

**CITY OF AUDUBON**

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

**JUNE 30, 2008**

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**City of Audubon**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2008)</b>		
Clark Kauffman	Mayor	January 2008
Kathleen Cramer	Council Member	January 2008
Robert Jacobsen	Council Member	January 2008
Delyte Borkowski	Council Member	January 2008
Bruce Christensen	Council Member	January 2010
Andy Griffith	Council Member	January 2010
Lora Hansen	City Clerk	Indefinite
Lance Levis	Attorney	Indefinite

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(After January 2008)</b>		
Clark Kauffman	Mayor	January 2012
Bruce Christensen	Council Member	January 2010
Andy Griffith	Council Member	January 2010
Delyte Borkowski	Council Member	January 2010
Kathleen Cramer	Council Member	January 2012
Robert Jacobsen	Council Member	January 2012
Lora Hansen	City Clerk	Indefinite
Lance Levis	Attorney	Indefinite

**City of Audubon**

November 25, 2008

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, 2008, 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, 2008, 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 25, 2008 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, 2007 (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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2008 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities increased \$331,144 from fiscal year 2007 to fiscal year 2008. Property tax collections increased \$51,585. Tax increment financing collections decreased \$59,163. Intergovernment receipts increased \$345,291.
- Disbursements increased \$1,602,505 in fiscal year 2008 from fiscal year 2007. Capital projects increased \$1,107,220 and public works increased \$306,897.
- The City's total cash basis net assets increased \$364,242, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased \$373,623 and the assets of the business type activities decreased by \$9,381.

### **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	FY2008	FY 2007
Property taxes	502392	450807
Tax increment financing	84848	144011
Other City tax	204702	175273
Licenses & Permits	508	1583
Use of Money & Property	84618	58501
Intergovernmental	600094	254803
Charges for Services	196688	202272
Special Assessments	20706	31377
Miscellaneous	120924	165709
Other Financing Sources	1716600	61500
TOTALS	\$3532080	\$1545836
DISBURSEMENTS		
Public safety	487808	350862
Public works	913310	606413
Health & social services	1000	1000
Culture & recreation	265913	264595
Community & economic development	166893	159517
General government	89177	137370
Debt service	114576	23635
Capital projects	1107220	0
TOTALS	\$3145897	\$1543392
Net change in cash balances	386183	2444
Cash balance beginning of year	1032530	1030086
Cash balance end of year	1418713	1032530

The City's total receipts for governmental activities increased approximately \$1,986,000. The total cost of all programs and services increased approximately \$1,600,000. Both increases can be attributed to the sale of bonds for a downtown streetscape project and the purchase of new equipment.

Property tax collections increased by \$51,585 from FY07 to FY08.

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

RECEIPTS	FY 2008	FY 2007
Charges for services	584033	580077
Use of money & property	5836	6062
Miscellaneous	31642	34945
TOTALS	\$621511	\$621084
DISBURSEMENTS		
Water	188270	177919
Sewer	391707	328299
Transfers out	50000	50000
TOTALS	\$629977	\$556218
Net change in cash balance	(8466)	64866
Case balance beginning of year	238154	173288
Cash balance end of year	229688	238154

The business-type activities receipts remained steady. Expenditures increased by \$73,759.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Audubon completed the year, its governmental funds reported a combined fund balance of \$1,418,713, an increase of \$386,183 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 \$2254 from the prior year to \$313127.
- The Road Use Tax fund cash balance decreased by \$38297 to \$116114 during the fiscal year. This decrease was due to an additional employee and the increase in fuel costs.
- The Local Option Sales Tax Fund cash balance decreased \$1366 to \$353097. The City intends to use the receipts for future street construction projects.
- The Capital Projects Fund increased \$534964 to \$534964 due to being midway through the Streetscape Project.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Water Fund cash balance increased by \$30663 and the Sewer Fund decreased by \$39129.

