

CITY OF PRAIRIE CITY

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2005

CITY OF PRAIRIE CITY

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CITY OF PRAIRIE CITY

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lester H. Evans	Mayor	Jan 2006
Gary Johnson	Mayor Pro-Tem	Jan 2006
Richard Gilson	Council Member	Jan 2006
James Pooley	Council Member	Jan 2008
Dan Kuecker	Council Member	Jan 2008
Larry Wenthe	Council Member	Jan 2006
Louis Modlin	Chief of Police	Indefinite
Jerold L. Williams	City Administrator	Indefinite
Nancy J. Earles	City Clerk	Indefinite
Randal Caldwell	City Attorney	Indefinite



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CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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 Prairie City, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Prairie City's management. Our responsibility is to express opinions on these basic 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 and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements 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.

In our opinion, the aforementioned 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 Prairie City at June 30, 2005, and the respective changes in the cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 8, during the year ended June 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus: Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2005 on our consideration of the City of Prairie City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 10 and 25 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the aforementioned financial statements that collectively comprise the City of Prairie City's basic financial statements. Other 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. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Martens & Company, CPA, P.C.

West Des Moines, Iowa
September 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Prairie City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- The City's expenses decreased by 31% or approximately \$35,400 from fiscal year 2004 (FY04).
- The City's debt service levy remained at zero.
- The governmental funds' cash balance at June 30, 2005 increased more than 8%, or approximately \$107,000.
- The City's long-term debt decreased over 4%.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

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

The Government-wide Financial Statements consists of a statement of activities and net assets. 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 the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

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

Other Supplementary Information provides detailed information about *nonmajor governmental funds* and debt obligations.

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 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 Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The fund financial statements begin on page 13 and provide detailed information about individual, significant funds; not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to help it control and manage money for particular purposes.

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The government 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 you 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 statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report the same functions presented as business-type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

Reconciliation between the government-wide statement and the fund financial statements follow the fund statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities has increased from a year ago, increasing from \$1.25 million to \$1.365 million. The analysis that follows below focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	<u>2005</u>	<u>2004</u> UNAUDITED
Receipts and transfers:		
Program receipts:		
Charges for service and sales	\$ 100	\$ 144
Operating grants, contributions and restricted interest	181	176
Capital grants, contributions and restricted interest	-	-
General receipts:		
Property tax	566	530
Unrestricted investment earnings	16	11
Other general receipts	8	14
Note proceeds	-	348
Transfers, net	<u>29</u>	<u>46</u>
Total receipts and transfers	<u>900</u>	<u>1,269</u>
Disbursements:		
Public safety	222	257
Public works	173	206
Culture and recreation	135	416
Community and economic development	3	9
General government	105	90
Debt service	139	143
Capital projects	<u>16</u>	<u>23</u>
Total disbursements	<u>793</u>	<u>1,144</u>
Increase in cash balance	107	125
Cash basis net assets beginning of year	<u>1,258</u>	<u>1,133</u>
Cash basis net assets end of year	<u>\$ 1,365</u>	<u>\$ 1,258</u>

The City's total receipts for governmental activities decreased by 29 percent (\$352,000). The total cost of all programs and services decreased by approximately \$351,000 or 31 percent with no new programs added this year.

The cost of all governmental activities this year was \$793 thousand compared to \$1.144 million last year. However, as shown in the statement of activities and net assets - cash basis on page 11 and 12, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$512 thousand because some of the cost was paid by those directly benefitted from the programs (\$100,157) or by other governments and organizations that subsidized certain programs with grants and contributions (\$180,858). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, decreased in 2005 from approximately \$320,000 to approximately \$281,000, principally due to an increase in operating and capital grants, contributions and restricted interest. The City paid for the remaining public benefit portion of governmental activities with approximately \$565,700 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business-Type Activities
(Expressed in Thousands)

	2005	2004 UNAUDITED
Receipts:		
Program receipts:		
Charges for service and sales:		
Water	\$ 151	\$ 148
Sewer	65	63
General receipts:		
Water deposits	1	2
Unrestricted investment earnings	2	2
Total receipts	219	215
Disbursements:		
Water	159	171
Sewer	68	72
Water deposits	1	2
Transfers	29	46
Total disbursements and transfers	257	291
Increase (decrease) in cash balance	(38)	(76)
Cash basis net assets beginning of year	60	136
Cash basis net assets end of year	\$ 22	\$ 60

