951</u>

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

**(8) Interfund Transfers**

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 140,087
	Local Option Sales Tax	64,000
	Enterprise:	
	TMU-Electric	<u>115,620</u>
		319,707
Special Revenue:	General	98,088
Road Use Tax		
Debt Service	General	706,338
Capital Projects	General	243,636
Enterprise:	Enterprise:	
City Sewer	TMU-Electric	<u>42,929</u>
Total		<u>\$1,410,698</u>

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

**(9) Related Party Transactions**

The City had no business transactions between the City and City officials during the year ended June 30, 2013.

**(10) Tama County Solid Waste Disposal Commission**

The City, in conjunction with other municipalities in Tama County, has created the Tama County Solid Waste Disposal Commission. The Commission was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Commission will be prorated among the municipalities. The Commission is governed by a board composed of an elected representative to the governing body of each participating governmental jurisdiction. The Commission has accumulated \$2,035,800 for closure/post closure expenditures.

However, the Commission may not be accumulating sufficient financial resources and the participating governments may be obligated for a proportionate share of the debt, therefore, the City of Traer may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2013, the City paid the Tama County Solid Waste Disposal Commission \$27,248. During the year ended June 30, 2013, the City paid Cooley Sanitation \$103,793 for City wide pickup. The Sanitation is then responsible for paying all landfill fees for the City’s share of the cost. Completed financial statements for the Commission can be obtained from the Tama County Solid Waste Disposal Commission.

**(11) Component Unit Detail**

The Traer Ambulance Service is a component unit of the City of Traer. The Statement of Cash Receipts, Disbursements and Changes in Cash Balance for the year ended June 30, 2013 is as follows:

	<u>Traer Ambulance Service</u>
Operating receipts:	
Intergovernmental	\$ 56,168
Miscellaneous	1,865
General receipts:	
Unrestricted interest on investments	600
Total receipts	<u>58,633</u>
Operating disbursements:	
Public safety	<u>43,360</u>
Net change in cash balance	15,273
Cash balance beginning of year	<u>77,969</u>
Cash balance end of year	<u>\$ 93,242</u>

**City paid to Ambulance Service**

Meetings and calls \$ 56,168

**(12) 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.

**(13) Interdepartmental Loans**

Water Control Project

The Enterprise Fund, TMU Electric has loaned the Enterprise Fund, TMU Water \$60,000 for the water control project. This loan is a non-interest bearing note, payable from the revenue of the water fund. No payment schedule has been established.

**(14) Deficit Balances**

The Enterprise Fund - Telecom, had a deficit balance of, \$26,020 at June 30, 2013. The City will continue to monitor and reduce disbursements as possible to return the funds to a positive account balance.

**(15) Lease Purchase Agreement**

In April 2010, the City entered into a lease purchase agreement with Norseman Wind Energy, LLC for the use of energy produced by the wind turbine. The lease was for \$1,080,000 that will be paid over a six year period. When the City has purchased 30,584,982 kwh and all lease payments have been made, Norseman Wind Energy, LLC will convey all rights, titles and interests of the wind turbine to the City. Estimated annual payments from the City are as follows:

Year	Total
Ending	Amount
June 30,	
2014	180,000
2015	180,000
2016	180,000
2017	180,000
2018	90,000
Total	<u>\$ 810,000</u>

**(16) Economic Development**

The City of Traer obtained a building and \$250,000 in prior years. The City is considering fixing the building to use it as a spec building to sell or lease.

The Traer Municipal Utilities paid \$15,074 for new light fixtures at the school. The Utilities is billing the school back at \$628 per month to be paid over 24 months.

**(17) Commitments**

As of June 30, 2013, the City had the following commitments with respect to the following projects:

	<u>Remaining Commitment</u>	<u>Expected Date of Completion</u>
Mill Street Bridge (Engineering Contract)	\$ 60,790	Spring 2014
Mill Street Bridge (Construction Contract)	<u>603,563</u>	
Total	<u>\$ 664,353</u>	