## **BUDGETARY HIGHLIGHTS**

The City amended its budget once during the year, in May, 2008. The expenditure budget was increased by \$1,961,380 and the receipt budget was increased by \$295,942. The expenditures increase was caused by the Streetscape Project not being as complete as projected and the revenue increase was caused by the sale of bonds for unforeseen equipment purchases.

## **DEBT ADMINISTRATION**

On June 30, 2008, the City had \$4,167,000 in bonds and other long-term debt, compared to \$2,691,000 last year, as shown below.

	6-30-08	6-30-07
General obligation bonds & notes	375000	50000
TIF revenue bonds	395000	455000
Sewer revenue notes	2077000	2186000
Project anticipation notes	1320000	0
TOTALS	\$4167000	\$2691000

Long-term debt of \$194,000 was redeemed and \$350,000 was issued 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 \$770,000 is well below the constitutional debt limit of \$3,476,465.

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

The City's officials consider local needs and wants, and the overall economy when setting the budget and tax rates. At this time, no large changes are planned.

## **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, 2008

	Disbursements	Charges for Service	Program Operating Grants Contributions and Restricted Interest
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 489,689	3,866	22,831
Public works	918,792	180,341	244,329
Health and social services	1,000	-	-
Culture and recreation	265,913	55,355	84,564
Community and economic development	166,893	-	-
General government	94,374	28,221	33,627
Debt service	114,576	-	-
Capital projects	1,107,220	-	-
Total governmental activities	3,158,457	267,783	385,351
Business type activities:			
Water	188,976	243,820	-
Sewer	391,916	342,156	-
Total business type activities	580,892	585,976	-
Total	\$ 3,739,349	853,759	385,351

**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  
Anticipatory note proceeds, net of discount  
General obligation note proceeds, net of discount  
Transfers  
    Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year, as restated

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:  
    Streets  
    Street construction and repair  
    Capital projects  
    Debt services  
    Other purposes  
Unrestricted

Total cash basis net assets

See notes to financial statements.

Receipts	Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
Capital Grants, Contributions and Restricted Interest			
-	(462,992)	-	(462,992)
-	(494,122)	-	(494,122)
-	(1,000)	-	(1,000)
-	(125,994)	-	(125,994)
-	(166,893)	-	(166,893)
-	(32,526)	-	(32,526)
-	(114,576)	-	(114,576)
332,084	(775,136)	-	(775,136)
<u>332,084</u>	<u>(2,173,239)</u>	<u>-</u>	<u>(2,173,239)</u>
-	-	54,844	54,844
-	-	(49,760)	(49,760)
-	-	5,084	5,084
<u>332,084</u>	<u>(2,173,239)</u>	<u>5,084</u>	<u>(2,168,155)</u>
\$	407,780	-	407,780
	124,734	-	124,734
	27,600	-	27,600
	84,848	-	84,848
	146,980	-	146,980
	6,098	-	6,098
	27,219	5,836	33,055
	5,003	29,699	34,702
	13,500	-	13,500
	1,310,100	-	1,310,100
	343,000	-	343,000
	50,000	(50,000)	-
	<u>2,546,862</u>	<u>(14,465)</u>	<u>2,532,397</u>
	373,623	(9,381)	364,242
	<u>1,067,257</u>	<u>249,207</u>	<u>1,316,464</u>
\$	<u>1,440,880</u>	<u>239,826</u>	<u>1,680,706</u>
\$	116,114	-	116,114
	353,097	-	353,097
	534,964	-	534,964
	45,840	53,808	99,648
	55,571	-	55,571
	<u>335,294</u>	<u>186,018</u>	<u>521,312</u>
\$	<u>1,440,880</u>	<u>239,826</u>	<u>1,680,706</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, 2008

