

CITY OF AUDUBON

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

JUNE 30, 2005

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City of Audubon

Officials

<u>Name</u>	<u>Title</u>	<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 29, 2005

Independent Auditors' 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, 2005, 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 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 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, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 29, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or 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.

Continued...

Independent Auditor's Report
City of Audubon

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 29 through 31 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. 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, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 6%, or approximately \$103,000 from fiscal year 2004 to fiscal year 2005. Property tax collections decreased approximately \$13,700.
- Disbursements decreased 39%, or approximately \$1,043,000, in fiscal year 2005 from fiscal year 2004.
- The City's total cash basis net assets increased 15%, or approximately \$186,217, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$204,285 and the assets of the business type activities increased by approximately \$18,068.

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 2005</u>	<u>FY 2004</u>
Property taxes	533115	546863
Tax increment financing	150445	94329
Other City tax	224224	173103
Licenses & Permits	2203	2121
Use of Money & Property	20597	82685
Intergovernmental	265004	476355
Charges for Services	196781	201285
Special Assessments	11118	40954
Miscellaneous	247728	137044
Other Financing Sources	<u>176118</u>	<u>1173612</u>
TOTALS	\$1827333	\$2928351
DISBURSEMENTS		
Public safety	343759	242734
Public works	579262	440159
Health & social services	1000	1000
Culture & recreation	289370	228575
Community & economic development	32098	41929
General government	108560	185743
Debt service	207450	152131
Capital projects	<u>65281</u>	<u>1377271</u>
TOTALS	1626780	2669542
Net change in cash balances	200553	258809
Cash balance beginning of year	<u>905836</u>	<u>647027</u>
Cash balance end of year	\$1106389	\$905836

The City's total receipts for governmental activities decreased 6%, or approximately \$103,000. The total cost of all programs and services decreased 39%, or approximately \$1,043,000. The decrease in both revenues and disbursements can be attributed to the completion of several projects.

Property tax collections decreased by approximately \$13,700 from FY04 to FY05.

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

RECEIPTS	<u>FY 2005</u>	<u>FY 2004</u>
Charges for services	555173	575885
Use of money & property	1230	603
Miscellaneous	<u>52440</u>	<u>26717</u>
TOTALS	\$608843	\$603205
DISBURSEMENTS		
Water	172332	248247
Sewer	385481	335568
Transfers out	<u>69343</u>	<u>0</u>
TOTALS	\$627156	\$583815
Net change in cash balance	(18313)	19390
Case balance beginning of year	<u>261697</u>	<u>242307</u>
Cash balance end of year	\$243384	\$261697

The business-type activities receipts remained nearly stable with last year's amounts, with an increase of only \$5638. Expenditures increased by \$43,341.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Audubon completed the year, its governmental funds reported a combined fund balance of \$1,106,389, an increase of \$200,553 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 increased \$22258 from the prior year to \$409752.
- The Road Use Tax fund cash balance increased by \$15055 to \$142773 during the fiscal year. This increase was due to unspent road use taxes.
- The Local Option Sales Tax Fund cash balance increased \$86507 to \$280923. The City intends to use the receipts for future street construction projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by \$11,445 and the Sewer Fund decreased by \$29,758. 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, 2005. The expenditure budget was increased by \$298,895 and the receipt budget was increased by \$86,250.

DEBT ADMINISTRATION

On June 30, 2005, the City had approximately \$3,165,897 in bonds and other long-term debt, compared to \$3,391,572 last year, as shown below.

	<u>6-30-05</u>	<u>6-30-04</u>
General obligation bonds	208897	341697
TIF revenue bonds	565000	620000
Sewer revenue bonds	<u>2392000</u>	<u>2429875</u>
TOTALS	\$3165897	\$3391572

Additional Sewer Revenue Bonds of \$64,000 were issued during the year and \$289,800 of long-term debt was redeemed during the year.

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 \$773,897 is well below the constitutional debt limit of \$3,262,168.

