

CITY OF PRAIRIE CITY

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

June 30, 2008

CITY OF PRAIRIE CITY

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CITY OF PRAIRIE CITY

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
Lester H. Evans	Mayor	Jan 2010
Gary Johnson	Mayor Pro-Tem	Jan 2010
Noel Brown	Council Member	Jan 2010
Phil Reeter	Council Member	Jan 2012
Dan Kuecker	Council Member	Jan 2010
Larry Wenthe	Council Member	Jan 2012
Louis Modlin	Chief of Police	Indefinite
Jerold L. Williams	City Administrator	Indefinite
Nancy J. Earles	City Clerk	Indefinite
Randal Caldwell	City Attorney	Indefinite
(After January 2008)		
Lester H. Evans	Mayor	Jan 2010
Gary Johnson	Mayor Pro-Tem	Jan 2010
Dan Kuecker	Council Member	Jan 2010
Noel Brown	Council Member	Jan 2010
Larry Wenthe	Council Member	Jan 2012
Phil Reeter	Council Member	Jan 2012
Louis Modlin	Chief of Police	Indefinite
Andrew Elbert	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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West Des Moines, Iowa 50266

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FAX: (515)-223-0851

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, 2008, 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 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 opinions.

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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2007, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Prairie City at June 30, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2008 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 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 10 and 27 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted

principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Prairie City's basic financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2007, as discussed in the third paragraph, is fairly stated in all material respects in relations to the basic financial statements taken as a whole.

The 2007 information identified in Schedule 4 is presented for purposes of additional analysis and is not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Martens & Company, CPA, LLP

West Des Moines, Iowa
November 24, 2008

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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 68.2%, or approximately \$840,000, from fiscal 2007 to fiscal 2008. Property tax increased approximately \$28,000, note proceeds increased \$363,000, grant proceeds increased \$459,000, and local option tax increased \$38,000.
- Disbursements of the City's governmental activities increased 42.5%, or approximately \$558,000, in fiscal 2008 from fiscal 2007. Culture and recreation, community and economic development, general government and capital projects disbursements increased approximately \$12,000, \$9,000, \$25,000 and \$515,000, respectively.
- The City's total cash basis net assets increased 12%, or approximately \$173,000, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased approximately \$202,000 and the assets of the business type activities decreased approximately \$28,000.

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. In addition, the schedule of expenditures of federal awards provides details of various federal programs benefiting the City.

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. 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, 4) the Capital Projects Fund and 5) the Permanent 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 three 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 \$1.4 million to \$1.602 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)		
	Year ended June 30,	
	<u>2008</u>	<u>2007</u>
Receipts and transfers:		
Program receipts:		
Charges for service and sales	\$ 155	\$ 156
Operating grants, contributions and restricted interest	167	163
Capital grants, contributions and restricted interest	511	52
General receipts:		
Property tax	669	641
Local option sales tax	103	65
Other city tax	5	6
Unrestricted investment earnings	24	76
Other general receipts	61	59
Loan proceeds	<u>363</u>	<u>-</u>
Total receipts	<u>2,058</u>	<u>1,218</u>
Disbursements:		
Public safety	274	286
Public works	324	315
Culture and recreation	174	162
Community and economic development	54	45
General government	140	115
Debt service	69	69
Capital projects	<u>836</u>	<u>321</u>
Total disbursements	<u>1,871</u>	<u>1,313</u>
Increase in cash balance	187	(95)
Transfers, net	<u>15</u>	<u>13</u>
	202	(82)
Cash basis net assets beginning of year	<u>1,400</u>	<u>1,482</u>
Cash basis net assets end of year	<u>\$ 1,602</u>	<u>\$ 1,400</u>

The City’s total receipts for governmental activities increased by 68.4 percent (\$840,000). The total cost of all programs and services increased by approximately \$558,000 or 42.5 percent due primarily to increased capital project expenses. The significant increase in receipts was primarily the result of proceeds received from a federal grant of \$511,000 and note proceeds of \$363,000.

The City increased property tax rates for 2008 by an average of 4.3%. This increase raised the City’s property tax receipts approximately \$28,000 in 2008. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase an additional \$69,500 next year.

The cost of all governmental activities this year was \$1.871 million compared to \$1.313 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 \$1.039 million because some of the cost was paid by those directly benefitted from the programs (\$154,197) or by other governments and organizations that subsidized certain programs with grants and contributions (\$677,987). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, increased in 2008 from approximately \$371,000 to approximately \$833,000, 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 \$777,000 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)		
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service and sales:		
Water	\$ 193	\$ 199
Sewer	81	84
General receipts:		
Miscellaneous	8	9
Unrestricted interest on investments	1	2
Total receipts	<u>283</u>	<u>294</u>
Disbursements:		
Water	210	200
Sewer	86	94
Total disbursements and transfers	<u>296</u>	<u>294</u>
Increase (decrease) in cash balance	(13)	-
Transfers	<u>(15)</u>	<u>(15)</u>
	(28)	(15)
Cash basis net assets beginning of year	<u>50</u>	<u>65</u>
Cash basis net assets end of year	<u>\$ 22</u>	<u>\$ 50</u>