	General	Special Revenue		Capital Projects
		Road Use Tax	Local Option Sales Tax	
Receipts				
Property tax	\$ 359,183	-	-	-
Tax increment financing collections	-	-	-	-
Other city tax	48,597	-	146,980	-
Licenses and permits	508	-	-	-
Use of money and property	60,534	-	-	24,084
Intergovernmental	55,865	244,229	-	300,000
Charges for service	196,688	-	-	-
Special assessments	7,947	-	-	-
Miscellaneous	102,045	100	-	8,000
Total receipts	831,367	244,329	146,980	332,084
Disbursements				
Operating:				
Public safety	428,450	-	-	-
Public works	209,373	500,626	148,346	-
Health and social services	1,000	-	-	-
Culture and recreation	263,244	-	-	-
Community and economic development	29,155	-	-	-
General government	77,399	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	1,107,220
Total disbursements	1,008,621	500,626	148,346	1,107,220
Deficiency of receipts under disbursements	(177,254)	(256,297)	(1,366)	(775,136)
Other financing sources:				
Anticipatory notes issued net of discount	-	-	-	1,310,100
General obligation note proceeds net of discount	125,000	218,000	-	-
Sale of general fixed assets	-	-	-	-
Operating transfers in	50,000	-	-	-
Total other financing sources	175,000	218,000	-	1,310,100
Net change in cash balances	(2,254)	(38,297)	(1,366)	534,964
Cash balances beginning of year	315,381	154,411	354,463	-
Cash balances end of year	\$ 313,127	116,114	353,097	534,964
 <b>Cash Basis Fund Balances</b>				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	313,127	-	-	-
Special revenue funds	-	116,114	353,097	-
Capital projects fund	-	-	-	534,964
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 313,127	116,114	353,097	534,964

See notes to financial statement

**Exhibit B**

Other Nonmajor Governmental Funds	Total
143,209	502,392
84,848	84,848
9,125	204,702
-	508
-	84,618
-	600,094
-	196,688
12,759	20,706
10,779	120,924
<u>260,720</u>	<u>1,815,480</u>
59,358	487,808
54,965	913,310
-	1,000
2,669	265,913
137,738	166,893
11,778	89,177
114,576	114,576
-	1,107,220
<u>381,084</u>	<u>3,145,897</u>
(120,364)	(1,330,417)
-	1,310,100
-	343,000
13,500	13,500
-	50,000
<u>13,500</u>	<u>1,716,600</u>
(106,864)	386,183
<u>208,275</u>	<u>1,032,530</u>
<u>101,411</u>	<u>1,418,713</u>
45,840	45,840
-	313,127
(30,839)	438,372
-	534,964
<u>86,410</u>	<u>86,410</u>
<u>101,411</u>	<u>1,418,713</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, 2008

**Total governmental funds cash balances** \$ 1,418,713

*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.

22,167

**Cash basis net assets of governmental activities** \$ 1,440,880

**Net change in cash balances** \$ 386,183

*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.

(12,561)

**Change in cash balance of governmental activities** \$ 373,622

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, 2008

	Enterprise Funds			Internal Service Fund
	Water	Sewer	Total	Employee Health
Operating receipts:				
Use of money and property	\$ -	-	-	108
Charges for service	242,878	341,155	584,033	72,912
Special assessments	942	1,001	1,943	-
Total operating receipts	243,820	342,156	585,976	73,020
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	12,071
Public works	-	-	-	35,186
General government	-	-	-	33,363
Business type activities	188,270	217,127	405,397	5,875
Total operating disbursements	188,270	217,127	405,397	86,495
Excess (deficiency) of operating receipts over (under) operating disbursements	55,550	125,029	180,579	(13,475)
Non-operating receipts:				
Interest on investments	744	5,092	5,836	-
Miscellaneous	24,369	5,330	29,699	-
Debt service	-	(174,580)	(174,580)	-
Total non-operating receipts	25,113	(164,158)	(139,045)	-
Excess (deficiency) of receipts over (under) disbursements	80,663	(39,129)	41,534	(13,475)
Other financing sources (uses):				
Operating transfers out	(50,000)	-	(50,000)	-
Net change in cash balances	30,663	(39,129)	(8,466)	(13,475)
Cash balances beginning of year	141,558	96,596	238,154	45,780
Cash balances end of year	\$ 172,221	57,467	229,688	32,305
 <b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	53,808	53,808	-
Unreserved	172,221	3,659	175,880	32,305
	\$ 172,221	57,467	229,688	32,305

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, 2008

**Total enterprise funds cash balances** \$ 229,688

*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.