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 2005 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, 2005

	Disbursements	Charges for Service	Program Receipts Operating Grants Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 341,222	7,783	420
Public works	579,060	177,837	235,913
Health and social services	1,000	-	-
Culture and recreation	289,370	129,615	76,967
Community and economic development	32,098	-	-
General government	107,566	11,548	30,097
Debt service	207,450	-	-
Capital projects	65,281	-	-
Total governmental activities	1,623,047	326,783	343,397
Business type activities:			
Water	172,129	230,980	1,010
Sewer	385,439	324,193	-
Total business type activities	557,568	555,173	1,010
Total	\$ 2,180,615	881,956	344,407

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
Sale of general fixed assets
Note proceeds
Miscellaneous
Transfers
Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Streets
Street construction and repair
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
-	(333,019)	-	(333,019)
-	(165,310)	-	(165,310)
-	(1,000)	-	(1,000)
-	(82,788)	-	(82,788)
-	(32,098)	-	(32,098)
-	(65,921)	-	(65,921)
-	(207,450)	-	(207,450)
45,848	(19,433)	-	(19,433)
<u>45,848</u>	<u>(907,019)</u>	<u>-</u>	<u>(907,019)</u>
-	-	59,861	59,861
-	-	(61,246)	(61,246)
-	-	(1,385)	(1,385)
<u>45,848</u>	<u>(907,019)</u>	<u>(1,385)</u>	<u>(908,404)</u>
\$	461,364	-	461,364
	131,760	-	131,760
	150,445	-	150,445
	164,215	-	164,215
	6,650	-	6,650
	15,626	1,230	16,856
	42,650	-	42,650
	64,125	-	64,125
	5,126	51,430	56,556
	69,343	(69,343)	-
	<u>1,111,304</u>	<u>(16,683)</u>	<u>1,094,621</u>
	204,285	(18,068)	186,217
	<u>944,108</u>	<u>273,956</u>	<u>1,218,064</u>
\$	<u>1,148,393</u>	<u>255,888</u>	<u>1,404,281</u>
\$	142,773	-	142,773
	280,923	-	280,923
	272,941	-	272,941
	<u>451,756</u>	<u>255,888</u>	<u>707,644</u>
\$	<u>1,148,393</u>	<u>255,888</u>	<u>1,404,281</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, 2005

	General	Special Revenue		Other Nonmajor Governmental Funds	Total
		Road Use Tax	Local Option Sales Tax		
Receipts					
Property tax	\$ 310,973	-	-	222,142	533,115
Tax increment financing collections	-	-	-	150,445	150,445
Other city tax	44,615	-	164,215	15,394	224,224
Licenses and permits	2,203	-	-	-	2,203
Use of money and property	20,473	-	-	124	20,597
Intergovernmental	40,128	200,692	24,184	-	265,004
Charges for service	196,781	-	-	-	196,781
Special assessments	-	-	-	11,118	11,118
Miscellaneous	133,949	420	-	113,359	247,728
Total receipts	<u>749,122</u>	<u>201,112</u>	<u>188,399</u>	<u>512,582</u>	<u>1,651,215</u>
Disbursements					
Operating:					
Public safety	281,600	-	-	62,159	343,759
Public works	224,359	186,057	101,892	66,954	579,262
Health and social services	1,000	-	-	-	1,000
Culture and recreation	251,233	-	-	38,137	289,370
Community and economic development	30,155	-	-	1,943	32,098
General government	93,200	-	-	15,360	108,560
Debt service	-	-	-	207,450	207,450
Capital projects	-	-	-	65,281	65,281
Total disbursements	<u>881,547</u>	<u>186,057</u>	<u>101,892</u>	<u>457,284</u>	<u>1,626,780</u>
Excess (deficiency) of receipts over (under) disbursements	(132,425)	15,055	86,507	55,298	24,435
Other financing sources (uses):					
Sale of general fixed assets	3,497	-	-	39,153	42,650
Sewer revenue note proceeds	-	-	-	64,125	64,125
Operating transfers in	151,186	-	-	-	151,186
Operating transfers out	-	-	-	(81,843)	(81,843)
Total other financing sources (uses)	<u>154,683</u>	<u>-</u>	<u>-</u>	<u>21,435</u>	<u>176,118</u>
Net change in cash balances	22,258	15,055	86,507	76,733	200,553
Cash balances beginning of year	<u>387,494</u>	<u>127,718</u>	<u>194,416</u>	<u>196,208</u>	<u>905,836</u>
Cash balances end of year	<u>\$ 409,752</u>	<u>142,773</u>	<u>280,923</u>	<u>272,941</u>	<u>1,106,389</u>
Cash Basis Fund Balances					
Reserved:					
Debt service	\$ -	-	-	54,174	54,174
Unreserved:					
General fund	409,752	-	-	-	409,752
Special revenue funds	-	142,773	280,923	151,740	575,436
Permanent fund	-	-	-	67,027	67,027
Total cash basis fund balances	<u>\$ 409,752</u>	<u>142,773</u>	<u>280,923</u>	<u>272,941</u>	<u>1,106,389</u>

