

CITY OF AUDUBON

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

JUNE 30, 2007

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City of Audubon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Clark Kauffman	Mayor	January 2008
Kathleen Cramer	Council Member	January 2008
Robert Jacobsen	Council Member	January 2008
Scott Van Dusen	Council Member	Resigned April 17, 2006
Delyte Borkowski	Council Member	January 2008 Appointed June 26, 2006
Bruce Christensen	Council Member	January 2010
Andy Griffith	Council Member	January 2010
Lora Hansen	City Clerk	Indefinite
Lance Levis	Attorney	Indefinite

City of Audubon

November 7, 2007

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, 2007, 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, 2007, 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.

Continued...

Independent Auditors' Report
City of Audubon

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 7, 2007 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.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 31 through 33 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, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the 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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased \$99,880 from fiscal year 2006 to fiscal year 2007. Property tax collections decreased \$116,581. Tax increment financing collections increased \$110,110. Miscellaneous receipts increased \$72,145
- Disbursements increased \$32,633, in fiscal year 2007 from fiscal year 2006.
- The City's total cash basis net assets increased \$61,547, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased \$2119 and the assets of the business type activities increased by \$63,666.

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.

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), and Debt Service 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	FY2007	FY 2006
Property taxes	450807	567388
Tax increment financing	144011	33901
Other City tax	175273	180157
Licenses & Permits	1583	4767
Use of Money & Property	58501	47753
Intergovernmental	254803	247524
Charges for Services	202272	198176
Special Assessments	31377	12686
Miscellaneous	165709	93214
Other Financing Sources	61500	50000
TOTALS	\$1545836	\$1434456
DISBURSEMENTS		
Public safety	350862	296651
Public works	606413	553816
Health & social services	1000	1000
Culture & recreation	264595	326173
Community & economic development	159517	41794
General government	137370	86480
Debt service	23635	204845
TOTALS	\$1543392	1510759
Net change in cash balances	2444	-76303
Cash balance beginning of year	1030086	1106389
Cash balance end of year	1032530	1030086

The City’s total receipts for governmental activities increased approximately \$111,000. The total cost of all programs and services increased approximately \$33,000.

Property tax collections decreased by \$116,581 from FY06 to FY07.

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

RECEIPTS	FY 2007	FY 2006
Charges for services	580077	567918
Use of money & property	6062	4240
Miscellaneous	34945	37204
TOTALS	\$621084	\$609110
DISBURSEMENTS	FY 2007	FY 2006
Water	177919	255884
Sewer	328299	373322
Transfers out	50000	50000
TOTALS	\$556218	\$679206
Net change in cash balance	64866	(70096)
Case balance beginning of year	173288	243384
Cash balance end of year	238154	173288

The business-type activities receipts increased by \$11,974. Expenditures decreased by \$122,988.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Audubon completed the year, its governmental funds reported a combined fund balance of \$1,032,530, an increase of \$2444 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 \$42160 from the prior year to \$315381.
- The Road Use Tax fund cash balance decreased by \$20772 to \$154411 during the fiscal year. This decrease was due to higher than usual snow removal costs.
- The Urban Renewal Tax Increment Fund decreased \$16721 to \$154411 as a new grant program to help commercial property owners with the maintenance of their buildings was started.
- The Local Option Sales Tax Fund cash balance increased \$63023 to \$354463. 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 \$39221 and the Sewer Fund increased by \$25645.

BUDGETARY HIGHLIGHTS

The City amended its budget once during the year, in May, 2007. The expenditure budget was increased by \$141,097 and the receipt budget was increased by \$71,792.

DEBT ADMINISTRATION

On June 30, 2007, the City had \$2,691,000 in bonds and other long-term debt, compared to \$2,871,000 last year, as shown below.