10,138

**Cash basis net assets of business type activities** \$ 239,826

**Net change in cash balances** \$ (8,466)

*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.

(915)

**Change in cash balance of business type activities** \$ (9,381)

**City of Audubon**

City of Audubon  
Notes to Financial Statements  
June 30, 2008

**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 E911 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, 2008

**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 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, 2008

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

B. Basis of Presentation - Continued

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

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, 2008

**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, 2008, disbursements exceeded the amount budgeted in the public safety, public works and debt service functions.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2006, to compute the amounts which became liens on property on July 1, 2007. These taxes were due and payable in two installments on September 30, 2007 and March 31, 2008, 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, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$1,680,706.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) No. 3, as amended by Statement No. 40.

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, 2008

**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,	<b>General Obligation Bonds</b> Principal	<b>Urban Renewal Tax Increment Financing (TIF) Revenue Bonds</b> Principal	<b>Revenue Bonds</b> Principal	<b>Total</b> Principal
2009	\$ 65,000	\$ 60,000	\$ 112,000	\$ 237,000
2010	40,000	65,000	115,000	220,000
2011	40,000	65,000	119,000	224,000
2012	40,000	65,000	122,000	227,000
2013	45,000	70,000	125,000	240,000
2014-2018	145,000	70,000	688,000	903,000
2019-2023	-	-	796,000	796,000
<b>Total</b>	<b>\$ 375,000</b>	<b>\$ 395,000</b>	<b>\$ 2,077,000</b>	<b>\$ 2,847,000</b>
Year Ended June 30,	Interest	Interest	Interest	Interest
2009	\$ 15,548	\$ 14,470	\$ 62,310	\$ 92,328
2010	12,833	12,550	58,950	84,333
2011	11,273	10,340	55,500	77,113
2012	9,672	8,000	51,930	69,602
2013	8,033	5,530	48,270	61,833
2014-2018	12,590	2,800	182,610	198,000
2019-2023	-	-	73,080	73,080
<b>Total</b>	<b>\$ 69,949</b>	<b>\$ 53,690</b>	<b>\$ 532,650</b>	<b>\$ 656,289</b>

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

City of Audubon  
Notes to Financial Statements  
June 30, 2008

**NOTE (3) Bonds and Notes Payable - Continued**

Urban Renewal Tax Increment Financing Revenue Bonds

The City issued \$620,000 of urban renewal tax increment financing revenue bonds in January 2004 for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bonds are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for the 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. Total principal and interest remaining on the bonds is \$448,690, payable through June 2014. For the current year, principal and interest paid and total TIF receipts were \$76,270 and \$84,848, respectively.

The City has a general obligation debt limit of approximately \$3,500,000 which was not exceeded during the year ended June 30, 2008.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,066,000 in sewer revenue notes issued in September 2002, and \$600,000 in sewer revenue notes issued in December 2003. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2023. Annual principal and interest payments on the notes are expected to require less than 100 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$2,609,650. For the current year, principal and interest paid and total customer net receipts were \$174,580 and \$125,029, respectively.

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.

City of Audubon  
Notes to Financial Statements  
June 30, 2008

**NOTE (3) Bonds and Notes Payable - Continued**

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) Anticipation Projects Notes**

During the year, the City issued \$1,320,000 in anticipation project notes for a streetscape project. The notes are due July 2008, with interest payable semiannually at 4.00%.

**NOTE (5) 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 3.90 % of their annual covered salary and the City is required to contribute 6.05 % of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006, were \$29,573, \$30,669, and \$30,043, respectively, equal to the required contributions for each year.

**NOTE (6) 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, 2008, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 13,129

The liability has been computed based on rates of pay as of June 30, 2008.