See notes to financial statement

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, 2005

Total governmental funds cash balances \$ 1,106,389

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.

42,004

Cash basis net assets of governmental activities \$ 1,148,393

Net change in cash balances \$ 200,553

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.

3,732

Change in cash balance of governmental activities \$ 204,285

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, 2005

	Enterprise Funds			Internal Service Fund
	Water	Sewer	Total	Employee Health
Operating receipts:				
Use of money and property	\$ -	-	-	407
Charges for service	230,980	324,193	555,173	78,148
Total operating receipts	230,980	324,193	555,173	78,555
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	47,574
Public works	-	-	-	3,785
General government	-	-	-	18,632
Business type activities	172,332	209,918	382,250	4,587
Total operating disbursements	172,332	209,918	382,250	74,578
Excess (deficiency) of operating receipts over (under) operating disbursements	58,648	114,275	172,923	3,977
Non-operating receipts:				
Interest on investments	280	950	1,230	-
Intergovernmental	1,010	-	1,010	-
Miscellaneous	45,928	5,502	51,430	-
Debt service	-	(175,563)	(175,563)	-
Total non-operating receipts	47,218	(169,111)	(121,893)	-
Excess (deficiency) of receipts over (under) disbursements	105,866	(54,836)	51,030	3,977
Operating transfers in (out)	(94,421)	25,078	(69,343)	-
Net change in cash balances	11,445	(29,758)	(18,313)	3,977
Cash balances beginning of year	128,861	132,836	261,697	50,531
Cash balances end of year	\$ 140,306	103,078	243,384	54,508
 Cash Basis Fund Balances				
Unreserved	\$ 140,306	103,078	243,384	54,508

See notes to financial statements

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, 2005

Total enterprise funds cash balances \$ 243,384

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.

12,504

Cash basis net assets of business type activities \$ 255,888

Net change in cash balances \$ (18,313)

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.

245

Change in cash balance of business type activities \$ (18,068)

City of Audubon

City of Audubon
Notes to Financial Statements
June 30, 2005

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, 2005

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, 2005

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 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 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, 2005

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, 2005, disbursements exceeded the amended budgeted amounts in the community and economic development and capital projects functions.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2003, to compute the amounts which became liens on property on July 1, 2004. These taxes were due and payable in two installments on September 30, 2004 and March 31, 2005, 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, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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 \$1,404,281.

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) in 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.