Total business-type activities receipts for the fiscal year were \$283 thousand compared to \$294 thousand last year. The cash balance decrease by approximately \$28,000 from the prior year. Total disbursements for the fiscal year increased by approximately .6 percent to a total of \$296 thousand.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Prairie City completed the year, its governmental funds reported a combined fund balance of \$1,176,961, an increase of more than \$137,000 above last year's total of \$1,039,755. 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 decreased \$52,573 from the prior year to \$18,523, due primarily to increased expenses in the area of culture and recreation and the area of community and economic development.
- The Road Use Tax Fund cash balance decreased by \$49,208 to \$(23,777) during the fiscal year. This decrease was attributable to extra seal coating projects during the 2008 fiscal year.

- The Urban Renewal Tax Increment Financing Fund increased by \$118,995 to \$791,549 during the fiscal year. This was due to the increased taxable valuation in the district and several new homes in the TIF area.
- The Debt Service Fund cash balance decreased \$127 from the prior year to \$(105).
- The Capital Projects Fund cash balance increased \$77,680 due to unspent loan proceeds still on hand at June 30, 2008.
- The Cemetary Perpetual Care Fund cash balance increased \$1,188 to \$157,767 due to sales of cemetary lots.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$22,963 to \$29,258, due primarily to increased expenses.
- The Sewer Fund cash balance decreased by \$5,469 to \$(7,244), due primarily to expenses exceeding revenues.

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 6, 2008 to provide for additional expenditures in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City’s receipts were \$91,246 more than budgeted. This was primarily due to the City receiving more in intergovernmental receipts than anticipated, even after the amendments.

Even with the budget amendments, total disbursements were \$761,509 less than the amended budget. However, the actual disbursements for the capital project, culture and recreation and community and economic development functions were \$484,410, \$92,609 and \$74,941, respectively, less than the amended budget. This was primarily due to the City delaying purchases.

The City exceeded the amounts budgeted in the public works and debt service functions for the year ended June 30, 2008 due to costs for solid waste bins and a miscalculation of the budget amendment for debt service.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$1,452,000 in bonds and notes compared to \$1,191,800 last year shown as follows:

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30, 2008	June 30, 2007
General obligation bonds and notes	\$ 1,075	\$ 793
Revenue bonds	377	399
Total	<u>\$ 1,452</u>	<u>\$ 1,192</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 \$901,000 plus developer rebate agreements of \$1,043,600 are well below the City's \$3.027 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 2008 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 7.0 percent. This compares with the state unemployment rate of 4.3 percent and the national rate of 3.9%.

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 2007 was \$208.299. For the 12 month period that ended in July, the CPI-U increased 5.6 percent.

Property tax (benefiting from increases in valuation) and proceeds from the tax increment financing revenue are expected to lead an increase in the 2009 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, 2008

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 273,695	\$ 61,289	\$ 18,081	\$ -	\$ (194,325)	\$ -	\$ (194,325)
Public works	323,735	74,583	116,943	-	(132,209)	-	(132,209)
Health and social services	400	-	-	-	(400)	-	(400)
Culture and recreation	173,881	3,674	26,646	-	(143,561)	-	(143,561)
Community and economic development	54,359	-	-	-	(54,359)	-	(54,359)
General government	140,228	14,651	5,417	-	(120,160)	-	(120,160)
Debt service	69,157	-	-	-	(69,157)	-	(69,157)
Capital projects	835,496	-	-	510,900	(324,596)	-	(324,596)
Total governmental activities	<u>1,870,951</u>	<u>154,197</u>	<u>167,087</u>	<u>510,900</u>	<u>(1,038,767)</u>	<u>-</u>	<u>(1,038,767)</u>
Business-type activities:							
Water	172,923	193,388	-	-	-	20,465	20,465
Water revenue note sinking	37,521	-	-	-	-	(37,521)	(37,521)
Sewer	85,777	81,223	-	-	-	(4,554)	(4,554)
Total business-type activities	<u>296,221</u>	<u>274,611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,610)</u>	<u>(21,610)</u>
Total	<u>\$ 2,167,172</u>	<u>\$ 428,808</u>	<u>\$ 167,087</u>	<u>\$ 510,900</u>	<u>(1,038,767)</u>	<u>(21,610)</u>	<u>(1,060,377)</u>
General receipts:							
Property tax levied for:							
General purposes					237,274	-	237,274
Employee benefits					89,715	-	89,715
Tax increment financing					342,243	-	342,243
Other city tax					5,257	-	5,257
Local option sales tax					103,380	-	103,380
Loan proceeds					363,000	-	363,000
Unrestricted investment earnings					24,087	674	24,761
Miscellaneous					60,162	7,828	67,990
Transfers					15,300	(15,300)	-
Total general receipts and transfers					<u>1,240,418</u>	<u>(6,798)</u>	<u>1,233,620</u>
Change in cash basis net assets					201,651	(28,408)	173,243
Cash basis net assets beginning of year					<u>1,400,488</u>	<u>50,475</u>	<u>1,450,963</u>
Cash basis net assets end of year					<u>\$ 1,602,139</u>	<u>\$ 22,067</u>	<u>\$ 1,624,206</u>