	6-30-07	6-30-06
General obligation bonds	50000	70000
TIF revenue bonds	455000	510000
Sewer revenue bonds	2186000	2291000
TOTALS	\$2691000	\$2871000

Long-term debt of \$180,000 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 \$485,000 is well below the constitutional debt limit of \$3,282,949.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Audubon's elected and appointed officials consider many factors when setting each year's budget, tax rates, and fees that are charged for various City activities. Maintaining quality services for residents is a high priority. Compliance with old and new state and federal regulations is also a large factor.

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, 2007

	Disbursements	Charges for Service	Program Receipts Operating Grants Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 354,454	4,166	17,631
Public works	607,088	189,193	218,663
Health and social services	1,000	-	-
Culture and recreation	264,595	61,948	144,690
Community and economic development	159,517	-	-
General government	137,666	13,902	30,159
Debt service	23,635	-	-
Total governmental activities	1,547,955	269,209	411,143
Business type activities:			
Water	178,567	238,206	-
Sewer	328,851	341,871	-
Total business type activities	507,418	580,077	-
Total	\$ 2,055,373	849,286	411,143

General Receipts:

Property tax levied for:
 General purposes
 Employee benefits
 Debt service
Tax increment financing
Local option sales tax
Grants and contributions not restricted
to specific purpose
Unrestricted interest on investments
Miscellaneous
Sale of assets
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
 Urban renewal
 Street construction and repair
 Debt services
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursement) Receipts and Changes in
Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(332,657)	-	(332,657)
(199,232)	-	(199,232)
(1,000)	-	(1,000)
(57,957)	-	(57,957)
(159,517)	-	(159,517)
(93,605)	-	(93,605)
(23,635)	-	(23,635)
<u>(867,603)</u>	<u>-</u>	<u>(867,603)</u>
-	59,639	59,639
<u>-</u>	<u>13,020</u>	<u>13,020</u>
<u>-</u>	<u>72,659</u>	<u>72,659</u>
(867,603)	72,659	(794,944)
\$ 359,753	-	359,753
120,504	-	120,504
25,271	-	25,271
144,011	-	144,011
120,552	-	120,552
3,163	-	3,163
28,896	6,062	34,958
1,834	34,945	36,779
11,500	-	11,500
50,000	(50,000)	-
<u>865,484</u>	<u>(8,993)</u>	<u>856,491</u>
(2,119)	63,666	61,547
<u>1,069,376</u>	<u>185,541</u>	<u>1,254,917</u>
\$ <u>1,067,257</u>	<u>249,207</u>	<u>1,316,464</u>
\$ 154,411	-	154,411
8,206	-	8,206
354,463	-	354,463
56,146	54,591	110,737
143,923	-	143,923
<u>350,108</u>	<u>194,616</u>	<u>544,724</u>
\$ <u>1,067,257</u>	<u>249,207</u>	<u>1,316,464</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, 2007

	General	Special Revenue		
		Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
Receipts				
Property tax	\$ 314,482	-	-	-
Tax increment financing collections	-	-	144,011	-
Other city tax	45,271	-	-	120,552
Licenses and permits	1,583	-	-	-
Use of money and property	58,501	-	-	-
Intergovernmental	45,460	209,343	-	-
Charges for service	202,272	-	-	-
Special assessments	147	-	31,230	-
Miscellaneous	147,321	1,003	-	8,317
Total receipts	<u>815,037</u>	<u>210,346</u>	<u>175,241</u>	<u>128,869</u>
Disbursements				
Operating:				
Public safety	297,098	-	-	-
Public works	194,278	231,118	73,100	65,846
Health and social services	1,000	-	-	-
Culture and recreation	262,049	-	-	-
Community and economic development	29,155	-	130,362	-
General government	123,617	-	-	-
Debt service	-	-	-	-
Total disbursements	<u>907,197</u>	<u>231,118</u>	<u>203,462</u>	<u>65,846</u>
Excess (deficiency) of receipts over (under) disbursements	(92,160)	(20,772)	(28,221)	63,023
Other financing sources:				
Sale of general fixed assets	-	-	11,500	-
Operating transfers in	50,000	-	-	-
Total other financing sources	<u>50,000</u>	<u>-</u>	<u>11,500</u>	<u>-</u>
Net change in cash balances	(42,160)	(20,772)	(16,721)	63,023
Cash balances beginning of year	<u>357,541</u>	<u>175,183</u>	<u>24,927</u>	<u>291,440</u>
Cash balances end of year	<u>\$ 315,381</u>	<u>154,411</u>	<u>8,206</u>	<u>354,463</u>
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	315,381	-	-	-
Special revenue funds	-	154,411	8,206	354,463
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ 315,381</u>	<u>154,411</u>	<u>8,206</u>	<u>354,463</u>