City of Audubon
Notes to Financial Statements
June 30, 2005

NOTE (3) 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	
2006	\$	138,897	\$	55,000	\$	103,000	\$	296,897
2007		20,000		55,000		105,000		180,000
2008		25,000		60,000		109,000		194,000
2009		25,000		60,000		112,000		197,000
2010		-		65,000		115,000		180,000
2011-2015		-		270,000		628,000		898,000
2016-2020		-		-		730,000		730,000
2021-2023		-		-		490,000		490,000
Total	\$	<u>208,897</u>	\$	<u>565,000</u>	\$	<u>2,392,000</u>	\$	<u>3,165,897</u>

Year Ended June 30,	Interest		Interest		Interest		Interest	
	Interest		Interest		Interest		Interest	
2006	\$	11,275	\$	18,910	\$	71,760	\$	101,945
2007		3,235		17,700		68,670		89,605
2008		2,325		16,270		65,520		84,115
2009		1,175		14,470		62,250		77,895
2010		-		12,550		58,890		71,440
2011-2015		-		26,670		240,570		267,240
2016-2020		-		-		140,400		140,400
2021-2023		-		-		29,640		29,640
Total	\$	<u>18,010</u>	\$	<u>106,570</u>	\$	<u>737,700</u>	\$	<u>862,280</u>

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, 2005.

City of Audubon
Notes to Financial Statements
June 30, 2005

NOTE (3) Bonds and Notes Payable - Continued

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 reserve account required by the provisions of the resolution.

NOTE (4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70 % of their annual salary and the City is required to contribute 5.75 % of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.90%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003, was \$29,017, \$28,344, and \$27,284, respectively, equal to the required contributions for each year.

City of Audubon
Notes to Financial Statements
June 30, 2005

NOTE (5) 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, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 16,572

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

NOTE (6) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Economic Development	\$ 101,186
	Enterprise: Water	50,000
		151,186
Capital Projects: Street construction	Special Revenue: Urban Renewal Tax Increment	25,078
Capital Projects: Water construction	Enterprise: Water	44,421
		\$ 220,685

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

NOTE (7) Commitments

Sanitation Contract – The City has renewed its contract for solid waste disposal and recyclable pickup within the City through June 30, 2006, for an annual cost of \$87,000.

Cemetery Contracts – The City has contracted for the upkeep of one cemetery through March 2007, for an annual cost of \$8,589, and mowing of another cemetery through March 2006, for an annual cost of \$12,096.

City Mowing Contract – The City has contracted for the upkeep of City grounds through December 2007, for an annual cost of \$10,000.

City of Audubon
Notes to Financial Statements
June 30, 2005

NOTE (8) 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.

NOTE (9) 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 \$6,732 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	\$ 5,038
Incurred claims and claim adjustment expenses	76,273
Payments	<u>74,579</u>
Unpaid claims and claims adjustment expenses, end of year	<u>\$ 6,732</u>

NOTE (10) 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.

NOTE (11) Subsequent Event

In July, the City signed a contract for \$56,000 for street repairs.

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, 2005

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
Receipts			
Property tax	\$ 533,115	-	-
Tax increment financing collections	150,445	-	-
Other city tax	224,224	-	-
Licenses and permits	2,203	-	-
Use of money and property	20,597	1,637	407
Intergovernmental	265,004	1,010	-
Charges for service	196,781	633,321	78,148
Special assessments	11,118	-	-
Miscellaneous	247,728	51,430	-
Total receipts	<u>1,651,215</u>	<u>687,398</u>	<u>78,555</u>
Disbursements			
Public safety	343,759	47,574	47,574
Public works	579,262	3,785	3,785
Health and social services	1,000	-	-
Culture and recreation	289,370	-	-
Community and economic development	32,098	-	-
General government	108,560	18,632	18,632
Debt service	207,450	-	-
Capital projects	65,281	-	-
Business type activities	-	562,400	4,587
Total disbursements	<u>1,626,780</u>	<u>632,391</u>	<u>74,578</u>
Excess (deficiency) of receipts over (under) disbursements	24,435	55,007	3,977
Other financing sources, net	<u>176,118</u>	<u>(69,343)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	200,553	(14,336)	3,977
Balances beginning of year	<u>905,836</u>	<u>312,228</u>	<u>50,531</u>
Balances end of year	<u>\$ 1,106,389</u>	<u>297,892</u>	<u>54,508</u>