CITY OF PRAIRIE CITY

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - CONTINUED

As of and for the year ended June 30, 2008

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Disbursements	Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business type Activities	Total
Cash Basis Net Assets							
Restricted:							
Debt service					\$ -	\$ 53	\$ 53
Urban renewal purposes					791,549	-	791,549
Other purposes					390,771	-	390,771
Unrestricted					419,819	22,014	441,833
Total cash basis net assets					<u>\$ 1,602,139</u>	<u>\$ 22,067</u>	<u>\$ 1,624,206</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, 2008

	Special Revenue				Capital Projects	Permanent Cemetery Perpetual Care	Other Nonmajor Governmental Funds	Total
	General	Road Use Tax	Urban Renewal Tax Increment Financing	Debt Service				
Receipts:								
Property taxes	\$ 216,161	\$ -	\$ -	\$ 21,113	\$ -	\$ -	\$ 89,715	\$ 326,989
Tax increment financing	-	-	342,243	-	-	-	-	342,243
Other city tax	5,257	-	-	-	-	-	103,380	108,637
Licenses and permits	10,742	-	-	-	-	-	-	10,742
Use of money and property	22,948	-	16,009	-	-	-	3,689	42,646
Intergovernmental	18,615	116,943	-	-	510,900	-	1,142	647,600
Charges for service	142,267	-	-	-	-	1,188	-	143,455
Contributions	250	-	-	-	-	-	17,173	17,423
Miscellaneous	40,463	-	-	-	-	-	-	40,463
Total receipts	456,703	116,943	358,252	21,113	510,900	1,188	215,099	1,680,198
Disbursements:								
Operating:								
Public safety	273,695	-	-	-	-	-	-	273,695
Public works	132,459	159,251	32,025	-	-	-	-	323,735
Health and social services	400	-	-	-	-	-	-	400
Culture and recreation	116,249	-	8,265	-	-	-	-	124,514
Community and economic development	9,248	-	45,111	-	-	-	-	54,359
General government	140,228	-	-	-	-	-	-	140,228
Debt service	-	-	49,367	69,157	-	-	-	118,524
Capital projects	-	-	-	-	835,496	-	-	835,496
Total disbursements	672,279	159,251	134,768	69,157	835,496	-	-	1,870,951
Excess (deficiency) of receipts over (under) disbursements	(215,576)	(42,308)	223,484	(48,044)	(324,596)	1,188	215,099	(190,753)
Other financing sources (uses):								
Loan proceeds	-	-	-	-	363,000	-	-	363,000
Operating transfers in	198,533	-	-	47,917	39,276	-	-	285,726
Operating transfers (out)	(35,530)	(6,900)	(104,489)	-	-	-	(173,848)	(320,767)
Total other financing sources (uses)	163,003	(6,900)	(104,489)	47,917	402,276	-	(173,848)	327,959

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, 2008

	Special Revenue			Debt Service	Capital Projects	Permanent	Other Nonmajor Governmental Funds	Total
	General	Road Use Tax	Urban Renewal Tax Increment Financing			Cemetery Perpetual Care		
Net change in cash balances	\$ (52,573)	\$ (49,208)	\$ 118,995	\$ (127)	\$ 77,680	\$ 1,188	\$ 41,251	\$ 137,206
Cash balances beginning of year	71,096	25,431	672,554	22	(55,972)	156,579	170,045	1,039,755
Cash balances end of year	<u>\$ 18,523</u>	<u>\$ (23,777)</u>	<u>\$ 791,549</u>	<u>\$ (105)</u>	<u>\$ 21,708</u>	<u>\$ 157,767</u>	<u>\$ 211,296</u>	<u>\$ 1,176,961</u>
Unreserved:								
General fund	18,523	-	-	-	-	-	-	18,523
Special revenue funds	-	(23,777)	791,549	-	-	-	211,296	979,068
Debt service funds	-	-	-	(105)	-	-	-	(105)
Capital project funds	-	-	-	-	21,708	-	-	21,708
Permanent funds	-	-	-	-	-	157,767	-	157,767
Total cash basis fund balances	<u>\$ 18,523</u>	<u>\$ (23,777)</u>	<u>\$ 791,549</u>	<u>\$ (105)</u>	<u>\$ 21,708</u>	<u>\$ 157,767</u>	<u>\$ 211,296</u>	<u>\$ 1,176,961</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, 2008

Total governmental funds cash balances (page 14) \$ 1,176,961

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.

425,178

Cash basis net assets of governmental activities (page 11) \$ 1,602,139

Net change in cash balances (page 14) \$ 137,206

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.

