

**CITY OF AUDUBON**

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

**JUNE 30, 2004**

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**City of Audubon**

**Officials**

<u>Name</u>	<u>Title</u> <b>(Before January 2004)</b>	<u>Term Expires</u>
Clark Kauffman	Mayor	January 2004
Kathleen Cramer	Council Member	January 2004
Robert Jacobsen	Council Member	January 2004
Scott Van Dusen	Council Member	January 2006
Grover Davis	Council Member	January 2006
Linda Weston	Council Member	January 2006

<u>Name</u>	<u>Title</u> <b>(After January 2004)</b>	<u>Term Expires</u>
Clark Kauffman	Mayor	January 2008
Scott Van Dusen	Council Member	January 2006
Grover Davis	Council Member	January 2006
Linda Weston	Council Member	January 2006
Kathleen Cramer	Council Member	January 2008
Robert Jacobsen	Council Member	January 2008

Lora Hansen	City Clerk	Indefinite
Lance Levis	Attorney	Indefinite

**City of Audubon**

September 22, 2004

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 Audubon, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Audubon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Audubon as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 11, during the year ended June 30, 2004, 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*.

Continued...

Independent Auditor's Report  
City of Audubon

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 22, 2004 on our consideration of the City of Audubon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 7 through 11 and 33 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Audubon's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

The City of Audubon 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, 2004. 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.

### **2004 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities decreased 18%, or approximately \$649,000 from fiscal year 2003 to fiscal year 2004. Property tax collections decreased approximately \$13,200.
- Disbursements decreased 32%, or approximately \$1,273,000, in fiscal year 2004 from fiscal year 2003. Debt service was the only fund with increased disbursement activity of approximately \$7000.
- The City's total cash basis net assets increased 31%, or approximately \$285,792, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$264,560 and the assets of the business type activities increased by approximately \$21,232.

### **USING THIS ANNUAL REPORT**

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statement consists of a 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 financial statements provide additional information 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 the non-major governmental funds. 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 principals. 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. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: General Fund, Special Revenue Funds, (such as Road Use Tax and Local Option Sales Tax), Debt Service Fund and the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The required financial 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 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.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The following table shows the changes in cash balances for governmental activities.

RECEIPTS	<u>FY 2004</u>	<u>FY 2003</u>
Property taxes	546863	560059
Tax increment financing	94329	4038
Other City tax	173103	165088
Licenses & Permits	2121	2880
Use of Money & Property	82685	30037
Intergovernmental	476355	1431697
Charges for Services	201285	194701
Special Assessments	40954	160
Miscellaneous	137044	114508
Other Financing Sources	<u>1173612</u>	<u>1074337</u>
TOTALS	\$2928351	\$3577505
DISBURSEMENTS		
Public Safety	242734	259593
Public works	440159	607404
Health & social services	1000	0
Culture & recreation	228575	260451
Community & economic development	41929	98563
General government	185743	131795
Debt service	152131	144964
Capital projects	<u>1377271</u>	<u>2440525</u>
TOTALS	<u>2669542</u>	<u>3943295</u>
Net change in cash balances	258809	(365790)
Cash balance beginning of year	<u>647027</u>	<u>1012817</u>
Cash balance end of year	<u>\$905836</u>	<u>\$647027</u>

The City's total receipts for governmental activities decreased 18%, or approximately \$649,000. The total cost of all programs and services decreased 32%, or approximately \$1,273,000. The decrease in both revenues and disbursements can be attributed to the completion of several projects.

Property tax collections decreased by approximately \$13,000 from FY03 to FY04.

The following table shows the changes in cash balances for business-type activities.

RECEIPTS	<u>FY 2004</u>	<u>FY 2003</u>
Charges for services	575885	520025
Use of money & property	603	1211
Miscellaneous	<u>26717</u>	<u>31636</u>
TOTALS	\$603205	\$552872
DISBURSEMENTS		
Water	248247	235517
Sewer	335568	164224
Transfers out	<u>0</u>	<u>100000</u>
TOTALS	<u>\$583815</u>	<u>\$499741</u>
Net change in cash balances	19390	53131
Cash balance beginning of year	<u>242307</u>	<u>189176</u>
Cash balance end of year	<u>\$261697</u>	<u>\$242307</u>

The business-type activities receipts increased by \$50,333 due to an increase in sewer rates. The increase in disbursements is due to payments on sewer revenue bonds.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Audubon completed the year, its governmental funds reported a combined fund balance of \$905,836, an increase of \$258,809 from last year. 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 \$24,225 from the prior year to \$387,494. The decrease was due to a decrease in property taxes and state allocation payments.
- The Road Use Tax fund cash balance increased by \$30,925 to \$127,718 during the fiscal year. This increase was due to unspent road use taxes.
- The Local Option Sales Tax Fund cash balance increased \$109,705 to \$194,416. The City intends to use the receipts for future street construction projects.
- The Economic Development Fund cash balance increased \$67,647 to \$101,186. The increase was due to the payoff of an economic development loan due to the City.
- The Capital Projects Fund cash balance decreased \$10,876 to a deficit cash balance of \$64,035. The decrease was due to project costs incurred before reimbursements from grants and other financing sources were received. The City incurred costs for a street project, a bridge project and a sewer project during the year.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by \$21,596 and the Sewer Fund decreased by \$2,206. A sewer rate increase effective in December 2003 should alleviate future losses.