City of Audubon  
Notes to Financial Statements  
June 30, 2008

**NOTE (7) Interfund Transfers**

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

Transfer to	Transfer from	Amount
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 (8) Commitments**

Sanitation Contract – The City has contracted for solid waste disposal and recyclable pickup within the City for annual costs of \$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.

Water and Wastewater Operation Contract – The City has contracted for operations of the waterworks and wastewater treatment facilities through December 31, 2012 for an approximate annual cost of \$139,393, to be adjusted each April for inflation.

**NOTE (9) 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. Settle claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE (10) Deficit Fund Balance**

The Special Revenue Fund, Urban Renewal Tax Increment Account had a deficit balance of \$95,095 at June 30, 2008. The deficit will be eliminated with tax increment financing collections.

City of Audubon  
Notes to Financial Statements  
June 30, 2008

**NOTE (11) 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 \$30,000 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 \$5,750 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	\$ 19,710
Incurred claims and claim adjustment expenses	72,535
Payments	<u>86,495</u>
Unpaid claims and claims adjustment expenses, end of year	\$ <u><u>5,750</u></u>

**NOTE (12) Construction Commitments**

At June 30, 2008, the City had the following construction commitments:

	Estimated Contract Amounts	Paid to Date	Remaining Commitment	Retainage Payable
Streetscape Project Construction	\$ 1,382,823	1,014,338	368,485	31,371
Bridge Replacement Engineering	87,060	35,046	52,014	-

The City has been awarded \$465,107 from the federal Highway Bridge Program to fund the bridge replacement project.

**NOTE (13) Subsequent Events**

In August 2008, the City approved a general obligation debt issuance of \$1,320,000 to refund project anticipation notes of that amount issued for a streetscape project.

**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, 2008

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
<b>Receipts</b>			
Property tax	\$ 502,392	-	-
Tax increment financing collections	84,848	-	-
Other city tax	204,702	-	-
Licenses and permits	508	-	-
Use of money and property	84,618	5,944	108
Intergovernmental	600,094	-	-
Charges for service	196,688	656,945	72,912
Special assessments	20,706	1,943	-
Miscellaneous	120,924	29,699	-
Total receipts	<u>1,815,480</u>	<u>694,531</u>	<u>73,020</u>
<b>Disbursements</b>			
Public safety	487,808	12,071	12,071
Public works	913,310	35,186	35,186
Health and social services	1,000	-	-
Culture and recreation	265,913	-	-
Community and economic development	166,893	-	-
General government	89,177	33,363	33,363
Debt service	114,576	-	-
Capital projects	1,107,220	-	-
Business type activities	-	585,852	5,875
Total disbursements	<u>3,145,897</u>	<u>666,472</u>	<u>86,495</u>
Excess (deficiency) of receipts over (under) disbursements	(1,330,417)	28,059	(13,475)
Other financing sources, net	<u>1,716,600</u>	<u>(50,000)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) Disbursements and other financing uses	386,183	(21,941)	(13,475)
Balances beginning of year	<u>1,032,530</u>	<u>283,934</u>	<u>45,780</u>
Balances end of year	<u>\$ 1,418,713</u>	<u>261,993</u>	<u>32,305</u>