64,445

Change in cash balance of governmental activities (page 11) \$ 201,651

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, 2008

	Enterprise				Internal
	Water	Water Revenue Note Sinking	Sewer	Total	Service Fund
Operating receipts:					Equipment Replacement
Charges for service	\$ 193,388	\$ -	\$ 81,223	\$ 274,611	\$ -
Miscellaneous	7,828	-	-	7,828	-
Total operating receipts	201,216	-	81,223	282,439	-
Operating disbursements:					
Business-type activities	172,923	-	85,777	258,700	-
Total operating disbursements	172,923	-	85,777	258,700	-
Excess (deficiency) of operating receipts over (under) operating disbursements	28,293	-	(4,554)	23,739	-
Non operating receipts (disbursements):					
Interest on investments	489	-	185	674	14,104
Debt service	-	(37,521)	-	(37,521)	-
Net non operating receipts (disbursements)	489	(37,521)	185	(36,847)	14,104
Excess (deficiency) of receipts over (under) disbursements	28,782	(37,521)	(4,369)	(13,108)	14,104
Other financing sources (uses):					
Operating transfers in	-	37,545	-	37,545	57,730
Operating transfers (out)	(51,745)	-	(1,100)	(52,845)	(7,389)
Total other financing sources (uses)	(51,745)	37,545	(1,100)	(15,300)	50,341
Net change in cash balances	(22,963)	24	(5,469)	(28,408)	64,445
Cash balances beginning of year	52,221	29	(1,775)	50,475	360,733
Cash balances end of year	\$ 29,258	\$ 53	\$ (7,244)	\$ 22,067	\$ 425,178
Cash Basis Fund Balances					
Reserved for debt payment	\$ -	\$ 53	\$ -	\$ 53	\$ -
Unreserved	29,258	-	(7,244)	22,014	425,178
Total cash basis fund balances	\$ 29,258	\$ 53	\$ (7,244)	\$ 22,067	\$ 425,178

See notes to financial statements.

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(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 and recreation, community and economic development 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 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 since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Jasper County Board of Supervisors, Safety Coalition of Central Iowa Communities, Jasper County Selective Enforcement Response Team, Mutual Fire Protection Agreements with Cities of Baxter, Mingo, Colfax, Monroe, Runnells, Reasnor, Lynnville, Sully, Kellogg, Newton and Benefited Fire Districts of West Malaka, Walnut Creek and Newton, Des Moines Township Trustees and the City of Monroe for mutual law enforcement.

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, 2008

(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 Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those that are financed through Enterprise Funds.

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.

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Continued

The City reports the following major proprietary funds:

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

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

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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs and then by general receipts.

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.

Enterprise funds apply all applicable GASB pronouncements as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principle Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 which do not conflict with or contradict GASB pronouncements and which apply to the comprehensive basis of accounting used.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public works and the debt service functions.

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Property Taxes

All City property taxes must be certified to the Jasper County Auditors on or before the fifteenth day of March of each year for the upcoming fiscal year which runs from July 1 to June 30. Property taxes are levied in June and attached as an enforceable lien on the property on July 1.

Property taxes levied for the year ending June 30, 2008, attached as an enforceable lien on July 1, 2007, with the first half installment being delinquent after September 30, 2007 and the second half installment being delinquent after March 31, 2008.

(2) CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2008 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, 2008, the City had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Savings	\$ 1,733	\$ 1,733
Certificates of deposit	<u>304,919</u>	<u>304,919</u>
Total	<u>\$ 306,652</u>	<u>\$ 306,652</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,135,117 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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.

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

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008

(3) BONDS AND NOTES PAYABLE

The following is a summary of the changes in the outstanding bonds payable of the City for the year ended June 30, 2008:

	Balance June 30, 2007	Issued	Redeemed	Balance June 30, 2008
Governmental activities				
General obligations bonds and notes	\$ 792,800	\$ 363,000	\$ 80,800	\$ 1,075,000
Business-type activities				
Revenue bonds	399,000	-	22,000	377,000
Total	<u>\$ 1,191,800</u>	<u>\$ 363,000</u>	<u>\$ 102,800</u>	<u>\$ 1,452,000</u>

Interest rates range from 3.35% to 4.40% on bonds. The City paid \$51,926 in interest on debt obligations for the year ended June 30, 2008.

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

Year Ending June 30,	General Obligation Corporate Purpose Bonds and Notes		Revenue Bonds		Revenue Notes		Total	
	Principal	Interest	Drinking Water Bond		CIA/RAD - TIF		Principal	Interest
			Principal	Interest	Principal	Interest		
2009	\$ 64,000	\$ 43,637	\$ 23,000	\$ 14,477	\$ 34,800	\$ 5,829	\$ 121,800	\$ 63,943
2010	67,000	40,724	24,000	13,594	34,800	4,663	125,800	58,981
2011	70,000	38,688	25,000	12,672	34,800	3,497	129,800	54,857
2012	54,000	37,519	26,000	11,712	34,800	2,332	114,800	51,563
2013	56,000	35,265	26,000	10,714	34,800	1,166	116,800	47,145
2014	58,000	32,925	28,000	9,715	-	-	86,000	42,640
2015	61,000	30,500	29,000	8,640	-	-	90,000	39,140
2016	63,000	27,951	30,000	7,526	-	-	93,000	35,477
2017	66,000	25,317	31,000	6,374	-	-	97,000	31,691
2018	69,000	22,559	32,000	5,184	-	-	101,000	27,743
2019	72,000	19,669	33,000	3,955	-	-	105,000	23,624
2020	75,000	16,654	34,000	2,688	-	-	109,000	19,342
2021	78,000	13,516	36,000	1,382	-	-	114,000	14,898
2022	32,000	10,246	-	-	-	-	32,000	10,246
2023	16,000	8,742	-	-	-	-	16,000	8,742
	<u>\$ 901,000</u>	<u>\$ 403,912</u>	<u>\$ 377,000</u>	<u>\$ 108,633</u>	<u>\$ 174,000</u>	<u>\$ 17,487</u>	<u>\$ 1,452,000</u>	<u>\$ 530,032</u>
2014-2018	317,000	139,252	150,000	37,439	-	-	467,000	176,691
2019-2023	273,000	68,827	103,000	8,025	-	-	376,000	76,852