## BUDGETARY HIGHLIGHTS

The City amended its budget once during the year, in May, 2004. Most of the additional budgeted expenditure amount of \$1,326,000 can be attributed to project expenses and business-type fund expenses.

## DEBT ADMINISTRATION

On June 30, 2004, the City had approximately \$3,391,572 in bonds and other long-term debt, compared to \$2,445,653 last year, as shown below.

	<u>6-30-04</u>	<u>6-30-03</u>
General obligation bonds	341697	488791
TIF revenue bonds	620000	0
Sewer revenue bonds	2429875	1336862
Anticipatory warrants	<u>0</u>	<u>620000</u>
TOTALS	\$3391572	\$2445653

The Anticipatory Warrants and some General Obligation debt were paid off during the year. TIF and Sewer Revenue bonds were issued during the year for a housing and street paving development and for construction of a new sewer treatment plant.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed valuation of taxable property. The City's outstanding general obligation debt (general obligation plus TIF) of \$961,697 is well below the constitutional debt limit of \$3,300,000.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Audubon's elected and appointed officials considered many factors when setting the fiscal year 2004 budget, tax rates, and fees that were charged for various City activities. Maintaining the quality of life for current and future residents is a very strong factor when making decisions on budgeting and improvements. The quality of life also rates heavily when competing with other cities to attract new businesses and people to our area. Complying with EPA and DNR regulations greatly affect our rates, costs and improvements of both our water and wastewater treatment plants.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact Lora Hansen, City Clerk, 410 North Park Place, Audubon, Iowa 50025.

**City of Audubon**  
**Basic Financial Statements**

City of Audubon  
Statement of Activities and Net Assets – Cash Basis  
As of and for the year ended June 30, 2004

	Disbursements	Charges for Service	Program Receipts Operating Grants Contributions and Restricted Interest
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 239,772	5,693	4,810
Public works	439,554	210,509	198,418
Health and social services	1,000	0	0
Culture and recreation	228,575	41,863	57,262
Community and economic development	41,929	0	68,208
General government	183,559	54,360	105,732
Debt service	152,131	0	0
Capital projects	1,997,271	0	0
Total governmental activities	3,283,791	312,425	434,430
Business type activities:			
Water	247,216	247,713	0
Sewer	334,757	328,172	0
Total business type activities	581,973	575,885	0
Total	\$ 3,865,764	888,310	434,430

**General Receipts:**

Property tax levied for:  
General purposes  
Debt service  
Tax increment financing  
Local option sales tax  
Grants and contributions not restricted  
to specific purpose  
Unrestricted interest on investments  
Note proceeds  
Miscellaneous  
Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year, as restated

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:

Streets  
Street construction and repair  
Economic development  
Debt service  
Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursement) Receipts and Changes in Cash Basis Net Assets			
Capital Grants Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
0	(229,269)	0	(229,269)
0	(30,627)	0	(30,627)
0	(1,000)	0	(1,000)
0	(129,450)	0	(129,450)
0	26,279	0	26,279
0	(23,467)	0	(23,467)
0	(152,131)	0	(152,131)
159,839	(1,837,432)	0	(1,837,432)
<u>159,839</u>	<u>(2,377,097)</u>	<u>0</u>	<u>(2,377,097)</u>
0	0	497	497
0	0	(6,585)	(6,585)
<u>0</u>	<u>0</u>	<u>(6,088)</u>	<u>(6,088)</u>
<u>159,839</u>	<u>(2,377,097)</u>	<u>(6,088)</u>	<u>(2,383,185)</u>
\$	472,420	0	472,420
	132,220	0	132,220
	94,329	0	94,329
	115,326	0	115,326
	18,692	0	18,692
	10,088	603	10,691
	1,793,612	0	1,793,612
	4,970	26,717	31,687
	<u>2,641,657</u>	<u>27,320</u>	<u>2,668,977</u>
	264,560	21,232	285,792
	<u>679,548</u>	<u>252,724</u>	<u>932,272</u>
\$	<u>944,108</u>	<u>273,956</u>	<u>1,218,064</u>
\$	127,718	0	127,718
	194,416	0	194,416
	101,186	0	101,186
	54,964	0	54,964
	104,093	0	104,093
	<u>361,731</u>	<u>273,956</u>	<u>635,687</u>
\$	<u>944,108</u>	<u>273,956</u>	<u>1,218,064</u>

City of Audubon  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Governmental Funds  
As of and for the year ended June 30, 2004