**(18) Subsequent Events**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through December 19, 2013.

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**City of Traer**

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City of Traer

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

Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 751,740	-
Other city tax	127,562	-
Licenses and permits	890	-
Use of money and property	7,319	629
Intergovernmental	452,674	-
Charges for service	286,311	2,859,346
Miscellaneous	498,792	-
Total receipts	<u>2,125,288</u>	<u>2,859,975</u>
Disbursements:		
Public safety	314,309	-
Public works	423,777	-
Health and social services	1,802	-
Culture and recreation	239,617	-
Community and economic development	95,314	-
General government	145,636	-
Debt service	886,618	-
Capital projects	283,099	-
Business type activities	-	3,004,933
Total disbursements	<u>2,390,172</u>	<u>3,004,933</u>
Excess (deficiency) of receipts over (under) disbursements	(264,884)	(144,958)
Other financing sources, net	<u>948,029</u>	<u>(127,690)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	683,145	(272,648)
Balances beginning of year	<u>696,305</u>	<u>1,650,169</u>
Balances end of year	<u>\$ 1,379,450</u>	<u>1,377,521</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
751,740	757,695	757,695	\$ (5,955)
127,562	95,209	115,209	12,353
890	4,750	4,750	(3,860)
7,948	500	500	7,448
452,674	464,700	464,700	(12,026)
3,145,657	3,433,970	3,433,970	(288,313)
498,792	73,200	123,200	375,592
<u>4,985,263</u>	<u>4,830,024</u>	<u>4,900,024</u>	<u>85,239</u>
314,309	345,090	375,090	60,781
423,777	395,227	416,227	(7,550)
1,802	8,788	8,788	6,986
239,617	215,769	260,769	21,152
95,314	99,509	324,509	229,195
145,636	135,955	145,955	319
886,618	382,592	997,592	110,974
283,099	178,000	353,000	69,901
3,004,933	3,078,882	3,263,882	258,949
<u>5,395,105</u>	<u>4,839,812</u>	<u>6,145,812</u>	<u>750,707</u>
(409,842)	(9,788)	(1,245,788)	835,946
<u>820,339</u>	<u>-</u>	<u>1,150,000</u>	<u>(329,661)</u>
410,497	(9,788)	(95,788)	506,285
<u>2,346,474</u>	<u>2,268,767</u>	<u>2,346,474</u>	<u>-</u>
<u><u>2,756,971</u></u>	<u><u>2,258,979</u></u>	<u><u>2,250,686</u></u>	<u><u>\$ 506,285</u></u>

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**Other Information**

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City of Traer

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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$70,000 and disbursements by \$1,306,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements did exceed the amounts budgeted in the public works function.

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**Supplementary Information**

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City of Traer

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

As of and for the year ended June 30, 2013

	Special Revenue		Total
	Employee Benefits	Local Option Sales Tax	
Receipts:			
Property tax	140,087	-	140,087
Other city tax	-	120,732	120,732
Intergovernmental	-	-	-
<b>Total Receipts</b>	<u>140,087</u>	<u>120,732</u>	<u>260,819</u>
Disbursements:			
Operating:			
Public Works	-	-	-
Community and economic development	-	39,305	39,305
<b>Total Disbursements</b>	<u>-</u>	<u>39,305</u>	<u>39,305</u>
Excess (deficiency) of receipts over (under) disbursements	<u>140,087</u>	<u>81,427</u>	<u>221,514</u>
Other financing sources:			
Operating transfers out	<u>(140,087)</u>	<u>(64,000)</u>	<u>(204,087)</u>
Net change in cash balances	-	17,427	17,427
Cash balances beginning of year	-	15,131	15,131
Cash balances end of year	<u>-</u>	<u>32,558</u>	<u>32,558</u>
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	-	32,558	32,558
<b>Total cash basis fund balances</b>	<u>-</u>	<u>32,558</u>	<u>32,558</u>

See accompanying independent auditor's report.

City of Traer  
Schedule of Indebtedness  
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Series 2005	Jun 1, 2005	2.95-4.20 %	\$ 1,250,000
Series 2007	Aug 20, 2007	3.90-4.30	750,000
Capital Loan Notes 2011	May 3, 2011	1.00-3.40	660,000
Capital Loan Note 2013	May 1, 2013	0.45-2.00	830,000
Total			
Revenue bonds:			
Electric Capital Revenue 2011	Jul 6, 2011	0.85-2.65 %	\$ 980,000
Total			
State revolving loans:			
2001 Sewer Revenue Bond	Aug 19, 2001	3.00 %	\$ 757,000
2003 Sewer Revenue Bond	Aug 5, 2003	3.00	101,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
710,000	-	710,000	-	28,200	-
520,000	-	70,000	450,000	21,677	-
575,000	-	90,000	485,000	13,113	-
-	830,000	-	830,000	-	-
<b>\$ 1,805,000</b>	<b>830,000</b>	<b>870,000</b>	<b>1,765,000</b>	<b>62,990</b>	<b>-</b>
850,000	-	135,000	715,000	16,118	-
<b>\$ 850,000</b>	<b>-</b>	<b>135,000</b>	<b>715,000</b>	<b>16,118</b>	<b>-</b>
457,000	-	38,000	419,000	13,710	-
63,000	-	5,000	58,000	1,890	-
<b>\$ 520,000</b>	<b>-</b>	<b>43,000</b>	<b>477,000</b>	<b>15,600</b>	<b>-</b>