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008

(3) BONDS AND NOTES PAYABLE - CONTINUED

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.

On June 30, 2006 the City issued a general obligation water improvement note in the amount of \$90,000. The note bears interest at the rate of 4.40% per annum, payable semi-annually, commencing June 1, 2007, principal payable in five equal annual installments in the amount of \$18,000 due each June 1 in each of the years 2007 to 2011, inclusive, but principal subject to prepayment prior to maturity.

On December 21, 2007, the City issued its general obligation corporate purpose note in the amount of \$533,000, bearing interest at the rate of 4.70% per annum. The City took an initial advance in the amount of \$363,000 at closing on December 21, 2007, and could take additional advances up to a total of \$533,000 from that date until June 1, 2008, but no additional advances were taken.

Principal of the Note is paid in eighteen equal annual installments in the amount of \$28,052.63 each on the first day of June in each of the years 2009 to and including 2026, with one final installment of principal in the amount of \$28,052.66 on June 1, 2027. Interest on the unpaid balance of the Note will be paid each June 1 and December 1, beginning December 1, 2008, and continuing to maturity.

The City reserves the right to prepay principal of the Note in any amount at any time.

The Note is a general obligation of the City, payable from an unlimited ad valorem property tax levy against all the taxable property in the City.

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008

(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.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% 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 year ended June 30, 2008 was \$23,952, 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, 2008, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 15,717
Sick	21,920
Compensation	<u>3,181</u>
Total	<u>\$ 40,818</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

(6) INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Enterprise:		
Water Sinking Fund	Enterprise: Water	\$ 37,545
Internal Service Fund:		
Equipment Replacement Fund	General Fund	\$ 35,530

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008

(6) INTERFUND TRANSFERS - CONTINUED

Transfer to	Transfer from	Amount
	Special Revenue:	
	Road Use Fund	6,900
	Enterprise:	
	Water	14,200
	Sewer	1,100
		<u>57,730</u>
Debt Service Fund:	Special Revenue:	
	Tax Increment Financing	47,917
General:	Special Revenue:	
	Employee Benefits	89,715
	Local option sales tax	58,660
	Library Trust	1,151
	Economic development	4,460
	Tax Increment/Financing	17,296
	Park Trust	18,303
	Ambulance Trust	1,559
	Internal Service Fund:	
	Equipment Replacement Fund	7,389
		<u>198,533</u>
Capital Projects:	Special Revenue:	
	Tax increment financing	39,276
		<u>39,276</u>
Total		<u><u>\$ 381,001</u></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, 2008

(8) DEFICIT FUND BALANCES

The City had deficit balances at June 30, 2008 as follows:

Fund	Amount
Special Revenue:	
Road use tax	\$ 23,777
Debt service	105
Enterprise:	
Sewer	7,244

The deficit balances are the result of costs incurred prior to availability of funds. The road use tax deficit was the result of applying extra seal coating not included in the budget. The new budget will eliminate this deficit. The debt service deficit resulted from receiving less taxes than budgeted. The deficit in the sewer fund will be eliminated by an increase in the sewer rate.

(9) 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:

Agreement Date	Developer	Interest Rate	Balance June 30, 2008
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	-	\$ 313,679
December 8, 2004	Rolling Prairie Estates, Plat 2	-	\$ 178,107
September 6, 2007	Southtown Estates	-	\$ 300,000

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

(10) TAX INCREMENT FINANCE LOAN AGREEMENT

On June 4, 2008 the City advanced \$50,000 under a 5 year loan of tax increment financing funds with the non-profit group, Citizens in Action for Recreational Area Development (C.I.A.R.A.D.). The loan is at (0%) percent with a \$10,000 loan payment each year of the agreement on the first day of the fiscal year (July 1).

CITY OF PRAIRIE CITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008

(11) RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$121,696 during the year ended June 30, 2008.