See notes to financial statement

Other Nonmajor Governmental Funds	Total
136,325	450,807
-	144,011
9,450	175,273
-	1,583
-	58,501
-	254,803
-	202,272
-	31,377
9,068	165,709
<u>154,843</u>	<u>1,484,336</u>
53,764	350,862
42,071	606,413
-	1,000
2,546	264,595
-	159,517
13,753	137,370
23,635	23,635
<u>135,769</u>	<u>1,543,392</u>
19,074	(59,056)
-	11,500
-	50,000
<u>-</u>	<u>61,500</u>
19,074	2,444
<u>180,995</u>	<u>1,030,086</u>
<u>200,069</u>	<u>1,032,530</u>
56,146	56,146
-	315,381
66,948	584,028
76,975	76,975
<u>200,069</u>	<u>1,032,530</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, 2007

Total governmental funds cash balances \$ 1,032,530

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.

34,727

Cash basis net assets of governmental activities \$ 1,067,257

Net change in cash balances \$ 2,444

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 in net assets of the Internal Service Fund is reported with governmental activities.

(4,563)

Change in cash balance of governmental activities \$ (2,119)

City of Audubon
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2007

	Enterprise Funds			Internal Service Fund
	Water	Sewer	Total	Employee Health
Operating receipts:				
Use of money and property	\$ -	-	-	330
Charges for service	237,914	341,498	579,412	77,424
Special assessments	292	373	665	-
Total operating receipts	238,206	341,871	580,077	77,754
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	52,051
Public works	-	-	-	9,786
General government	-	-	-	4,283
Business type activities	177,919	160,569	338,488	17,397
Total operating disbursements	177,919	160,569	338,488	83,517
Excess (deficiency) of operating receipts over (under) operating disbursements	60,287	181,302	241,589	(5,763)
Non-operating receipts:				
Interest on investments	1,334	4,728	6,062	-
Miscellaneous	27,600	7,345	34,945	-
Debt service	-	(167,730)	(167,730)	-
Total non-operating receipts	28,934	(155,657)	(126,723)	-
Excess (deficiency) of receipts over (under) disbursements	89,221	25,645	114,866	(5,763)
Other financing sources (uses):				
Operating transfers out	(50,000)	-	(50,000)	-
Net change in cash balances	39,221	25,645	64,866	(5,763)
Cash balances beginning of year	102,337	70,951	173,288	51,543
Cash balances end of year	\$ 141,558	96,596	238,154	45,780
 Cash Basis Fund Balances				
Reserved for debt service	\$ -	54,591	54,591	-
Unreserved	141,558	42,005	183,563	45,780
	\$ 141,558	96,596	238,154	45,780

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, 2007

Total enterprise funds cash balances \$ 238,154

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.

11,053

Cash basis net assets of business type activities \$ 249,207

Net change in cash balances \$ 64,866

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 in net assets of the Internal Service Fund is reported with business type activities.

(1,200)

Change in cash balance of business type activities \$ 63,666

City of Audubon

City of Audubon
Notes to Financial Statements
June 30, 2007

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, 2007

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.

Special Revenue:

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

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

The 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.

City of Audubon
Notes to Financial Statements
June 30, 2007

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

The City reports the following major proprietary funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's 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.