See accompanying independent auditors' report

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
533,115	532,247	572,542	(39,427)
150,445	177,500	145,000	5,445
224,224	170,295	150,000	74,224
2,203	5,300	5,400	(3,197)
21,827	12,800	16,550	5,277
266,014	317,000	280,100	(14,086)
751,954	807,400	773,000	(21,046)
11,118	-	8,000	3,118
299,158	219,350	377,550	(78,392)
<u>2,260,058</u>	<u>2,241,892</u>	<u>2,328,142</u>	<u>(68,084)</u>
343,759	302,080	394,180	50,421
579,262	546,250	646,250	66,988
1,000	1,000	1,000	-
289,370	233,395	314,500	25,130
32,098	79,155	30,655	(1,443)
108,560	141,170	127,270	18,710
207,450	207,551	212,951	5,501
65,281	-	65,000	(281)
557,813	667,510	685,200	127,387
<u>2,184,593</u>	<u>2,178,111</u>	<u>2,477,006</u>	<u>292,413</u>
75,165	63,781	(148,864)	224,329
<u>106,775</u>	<u>-</u>	<u>-</u>	<u>106,775</u>
182,240	63,781	(148,864)	331,104
<u>1,167,533</u>	<u>1,279,930</u>	<u>1,218,064</u>	<u>(50,531)</u>
<u>1,349,773</u>	<u>1,343,711</u>	<u>1,069,200</u>	<u>280,573</u>

City of Audubon
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board (GASB) 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 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 \$298,895. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the community and economic development and capital projects functions.

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, 2005

			Special Urban Renewal Tax Increment
	Employee Benefits	Economic Development	
Receipts:			
Property tax	\$ 98,483	-	-
Tax increment financing collections	-	-	150,445
Other city tax	7,293	-	-
Use of money and property	-	-	-
Special assessments	-	-	-
Miscellaneous	-	-	11,118
Total receipts	105,776	-	161,563
Disbursements:			
Operating:			
Public safety	49,523	-	12,636
Public works	36,751	-	30,203
Culture and recreation	2,523	-	35,614
Community and economic development	-	-	1,943
General government	15,360	-	-
Debt service	-	-	74,900
Capital projects	-	-	-
Total disbursements	104,157	-	155,296
Excess (deficiency) of receipts over (under) disbursements	1,619	-	6,267
Other financing sources (uses):			
Sale of general fixed assets	-	-	39,153
Sewer revenue notes	-	-	-
Operating transfers out	-	(101,186)	-
Total other financing sources (uses)	-	(101,186)	39,153
Net change in cash balances	1,619	(101,186)	45,420
Cash balances beginning of year	21,983	101,186	52,092
Cash balances end of year	\$ 23,602	-	97,512
 Cash Basis Fund Balances			
Reserved:			
Debt service fund	\$ -	-	-
Unreserved:			
Special revenue funds	23,602	-	97,512
Permanent fund	-	-	-
Total cash basis fund balances	\$ 23,602	-	97,512

See accompanying independent auditors' report

Schedule 1

	Debt Service		Permanent	
Cemetery Trust	General Obligation Debt	Capital Projects	Cemetery Trust	Total
-	123,659	-	-	222,142
-	-	-	-	150,445
-	8,101	-	-	15,394
-	-	124	-	124
-	-	-	-	11,118
608	-	45,724	67,027	113,359
608	131,760	45,848	67,027	512,582
-	-	-	-	62,159
-	-	-	-	66,954
-	-	-	-	38,137
-	-	-	-	1,943
-	-	-	-	15,360
-	132,550	-	-	207,450
-	-	65,281	-	65,281
-	132,550	65,281	-	457,284
608	(790)	(19,433)	67,027	55,298
-	-	-	-	39,153
-	-	64,125	-	64,125
-	-	19,343	-	(81,843)
-	-	83,468	-	21,435
608	(790)	64,035	67,027	76,733
30,018	54,964	(64,035)	-	196,208
30,626	54,174	-	67,027	272,941
-	54,174	-	-	54,174
30,626	-	-	-	151,740
-	-	-	67,027	67,027
30,626	54,174	-	67,027	272,941