(12) REVENUE RESERVE BALANCES

Revenue reserve balances are not available for general operating use. They are included with their respective cash balances on Exhibit D. Cash balances for the year are summarized as follows:

	Water	Sewer	Total
General operation	\$ 18,808	\$ (7,244)	\$ 11,564
Water deposits	10,450	-	10,450
Sinking fund	53	-	53
	<u>\$ 29,311</u>	<u>\$ (7,244)</u>	<u>\$ 22,067</u>

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, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to Be Budgeted	Total	Budgeted Amounts		Final to Total Variance- Positive (Negative)
					Original	Final	
Receipts:							
Property tax	\$ 326,989	\$ -	\$ -	\$ 326,989	\$ 325,193	\$ 325,193	\$ 1,796
Tax increment financing collections	342,243	-	-	342,243	334,202	334,202	8,041
Other city tax	108,637	-	-	108,637	78,505	108,505	132
Licenses and permits	-	-	-	-	16,835	16,835	(16,835)
Uses of money and property	42,646	14,778	14,104	43,320	75,820	75,820	(32,500)
Intergovernmental	647,600	-	-	647,600	117,063	534,131	113,469
Charges for service	154,197	274,611	-	428,808	439,042	439,042	(10,234)
Contributions	17,423	-	-	17,423	-	-	17,423
Miscellaneous	40,463	7,828	-	48,291	5,300	15,613	32,678
Total receipts	1,680,198	297,217	14,104	1,963,311	1,391,960	1,849,341	113,970
Disbursements:							
Public safety	273,695	-	-	273,695	270,552	282,402	8,707
Public works	323,735	-	-	323,735	237,583	310,883	(12,852)
Health and social services	400	-	-	400	800	800	400
Culture and recreation	124,514	-	-	124,514	220,690	266,490	141,976
Community and economic development	54,359	-	-	54,359	120,800	129,300	74,941
General government	140,228	-	-	140,228	138,889	160,089	19,861
Debt service	118,524	-	-	118,524	69,085	69,085	(49,439)
Capital projects	835,496	-	-	835,496	35,000	1,319,906	484,410
Business-type activities	-	296,221	-	296,221	352,205	352,205	55,984
Total disbursements	1,870,951	296,221	-	2,167,172	1,445,604	2,891,160	723,988
Excess (deficiency) of receipts over disbursements	(190,753)	996	14,104	(203,861)	(53,644)	(1,041,819)	(837,958)
Other financing sources (uses), net:	327,959	35,041	50,341	312,659	2,000	478,500	(165,841)
Excess (deficiency) of receipts over (under) disbursements and other financing uses	137,206	36,037	64,445	108,798	(51,644)	(563,319)	672,117
Balances beginning of year	1,039,755	411,208	360,733	1,090,230	1,556,042	1,556,042	(465,812)
Balances end of year	\$ 1,176,961	\$ 447,245	\$ 425,178	\$ 1,119,028	\$ 1,504,398	\$ 992,723	\$ 206,305

See accompanying independent auditor's report.

CITY OF PRAIRIE CITY

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

June 30, 2008

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 nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital project funds, the permanent 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, a budget amendment increased budgeted disbursements by \$1,445,556. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public works fund and the debt service fund.

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, 2008

	Special Revenue								Total	
	Employee Benefits	Local Option Sales Tax	Fire Trust	Library Trust	Ambulance Trust	Police Trust	Park Trust	Economic Development		Cemetery Donations
Receipts:										
Property tax	\$ 89,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89,715
Other city tax	-	103,380	-	-	-	-	-	-	-	103,380
Use of money and property	-	-	334	663	415	16	984	1,176	101	3,689
Intergovernmental	-	-	-	1,142	-	-	-	-	-	1,142
Contributions	-	-	170	530	4,248	216	12,009	-	-	17,173
Total receipts	89,715	103,380	504	2,335	4,663	232	12,993	1,176	101	215,099
Disbursements	-	-	-	-	-	-	-	-	-	-
Excess of receipts over disbursements	89,715	103,380	504	2,335	4,663	232	12,993	1,176	101	215,099
Other financing uses:										
Operating transfers (out)	(89,715)	(58,660)	-	(1,151)	(1,559)	-	(18,303)	(4,460)	-	(173,848)
Net change in cash balances	-	44,720	504	1,184	3,104	232	(5,310)	(3,284)	101	41,251
Cash balances beginning of year	-	65,320	9,017	18,025	10,664	1,501	28,278	34,456	2,784	170,045
Cash balances end of year	\$ -	\$110,040	\$ 9,521	\$ 19,209	\$ 13,768	\$ 1,733	\$ 22,968	\$ 31,172	\$ 2,885	\$ 211,296
Cash Basis Fund Balances										
Unreserved:										
Special revenue funds	\$ -	\$110,040	\$ 9,521	\$ 19,209	\$ 13,768	\$ 1,733	\$ 22,968	\$ 31,172	\$ 2,885	\$ 211,296

See accompanying independent auditor's report.