Total business-type activities receipts for the fiscal year were \$219 thousand compared to \$215 thousand last year. The cash balance decrease by approximately \$37,500 from the prior year. Total disbursements for the fiscal year decreased by approximately 7 percent to a total of \$228,400 thousand.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Prairie City completed the year, its governmental funds reported a combined fund balance of \$1,387,531, an increase of more than \$69,500 above last year's total of \$1,318,018. 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 \$19,037 from the prior year to \$131,546, due to cutting expenses.
- The Road Use Tax Fund cash balance increased by \$20,979 to \$61,742 during the fiscal year. This increase was attributable to no seal coating projects during the 2004-2005 FY.

- The Urban Renewal Tax Increment Financing Fund increased by \$141,110 to \$617,742 during the fiscal year. This was due to the increase taxable valuation in the district and several new homes in the TIF area.
- The Debt Service Fund cash balance remained at zero during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$31,884 to \$29,199, due primarily to the start of a capital project of adding a new well to the existing well field.
- The Sewer Fund cash balance decreased by \$3,599 to \$(10,249), due primarily to expenses exceeding revenues.
- The Water Deposit Fund increased \$1,100 to \$3,331. This is due to the increase of new residents that are required to have a deposit.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, the City amended its operating budget once. The amendment was approved on May 5, 2005 to provide for additional expenditures in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$1,879,504 in bonds and other long-term debt compared to approximately \$1,960,000 last year shown as follows:

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30, 2005	June 30, 2004
General obligation bonds	\$ 565	\$ 590
Revenue bonds	718	910
Development agreements	596	460
Total	<u>\$ 1,879</u>	<u>\$ 1,960</u>

The Constitution of the State of Iowa limits the amount of general obligation debt that the City can issue to 5 percent of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$1,283,400 is well below the City’s \$2.908 million debt limit.

More detailed information about the City’s long-term liabilities is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2006 fiscal year budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Unemployment in the county now stands at 5.0 percent. This compares with the state unemployment rate of 4.6 percent.

The U.S. Consumer Price Index (CPI) is a measure of the changes in retail prices of a fixed market grouping of consumer goods and services. The CPI-U for July 2004 was 189.40. For the 12 month period that ended in July, the CPI-U increased 2.99 percent.

Property tax (benefitting from increases in valuation) and proceeds from the tax increment financing revenue are expected to lead an increase in the 2006 budget. The City will use these to finance programs currently offered and to defray the costs of carrying out the City's continued economic development. Budgeted disbursements are expected to rise due to increased wage and cost-of-living adjustments.

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 received. If you have questions about this report or need additional financial information, contact Nancy Earles, City Clerk, 203 E. Jefferson, P.O. Box 607, Prairie City, Iowa 50228.

BASIC FINANCIAL STATEMENTS

CITY OF PRAIRIE CITY

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2005

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Disbursements	Charges for Service and Sales	Operating Grants Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 222,052	\$ 73,624	\$ 31,475	\$ -	\$ (116,953)	\$ -	\$ (116,953)
Public works	172,808	-	113,494	-	(59,314)	-	(59,314)
Health and social services	400	-	-	-	(400)	-	(400)
Culture and recreation	134,907	7,952	26,553	-	(100,402)	-	(100,402)
Community and economic development	3,072	-	3,578	-	506	-	506
General government	104,658	18,581	5,758	-	(80,319)	-	(80,319)
Debt service	139,328	-	-	-	(139,328)	-	(139,328)
Capital projects	15,795	-	-	-	(15,795)	-	(15,795)
Total governmental activities	793,020	100,157	180,858	-	(512,005)	-	(512,005)
Business-type activities:							
Water	159,495	151,260	-	-	-	(8,235)	(8,235)
Sewer	67,506	65,007	-	-	-	(2,499)	(2,499)
Water deposits	1,450	-	1,600	-	-	150	150
Total business-type activities	228,451	216,267	1,600	-	-	(10,584)	(10,584)
Total	\$ 1,021,471	\$ 316,424	\$ 182,458	\$ -	(512,005)	(10,584)	(522,589)
General receipts:							
Property tax levied for:							
General purposes					216,332	-	216,332
Employee benefits					73,249	-	73,249
Tax increment financing					276,119	-	276,119
Unrestricted investment earnings					16,434	1,659	18,093
Miscellaneous					8,309	-	8,309
Transfers					28,594	(28,594)	-
Total general receipts and transfers					619,037	(26,935)	592,102
Change in cash basis net assets					107,032	(37,519)	69,513
Cash basis net assets beginning of year					1,258,218	59,800	1,318,018
Cash basis net assets end of year					\$ 1,365,250	\$ 22,281	\$ 1,387,531