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**Supplementary Information**

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City of Traer  
Bond and Note Maturities

June 30, 2013

General Obligation Bonds							
Year Ending June 30,	Series 2007 Issued Aug 20, 2007		Series 2011 Issued May 3, 2011		Series 2013 Issued May 1, 2013		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2014	4.10	70,000	1.75	90,000	0.45	115,000	275,000
2015	4.13	75,000	1.75	95,000	0.55	110,000	280,000
2016	4.15	75,000	1.75	90,000	0.75	105,000	270,000
2017	4.20	80,000	2.70	40,000	1.20	100,000	220,000
2018	4.25	85,000	2.70	45,000	1.20	100,000	230,000
2019	4.30	65,000	2.70	45,000	1.20	100,000	210,000
2020	-	-	3.40	45,000	2.00	100,000	145,000
2021	-	-	3.40	35,000	2.00	100,000	135,000
Total		<u>\$ 450,000</u>		<u>\$ 485,000</u>		<u>\$ 830,000</u>	<u>1,765,000</u>

Revenue Bonds			
Year Ending June 30,	Electric Capital 2011 Issued July 6, 2011		
	Interest Rates	Amount	Total
2014	1.45	135,000	135,000
2015	1.80	140,000	140,000
2016	1.95	140,000	140,000
2017	2.30	150,000	150,000
2018	2.65	150,000	150,000
Total		<u>\$ 715,000</u>	<u>715,000</u>

State Revolving Loans					
Year Ending June 30,	2001 Sewer Revenue Issued Aug 19, 2001		2003 Sewer Revenue Issued Aug 5, 2003		Total
	Interest Rates	Amount	Interest Rates	Amount	
2014	3.00	39,000	3.00	5,000	44,000
2015	3.00	41,000	3.00	5,000	46,000
2016	3.00	43,000	3.00	5,000	48,000
2017	3.00	44,000	3.00	6,000	50,000
2018	3.00	46,000	3.00	6,000	52,000
2019	3.00	48,000	3.00	6,000	54,000
2020	3.00	50,000	3.00	6,000	56,000
2021	3.00	53,000	3.00	6,000	59,000
2022	3.00	55,000	3.00	6,000	61,000
2023		-	3.00	7,000	7,000
Total		<u>\$ 419,000</u>		<u>\$ 58,000</u>	<u>477,000</u>

See accompanying independent auditor's report.

City of Traer

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

For the Last Ten Years

	2013	2012	2011	2010
<b>Receipts:</b>				
Property tax	\$ 751,740	733,854	693,194	678,331
Tax increment financing collections	-	-	-	-
Other city tax	127,561	96,253	103,577	101,763
Licenses and permits	890	640	1,183	465
Use of money and property	7,319	7,054	8,084	7,969
Intergovernmental	452,674	265,870	226,485	312,496
Charges for service	286,311	279,459	328,700	320,441
Miscellaneous	498,792	15,759	16,175	54,032
<b>Total</b>	<b>\$ 2,125,287</b>	<b>1,398,889</b>	<b>1,377,398</b>	<b>1,475,497</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 314,309	288,831	395,845	417,896
Public works	423,777	358,508	433,608	440,949
Health and social services	1,802	6,204	9,438	7,772
Culture and recreation	239,617	194,485	227,952	176,831
Community and economic development	95,314	95,064	116,794	167,571
General government	145,636	142,597	133,710	131,271
Debt service	886,618	282,929	528,436	371,082
Capital projects	283,099	146,581	171,280	290,022
<b>Total</b>	<b>\$ 2,390,172</b>	<b>1,515,199</b>	<b>2,017,063</b>	<b>2,003,394</b>

See accompanying independent auditor's report.