	General	Special Revenue		
		Road Use Tax	Local Option Sales Tax	Economic Development
<b>Receipts</b>				
Property tax	\$ 325,996	0	0	0
Tax increment financing collections	0	0	0	0
Other city tax	42,647	0	115,326	0
Licenses and permits	2,121	0	0	0
Use of money and property	13,503	0	0	68,208
Intergovernmental	45,757	198,391	0	0
Charges for service	201,285	0	0	0
Special assessments	0	0	0	0
Miscellaneous	122,606	1,203	856	0
Total receipts	<u>753,915</u>	<u>199,594</u>	<u>116,182</u>	<u>68,208</u>
<b>Disbursements</b>				
Operating:				
Public safety	194,211	0	0	0
Public works	225,743	168,669	2,477	0
Health and social services	1,000	0	0	0
Culture and recreation	225,952	0	0	0
Community and economic development	29,155	0	0	561
General government	92,060	0	0	0
Debt service	10,019	0	0	0
Capital projects	0	0	0	0
Total disbursements	<u>778,140</u>	<u>168,669</u>	<u>2,477</u>	<u>561</u>
Excess (deficiency) of receipts over (under) disbursements	(24,225)	30,925	113,705	67,647
<b>Other financing sources (uses):</b>				
Sewer revenue note proceeds	0	0	0	0
General obligation note proceeds net of discount	0	0	0	0
Anticipatory warrants redeemed	0	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	0	0	(4,000)	0
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>(4,000)</u>	<u>0</u>
Net change in cash balances	(24,225)	30,925	109,705	67,647
Cash balances beginning of year	<u>411,719</u>	<u>96,793</u>	<u>84,711</u>	<u>33,539</u>
Cash balances end of year	\$ <u>387,494</u>	<u>127,718</u>	<u>194,416</u>	<u>101,186</u>
<b>Cash Basis Fund Balances</b>				
Reserved:				
Debt service	\$ 0	0	0	0
Unreserved:				
General fund	387,494	0	0	0
Special revenue funds	0	127,718	194,416	101,186
Capital projects fund	0	0	0	0
Total cash basis fund balances	\$ <u>387,494</u>	<u>127,718</u>	<u>194,416</u>	<u>101,186</u>

See notes to financial statements.

**Exhibit B**

Capital Projects	Other Nonmajor Governmental Funds	Total
0	220,867	546,863
0	94,329	94,329
0	15,130	173,103
0	0	2,121
974	0	82,685
151,680	80,527	476,355
0	0	201,285
0	40,954	40,954
7,185	5,194	137,044
<u>159,839</u>	<u>457,001</u>	<u>1,754,739</u>
0	48,523	242,734
0	43,270	440,159
0	0	1,000
0	2,623	228,575
0	12,213	41,929
0	93,683	185,743
0	142,112	152,131
1,377,271	0	1,377,271
<u>1,377,271</u>	<u>342,424</u>	<u>2,669,542</u>
(1,217,432)	114,577	(914,803)
1,186,012	0	1,186,012
607,600	0	607,600
(620,000)	0	(620,000)
32,944	0	32,944
0	(28,944)	(32,944)
<u>1,206,556</u>	<u>(28,944)</u>	<u>1,173,612</u>
(10,876)	85,633	258,809
(53,159)	73,424	647,027
<u>(64,035)</u>	<u>159,057</u>	<u>905,836</u>
0	54,964	54,964
0	0	387,494
0	104,093	527,413
(64,035)	0	(64,035)
<u>(64,035)</u>	<u>159,057</u>	<u>905,836</u>

City of Audubon  
 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, 2004

<b>Total governmental funds cash balances</b>	\$	905,836
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*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 cost of partial self funding of the City’s health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

38,272

<b>Cash basis net assets of governmental activities</b>	\$	<u>944,108</u>
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<b>Net change in cash balances</b>	\$	258,809
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*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 cost of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

5,751

<b>Change in cash balance of governmental activities</b>	\$	<u>264,560</u>
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See notes to financial statements.

City of Audubon  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds  
As of and for the year ended June 30, 2004

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Use of money and property	\$ 0	0	0
Charges for service	247,713	328,172	575,885
Total operating receipts	247,713	328,172	575,885
Operating disbursements:			
Governmental activities:			
Public safety	0	0	0
Public works	0	0	0
General government	0	0	0
Business type activities	248,247	335,568	583,815
Total operating disbursements	248,247	335,568	583,815
Excess (deficiency) of operating receipts over (under) operating disbursements	(534)	(7,396)	(7,930)
Non-operating receipts:			
Interest on investments	301	302	603
Miscellaneous	21,829	4,888	26,717
Total non-operating receipts	22,130	5,190	27,320
Net change in cash balances	21,596	(2,206)	19,390
Cash balances beginning of year	107,265	135,042	242,307
Cash balances end of year	\$ 128,861	132,836	261,697
 <b>Cash Basis Fund Balances</b>			
Unreserved	\$ 128,861	132,836	261,697

See notes to financial statements

Internal  
Service Fund  

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Employee  
Health  

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326  
73,104  

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73,430

25,682  
5,245  
18,938  

---

15,972  

---

65,837

7,593

0  
0  

---

0

7,593

42,938  

---

50,531  

---

50,531  

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City of Audubon  
 Reconciliation of the Statement of Cash Receipts, Disbursements  
 and Changes in Cash Balances  
 to the Statement of Activities and Net Assets –  
 Proprietary Funds  
 As of and for the year ended June 30, 2004

**Total enterprise funds cash balances** \$ 261,697

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

The Internal Service Fund is used by management to charge the cost of partial self funding of the City’s health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

12,259

**Cash basis net assets of business type activities** \$ 273,956

**Net change in cash balances** \$ 19,390

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

The Internal Service Fund is used by management to charge the cost of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with business type activities.

1,842

**Change in cash balance of business type activities** \$ 21,232

**City of Audubon**

City of Audubon  
Notes to Financial Statements  
June 30, 2004

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

The City of Audubon is a political subdivision of the State of Iowa located in Audubon County. It was first incorporated in 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Audubon 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 jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City representatives are members of the following boards and commissions: Audubon County Assessor's Conference Board, Audubon County Emergency Management Commission, Audubon County E922 Board, Audubon County Solid Waste Management Commission and Audubon County Airport Authority.

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 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.

City of Audubon  
Notes to Financial Statements  
June 30, 2004

**NOTE (1) Summary of Significant Accounting Policies - Continued**

B. Basis of Presentation - Continued

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.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted 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 clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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.