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

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, 2007

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, 2007, disbursements exceeded the amount budgeted in the public safety function.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2005, to compute the amounts which became liens on property on July 1, 2006. These taxes were due and payable in two installments on September 30, 2006 and March 31, 2007, 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, 2007 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 \$1,316,464.

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, 2007

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 Principal	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds Principal	Revenue Bonds Principal	Total Principal
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	-	65,000	119,000	184,000
2012	-	65,000	122,000	187,000
2013-2017	-	140,000	667,000	807,000
2018-2022	-	-	773,000	773,000
2023	-	-	169,000	169,000
Total	\$ 50,000	\$ 455,000	\$ 2,186,000	\$ 2,691,000

Year Ended June 30,	Interest	Interest	Interest	Interest
2008	\$ 2,325	\$ 16,270	\$ 65,580	\$ 84,175
2009	1,175	14,470	62,310	77,955
2010	-	12,550	58,950	71,500
2011	-	10,340	55,500	65,840
2012	-	8,000	51,930	59,930
2013-2017	-	8,330	202,620	210,950
2018-2022	-	-	96,270	96,270
2023	-	-	5,070	5,070
Total	\$ 3,500	\$ 69,960	\$ 598,230	\$ 671,690

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, 2007.

City of Audubon
Notes to Financial Statements
June 30, 2007

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 complied with the provisions of the resolutions.

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 covered salary and the City is required to contribute 5.75 % of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005, was \$30,669, \$30,043, and \$29,017, respectively, equal to the required contributions for each year.

City of Audubon
Notes to Financial Statements
June 30, 2007

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, 2007, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 16,136

The liability has been computed based on rates of pay as of June 30, 2007.

NOTE (6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Enterprise: Water	\$ <u>50,000</u>

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 contracted for solid waste disposal and recyclable pickup within the City for annual costs of \$99,644 through June 2008 and \$101,584 through June 2009.

Cemetery Contracts – The City has contracted for the upkeep of one cemetery through March 2010, for an annual cost of \$8,589, and mowing of another cemetery through March 2010, for an annual cost of \$13,296.

City Mowing Contract – The City has contracted for the upkeep of City grounds through December 2008, for an annual cost of \$10,000.

Wastewater Operation Contract – The City has contracted for relief operations of the wastewater treatment facilities for the period July 16, 2007 through November 30, 2007 for a lump sum fee of \$39,816.

City of Audubon
Notes to Financial Statements
June 30, 2007

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 \$25,000 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 \$19,710 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	\$	12,606
Incurred claims and claim adjustment expenses		90,621
Payments		<u>83,517</u>
Unpaid claims and claims adjustment expenses, end of year	\$	<u><u>19,710</u></u>

NOTE (10) Construction Commitments

At June 30, 2007, the City had the following construction commitments:

	Estimated Contract Amounts	Paid to Date	Remaining Commitment
<u>Streetscape Project</u>			
Engineering	\$ 85,300	83,680	1,620
Construction	1,323,990	-	1,323,990
<u>Street Repairs</u>			
Construction	75,000	-	<u>75,000</u>
			<u><u>\$ 1,400,610</u></u>

City of Audubon
Notes to Financial Statements
June 30, 2007

NOTE (11) Subsequent Events

The City approved general obligation debt issuances not to exceed \$1,320,000 to fund the streetscape project and \$350,000 to purchase equipment.