CITY OF PRAIRIE CITY

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - CONTINUED

As of and for the year ended June 30, 2005

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for Service and Sales	Operating Grants Contributions and Restricted Interest	Capital Grants and Contributions Restricted Interest	Governmental Activities	Business-type Activities	Total
Cash Basis Net Assets						
Restricted:						
Streets				\$ 61,742	\$ -	\$ 61,742
Urban renewal purposes				617,462	-	617,462
Other purposes				554,500	-	554,500
Unrestricted				131,546	22,281	153,827
Total cash basis net assets				<u>\$ 1,365,250</u>	<u>\$ 22,281</u>	<u>\$ 1,387,531</u>

See notes to financial statements.

CITY OF PRAIRIE CITY

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2005

	General	Special Revenue		Debt Service	Permanent	Other Nonmajor Governmental Funds	Total
		Road Use Tax	Urban Renewal Tax Increment Financing		Cemetery Perpetual Care		
Receipts:							
Property taxes	\$ 216,332	\$ -	\$ -	\$ -	\$ -	\$ 73,249	\$ 289,581
Tax increment financing collections	-	-	276,119	-	-	-	276,119
Uses of money and property	16,434	-	3,064	-	-	1,501	20,999
Intergovernmental	27,689	113,494	-	-	-	1,333	142,516
Charges for service	99,595	-	-	-	562	-	100,157
Contributions	2,074	-	-	-	-	28,019	30,093
Miscellaneous	8,261	-	-	-	-	48	8,309
Total receipts	370,385	113,494	279,183	-	562	104,150	867,774
Disbursements:							
Operating:							
Public safety	220,600	-	-	-	-	1,452	222,052
Public works	77,454	82,587	12,767	-	-	-	172,808
Health and social services	400	-	-	-	-	-	400
Culture and recreation	112,570	-	22,337	-	-	-	134,907
Community and economic development	3,072	-	-	-	-	-	3,072
General government	104,658	-	-	-	-	-	104,658
Debt service	-	-	-	139,328	-	-	139,328
Capital projects	12,767	3,028	-	-	-	-	15,795
Total disbursements	531,521	85,615	35,104	139,328	-	1,452	793,020
Excess (deficiency) of receipts over (under) disbursements	(161,136)	27,879	244,079	(139,328)	562	102,698	74,754
Other financing sources (uses):							
Operating transfers in	290,011	-	-	139,328	-	-	429,339
Operating transfers (out)	(109,838)	(6,900)	(102,969)	-	-	(104,185)	(323,892)
Total other financing sources (uses)	180,173	(6,900)	(102,969)	139,328	-	(104,185)	105,447
Net change in cash balances	19,037	20,979	141,110	-	562	(1,487)	180,201
Cash balances beginning of year	114,509	40,763	476,352	-	154,642	88,743	875,009
Cash balances end of year	\$ 133,546	\$ 61,742	\$ 617,462	\$ -	\$ 155,204	\$ 87,256	\$ 1,055,210

CITY OF PRAIRIE CITY

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES - CONTINUED
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2005

	Special Revenue			Debt Service	Permanent	Other Nonmajor Governmental Funds	Total
	General	Road Use Tax	Urban Renewal Tax Increment Financing		Cemetery Perpetual Care		
Cash Basis Fund Balances							
Unreserved:							
General fund	\$ 131,546	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131,546
Special revenue funds	-	61,742	617,462	-	-	89,256	768,460
Permanent funds	-	-	-	-	155,204	-	155,204
Total cash basis fund balances	<u>\$ 131,546</u>	<u>\$ 61,742</u>	<u>\$ 617,462</u>	<u>\$ -</u>	<u>\$ 155,204</u>	<u>\$ 89,256</u>	<u>\$ 1,055,210</u>

See notes to financial statements.