City of Audubon  
Notes to Financial Statements  
June 30, 2004

**NOTE (1) Summary of Significant Accounting Policies - Continued**

B. Basis of Presentation - Continued

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the receipts from the tax authorized by referendum and used for street construction and repairs.

The Economic Development Fund is used to account for receipts required to be used for economic development purposes.

The City reports the following major proprietary fund:

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 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 of Audubon 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.

City of Audubon  
Notes to Financial Statements  
June 30, 2004

**NOTE (1) Summary of Significant Accounting Policies - Continued**

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amended budgeted amounts.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2002, to compute the amounts which became liens on property on July 1, 2003. These taxes were due and payable in two installments on September 30, 2003 and March 31, 2004, at the Audubon County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

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

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$1,218,064.

**NOTE (3) Note Receivable**

In 1999, the City sold a building for \$125,000. The City provided a real estate contract for \$85,500. Transactions during the year on the contract were as follows:

Beginning balance, restated	\$ 66,445
Principal received	66,445
Ending balance	<u>0</u>
Interest received	<u>\$ 1,763</u>

The beginning balance has been decreased by \$9,610 to correct for the proper interest rate on the contract.

City of Audubon  
Notes to Financial Statements  
June 30, 2004

**NOTE (4) Anticipatory Warrants**

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest rates in effect at the time the warrants are first presented for redemption.

During the year ended June 30, 2002, the City issued \$260,000 in anticipatory warrants for urban renewal development at 4.19% per annum. During the year ended June 30, 2003, the City issued \$360,000 in anticipatory warrants for urban renewal development at 2.25% per annum. As of June 30, 2004, \$620,000 had been redeemed, leaving no unpaid balance at June 30, 2004.

**NOTE (5) Bonds and Notes Payable**

Annual debt service requirements to maturity of general obligation bonds and notes, urban renewal tax increment financing revenue bonds, and revenue notes are as follows:

Year Ended June 30,	General Obligation Bonds & Notes		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Revenue Bonds		Total	
		Principal		Principal		Principal		Principal
2005	\$	132,805	\$	55,000	\$	102,000	\$	289,805
2006		138,892		55,000		106,000		299,892
2007		20,000		55,000		108,000		183,000
2008		25,000		60,000		112,000		197,000
2009		25,000		60,000		115,000		200,000
2010-2014		0		335,000		628,000		963,000
2015-2019		0		0		730,000		730,000
2020-2023		0		0		528,875		528,875
Total	\$	<u>341,697</u>	\$	<u>620,000</u>	\$	<u>2,429,875</u>	\$	<u>3,391,572</u>
Year Ended June 30,		Interest		Interest		Interest		Interest
2005	\$	18,982	\$	19,900	\$	59,670	\$	98,552
2006		11,284		18,910		59,090		89,284
2007		3,235		17,700		56,613		77,548
2008		2,325		16,270		54,018		72,613
2009		1,175		14,470		51,331		66,976
2010-2014		0		39,220		213,637		252,857
2015-2019		0		0		133,792		133,792
2020-2023		0		0		39,893		39,893
Total	\$	<u>37,001</u>	\$	<u>126,470</u>	\$	<u>668,044</u>	\$	<u>831,515</u>

City of Audubon  
Notes to Financial Statements  
June 30, 2004

**NOTE (5) Bonds and Notes Payable - Continued**

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

The urban renewal tax increment revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however, the debt is subject to the constitutional debt limitation of the City.

The City has a general obligation debt limit of approximately \$3,300,000 which was not exceeded during the year ended June 30, 2004.

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

- a) Proceeds of the note shall be credited to the project fund and expended therefrom for the purpose of the issuance.
- b) The notes will only be redeemed from the future earnings of the sewer enterprise activity, and the note holders hold a lien on the future earnings of the fund.
- c) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

The resolution providing for the issuance of the \$600,000 revenue note includes the additional provision:

- d) Additional monthly transfers of 25% of the amount required to be deposited in the sewer sinking account shall be made to the sewer reserve account until a specific minimum balance has been accumulated. The account is reserved for payment of principal and interest should the sinking account have insufficient money available.

The City has not established the sinking and reserve accounts required by the provisions of the resolution.

**NOTE (6) Interest Costs**

The City of Audubon paid the following interest costs during the year.

Interest reflected in capital projects costs	\$ 40,343
Interest reflected in debt service costs	70,883
	<u>\$ 111,226</u>

City of Audubon  
Notes to Financial Statements  
June 30, 2004

**NOTE (7) 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.

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 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002, was \$28,344, \$27,284, and \$26,710, respectively, equal to the required contributions for each year.

**NOTE (8) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 15,240

The liability has been computed based on rates of pay as of June 30, 2004.

**NOTE (9) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects: Street construction	Special Revenue: Urban Renewal Tax Increment	\$ 28,944
Capital Projects: Bridge construction	Special Revenue: Local Option Sales Tax	4,000
		\$ 32,944

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

City of Audubon  
Notes to Financial Statements  
June 30, 2004

**NOTE (10) Construction Contracts and Commitments**

The City had the following construction contract which was not complete or paid in full as of June 30, 2004:

<u>Project</u>	<u>Estimated Total Contract Price</u>	<u>Paid to June 30, 2004</u>	<u>Remaining Commitment</u>	<u>Retainages Payable</u>
Sewer Construction	\$ 2,607,122	\$ 2,541,944	\$ 65,178	\$ 65,178

The City is also required to reimburse the Iowa Department of Transportation for its share of a traffic signal project, estimated to be \$27,000.