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, 2007

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
Receipts			
Property tax	\$ 450,807	-	-
Tax increment financing collections	144,011	-	-
Other city tax	175,273	-	-
Licenses and permits	1,583	-	-
Use of money and property	58,501	6,392	330
Intergovernmental	254,803	-	-
Charges for service	202,272	656,836	77,424
Special assessments	31,377	665	-
Miscellaneous	165,709	34,945	-
Total receipts	<u>1,484,336</u>	<u>698,838</u>	<u>77,754</u>
Disbursements			
Public safety	350,862	52,051	52,051
Public works	606,413	9,786	9,786
Health and social services	1,000	-	-
Culture and recreation	264,595	-	-
Community and economic development	159,517	-	-
General government	137,370	4,283	4,283
Debt service	23,635	-	-
Business type activities	-	523,615	17,397
Total disbursements	<u>1,543,392</u>	<u>589,735</u>	<u>83,517</u>
Excess (deficiency) of receipts over (under) disbursements	(59,056)	109,103	(5,763)
Other financing sources, net	<u>61,500</u>	<u>(50,000)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) Disbursements and other financing uses	2,444	59,103	(5,763)
Balances beginning of year	<u>1,030,086</u>	<u>224,831</u>	<u>51,543</u>
Balances end of year	<u>\$ 1,032,530</u>	<u>283,934</u>	<u>45,780</u>

See accompanying independent auditors' report

Net	Budgeted Amounts		Final To Net Variance
	Original	Final	
450,807	445,892	477,323	(26,516)
144,011	208,017	130,000	14,011
175,273	157,066	125,000	50,273
1,583	5,100	4,700	(3,117)
64,563	23,100	37,450	27,113
254,803	218,800	217,800	37,003
781,684	815,500	750,000	31,684
32,042	-	25,000	7,042
200,654	186,166	364,160	(163,506)
<u>2,105,420</u>	<u>2,059,641</u>	<u>2,131,433</u>	<u>(26,013)</u>
350,862	297,280	350,580	(282)
606,413	531,150	609,500	3,087
1,000	1,000	1,000	-
264,595	299,325	272,575	7,980
159,517	179,155	179,155	19,638
137,370	88,070	154,667	17,297
23,635	96,735	96,735	73,100
506,218	624,788	594,388	88,170
<u>2,049,610</u>	<u>2,117,503</u>	<u>2,258,600</u>	<u>208,990</u>
55,810	(57,862)	(127,167)	182,977
<u>11,500</u>	<u>-</u>	<u>-</u>	<u>11,500</u>
67,310	(57,862)	(127,167)	194,477
<u>1,203,374</u>	<u>1,156,504</u>	<u>1,252,939</u>	<u>(49,565)</u>
<u><u>1,270,684</u></u>	<u><u>1,098,642</u></u>	<u><u>1,125,772</u></u>	<u><u>144,912</u></u>

City of Audubon
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2007

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 \$141,097. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amended budgeted amounts in the public safety function.

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, 2007

	Special Revenue		Debt Service
	Employee Benefits	Cemetery Trust	General Obligation Debt
Receipts:			
Property tax	\$ 112,457	-	23,868
Other city tax	8,047	-	1,403
Miscellaneous	-	1,740	-
Total receipts	<u>120,504</u>	<u>1,740</u>	<u>25,271</u>
Disbursements:			
Operating:			
Public safety	53,764	-	-
Public works	42,071	-	-
Culture and recreation	2,546	-	-
General government	13,753	-	-
Debt service	-	-	23,635
Total disbursements	<u>112,134</u>	<u>-</u>	<u>23,635</u>
Net change in cash balances	8,370	1,740	1,636
Cash balances beginning of year	<u>25,188</u>	<u>31,650</u>	<u>54,510</u>
Cash balances end of year	<u>\$ 33,558</u>	<u>33,390</u>	<u>56,146</u>

Cash Basis Fund Balances

Reserved:			
Debt service fund	\$ -	-	56,146
Unreserved:			
Special revenue funds	33,558	33,390	-
Permanent fund	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 33,558</u>	<u>33,390</u>	<u>55,146</u>

See accompanying independent auditors' report

<u>Permanent</u>	
<u>Cemetery Trust</u>	<u>Total</u>
-	136,325
-	9,450
7,328	9,068
<u>7,328</u>	<u>154,843</u>
-	53,764
-	42,071
-	2,546
-	13,753
-	23,635
<u>-</u>	<u>135,769</u>
7,328	19,074
<u>69,647</u>	<u>180,995</u>
<u>76,975</u>	<u>200,069</u>
-	56,146
-	66,948
<u>76,975</u>	<u>76,975</u>
<u>76,975</u>	<u>200,069</u>