CITY OF PRAIRIE CITY

RECONCILIATION OF THE STATEMENT OF CASH
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
Governmental Funds

As of and for the year ended June 30, 2005

Total governmental funds cash balances (page 14) \$ 1,055,210

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

The Internal Service Fund is used by management to charge the costs of partial self funding of the City’s equipment purchases to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

310,040

Cash basis net assets of governmental activities (page 11) \$ 1,365,250

Net change in cash balances (page 13) \$ 180,201

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

The Internal Service Fund is used by management to charge the costs of equipment purchases to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

(73,169)

Change in cash balance of governmental activities (page 11) \$ 107,032

See notes to financial statements.

CITY OF PRAIRIE CITY

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise Funds					Internal Service Fund
	Water	Water Revenue Note Sinking	Sewer	Meter Deposits	Total	Equipment Replacement
Operating receipts:						
Charges for service	\$ 137,322	\$ -	\$ 59,188	\$ -	\$ 196,510	\$ -
Use of money and property	1,659	-	-	-	1,659	3,058
Miscellaneous	13,938	-	5,819	1,600	21,357	626
Total operating receipts	152,919	-	65,007	1,600	219,526	3,684
Operating disbursements:						
Business-type activities	159,495	-	67,506	1,450	228,451	-
Total operating disbursements	159,495	-	67,506	1,450	228,451	-
Excess (deficiency) of operating receipts over (under) operating disbursements	(6,576)	-	(2,499)	150	(8,925)	3,684
Other financing sources (uses):						
Operating transfers in	24,000	34,758	-	950	59,708	109,100
Operating transfers (out)	(49,308)	(37,894)	(1,100)	-	(88,302)	(185,953)
Total other financing sources (uses)	(25,308)	(3,136)	(1,100)	950	(28,594)	(76,853)
Net change in cash balances	(31,884)	(3,136)	(3,599)	1,100	(37,519)	(73,169)
Cash balances beginning of year	61,083	3,136	(6,650)	2,231	59,800	383,209
Cash balances end of year	\$ 29,199	\$ -	\$ (10,249)	\$ 3,331	\$ 22,281	\$ 310,040
Cash Basis Fund Balances						
Reserved for equipment replacement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 310,040
Unreserved	29,199	-	(10,249)	3,331	22,281	-
Total cash basis fund balances	\$ 29,199	\$ -	\$ (10,249)	\$ 3,331	\$ 22,281	\$ 310,040

See notes to financial statements.

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Prairie City is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1852 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Prairie City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organization for which the City is not financially accountable or that the nature and significance of the relationship with the City is such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions; The Safety Coalition of Central Iowa Communities and Jasper Count Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of the 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 Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Continued

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unreserved net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are 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 other 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 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 road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation debt.

The Cemetery Perpetual Care Fund is utilized to account for monies set aside from a portion of each cemetery lot sale for the care of the cemetery.

The City reports the following major proprietary funds:

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

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Continued

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

The Meter Deposits Fund accounts for water meter utility deposits by residents.

The City also reports the following additional proprietary fund:

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

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.

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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, all functions were within the budget guidelines. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the capital projects fund.

(2) CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2005 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.

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(2) CASH AND POOLED INVESTMENTS

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 and the Treasurer of the State of Iowa; 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's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City had investments at June 30, 2005 are as follows:

Type	Carrying Amount	Fair Value
Savings	\$ 19,101	\$ 19,101
Certificates of deposit	929,931	929,931
Total	\$ 949,032	\$ 949,032

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$348,315 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

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

(3) BONDS PAYABLE

Annual debt service requirements for drinking water bonds, revenue drinking water bonds, and TIF revenue bonds are as follows:

Year Ending June 30,	General Obligation		Revenue Bonds				Total	
	Drinking Water Bond		Drinking Water Bond		CIA/RAD - TIF		Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2006	\$ 26,000	\$ 21,696	\$ 20,000	\$ 16,896	\$ 34,800	\$ 9,326	\$ 80,800	\$ 47,918
2007	27,000	20,698	21,000	16,128	34,800	8,161	82,800	44,987
2008	28,000	19,661	22,000	15,322	34,800	6,995	84,800	41,978
2009	29,000	18,586	23,000	14,477	34,800	5,829	86,800	38,892
2010	31,000	16,472	24,000	13,594	34,800	4,663	89,800	34,729
2011	32,000	15,282	25,000	12,672	34,800	3,497	91,800	31,451
2012	33,000	15,053	26,000	11,712	34,800	2,332	93,800	29,097
2013	34,000	13,786	26,000	10,714	34,800	1,166	94,800	25,666
2014	35,000	12,480	28,000	9,715	-	-	63,000	22,195