**NOTE (11) Commitments**

Sanitation Contract – The City has renewed its contract for solid waste disposal and recyclable pickup within the City through June 30, 2005, for an annual cost of \$92,260.

Cemetery Sexton Contract – The City has contracted for the upkeep of one cemetery through March 2007, for an annual cost of \$8,589, and another cemetery through March 2005, for an annual cost of \$11,520.

City Mowing Contract – The City has contracted for the upkeep of City grounds through December 2004, for an annual cost of \$9,656.

**NOTE (12) Housing Programs**

In March 2000, the Iowa Department of Economic Development awarded the City Home Investment Partnership (HOME) funds, in the amount of \$225,000, to assist eligible home buyers. During the year ended June 30, 2004, the City received and disbursed \$80,527 through this program.

**NOTE (13) Risk Management**

The City of Audubon is exposed to various risks of loss related to torts: theft, damage to and destruction of assets; errors and omission; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liabilities 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 Audubon  
Notes to Financial Statements  
June 30, 2004

**NOTE (14) Self Insurance Program**

The City has established a self insurance medical program which is accounted for in the Insurance Fund (an internal service fund). This program provides employees health benefit coverage up to a maximum of \$12,500 per employee per year. The City purchases commercial insurance for claims in excess of this coverage and all other risks of loss. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

All funds of the City participate in the program and make payments to the Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims. Claims are not recognized by the City until paid. The unpaid claims liability of \$5,038 is based on Government Accounting Standards Board Statement No. 10, which requires that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Change in the Fund's claims liability amount is shown below.

Unpaid claims and claims adjustment expenses, beginning of year	\$ 3,021
Incurred claims and claim adjustment expenses	67,854
Payments	<u>65,837</u>
Unpaid claims and claims adjustment expenses, end of year	<u>\$ 5,038</u>

**NOTE (15) Deficit Fund Balances**

The Capital Projects Funds, Water Construction Account and Sewer Construction Account had deficit balances of \$47,881 and \$16,154, respectively at June 30, 2004. The City anticipates the deficits will be eliminated with project fundings or operating transfers.

**NOTE (16) Noncash Transaction**

The Volunteer Fire Department paid \$10,019 of the City's general obligation equipment debt during the year. This debt is related to the purchase of a fire truck. This amount is not reflected in these financial statements.

City of Audubon  
Notes to Financial Statements  
June 30, 2004

**NOTE (17) Accounting Change and Restatements**

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, 2004. 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.

The government-wide financial statement reports the City’s governmental and business type activities. Beginning net assets have been restated to include the allocation of the Internal Service Fund.

	Governmental Activities	Business Type Activities
Cash basis net assets June 30, 2004, as previously reported	\$ 647,027	\$ 242,307
Internal Service Fund	32,525	10,417
Cash basis net assets July 1, 2004, as restated	\$ 679,548	\$ 252,724

**Required Supplementary Information**

City of Audubon  
 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, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
<b>Receipts</b>			
Property tax	\$ 546,863	0	0
Tax increment financing collections	94,329	0	0
Other city tax	173,103	0	0
Licenses and permits	2,121	0	0
Use of money and property	82,685	929	326
Intergovernmental	476,355	0	0
Charges for service	201,285	648,989	73,104
Special assessments	40,954	0	0
Miscellaneous	137,044	26,717	0
Total receipts	<u>1,754,739</u>	<u>676,635</u>	<u>73,430</u>
<b>Disbursements</b>			
Public safety	242,734	25,682	25,682
Public works	440,159	5,245	5,245
Health and social services	1,000	0	0
Culture and recreation	228,575	0	0
Community and economic development	41,929	0	0
General government	185,743	18,938	18,938
Debt service	152,131	0	0
Capital projects	1,377,271	0	0
Business type activities	0	599,787	15,972
Total disbursements	<u>2,669,542</u>	<u>649,652</u>	<u>65,837</u>
Excess (deficiency) of receipts over (under) disbursements	(914,803)	26,983	7,593
Other financing sources, net	<u>1,173,612</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	258,809	26,983	7,593
Balances beginning of year	<u>647,027</u>	<u>285,245</u>	<u>42,938</u>
Balances end of year	<u>\$ 905,836</u>	<u>312,228</u>	<u>50,531</u>

See accompanying independent auditor's report

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
546,863	551,568	590,061	(43,198)
94,329	118,000	118,000	(23,671)
173,103	38,704	100,000	73,103
2,121	5,300	4,800	(2,679)
83,288	18,200	12,600	70,688
476,355	521,000	667,400	(191,045)
777,170	640,500	687,000	90,170
40,954	100,000	40,000	954
163,761	265,350	395,858	(232,097)
<u>2,357,944</u>	<u>2,258,622</u>	<u>2,615,719</u>	<u>(257,775)</u>
242,734	307,590	326,890	84,156
440,159	659,926	594,026	153,867
1,000	1,000	2,000	1,000
228,575	255,120	249,165	20,590
41,929	159,155	44,755	2,826
185,743	116,370	209,070	23,327
152,131	133,821	173,821	21,690
1,377,271	1,000,000	2,150,000	772,729
583,815	412,000	621,300	37,485
<u>3,253,357</u>	<u>3,044,982</u>	<u>4,371,027</u>	<u>1,117,670</u>
(895,413)	(786,360)	(1,755,308)	859,895
<u>1,173,612</u>	<u>700,000</u>	<u>1,606,000</u>	<u>(432,388)</u>
278,199	(86,360)	(149,308)	427,507
<u>889,334</u>	<u>1,212,393</u>	<u>932,272</u>	<u>(42,938)</u>
<u>1,167,533</u>	<u>1,126,033</u>	<u>782,964</u>	<u>384,569</u>