2009	2008	2007	2006	2005	2004
654,765	586,025	529,737	488,081	466,425	450,358
-	-	38,387	30,519	27,954	7,978
100,986	99,065	98,890	85,221	82,107	67,751
3,250	560	1,157	1,688	2,064	2,154
22,421	52,548	48,317	21,673	26,655	18,604
196,741	634,435	658,826	293,987	521,023	289,983
308,275	286,166	275,814	267,246	122,712	214,406
36,365	36,541	117,090	353,987	191,957	447,982
<u>1,322,803</u>	<u>1,695,340</u>	<u>1,768,218</u>	<u>1,542,402</u>	<u>1,440,897</u>	<u>1,499,216</u>
273,554	241,390	238,436	277,207	243,189	159,791
359,911	348,085	332,536	343,485	355,075	310,259
7,302	9,469	9,163	7,882	7,518	4,693
168,456	181,152	153,465	156,602	167,091	140,266
107,527	226,156	131,431	104,266	161,551	98,216
132,973	131,735	134,765	139,770	142,528	151,884
360,438	290,524	321,710	245,761	209,824	205,107
221,407	518,952	550,686	1,711,090	370,740	1,465,379
<u>1,631,568</u>	<u>1,947,463</u>	<u>1,872,192</u>	<u>2,986,063</u>	<u>1,657,516</u>	<u>2,535,595</u>

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**City of Traer**

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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, Members of the City Council and  
Board of Trustees, Traer Municipal Utilities:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Traer, 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, and have issued our report thereon dated December 19, 2013. Our report expressed unmodified 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 our audit, we considered the City of Traer's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Traer's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Traer'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 we consider to be material weaknesses.

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 of Traer's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings as items II-A-13, II-B-13, II-C-13, and II-D-13 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control we consider to be significant deficiencies as described above.

### Compliance and Other Matters

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

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

### Purpose of this Report

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Traer, Traer Municipal Utilities and the Traer Ambulance Service during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Lou Ann Murphy & Company, P.L.L.C.  
Certified Public Accountants  
Osage, Iowa

December 19, 2013

City of Traer  
Schedule of Findings  
June 30, 2013

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unmodified 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) Significant deficiencies and a material weakness 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.

June 30, 2013

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-13 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will review our internal procedures to determine if changes can be made to improve internal control with existing personnel.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-B-13 Ambulance Collections – The Ambulance collects payments and donations periodically depositing the collections in their checking account. Staff only writes receipts when one is requested from the remitter. Therefore, documentation regarding these collections was inadequate to determine the amounts which should have been collected and deposited.

Recommendation – To strengthen control over the accountability for Ambulance collections, the City should require all collections be made at the City Clerk's office, thereby segregating the collection procedures from the control over the original source documents. A further measure of control may be implemented by requiring an authorized independent person to verify collections with the original source documents on a periodic, unscheduled basis.

Response – The Council, City Clerk and Ambulance personnel will review procedures and change what is agreed to be the most effective way to gain control.

Conclusion – Response accepted.

City of Traer

Schedule of Findings

June 30, 2013

II-C-13 Ambulance Record Retention – During our testing of Ambulance disbursements, we were unable to locate documentation for all payments. This lack of documentation resulted in duplicate payment of a reimbursement to an Ambulance employee.

Recommendation – Supporting documentation, such as receipts or invoices, should be maintained for all disbursements. The Council should implement procedures to ensure all records are retained at City Hall. In addition, all Ambulance disbursements should be presented to the City Clerk prior to payment for verification to avoid duplicate payments.

Response – The Council, City Clerk and Ambulance personnel will review procedures and change what is agreed to be the most effective way to gain control.

Conclusion – Response accepted.

II-D-13 Held Checks – The City is holding checks that are already being counted as expenses on the City's financials.

Recommendation – The City should exclude from expenses checks that are being held, until they are properly distributed.

Response – We will do so.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

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**City of Traer**

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City of Traer  
Schedule of Findings

June 30, 2013

**Part III: Other Findings Related to Required Statutory Reporting:**

- III-A-13 Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amount budgeted in the public works function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

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

Conclusion – Response accepted.

- III-B-13 Questionable Disbursements – No disbursements were noted that may 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.

- 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 the coverage is adequate for current operations.

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

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also board minutes were not signed for TMU.

The City Council went into closed sessions on August 6, and August 22, 2012. The minutes did document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law for all closed sessions.

Recommendation – The City and TMU should publish minutes as required and TMU should sign the minutes.

Response – We will continue to make every effort to publish minutes as required. However, with a local paper that is published only once per week, with a cutoff 3 days before publication, it can be difficult to do so within 15 days. We will comply with Chapter 21 of the Code of Iowa for all closed sessions.

Conclusion – Response accepted.

- III-G-13 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Traer

Schedule of Findings

June 30, 2013

III-H-13 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

III-I-13 Telecommunications Services – No instances of noncompliance with Chapter 388.10 of the Code of Iowa were noted.

III-J-13 Financial Condition – The TMU Telecom Fund had a deficit balance of \$26,020 at June 30, 2013.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – We will do so.

Conclusion – Response accepted.