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(3) BONDS PAYABLE - CONTINUED

Year Ending June 30,	General Obligation		Revenue Bonds				Total	
	Drinking Water Bond		Drinking Water Bond		CIA/RAD - TIF		Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2015	\$ 37,000	\$ 11,136	\$ 29,000	\$ 8,640	\$ -	\$ -	\$ 66,000	\$ 19,776
2016	38,000	9,715	30,000	7,526	-	-	68,000	17,241
2017	40,000	8,256	31,000	6,374	-	-	71,000	14,630
2018	41,000	6,720	32,000	5,184	-	-	73,000	11,904
2019	43,000	5,146	33,000	3,955	-	-	76,000	9,101
2020	45,000	3,494	34,000	2,688	-	-	79,000	6,182
2021	46,000	1,766	36,000	1,382	-	-	82,000	3,148
	<u>\$ 565,000</u>	<u>\$ 199,947</u>	<u>\$ 440,000</u>	<u>\$ 156,979</u>	<u>\$ 278,400</u>	<u>\$ 41,969</u>	<u>\$ 1,283,400</u>	<u>\$ 398,895</u>

In December 2000, pursuant to the provisions of section 384.24A of the Code of Iowa, the City entered into a water revenue loan and disbursement agreement in a principal amount of \$515,000 and a general obligation water loan and disbursement agreement in a principal amount of \$660,000 for the purpose of paying costs in connection with the construction of improvements and extensions to the utility. The agreement was between the City of Prairie City, The Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. as trustee under the Drinking Water State Revolving Fund trust indenture dated June 1, 1999.

The City issued its Urban Renewal Tax Increment Revenue Bond, Series 2003 (the "2003 Bond") in the amount of \$348,000, dated July 14, 2003, bearing interest at the rate of 3.5% per annum, payable on June 1, 2004 and on each June 1 and December 1 thereafter until maturity.

Principal installments in the amount of \$34,800 each shall be paid on each June 1, beginning June 1, 2004, and continuing through and including June 1, 2013.

The 2003 Bond is not payable from the general funds of the Issuer and is not a general obligation of the Issuer, but the 2003 Bond is payable solely and only from the income and proceeds of the Urban Renewal Tax Revenue Fund (the "Fund"), established by resolution of the City Council of the Issuer with respect to the Prairie City Urban Renewal Area, and portions of taxes to be paid into the Fund as referred to and authorized in Subsection 2 of Section 403.19 of the Code of Iowa, which Fund and portion of taxes have been pledged to the payment of the 2003 Bond as provided by statute.

(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.

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(4) PENSION AND RETIREMENT BENEFITS - CONTINUED

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, was \$20,584, equal to the required contributions for the year.

(5) COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and compensation 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 these earned vacation and sick leave termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 17,648
Compensation	<u>23,785</u>
Total	<u>\$ 41,433</u>

This liability has been computed based on rates of pay as of June 30, 2005.

(6) INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Enterprise:	Internal Service Fund:	
Water	Equipment Replacement Fund	\$ 24,000
Water Sinking Fund	Enterprise:	
	Water	34,758
Meter Deposits	Water	950
Internal Service Fund:		
Equipment Replacement Fund	General Fund	87,500
	Special Revenue:	
	Road Use Fund	6,900
	Enterprise:	
	Water	13,600
	Sewer	1,100

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(6) INTERFUND TRANSFERS - CONTINUED

Transfer to	Transfer from	Amount
Debt Service Fund:	Special Revenue:	
	Tax Increment Financing	101,434
	Enterprise:	
	Water Sinking Fund	37,894
General:	General:	
	Celebration - Other	3,703
	Celebration - Trust	12,222
	Park Trust	6,414
	Special Revenue:	
	Employee Benefits	73,249
	Library Trust	2,488
	Police Trust	1,762
	Fire Trust	5,554
	Tax Increment/Financing	1,534
	Park Trust	14,158
	Schalk Trust	6,959
	Ambulance Trust	15
	Internal Service Fund	
	Equipment Replacement Fund	<u>161,953</u>
 Total		 <u>\$ 598,147</u>

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

(7) RISK MANAGEMENT

The City of Prairie 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.