City of Audubon  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2004

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 major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,326,045. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

**Other Supplementary Information**

City of Audubon  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds  
As of and for the year ended June 30, 2004

			Special
	Employee Benefits	Urban Renewal Tax Increment	Housing Assistance
Receipts:			
Property tax	\$ 96,822	0	0
Tax increment financing collections	0	94,329	0
Other city tax	6,955	0	0
Intergovernmental	0	0	80,527
Special assessments	0	40,954	0
Miscellaneous	0	4,494	0
Total receipts	103,777	139,777	80,527
Disbursements:			
Operating:			
Public safety	48,523	0	0
Public works	32,610	10,660	0
Culture and recreation	2,623	0	0
Community and economic development	0	12,213	0
General government	13,156	0	80,527
Debt service	0	8,292	0
Total disbursements	96,912	31,165	80,527
Excess (deficiency) of receipts over (under) disbursements	6,865	108,612	0
Other financing uses:			
Operating transfers out	0	(28,944)	0
Net change in cash balances	6,865	79,668	0
Cash balances beginning of year	15,118	(27,576)	0
Cash balances end of year	\$ 21,983	52,092	0
 <b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service fund	\$ 0	0	0
Unreserved:			
Special revenue funds	21,983	52,092	0
Total cash basis fund balances	\$ 21,983	52,092	0

See accompanying independent auditor's report

**Schedule 1**

<u>Revenue</u>	<u>Debt Service</u>	
Cemetery Trust	General Obligation Debt	<u>Total</u>
0	124,045	220,867
0	0	94,329
0	8,175	15,130
0	0	80,527
0	0	40,954
700	0	5,194
<u>700</u>	<u>132,220</u>	<u>457,001</u>
0	0	48,523
0	0	43,270
0	0	2,623
0	0	12,213
0	0	93,683
0	133,820	142,112
<u>0</u>	<u>133,820</u>	<u>342,424</u>
700	(1,600)	114,577
<u>0</u>	<u>0</u>	<u>(28,944)</u>
700	(1,600)	85,633
<u>29,318</u>	<u>56,564</u>	<u>73,424</u>
<u>30,018</u>	<u>54,964</u>	<u>159,057</u>
0	54,964	54,964
<u>30,018</u>	<u>0</u>	<u>104,093</u>
<u>30,018</u>	<u>54,964</u>	<u>159,057</u>

City of Audubon  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Combining Capital Projects Funds  
As of and for the year ended June 30, 2004

	<u>Street Construction</u>	<u>Bridge Construction</u>	<u>Water Construction</u>
Receipts:			
Use of money and property	\$ 442	0	0
Intergovernmental	0	27,884	0
Miscellaneous	0	4,380	0
Total receipts	<u>442</u>	<u>32,264</u>	<u>0</u>
Disbursements:			
Capital projects	<u>16,986</u>	<u>36,264</u>	<u>0</u>
Total disbursements	<u>16,986</u>	<u>36,264</u>	<u>0</u>
Excess (deficiency) of receipts over (under) disbursements	(16,544)	(4,000)	0
Other financing sources (uses):			
Sewer revenue note proceeds	0	0	0
General obligation note proceeds, net of discount	607,600	0	0
Anticipatory warrants redeemed	(620,000)	0	0
Operating transfers in	28,944	4,000	0
Total other financing sources (uses)	<u>16,544</u>	<u>4,000</u>	<u>0</u>
Net change in cash balance	0	0	0
Cash balance beginning of year	<u>0</u>	<u>0</u>	<u>(47,881)</u>
Cash balance end of year	\$ <u>0</u>	<u>0</u>	<u>(47,881)</u>
 <b>Cash Basis Fund Balances</b>			
Unreserved:			
Capital projects funds	\$ <u>0</u>	<u>0</u>	<u>(47,881)</u>

See accompanying independent auditor's report

<u>Sewer Construction</u>	<u>Total</u>
532	974
123,796	151,680
<u>2,805</u>	<u>7,185</u>
127,133	159,839
<u>1,324,021</u>	<u>1,377,271</u>
<u>1,324,021</u>	<u>1,377,271</u>
(1,196,888)	(1,217,432)
1,186,012	1,186,012
0	607,600
0	(620,000)
0	32,944
<u>1,186,012</u>	<u>1,206,556</u>
(10,876)	(10,876)
<u>(5,278)</u>	<u>(53,159)</u>
<u>(16,154)</u>	<u>(64,035)</u>
<u>(16,154)</u>	<u>(64,035)</u>

City of Audubon  
Schedule of Indebtedness  
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Swimming pool	Jun 1, 1992	5.70 %	\$ 800,000
Essential corporate purpose	Sep 8, 1995	8.00 %	175,000
Sewer improvements	Apr 1, 1999	4.40 – 4.70 %	200,000
Fire truck	Jun 10, 1999	6.00 %	111,905
JD Loader	Jan 9, 1999	5.75 %	90,843
Total			
Urban renewal tax increment financing (TIF) revenue bonds:			
	Jan 1, 2004	1.80 – 4.00 %	\$ 620,000
Revenue notes:			
Sewer	Sep 15, 2002	3.00 %	\$ 2,066,000
Sewer	Dec 12, 2003	3.00 %	600,000
Total			
Anticipatory warrants:			
Urban renewal development	Sep 25, 2001	4.15 %	\$ 260,000
Sewer	Dec 12, 2003	2.25 %	360,000
Total			