CITY OF PRAIRIE CITY

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2008

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	\$ 512,000	\$ -	\$ 28,000	\$ 484,000	\$ 19,661
General obligation notes:								
Water improvement - Colfax well	Jun 30, 2006	4.40	90,000	72,000	-	18,000	54,000	3,240
Corporate purpose CIA/RAD project	Dec 21, 2007	4.70	533,000	-	363,000	-	363,000	7,488
TIF revenue note:								
CIA/RAD Infrastructure project	Jul 14, 2003	3.35	348,000	208,800	-	34,800	174,000	7,079
				<u>792,800</u>	<u>363,000</u>	<u>80,800</u>	<u>1,075,000</u>	<u>37,468</u>
Revenue bond:								
Drinking water bond	Feb 9, 2001	3.84	515,000	399,000	-	22,000	377,000	15,322
				<u>399,000</u>	<u>-</u>	<u>22,000</u>	<u>377,000</u>	<u>15,322</u>
Total				<u>\$1,191,800</u>	<u>\$ 363,000</u>	<u>\$ 102,800</u>	<u>\$1,452,000</u>	<u>\$ 52,790</u>

See accompanying independent auditor's report.

CITY OF PRAIRIE CITY

BOND MATURITIES

June 30, 2008

Year Ending June 30,	<u>General Obligation Bond</u>		<u>General Obligation Notes</u>				<u>Revenue Bond</u>		<u>Revenue Note</u>			
	<u>Drinking Water Bonds Issued February 9, 2001</u>		<u>Water Improvement - Colfax Well Issued June 30, 2006</u>		<u>CIA/RAD Project Issued December 21, 2007</u>		<u>Drinking Water Bond Issued February 9, 2001</u>		<u>CIA/RAD TIF Issued July 14, 2003</u>			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total	
2009	3.84%	\$ 29,000	4.40%	\$ 18,000	4.70%	\$ 17,000	\$ 64,000	3.84%	\$ 23,000	3.35%	\$ 34,800	\$ 57,800
2010	3.84	31,000	4.40	18,000	4.70	18,000	67,000	3.84	24,000	3.35	34,800	58,800
2011	3.84	32,000	4.40	18,000	4.70	20,000	70,000	3.84	25,000	3.35	34,800	59,800
2012	3.84	33,000	-	-	4.70	21,000	54,000	3.84	26,000	3.35	34,800	60,800
2013	3.84	34,000	-	-	4.70	22,000	56,000	3.84	26,000	3.35	34,800	60,800
2014	3.84	35,000	-	-	4.70	23,000	58,000	3.84	28,000	-	-	28,000
2015	3.84	37,000	-	-	4.70	24,000	61,000	3.84	29,000	-	-	29,000
2016	3.84	38,000	-	-	4.70	25,000	63,000	3.84	30,000	-	-	30,000
2017	3.84	40,000	-	-	4.70	26,000	66,000	3.84	31,000	-	-	31,000
2018	3.84	41,000	-	-	4.70	28,000	69,000	3.84	32,000	-	-	32,000
2019	3.84	43,000	-	-	4.70	29,000	72,000	3.84	33,000	-	-	33,000
2020	3.84	45,000	-	-	4.70	30,000	75,000	3.84	34,000	-	-	34,000
2021	3.84	46,000	-	-	4.70	32,000	78,000	3.84	36,000	-	-	36,000
2022	-	-	-	-	4.70	32,000	32,000	-	-	-	-	-
2023	-	-	-	-	4.70	16,000	16,000	-	-	-	-	-
Total		<u>\$ 484,000</u>		<u>\$ 54,000</u>		<u>\$ 363,000</u>	<u>\$ 901,000</u>		<u>\$ 377,000</u>		<u>\$ 174,000</u>	<u>\$ 551,000</u>

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>2008</u>	<u>2007</u>
		Unaudited
Receipts:		
Property tax	\$ 326,989	\$ 322,603
Tax increment financing collections	342,243	318,197
Other city tax	108,637	52,000
Use of money and property	57,424	77,820
Intergovernmental	647,600	183,719
Charges for service	428,808	382,891
Contributions	17,173	28,192
Miscellaneous	411,541	660,388
Total	<u>2,340,415</u>	<u>2,025,810</u>
Disbursements:		
Public safety	273,695	286,348
Public works	323,735	305,212
Health and social services	400	200
Culture and recreation	173,881	162,032
Community and economic development	54,359	45,392
General government	140,228	114,158
Debt service	69,157	69,663
Capital projects	835,496	321,352
Business-type activities	296,221	293,726
Total	<u>\$2,167,172</u>	<u>\$1,598,083</u>

See accompanying independent auditor's report.

CITY OF PRAIRIE CITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-ES-6207(601)-81-50	\$ 494,976
National Highway Traffic Safety Administration:			
Iowa Department of Public Safety:			
DPS/Governor's Traffic Safety Bureau:			
Alcohol Incentive Grant	20.601	PAP 08-410 TASK 55	3,764
	20.601	PAP 07-410 TASK 55	<u>1,609</u>
Total			<u>\$ 500,349</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Prairie City and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 24, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Prairie City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Prairie City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Prairie City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Prairie City's financial statements that is more than inconsequential will not be prevented or detected by the City of Prairie City's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Prairie City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-08, II-C-08 and II-D-08 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Prairie City's financial statements are free of material misstatement, 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 IV 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, 2008 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.