City of Audubon
Schedule of Indebtedness
Year ended June 30, 2007

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds and notes: Sewer improvements	Apr 1, 1999	4.60 – 4.70 %	200,000
Urban renewal tax increment financing (TIF) revenue bonds:	Jan 1, 2004	3.00 – 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 2

<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>
<u>70,000</u>	<u>-</u>	<u>20,000</u>	<u>50,000</u>	<u>3,235</u>	<u>-</u>
<u>510,000</u>	<u>-</u>	<u>55,000</u>	<u>455,000</u>	<u>17,700</u>	<u>-</u>
1,828,000	-	84,000	1,744,000	54,840	-
<u>463,000</u>	<u>-</u>	<u>21,000</u>	<u>442,000</u>	<u>13,890</u>	<u>-</u>
<u>2,291,000</u>	<u>-</u>	<u>105,000</u>	<u>2,186,000</u>	<u>68,730</u>	<u>-</u>

City of Audubon
Bond and Note Maturities
June 30, 2007

Year Ending June 30,	General Obligation Bond		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	
	Sanitary Sewer Improvements Issued Apr 1, 1999		Issued Jan 1, 2004	
	Interest Rate	Amount	Interest Rate	Amount
2008	4.60 %	\$ 25,000	3.00 %	\$ 60,000
2009	4.70 %	25,000	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
Total		\$ 50,000		\$ 455,000

Revenue Notes

Year Ending June 30,	Sewer Issued Oct. 15, 1999		Sewer Issued Feb. 28, 2003		Total
	Interest Rate	Amount	Interest Rate	Amount	
2008	3.00 %	\$ 22,000	3.00 %	\$ 87,000	\$ 109,000
2009	3.00 %	23,000	3.00 %	89,000	112,000
2010	3.00 %	23,000	3.00 %	92,000	115,000
2011	3.00 %	24,000	3.00 %	95,000	119,000
2012	3.00 %	25,000	3.00 %	97,000	122,000
2013	3.00 %	25,000	3.00 %	100,000	125,000
2014	3.00 %	26,000	3.00 %	103,000	129,000
2015	3.00 %	27,000	3.00 %	106,000	133,000
2016	3.00 %	28,000	3.00 %	110,000	138,000
2017	3.00 %	29,000	3.00 %	113,000	142,000
2018	3.00 %	30,000	3.00 %	116,000	146,000
2019	3.00 %	30,000	3.00 %	120,000	150,000
2020	3.00 %	31,000	3.00 %	123,000	154,000
2021	3.00 %	32,000	3.00 %	127,000	159,000
2022	3.00 %	33,000	3.00 %	131,000	164,000
2023	3.00 %	34,000	3.00 %	135,000	169,000
Total		\$ 442,000		\$ 1,744,000	\$ 2,186,000

See accompanying independent auditors' report

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts				
Property tax	\$ 450,807	567,388	533,115	546,863
Tax increment financing collections	144,011	33,901	150,445	94,329
Other city tax	175,273	180,157	224,224	173,103
Licenses and permits	1,583	3,307	2,203	2,121
Use of money and property	58,501	47,753	20,597	82,685
Intergovernmental	254,803	247,524	265,004	476,355
Charges for service	202,272	198,176	196,781	201,285
Special assessments	31,377	12,686	11,118	40,594
Miscellaneous	<u>165,709</u>	<u>93,564</u>	<u>247,728</u>	<u>137,044</u>
 Total	 \$ <u>1,484,336</u>	 <u>1,384,456</u>	 <u>1,651,215</u>	 <u>1,754,379</u>
 Disbursements				
Operating:				
Public safety	\$ 350,862	296,651	343,759	242,734
Public works	606,413	553,816	579,262	440,159
Health and social services	1,000	1,000	1,000	1,000
Culture and recreation	264,595	326,173	289,370	228,575
Community and economic development	159,517	41,794	32,098	122,456
General government	137,370	86,480	108,560	105,216
Debt service	23,635	204,845	207,450	152,131
Capital projects	<u>-</u>	<u>-</u>	<u>65,281</u>	<u>1,377,271</u>
 Total	 \$ <u>1,543,392</u>	 <u>1,510,759</u>	 <u>1,626,780</u>	 <u>2,669,542</u>