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, 2005

	<u>Water Construction</u>	<u>Sewer Construction</u>	<u>Total</u>
Receipts:			
Use of money and property	\$ -	124	124
Miscellaneous	3,460	42,264	45,724
Total receipts	<u>3,460</u>	<u>42,388</u>	<u>45,848</u>
Disbursements:			
Capital projects	-	65,281	65,281
Total disbursements	<u>-</u>	<u>65,281</u>	<u>65,281</u>
Excess (deficiency) of receipts over (under) disbursements	3,460	(22,893)	(19,433)
Other financing sources (uses):			
Sewer revenue note proceeds	-	64,125	64,125
Operating transfers in (out)	44,421	(25,078)	19,343
Total other financing sources (uses)	<u>44,421</u>	<u>39,047</u>	<u>83,468</u>
Net change in cash balance	47,881	16,154	64,035
Cash balance beginning of year	<u>(47,881)</u>	<u>(16,154)</u>	<u>(64,035)</u>
Cash balance end of year	\$ <u>-</u>	<u>-</u>	<u>-</u>
 Cash Basis Fund Balances			
Unreserved:			
Capital projects funds	\$ <u>-</u>	<u>-</u>	<u>-</u>

See accompanying independent auditors' report

City of Audubon
Schedule of Indebtedness
Year ended June 30, 2005

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
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			

See accompanying independent auditors' 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>
155,000	-	75,000	80,000	8,525	-
40,000	-	20,000	20,000	3,200	-
110,000	-	20,000	90,000	5,025	-
<u>36,697</u>	<u>-</u>	<u>17,800</u>	<u>18,897</u>	<u>2,237</u>	<u>-</u>
<u>341,697</u>	<u>-</u>	<u>132,800</u>	<u>208,897</u>	<u>18,987</u>	<u>-</u>
<u>620,000</u>	<u>-</u>	<u>55,000</u>	<u>565,000</u>	<u>19,900</u>	<u>-</u>
1,989,000	-	79,000	1,910,000	59,670	-
<u>440,875</u>	<u>64,125</u>	<u>23,000</u>	<u>482,000</u>	<u>13,893</u>	<u>-</u>
<u>2,429,875</u>	<u>64,125</u>	<u>102,000</u>	<u>2,392,000</u>	<u>73,563</u>	<u>-</u>

City of Audubon
Bond and Note Maturities
June 30, 2005

Year Ending June 30,	General Obligation					
	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
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		\$ <u>80,000</u>		\$ <u>20,000</u>		\$ <u>90,000</u>

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

Year Ending June 30,	Issued Jan 1, 2004	
	Interest Rate	Amount
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		\$ <u>565,000</u>

See accompanying independent auditors' report

Bonds

Fire Truck Issued Jun 10, 1999		
Interest		
Rate	Amount	Total
6.00 %	\$ 18,897	\$ 138,897
-	-	20,000
-	-	25,000
-	-	25,000
	<u>\$ 18,897</u>	<u>\$ 208,897</u>

Revenue Notes

Sewer Issued Oct. 15, 1999		Sewer Issued Feb. 28, 2003		Total
Interest Rate	Amount	Interest Rate	Amount	
3.00 %	\$ 21,000	3.00 %	\$ 82,000	\$ 103,000
3.00 %	21,000	3.00 %	84,000	105,000
3.00 %	22,000	3.00 %	87,000	109,000
3.00 %	23,000	3.00 %	89,000	112,000
3.00 %	23,000	3.00 %	92,000	115,000
3.00 %	24,000	3.00 %	95,000	119,000
3.00 %	25,000	3.00 %	97,000	122,000
3.00 %	25,000	3.00 %	100,000	125,000
3.00 %	26,000	3.00 %	103,000	129,000
3.00 %	27,000	3.00 %	106,000	133,000
3.00 %	28,000	3.00 %	110,000	138,000
3.00 %	29,000	3.00 %	113,000	142,000
3.00 %	30,000	3.00 %	116,000	146,000
3.00 %	30,000	3.00 %	120,000	150,000
3.00 %	31,000	3.00 %	123,000	154,000
3.00 %	32,000	3.00 %	127,000	159,000
3.00 %	33,000	3.00 %	131,000	164,000
3.00 %	32,000	3.00 %	135,000	167,000
	<u>\$ 482,000</u>		<u>\$ 1,910,000</u>	<u>\$ 2,392,000</u>