The City of Prairie City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Prairie City's responses and, accordingly, we express no opinion on them.

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, including federal awarding agencies and pass-through entities. 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, LLP

West Des Moines, Iowa
November 24, 2008



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**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Prairie City, Iowa with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The City of Prairie City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Prairie City's management. Our responsibility is to express an opinion on the City of Prairie City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Prairie City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Prairie City's compliance with those requirements.

In our opinion, the City of Prairie City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Prairie City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Prairie City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Prairie City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies of material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the City's internal control over compliance 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 non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 and III-B-08 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a material weakness.

The City of Prairie City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Prairie City's responses and, accordingly, we express no opinion on them.

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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than those specified parties.

Martens & Company, CPA, LLP

West Des Moines, Iowa
November 24, 2008

CITY OF PRAIRIE CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2008

Part I: Summary of the Independent Auditor's Results

- (a) Qualified 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 accepting accounting principles.
- (b) Significant deficiencies 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.
- (d) A significant deficiency in internal control over the major program was disclosed by the audit of the financial statements, which is considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.205 - Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and B programs was \$300,000.
- (i) The City of Prairie City did not qualify as a low-risk auditee.

CITY OF PRAIRIE CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2008

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-08 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-08 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, 2008

Part II: Findings Related to the Financial Statements - Continued:

SIGNIFICANT DEFICIENCIES:

II-C-08 Financial Reporting - During the audit, we identified mispostings to transfers rather than to street projects and recreational complex. Adjustments were subsequently made by the City to properly report the amounts in the City's financial statements.

Recommendation - The City should implement procedures so that expenditures are properly recorded in the City's financial statements.

Response - We will double check this in the future to avoid posting errors.

Conclusion - Response accepted.

II-D-08 Ambulance and Fire Department Collections - The ambulance and fire departments collect contributions and fees, periodically remitting collections to the City Clerk for deposit. Documentation supporting these collections was inadequate to determine the amounts which should have been collected and remitted to the City for deposit.

Recommendation - To strengthen the control over the accountability of receipts generated by ambulance and fire department activities, the City should require all collections be made at the Clerk's office, thereby segregating the collection procedures from the control over 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. The city clerk's office should list all receipts in the receipt book.

Response - We have completed a study of procedures and have made drastic changes in documents supporting charges and have required that fees and contributions be collected at the City Clerk's office and a receipt issued.

Conclusion - Response accepted.

CITY OF PRAIRIE CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2008

Part II: Findings Related to the Financial Statements - Continued:

SIGNIFICANT DEFICIENCIES:

II-E-08 Human Resource Policy - We noted that confidentiality agreements are not required for employees who come in contact with confidential information.

Recommendation - Since litigation has become so prevalent in our society today, a confidentiality agreement should be developed and adopted by the City.

Response - We will develop a confidentiality agreement.

Conclusion - Response accepted.

II-F-08 Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Recommendation - We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City's management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We are aware of the situation and will continually review the risks associated with this condition because of cost or other considerations.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF PRAIRIE CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2008

Part III: Findings and Questioned Costs For Federal Awards:

SIGNIFICANT DEFICIENCIES:

CFDA Number 20.205: Highway Planning and Construction

Pass-through Agency Number: STP-ES-6207(601)-81-50

Federal Award Year: 2008

U.S. Department of Transportation

Passed through the Iowa Department of Transportation

III-A-08 Segregation of Duties over Federal Receipts - The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-08.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF PRAIRIE CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2008

Part IV: Other Findings Related to Statutory Reporting:

IV-A-08 Certified Budget - Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the public works and debt service 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.

IV-B-08 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.

IV-C-08 Travel Expenses - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-08 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Phil Reeter, Council member Owner, Reeter Supply	Repair parts	\$ 63
Noel Brown, Council member	Prairie Days DJ	\$ 600
Gary Johnson, Council member Purchasing and inventory control McKleven & Co.	Construction, per bid	\$ 121,033

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Council members Reeter and Brown do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year. The transaction with Council member Johnson does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa and Councilman Johnson abstained on the vote.

CITY OF PRAIRIE CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2008

Part IV: Other Findings Related to Statutory Reporting - Continued:

- IV-E-08 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.
- IV-F-08 Council Minutes - No transactions were found that we believe should have been approved in the Council Minutes but were not.
- IV-G-08 Revenue Bonds - All provisions of the revenue bond requirements have been met.
- IV-H-08 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.
- IV-I-08 Financial Condition - The City had a deficit balance at June 30, 2008 of \$7,244 in the Sewer Fund, \$23,777 in the Road Use Tax Fund and \$105 in the Debt Service Fund.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response - The Sewer Fund deficit was due to costs incurred exceeding the sewer rates. Rates will be readjusted.

The road use tax deficit was the result of applying extra seal coating not included in the budget. The new budget will eliminate this deficit.

The debt service deficit resulted from receiving less taxes than budgeted. This will be eliminated upon the payment of back taxes.

Conclusion - Response accepted.