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(8) ACCOUNTING CHANGE

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2005. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

(9) DEFICIT FUND BALANCE

The sewer fund had a deficit balance of \$10,249 at June 30, 2005. The deficit balance was a result of a \$50,000 lagoon cleaning in 1993 without a rate change. The rates have since been adjusted as of September 1, 2005 to eliminate this deficit.

(10) DEVELOPMENT AGREEMENTS

Development agreements were entered into with developers who are planning to construct certain facilities and public improvements located within the Prairie City Urban Renewal Area as follows:

<u>Agreement Date</u>	<u>Developer</u>	<u>Interest Rate</u>	<u>Balance June 30, 2005</u>
September 9, 1999	Casey's General Stores/ F & M Bank	6.0%	\$ 230,000
April 4, 2002	Dr. James W. Pollard Rolling Prairie Estates, Plat 1	-	\$ 366,104

The obligations to the developers are paid as incremental property taxes are received by the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PRAIRIE CITY

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Less Funds not Required to Be Budgeted	Net	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
					Original	Final	
Receipts:							
Property tax	\$ 289,581	\$ -	\$ -	\$ 289,581	\$ 283,553	\$ 283,553	\$ 6,028
Tax increment financing collections	276,119	-	-	276,119	233,989	233,989	42,130
Other city tax	-	-	-	-	8,159	8,159	(8,159)
Licenses and permits	-	-	-	-	6,540	11,540	(11,540)
Uses of money and property	20,999	4,717	3,058	22,658	40,510	40,510	(17,852)
Intergovernmental	142,516	-	-	142,516	132,950	136,950	5,566
Charges for service	100,157	196,510	-	296,667	373,265	373,265	(76,598)
Contributions	30,093	-	-	30,093	-	-	30,093
Miscellaneous	8,309	21,983	626	29,666	5,300	5,300	24,366
Total receipts	867,774	223,210	3,684	1,087,300	1,084,266	1,093,266	(5,966)
Disbursements:							
Public safety	222,052	-	-	222,052	225,825	229,825	7,773
Public works	172,808	-	-	172,808	276,707	276,707	103,899
Health and social services	400	-	-	400	1,000	1,000	600
Culture and recreation	134,907	-	-	134,907	141,040	184,040	49,133
Community and economic development	3,072	-	-	3,072	51,540	66,540	63,468
General government	104,658	-	-	104,658	97,466	105,666	1,008
Debt service	139,328	-	-	139,328	167,998	167,998	28,670
Capital projects	15,795	-	-	15,795	10,000	10,000	(5,795)
Business-type activities	-	228,451	-	228,451	280,104	280,104	51,653
Total disbursements	793,020	228,451	-	1,021,471	1,251,680	1,321,880	300,409
Excess (deficiency) of receipts over disbursements	74,754	(5,241)	3,684	65,829	(161,414)	(228,614)	(294,443)
Other financing sources (uses), net:	105,447	(105,447)	(76,853)	76,853	2,000	2,000	74,537
Excess (deficiency) of receipts over (under) disbursements and other financing uses	180,201	(110,688)	(73,169)	142,682	(165,414)	(226,614)	(219,906)
Balances beginning of year	875,009	443,009	383,209	934,809	1,229,410	1,229,410	294,601
Balances end of year	\$ 1,055,210	\$ 332,321	\$ 310,040	\$ 1,077,491	\$ 1,063,996	\$ 1,002,796	\$ 74,695

See accompanying independent auditor's report.