Schedule 5

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Receipts				
Property tax	\$ 533,115	546,863	560,059	506,623
Tax increment financing collections	150,445	94,329	4,038	66,983
Other city tax	224,224	173,103	165,088	206,332
Licenses and permits	2,203	2,121	2,880	2,643
Use of money and property	20,597	82,685	30,037	36,548
Intergovernmental	265,004	476,355	1,431,697	352,851
Charges for service	196,781	201,285	194,701	197,440
Special assessments	11,118	40,594	160	343
Miscellaneous	247,728	137,044	114,508	110,699
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ <u>1,651,215</u>	<u>1,754,379</u>	<u>2,503,168</u>	<u>1,480,462</u>
Disbursements				
Operating:				
Public safety	\$ 343,759	242,734	259,593	245,583
Public works	579,262	440,159	607,404	476,504
Health and social services	1,000	1,000	-	1,000
Culture and recreation	289,370	228,575	260,451	327,344
Community and economic development	32,098	122,456	98,563	76,481
General government	108,560	105,216	131,795	77,421
Debt service	207,450	152,131	144,964	135,775
Capital projects	65,281	1,377,271	2,440,525	638,689
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ <u>1,626,780</u>	<u>2,669,542</u>	<u>3,943,295</u>	<u>1,978,797</u>

See accompanying independent auditors' report

City of Audubon

September 29, 2005

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

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 remaining fund information of the City of Audubon, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 29, 2005. 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 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.

Compliance and Other Matters

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 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 II of the accompanying Schedule of Findings.

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, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of 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.

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.

City of Audubon
Schedule of Findings
Year Ended June 30, 2005

Part I: 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
Year Ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

II-A-05 Official Depositories

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

II-B-05 Certified Budget

Comment – Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the community and economic development and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts 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 sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

II-C-05 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.

II-D-05 Travel Expense

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

II-E-05 Business Transactions

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

II-F-05 Bond Coverage

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

II-G-05 Council Minutes

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

City of Audubon
Schedule of Findings
Year Ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting Continued:

II-H-05 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.

II-I-05 Enterprise Debt

Comment - The City did not establish the reserve account 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.

II-J-05 Excess Balances

Comment - The cash balances in the Special Revenue Fund, Local Option Sales Tax Account at June 30, 2005 was in excess of the disbursements made from the fund during the year.

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

Response - The excess balance is considered necessary for the payment of future project costs.

Conclusion - Response accepted.

NEWS RELEASE

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

The City's receipts totaled 2,366,832 for the year ended June 30, 2005, a 43 percent decrease from 2004. The receipts included \$593,124 in property tax, \$150,445 from tax increment financing collections, 881,956 from charges for service, \$344,407 from operating grants, contributions and restricted interest, \$45,848 for capital grants, contributions and restricted interest, \$164,215 from local option sales tax, \$16,856 from unrestricted investment earnings, \$64,125 for note proceeds and \$105,856 from other general receipts.

Disbursements for the year totaled \$2,180,615, a 43 percent decrease from the prior year, and included \$579,060 for public works, \$341,222 for public safety and \$289,370 for culture and recreation. Also, disbursements for business type activities totaled \$557,568.

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

December 8, 2005

Lora Hansen
City of Audubon, Iowa
410 North Park
Audubon, IA 50025

Dear Lora:

Enclosed you will find a "draft" copy of City of Audubon's audit report for the year ended June 30, 2005. Please review it and let me know if you have any changes.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