See accompanying independent auditors' report

Net	Budgeted Amounts		Final To Net Variance
	Original	Final	
502,392	503,483	525,907	(23,515)
84,848	80,137	80,137	4,711
204,702	157,932	125,000	79,702
508	5,200	4,700	(4,192)
90,454	37,800	59,400	31,054
600,094	222,800	520,800	79,294
780,721	930,400	720,500	60,221
22,649	-	12,000	10,649
150,623	86,430	271,680	(121,057)
<u>2,436,991</u>	<u>2,024,182</u>	<u>2,320,124</u>	<u>116,867</u>
487,808	339,380	486,480	(1,328)
913,310	586,514	911,764	(1,546)
1,000	1,000	1,000	-
265,913	305,125	272,875	6,962
166,893	179,155	179,155	12,262
89,177	106,870	143,550	54,373
114,576	104,395	104,395	(10,181)
1,107,220	-	1,500,000	392,780
579,977	656,885	641,485	61,508
<u>3,725,874</u>	<u>2,279,324</u>	<u>4,240,704</u>	<u>514,830</u>
(1,288,883)	(255,142)	(1,920,580)	631,697
<u>1,666,600</u>	<u>-</u>	<u>(1,525,350)</u>	<u>141,250</u>
377,717	(255,142)	(395,230)	772,947
<u>1,270,684</u>	<u>1,286,662</u>	<u>1,236,763</u>	<u>33,921</u>
<u>1,648,401</u>	<u>1,031,520</u>	<u>841,533</u>	<u>806,868</u>

City of Audubon  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board (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 \$1,961,380. The budget amendment is reflected in the final budgeted amounts.

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

	Special Revenue		
	Employee Benefits	Urban Renewal Tax Increment	Cemetery Trust
Receipts:			
Property tax	\$ 117,186	-	-
Tax increment financing collections	-	84,848	-
Other city tax	7,548	-	-
Special assessments	-	12,759	-
Miscellaneous	-	-	1,344
Total receipts	<u>124,734</u>	<u>97,607</u>	<u>1,344</u>
Disbursements:			
Operating:			
Public safety	59,358	-	-
Public works	54,965	-	-
Culture and recreation	2,669	-	-
Community and economic development	-	137,738	-
General government	11,778	-	-
Debt service	-	76,670	-
Total disbursements	<u>128,770</u>	<u>214,408</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(4,036)	(116,801)	1,344
Other financing sources (uses):			
Sale of general fixed assets	-	13,500	-
Net change in cash balances	(4,036)	(103,301)	1,344
Cash balances beginning of year	<u>33,558</u>	<u>8,206</u>	<u>33,390</u>
Cash balances end of year	<u>\$ 29,522</u>	<u>(95,095)</u>	<u>34,734</u>
 <b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service fund	\$ -	-	-
Unreserved:			
Special revenue funds	29,522	(95,095)	34,734
Permanent fund	-	-	-
Total cash basis fund balances	<u>\$ 29,522</u>	<u>(95,095)</u>	<u>34,734</u>

See accompanying independent auditors' report

**Schedule 1**

<u>Debt Service</u> General Obligation Debt	<u>Permanent</u> Cemetery Trust	<u>Total</u>
26,023	-	143,209
-	-	84,848
1,577	-	9,125
-	-	12,759
-	9,435	10,779
<u>27,600</u>	<u>9,435</u>	<u>260,720</u>
-	-	59,358
-	-	54,965
-	-	2,669
-	-	137,738
-	-	11,778
37,906	-	114,576
<u>37,906</u>	<u>-</u>	<u>381,084</u>
(10,306)	9,435	(120,364)
-	-	13,500
<u>(10,306)</u>	<u>9,435</u>	<u>(106,864)</u>
56,146	76,975	208,275
<u>45,840</u>	<u>86,410</u>	<u>101,411</u>
45,840	-	45,840
-	-	(30,839)
-	86,410	86,410
<u>45,840</u>	<u>86,410</u>	<u>101,411</u>

City of Audubon  
Schedule of Indebtedness  
Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Sewer improvements	Apr 1, 1999	4.60 – 4.70 %	\$ 200,000
Equipment	Sept 26, 2007	3.85 – 4.30 %	350,000
Total			
Urban renewal tax increment financing (TIF) revenue bonds:			
	Jan 1, 2004	3.20 – 4.00 %	\$ 620,000
Revenue notes:			
Sewer	Sep 15, 2002	3.00 %	\$ 2,066,000
Sewer	Dec 12, 2003	3.00 %	600,000
Total			
Anticipation Project Notes:			
Streetscape project	Jul 12, 2007	4.00 %	\$ 1,320,000