See accompanying independent auditors' report

City of Audubon

November 7, 2007

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the remaining fund information of the City of Audubon, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 7, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Audubon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Audubon's internal control over financial reporting.

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

Continued...

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe the significant deficiency described above is a material weakness.

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.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

Continued...

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

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, 2007

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The same person does the utility billing, cash receipts listing, bank deposits and posting of cash receipts to utility accounts.

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

Response – We will consider this. Utility customers pay mostly by check and will question if a payment is not correctly posted to their account.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Audubon
Schedule of Findings
Year Ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

II-A-07 Certified Budget

Comment - Disbursements during the year ended June 30, 2007, exceeded the amount budgeted in the public safety function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered excepts 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 the future, if applicable.

Conclusion – Response accepted.

II-B-07 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-C-07 Travel Expense

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

II-D-07 Business Transactions

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

II-E-07 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.

City of Audubon
Schedule of Findings
Year Ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting Continued:

II-F-07 Council Minutes

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

The Council went into closed session. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa.

Response – We will comply with the Code requirements for closed sessions.

Conclusion – Response accepted.

II-G-07 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-H-07 Enterprise Debt

The City complied with the provisions of the revenue note resolutions.

II-J-07 Excess Balances

Comment – The cash balances in the Special Revenue Fund, Local Option Sales Tax Account at June 30, 2007 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 \$2,116,920 for the year ended June 30, 2007, a 6 percent decrease from 2006. The receipts included \$505,528 in property tax, \$144,011 from tax increment financing collections, \$849,286 from charges for service, \$411,143 from operating grants, contributions and restricted interest, \$120,552 from local option sales tax, \$34,958 from unrestricted investment earnings, \$11,500 from sale of assets and \$39,942 from other general receipts.

Disbursements for the year totaled \$2,055,373, a 4 percent decrease from the prior year, and included \$607,088 for public works, \$354,454 for public safety and \$264,595 for culture and recreation. Also, disbursements for business type activities totaled \$507,418.

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

November 7, 2007

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, 2007. We still need to insert your Management and Discussion and Analysis for 2007. Please review it and let me know if you have any changes.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

December 5, 2007

David Vaudt
Office of State Auditor
PO Box 333
Des Moines, IA 50302-0333

Dear Sir:

We have enclosed for your records the following information regarding the audit of the City of Audubon, Iowa for the year ended June 30, 2007.

- 2 copies of the audit report
- 1 copy of the news release
- 1 copy of the number of hours worked
- 1 copy of the invoice

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

December 5, 2007

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

Dear Lora:

We have filed the required copies of your audit report with the Office of Auditor of State. A filing fee is required to be paid based on your final amended budget, according to the following schedule:

<u>Budgeted Expenditures (In millions of dollars)</u>	<u>Fee Amount</u>
Under 1	\$ 100.00
At least 1, but less than 3	\$ 175.00
At least 3, but less than 5	\$ 250.00
At least 5, but less than 10	\$ 425.00
At least 10, but less than 25	\$ 625.00
25 and over	\$ 850.00

You are required to send the appropriate filing fee. The check should be made payable to "Auditor of State" and mailed to Office of Auditor of State, PO Box 333, Des Moines, IA 50302-0333.

If you have any questions, please do not hesitate to call me at 712-322-8734.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh

City of Audubon, Iowa

Hours Worked: 40