See accompanying independent auditor's report

**Schedule 3**

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
225,000	0	70,000	155,000	12,515	0
60,000	0	20,000	40,000	4,800	0
130,000	0	20,000	110,000	5,905	0
53,481	0	16,784	36,697	3,253	0
20,310	0	20,310	0	1,199	0
<u>488,791</u>	<u>0</u>	<u>147,094</u>	<u>341,697</u>	<u>27,672</u>	<u>0</u>
<u>0</u>	<u>620,000</u>	<u>0</u>	<u>620,000</u>	<u>8,292</u>	<u>0</u>
1,336,862	729,138	77,000	1,989,000	55,847	0
0	462,875	22,000	440,875	3,929	0
<u>1,336,862</u>	<u>1,192,013</u>	<u>99,000</u>	<u>2,429,875</u>	<u>59,776</u>	<u>0</u>
260,000	0	260,000	0	9,231	0
360,000	0	360,000	0	6,255	0
<u>620,000</u>	<u>0</u>	<u>620,000</u>	<u>0</u>	<u>15,486</u>	<u>0</u>

City of Audubon  
Bond and Note Maturities  
June 30, 2004

Year Ending June 30,	<b>General Obligation</b>					
	Swimming Pool Issued Jun 1, 1992		Essential Corporate Purpose Issued Sep 8, 1995		Sanitary Sewer Improvements Issued Apr 1, 1999	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
	Rate	Amount	Rate	Amount	Rate	Amount
2005	5.70 %	\$ 75,000	8.00 %	\$ 20,000	4.45 %	\$ 20,000
2006	5.70 %	80,000	8.00 %	20,000	4.50 %	20,000
2007	-	-	-	-	4.55 %	20,000
2008	-	-	-	-	4.60 %	25,000
2009	-	-	-	-	4.70 %	25,000
Total		\$ 155,000		\$ 40,000		\$ 110,000

**Urban Renewal Tax Increment  
Financing (TIF) Revenue Bonds**

Year Ending June 30,	Issued Jan 1, 2004	
	Interest Rate	Amount
2005	1.80 %	\$ 55,000
2006	2.20 %	55,000
2007	2.60 %	55,000
2008	3.00 %	60,000
2009	3.20 %	60,000
2010	3.40 %	65,000
2011	3.60 %	65,000
2012	3.80 %	65,000
2013	3.90 %	70,000
2014	4.00 %	70,000
2015	-	-
2016	-	-
2017	-	-
2018	-	-
2019	-	-
2020	-	-
2021	-	-
2022	-	-
2023	-	-
Total		\$ 620,000

See accompanying independent auditor's report.

**Bonds**

Fire Truck Issued Jun 10, 1999		
Interest		
Rate	Amount	Total
6.00 %	\$ 17,805	\$ 132,805
6.00 %	18,892	138,892
-	-	20,000
-	-	25,000
-	-	25,000
	<u>\$ 36,697</u>	<u>\$ 341,697</u>

**Revenue Notes**

Sewer Issued Oct. 15, 1999		Sewer Issued Feb. 28, 2003		Total
Interest Rate	Amount	Interest Rate	Amount	
3.00 %	\$ 23,000	3.00 %	\$ 79,000	\$ 102,000
3.00 %	24,000	3.00 %	82,000	106,000
3.00 %	24,000	3.00 %	84,000	108,000
3.00 %	25,000	3.00 %	87,000	112,000
3.00 %	26,000	3.00 %	89,000	115,000
3.00 %	27,000	3.00 %	92,000	119,000
3.00 %	27,000	3.00 %	95,000	122,000
3.00 %	28,000	3.00 %	97,000	125,000
3.00 %	29,000	3.00 %	100,000	129,000
3.00 %	30,000	3.00 %	103,000	133,000
3.00 %	31,000	3.00 %	106,000	137,000
3.00 %	32,000	3.00 %	110,000	142,000
3.00 %	33,000	3.00 %	113,000	146,000
3.00 %	34,000	3.00 %	116,000	150,000
3.00 %	35,000	3.00 %	120,000	155,000
3.00 %	12,875	3.00 %	123,000	135,875
-	-	3.00 %	127,000	127,000
-	-	3.00 %	131,000	131,000
-	-	3.00 %	135,000	135,000
	<u>\$ 440,875</u>		<u>\$ 1,989,000</u>	<u>\$ 2,429,875</u>

City of Audubon  
 Schedule of Receipts By Source and Disbursements By Function -  
 All Governmental Funds  
 For the Last Four Years