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>
50,000	-	25,000	25,000	2,325	-
-	350,000	-	350,000	9,781	-
<u>50,000</u>	<u>350,000</u>	<u>25,000</u>	<u>375,000</u>	<u>12,106</u>	<u>-</u>
<u>455,000</u>	<u>-</u>	<u>60,000</u>	<u>395,000</u>	<u>16,270</u>	<u>-</u>
1,744,000	-	87,000	1,657,000	52,320	-
442,000	-	22,000	420,000	13,260	-
<u>2,186,000</u>	<u>-</u>	<u>109,000</u>	<u>2,077,000</u>	<u>65,580</u>	<u>-</u>
<u>-</u>	<u>1,320,000</u>	<u>-</u>	<u>1,320,000</u>	<u>26,840</u>	<u>-</u>

City of Audubon  
Bond and Note Maturities  
June 30, 2008

<b>General Obligation Bonds and Notes</b>					
Year Ending June 30,	Sanitary Sewer Improvements		Equipment		
	Issued Apr 1, 1999		Issued Sept 26, 2007		
	Interest Rate	Amount	Interest Rate	Amount	Total
2009	4.70 %	\$ 25,000	3.85 %	\$ 40,000	\$ 65,000
2010	-	-	3.90 %	40,000	40,000
2011	-	-	4.00 %	40,000	40,000
2012	-	-	4.10 %	40,000	40,000
2013	-	-	4.15 %	45,000	45,000
2014	-	-	1.20 %	45,000	45,000
2015	-	-	4.25 %	50,000	50,000
2016	-	-	4.30 %	50,000	50,000
2017	-	-	-	-	-
2018	-	-	-	-	-
2019	-	-	-	-	-
2020	-	-	-	-	-
2021	-	-	-	-	-
2022	-	-	-	-	-
2023	-	-	-	-	-
<b>Total</b>		<b>\$ 25,000</b>		<b>\$ 350,000</b>	<b>\$ 375,000</b>

<b>Revenue Notes</b>					
Year Ending June 30,	Sewer		Sewer		Total
	Issued Oct. 15, 1999		Issued Feb. 28, 2003		
	Interest Rate	Amount	Interest Rate	Amount	
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
<b>Total</b>		<b>\$ 420,000</b>		<b>\$ 1,657,000</b>	<b>\$ 2,077,000</b>

See accompanying independent auditors' report

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

Issued Jan 1, 2004	
Interest Rate	Amount
3.20 %	\$ 60,000
3.40 %	65,000
3.60 %	65,000
3.80 %	65,000
3.90 %	70,000
4.00 %	70,000
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
	\$ 395,000

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Receipts				
Property tax	\$ 502,392	450,807	567,388	533,115
Tax increment financing collections	84,848	144,011	33,901	150,445
Other city tax	204,702	175,273	180,157	224,224
Licenses and permits	508	1,583	3,307	2,203
Use of money and property	84,618	58,501	47,753	20,597
Intergovernmental	600,094	254,803	247,524	265,004
Charges for service	196,688	202,272	198,176	196,781
Special assessments	20,706	31,377	12,686	11,118
Miscellaneous	<u>120,924</u>	<u>165,709</u>	<u>93,564</u>	<u>247,728</u>
 Total	 \$ <u>1,815,480</u>	 <u>1,484,336</u>	 <u>1,384,456</u>	 <u>1,651,215</u>
 Disbursements				
Operating:				
Public safety	\$ 487,808	350,862	296,651	343,759
Public works	913,310	606,413	553,816	579,262
Health and social services	1,000	1,000	1,000	1,000
Culture and recreation	265,913	264,595	326,173	289,370
Community and economic development	166,893	159,517	41,794	32,098
General government	89,177	137,370	86,480	108,560
Debt service	114,576	23,635	204,845	207,450
Capital projects	<u>1,107,220</u>	<u>-</u>	<u>-</u>	<u>65,281</u>
 Total	 \$ <u>3,145,897</u>	 <u>1,543,392</u>	 <u>1,510,759</u>	 <u>1,626,780</u>