CITY OF PRAIRIE CITY

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information 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 Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital project 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, two budget amendments increased budgeted disbursements by \$70,200. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the capital project function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF PRAIRIE CITY

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2005

	Special Revenue								Total	
	Employee Benefits	Fire Trust	Library Trust	Ambulance Trust	Police Trust	Park Trust	Economic Development	Schalk Fund		Cemetery Donations
Receipts:										
Property tax	\$ 73,249	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,249
Uses of money and property	-	86	244	47	5	317	514	245	43	1,501
Intergovernmental	-	-	1,333	-	-	-	-	-	-	1,333
Contributions	-	980	2,033	350	2,318	22,338	-	-	-	28,019
Miscellaneous	-	48	-	-	-	-	-	-	-	48
Total receipts	73,249	1,114	3,610	397	2,323	22,655	514	245	43	104,150
Disbursements:										
Operating:										
Public safety	-	-	-	-	1,452	-	-	-	-	1,452
Public works	-	-	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-	-	-	-
Total disbursements	-	-	-	-	1,452	-	-	-	-	1,452
Excess (deficiency) of receipts over (under) disbursements	73,249	1,114	3,610	397	871	22,655	514	245	43	102,698
Other financing uses:										
Operating transfers (out)	(73,249)	(5,554)	(2,488)	(15)	(1,762)	(14,158)	-	(6,959)	-	(104,185)
Net change in cash balances	-	(4,440)	1,122	382	(891)	8,497	514	(6,714)	43	(1,487)
Cash balances beginning of year	-	5,182	13,346	3,628	1,926	14,816	30,209	17,123	2,513	88,743
Cash balances end of year	\$ -	\$ 742	\$ 14,468	\$ 4,010	\$ 1,035	\$ 23,313	\$ 30,723	\$ 10,409	\$ 2,556	\$ 87,256
Cash Basis Fund Balances										
Unreserved:										
Special revenue funds	\$ -	\$ 742	\$ 14,468	\$ 4,010	\$ 1,035	\$ 23,313	\$ 30,723	\$ 10,409	\$ 2,556	\$ 87,256

See accompanying independent auditor's report.

CITY OF PRAIRIE CITY

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation bonds:								
Corporate Purpose - drinking water bond	Feb. 9, 2001	3.84%	\$ 660,000	\$ 590,000	\$ -	\$ 25,000	\$ 565,000	\$ 22,656
Revenue bonds:								
Drinking water bond	Dec. 9, 2000	3.84	515,000	460,000	-	20,000	440,000	17,664
CIA/RAD Infrastructure project	July 14, 2003	3.35	348,000	313,200	-	34,800	278,400	10,554
				773,200	-	54,800	718,400	28,218
Development agreements:								
Casey's/F & M Bank	Sept. 9, 1999	6.00	230,000	230,000	-	-	230,000	7,175
Rolling Prairie Estates	April 4, 2002	-	367,000	367,000	-	896	366,104	-
				597,000	-	896	596,104	7,175
Total				\$1,960,200	\$ -	\$ 80,696	\$1,879,504	\$ 58,049

See accompanying independent auditor's report.

CITY OF PRAIRIE CITY

BOND MATURITIES

June 30, 2005

Year Ending June 30,	<u>General Obligation Bonds</u> <u>Drinking Water Bonds</u> <u>Issued December 9, 2000</u>		<u>Revenue Bonds</u> <u>Drinking Water Bonds</u> <u>Issued December 9, 2000</u>		<u>Revenue Bonds</u> <u>CIA/RAD TIF</u> <u>Issued July 14, 2003</u>		<u>TIF Development</u> <u>Agreement</u> <u>Casey's/F&M Bank</u> <u>Issued September 9, 1999</u>		<u>TIF Development</u> <u>Agreement</u> <u>Rolling Prairie Estates</u> <u>Issued April 4, 2002</u>		<u>Total</u>
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	
2006	3.84%	\$ 26,000	3.84%	\$ 20,000	3.35%	\$ 34,800	6.00%	\$ *	-	\$ *	\$ 80,800
2007	3.84	27,000	3.84	21,000	3.35	34,800	6.00	-	-	-	82,800
2008	3.84	28,000	3.84	22,000	3.35	34,800	6.00	-	-	-	84,800
2009	3.84	29,000	3.84	23,000	3.35	34,800	6.00	-	-	-	86,800
2010	3.84	31,000	3.84	24,000	3.35	34,800	6.00	-	-	-	89,800
2011	3.84	32,000	3.84	25,000	3.35	34,800	6.00	230,000	-	-	321,800
2012	3.84	33,000	3.84	26,000	3.35	34,800	-	-	-	-	93,800
2013	3.84	34,000	3.84	26,000	3.35	34,800	-	-	-	-	94,800
2014	3.84	35,000	3.84	28,000	-	-	-	-	-	366,104	429,104
2015	3.84	37,000	3.84	29,000	-	-	-	-	-	-	66,000
2016	3.84	38,000	3.84	30,000	-	-	-	-	-	-	68,000
2017	3.84	40,000	3.84	31,000	-	-	-	-	-	-	71,000
2018	3.84	41,000	3.84	32,000	-	-	-	-	-	-	73,000
2019	3.84	43,000	3.84	33,000	-	-	-	-	-	-	76,000
2020	3.84	45,000	3.84	34,000	-	-	-	-	-	-	79,000
2021	3.84	46,000	3.84	36,000	-	-	-	-	-	-	82,000
Total		<u>\$ 565,000</u>		<u>\$ 440,000</u>		<u>\$ 278,400</u>		<u>\$ 230,000</u>		<u>\$ 366,104</u>	<u>\$ 1,879,504</u>