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Receipts				
Property tax	\$ 546,863	560,059	506,623	511,894
Tax increment financing collections	94,329	4,038	66,983	75,895
Other city tax	173,103	165,088	206,332	52,085
Licenses and permits	2,121	2,880	2,643	2,008
Use of money and property	82,685	30,037	36,548	35,652
Intergovernmental	476,355	1,431,697	352,851	431,124
Charges for service	201,285	194,701	197,440	196,433
Special assessments	40,594	160	343	54
Miscellaneous	137,044	114,508	110,699	194,188
	<u>1,754,379</u>	<u>2,503,168</u>	<u>1,480,462</u>	<u>1,499,333</u>
Total	\$			
Disbursements				
Operating:				
Public safety	\$ 242,734	259,593	245,583	245,494
Public works	440,159	607,404	476,504	463,025
Health and social services	1,000	0	1,000	0
Culture and recreation	228,575	260,451	327,344	253,575
Community and economic development	122,456	98,563	76,481	231,726
General government	105,216	131,795	77,421	68,555
Debt service	152,131	144,964	135,775	146,618
Capital projects	1,377,271	2,440,525	638,689	61,357
	<u>2,669,542</u>	<u>3,943,295</u>	<u>1,978,797</u>	<u>1,470,350</u>
Total	\$			

See accompanying independent auditor's report

City of Audubon  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Justice			
Bulletproof Vest Partnership Grant	16.710	FY04	\$ 822
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	02-WS-070	76,728
HOME Program	14.239	00-HM-110	80,527
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	01-BRM-38	27,884
Safety Incentive Grants for Use of Seatbelts	20.604	FY04	1,928
Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Clean Water State Revolving Fund Program	66.458	SRF-CS192212 01	1,028,903
Total			\$ 1,216,792

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Audubon. The City of Audubon's financial statements are 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.

**City of Audubon**

September 22, 2004

Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Audubon, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 22, 2004. Our report expressed unqualified opinions 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, Chapter 11 of the Code of Iowa 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 Audubon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. There were no prior year reportable conditions.

Compliance

As part of obtaining reasonable assurance about whether the City of Audubon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Continued...

City of Audubon  
Independent Auditor's Report on  
Internal Control and Compliance

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 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. Prior year statutory comments have been resolved except for item IV-J-04.

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 Audubon and other parties to whom the City of Audubon 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 Audubon 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.

Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and Internal Control over Compliance

September 22, 2004

Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Audubon, 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, 2004. City of Audubon's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Audubon's management. Our responsibility is to express an opinion on the City of Audubon's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, 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 provisions 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 Audubon'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 Audubon's compliance with those requirements.

In our opinion, the City of Audubon 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, 2004.

Continued...

City of Audubon  
Report on Compliance with  
Requirements Applicable to Each Major Program

Internal Control Over Compliance

The management of the City of Audubon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Audubon'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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by errors or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 Audubon and other parties to whom the City of Audubon 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.

City of Audubon  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2004

**Part I: Summary of the Independent Auditors' Result:**

- (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 accepted accounting principles.
- (b) The audit of the financial statements did not disclose any reportable conditions in internal control over financial reporting.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) The audit of the financial statements did not disclose any reportable conditions in internal control over the major program.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any 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 66.458 – Clean Water State Revolving Fund Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Audubon did not qualify as a low-risk auditee.

City of Audubon  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2004

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

No comments or recommendations.

City of Audubon  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2004

**Part III: Findings and Questioned Cost for Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

No comments or recommendations.

City of Audubon  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2004

**Part IV: Other Findings Related to Statutory Reporting:**

IV-A-04     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, 2004.

IV-B-04     Certified Budget

Disbursements during the year ended June 30, 2004 did not exceed the amended budgeted amounts.

IV-C-04     Entertainment Expense

We noted no disbursements 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-D-04     Travel Expense

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

IV-E-04     Business Transactions

No business transactions were noted between the City and City officials or employees.

IV-F-04     Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-04     Council Minutes

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

IV-H-04     Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy.

City of Audubon  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2004

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

IV-I-04     Enterprise Debt

Comment - The City did not establish the sinking and reserve accounts as required by the provisions of the sewer revenue note resolutions.

Recommendation - The City should establish these accounts as required by the provisions of the resolutions.

Response - We will do this.

Conclusion - Response accepted.

IV-J-04     Financial Condition

Comment - The Capital Projects Funds, Water Construction Account and Sewer Construction Account, had deficit balances at June 30, 2004.

Recommendation - The City should monitor activity in these funds in order to eliminate the deficits.

Response - We will do this.

Conclusion - Response accepted.

IV-K-04     Excess Balances

Comment - The cash balances in the Special Revenue Fund, Economic Development and Local Option Sales Tax Accounts at June 30, 2004 were in excess of the disbursements made from each fund during the year.

Recommendation - The City should consider the necessity of maintaining the excess balances.

Response - The excess balances are considered necessary for the payment of future project costs.

Conclusion - Response accepted.

City of Audubon  
Summary Schedule of Prior Federal Audit Findings  
Year ended June 30, 2004

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>
III-A-03	Financial Reporting	Corrective action taken.

# NEWS RELEASE

Schroer & Associates, P.C. today released an audit report on the City of Audubon, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$4,151,556 for the year ended June 30, 2004, a 14 percent decrease from 2003. The receipts included \$604,640 in property tax, \$94,329 from tax increment financing collections, \$888,310 from charges for service, \$434,430 from operating grants, contributions and restricted interest, \$159,839 for capital grants, contributions and restricted interest, \$115,326 from local option sales tax, \$10,691 from unrestricted investment earnings, \$1,793,612 for note proceeds and \$50,379 from other general receipts.

Disbursements for the year totaled \$3,865,764, a 24 percent decrease from the prior year, and included \$1,997,271 for capital projects, \$439,554 for public works, and \$239,772 for public safety. Also, disbursements for business type activities totaled \$581,973.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.