See accompanying independent auditors' report

**City of Audubon**

November 25, 2008

Independent Auditors' 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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 25, 2008. 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 Auditors' 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 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, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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 Auditors' 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, 2008

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

**SIGNIFICANT DEFICIENCIES:**

I-A-08 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, 2008

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

II-A-08     Certified Budget

Comment - Disbursements during the year ended June 30, 2007, exceeded the amount budgeted in the public safety, public works and debt service functions. 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-08     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-08     Travel Expense

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

II-D-08     Business Transactions

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

II-E-08     Bond Coverage

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

City of Audubon  
Schedule of Findings  
Year Ended June 30, 2008

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

II-F-08      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-08      Deposits and Investments

Comment – The City has approved official depositories. However, the maximum amount stated in the resolution was exceeded.

Recommendation – The City should amend the maximum authorized amount allowed in its depositories, as required by Chapter 12C of the Code of Iowa.

Response – We will do this.

Conclusion – Response accepted.

II-H-08      Enterprise Debt

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

II-I-08      Disbursements

Comment – The City received from the bank the front image only of electronically retained checks.

Recommendation – The city should request both front and back images of checks in accordance with Chapter 554D.114(5) of the Code of Iowa.

Response – We have contacted the bank to request this.

Conclusion – Response accepted.

City of Audubon  
Schedule of Findings  
Year Ended June 30, 2008

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

II-J-08      Financial Condition

Comment – The Special Revenue, Urban Renewal Tax Increment Account had a deficit balance of \$95,095 at June 30, 2008.

Recommendation – The City should monitor the activity in this fund in order to eliminate the deficit.

Response – We will eliminate the deficit with tax increment financing collections.

Conclusion – Response accepted.

II-K-08      Excess Balances

Comment – The cash balances in the Special Revenue Fund, Local Option Sales Tax Account and the Debt Service Fund at June 30, 2008 were in excess of the disbursements made from each fund during the year.

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

Response – The excess balances are considered necessary for the payment of future project and debt service 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 \$4,103,591 for the year ended June 30, 2008, a 94 percent increase from 2007. The receipts included \$560,114 in property tax, \$84,848 from tax increment financing collections, \$853,759 from charges for service, \$385,351 from operating grants, contributions and restricted interest, \$332,084 in capital grants, contributions and restricted interest, \$146,980 from local option sales tax, \$33,055 from unrestricted investment earnings, \$13,500 from sale of assets, \$40,800 from other general receipts, \$1,310,100 in anticipatory note proceeds, and \$343,000 in general obligation proceeds,

Disbursements for the year totaled \$3,739,349, an 82 percent increase from the prior year, and included \$918,792 for public works, \$489,689 for public safety and \$1,107,220 for capital projects. Also, disbursements for business type activities totaled \$580,892.

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

November 25, 2008

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Audubon, Iowa, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 25, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 23, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with the cash basis of accounting. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Audubon. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City of Audubon's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 14, 2008.

Continued...

City of Audubon  
Communication with Those Charged with Governance

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Audubon are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

There were no significant accounting estimates since the financial statements were prepared on the cash basis of accounting.

The disclosures in the financial statements are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or to the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 25, 2008.

Continued...

City of Audubon  
Communication with Those Charged with Governance

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultation has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to the retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the City Council and management of the City of Audubon, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

SCHROER & ASSOCIATES, P.C.

November 25, 2008

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, 2008. We still need to insert your Management and Discussion and Analysis for 2008. Please review it and let me know if you have any changes.

Also enclosed is the management representation letter needed for our file. Please sign and have the mayor sign and return to me in the envelope provided.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain  
Shareholder

DM/sh  
Enc.

December 30, 2008

David Vaudt  
Office of State Auditor  
State Capitol Building, Room 111  
1007 East Grand Avenue  
Des Moines, IA 50319

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, 2008.

- 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 30, 2008

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: 47.50