* Based on TIF taxes collected.

See accompanying independent auditor's report.

CITY OF PRAIRIE CITY

SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL AND PROPRIETARY FUNDS

	<u>Years ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
	Unaudited	
Receipts:		
Property tax	\$ 289,581	\$ 278,973
Tax increment financing collections	276,119	250,528
Use of money and property	25,716	20,086
Intergovernmental	142,516	152,171
Charges for service	296,667	288,068
Contributions	30,093	-
Miscellaneous	30,292	102,176
Total	<u>1,090,984</u>	<u>1,092,002</u>
Disbursements:		
Public safety	222,052	256,765
Public works	172,808	204,968
Health and social services	400	400
Culture and recreation	134,907	439,155
Community and economic development	3,072	9,252
General government	104,658	90,322
Debt service	139,328	142,916
Capital projects	15,795	-
Business-type activities	228,451	247,168
Total	<u>\$1,021,471</u>	<u>\$1,390,946</u>

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:

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 Prairie City, Iowa as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 15, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Prairie City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-05.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Prairie City and other parties to whom the City of Prairie City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Martens & Company, CPA, P.C.

West Des Moines, Iowa
September 15, 2005

CITY OF PRAIRIE CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was 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 accepting accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF PRAIRIE CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-05 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. We noted that the following functions are not entirely segregated: cash receipts, general ledger posting, reconciliations and securities control and custody.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. The City administrator could reconcile the bank accounts to provide a measure of control.

Response - We are continuing to work on this by cross-training of personnel to handle various duties. We believe it will never be perfect because of the limited number of personnel in the office.

Conclusion - Response accepted.

II-B-05 Control Over Assets - We noted that there are no periodic comparisons of amounts recorded by the accounting system with physical assets.

Recommendation - The City should require each department to inventory all City equipment in its possession once each year. This would then be compiled into a master list by the City Administrator for comparison with City records and future inventories. This would help in the insuring of City assets and also in the prevention of the disappearance of expensive items such as computers, etc.

Response - Those procedures will be implemented as recommended.

Conclusion - Response accepted.

CITY OF PRAIRIE CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting:

III-A-05 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

III-B-05 Certified Budget - Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the capital projects functions. Chapter 384.20 of the Code of Iowa states in part that 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.

Conclusion - Response accepted.

III-C-05 Questionable Disbursements - We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-D-05 Travel Expenses - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-E-05 Business Transactions - We noted no business transactions between the City and City officials or other employees.

III-F-05 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-G-05 Council Minutes - No transactions were found that we believe should have been approved in the Council Minutes but were not.

III-H-05 Revenue Bonds - All provisions of the revenue bond requirements have been met.

III-I-05 Deposits and Investments - We noted 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.

CITY OF PRAIRIE CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting :

III-J-05 Transfers - The City transferred water revenue funds and TIF funds to pay water and TIF obligations, out of the debt service fund that was not a general obligation of the City.

Recommendation - TIF obligations to developers should be paid from the tax increment account in accordance with Chapter 403.19(2) of the Code of Iowa. Only general obligation debt should be paid from the debt service fund in accordance with Chapter 384.4 of the Code of Iowa.

Response - We will pay developer agreement obligations out of the TIF fund in the future.

Conclusion - Response accepted.

III-K-05 Financial Condition - The Sewer Fund had a deficit balance at June 30, 2005 of \$10,249.

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

Response - The deficit was due to lagoon cleaning costs incurred prior to an adjustment of the sewer rates. Rates were readjusted on September 1, 2005.

Conclusion - Response accepted.